

Franchising in Food Retailing: A Marketing Channels Perspective

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Abstract

This study deals with franchising as a form of distribution in the UK food retail environment. Franchise systems have increased their penetration of food retail markets since the mid 1980's and are frequently commented on by industry observers as being a form of distribution likely to expand aggressively. This study comments on the potential for further franchise development and looks at the association and relationship between franchisor satisfaction and prevailing environmental conditions from a marketing channels perspective.

Because of the paucity of literature, data, statistics and law on franchising, this study uses the marketing channels literature as its theoretical basis. This body of theory is principally used to derive and test hypotheses concerning franchisor satisfaction and the environment. The approach focused on interpreting the results of test for an association and relationship between satisfaction and the environment, to comment on the prospects for further franchising development, and to simultaneously contribute to the increased specification of marketing channels theory.

The specific objectives of the study were i) To comment on franchising development and its prospects from an operational perspective by understanding the character and valence of franchisor satisfaction. ii). To develop the specification of marketing channels theory in two areas. First, to examine the content, domain and character of channel member satisfaction from a franchisor's perspective, by looking at the relative importance of behavioural, strategic and corporate image based dimensions. Previous marketing channels studies have only considered franchisee satisfaction in relation to franchisor power. Second, to examine whether the variable of franchisor satisfaction has any association or relationship with external concepts of the environment, these were capacity, concentration, stability, complexity and conflict. iii) To utilise and comment on the robustness of the political economy environmental model as a theoretical and methodological approach to empirical testing of organisational and environmental concepts.

Two data gathering exercises were undertaken for the study. First, an extensive number of in-depth interviews were conducted with industry practitioners in franchise firms and trade associations, and second an 8 page questionnaire was mailed to the apparent universe of 45 food franchising firms. Franchisor satisfaction was measured using a seven point, bi polar rating scale and instrumentality importance weights. The environmental concepts were measured by seven point monopolar rating scales. Descriptive statistics, correlation analysis

and the multivariate techniques of factor analysis and discriminant analysis are used to analyse and interpret the results.

The study reveals that i) from an operational perspective, 90% of franchisors were satisfied with their systems performance at the time of the analysis. They scored the behavioural dimensions regarding interaction with franchisees as more important to their organisation achieving its goals and objectives than strategic or image based dimensions. Instrumentality importance weights were shown not to affect franchisor satisfaction scores. ii) From a theoretical point of view, franchisor satisfaction has a negative association with environmental complexity and a positive association with environmental capacity. There is empirical evidence that discriminant functions of independent environmental variables are able to predict franchisor membership of satisfied and non satisfied groups. Statistically significant results were obtained when the analysis was conducted at an individual environmental variable level, but not at the concept level. iii) The political economy model was shown to be a robust theoretical platform for model and measure development. The model provided an approach which in analysis discriminated between concepts and behaved in a nomological way. Confirmatory factor analysis of two environmental concepts, complexity and stability, extracted factors which were consistent with the sectors of the model which were used to develop the concept measures.

The findings suggest that i) under conditions of low environmental complexity and high environmental capacity we should expect higher levels of franchisor satisfaction and expansion of franchising systems. ii) The concept of franchisor satisfaction is multi dimensional and ranks behavioural aspects of the franchise relationship ahead of strategic or image attributes in goal and objective achievement. The franchisor is concerned with higher level strategic issues compared to the franchisee. Under these circumstances, franchisor satisfaction was shown to be associated and related to external concepts and variables, which is an advancement in marketing channel theory. This is because it indicates that in considering organisational satisfaction, the researcher may be overlooking important attributes of the concept if only internal organisational phenomena are considered.

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Contents

Chapter 1:	Franchisor Satisfaction and the UK Food Retail Industry Environment: An Empirical Investigation Utilising Marketing Channels Theory	
1.1	Introduction	1
1.2	Aims of this Study	3
1.3	Summary to Introduction	5
Chapter 2:	An Operational and Economic Definition of Franchising and Review of the Advantages and Disadvantages of the System	
2.1	Introduction	6
2.2	Definition of Franchising	6
2.3	Franchising, a Contractual, Vertically Integrated Marketing System and the Different Types of Franchise	9
2.3.1	Reasons for The Growth of Vertical Integration	10
2.3.1.1	Vertical Systems, Franchising and Strategic Management Literature	10
2.3.1.2	Vertical Integration, Franchising and Value Chain Analysis	12
2.3.1.2.1	Franchising and Cost Advantages from the Value Chain	14
2.3.1.2.2	Franchising and Differentiation Advantages from the Value Chain	15
2.3.1.2.3	Illustrative Propositions for the Franchisors Value Chain	17
2.3.1.2.4	Summary to Franchising and the Value Chain	18
2.3.1.3	Transaction Cost Economics and Franchising	19
2.3.1.3.1	Overview of Transaction Costs Economics	19
2.3.1.3.2	Franchising and Transaction Cost Economics	22
2.3.1.3.3	Franchising and Monitoring Costs	23
2.3.1.3.4	Franchising and Risk Management	24
2.3.1.3.5	Franchising and Future Benefits	25
2.3.1.3.6	Criticisms of the NIE Approach	26
2.3.1.3.7	Transaction Costs Summary	28
2.4	Types of Franchising	29
2.4.1	Manufacturer Licence Agreements	29
2.4.2	Distribution Agreements	29
2.4.3	Wholesaler-Retailer, Voluntary Group Franchises	30
2.4.4	Business Format Franchises	31
2.5	Advantages and Disadvantages of Franchising to the Franchisor and Franchisee	34

2.5.1	Advantages of Franchising to the Franchisor	34
2.5.2	Disadvantages of Franchising to the Franchisor	37
2.5.3	Advantages of Franchising for the Franchisee	40
2.5.4	Disadvantages of Franchising for the Franchisee	44
2.6	Conclusion to Franchising Definition and Description	45
Chapter 3:	Review of Factors Favouring the Development of Franchising in the UK Economy and a Profile of its Legal Position	
3.1	Introduction	46
3.2	The Development of Franchising in the Economy	46
3.3	Environmental Factors Which Support the Development of Franchising	51
3.3.1	The Growth of the Service Economy and Franchising	51
3.3.2	Unemployment and Franchising	55
3.3.3	Franchising and Self Employment	55
3.3.4	Effective Franchise Industry Trade Association	56
3.4	The Legal Position of Franchising in the United Kingdom	58
3.4.1	Franchising and European Law	59
3.4.2	Franchising and English Law	61
3.4.2.1	Franchising and Competition Law	62
3.4.2.1.1	The Restrictive Trades Practices Act 1976	62
3.4.2.1.2	The Resale Prices Act 1976	62
3.4.2.2	Franchising and Misrepresentation	62
3.4.2.3	Franchising and Trade Mark Protection	65
3.4.3	Conclusion to Franchising and European and English Law	66
3.5	Conclusion to Factors Favouring the Development of Franchising in the United Kingdom Economy and a Profile of its Legal Position	67
Chapter 4:	Franchising Qualitative Research: Depth Interviews and Fieldwork	
4.1	Introduction	68
4.2	UK Case Studies: Circle K	70
4.2.1	Company Overview	70
4.2.2	Product	71
4.2.3	Distribution	72
4.2.4	Price	73
4.2.5	Promotion/Advertising	73

4.2.6	People	74
4.3	UK Case Studies: Unigate Dairies	75
4.3.1	Company Overview	75
4.3.2	Product	76
4.3.3	Distribution	77
4.3.4	Price	78
4.3.5	Promotion/Advertising	78
4.3.6	People	79
4.4	UK Case Studies: Weight and Save	80
4.4.1	Company Background	80
4.4.2	The Product	80
4.4.3	Distribution	81
4.4.4	Price	82
4.4.5	Promotion/Advertising	82
4.4.6	People	83
4.5	UK Case Studies: Freezavan (A case study on a franchise withdrawal)	84
4.5.1	Company Background	84
4.5.2	Product	85
4.5.3	Distribution	85
4.5.4	Promotion/Advertising	87
4.5.5	Price	88
4.5.6	People	88
4.6	UK Case Studies: McDonalds	89
4.6.1	Company Overview	89
4.6.2	Product	90
4.6.3	Distribution	91
4.6.4	Price	92
4.6.5	Promotion	92
4.6.6	People	92
4.7	Summary of the UK Case Studies	93
4.7.1	Internal Factors Affecting the Organisation	93
4.7.2	External Factors Affecting Organisational Survival	95
4.8	United States Fieldwork & Case Studies	96
4.8.1	Overview to Study	96
4.8.2	Research Design	96
4.8.3	US Research Findings and Discussion	97
4.8.3.1	US Consumers Needs	97

4.8.3.2	Technology and Retailer Management Systems	98
4.8.3.3	Technology Led Channels	99
4.8.3.4	Geography and Competition	100
4.8.3.5	Mature Franchise firms - 7 Eleven	102
4.8.3.6	Franchising and the American Dream	103
4.8.3.7	Globalisation	103
4.8.4	Conclusion to US Study Visit and Fieldwork	105
4.9	Conclusion to Qualitative Research	106

Chapter 5: Organisational Satisfaction

5.1	Introduction	108
5.2	Overview of Organisational Literature and Satisfaction	109
5.3	Satisfaction and Performance	110
5.4	Satisfaction and The Organisation	111
5.4.1	Frazier's (1983) model of Inter-Organisational Exchange	115
5.4.2	Discussion of the Political Economy Model	120
5.4.3	Political Economy Model Summary	125
5.4.4	Summary of Satisfaction	125
5.5	Review of Empirical Studies on Channel Member Satisfaction	126
5.5.1	Review of the Definition and Measurement of the Satisfaction Construct	126
5.5.2	Summary of Satisfaction Definition and Measurement	132
5.5.3	Data Analysis of Channel Member Satisfaction Studies	132
5.5.4	Review of the Results and Conclusions of Empirical Studies	138
5.6	Developing a Definition and Measure of Franchisor Satisfaction in this study	139
5.6.1	Literature Research Perspectives on Satisfaction	139
5.6.2	Qualitative Research Perspectives on Satisfaction	140
5.6.2.1	Attractions of Franchising as a strategy to Franchisors	141
5.6.2.2	Internal Items Crucial to the Success of Franchising	143
5.7	A Definition and Measures of Franchisor Satisfaction	147
5.8	Conclusion Organisational Satisfaction	150

Chapter 6: The Environment and the Organisation: A literature Review

6.1	Introduction	152
6.2	The Organisation and the Environment	152
6.2.1	Organisations and Strategies	153

6.2.2	Environmental Impact on the Organisation	154
6.3	Political Economy Theory and the Environment	155
6.3.1	Overview of Political Economy Theory and the Environment	155
6.3.2	The Impact of the Environment in the Political Economy	157
6.3.3	The Political Economy Model (PEM) of the Environment	159
6.3.4	Critique of the Political Economy Conceptualisation	163
6.4	A Review of Empirical Research into Organisations and Environments	168
6.4.1	Overview of Empirical Research into Organisations and Environments	168
6.4.2	Environmental Concepts and Measures	169
6.4.3.	Dimensions or Itemised Environments?	170
6.4.3.1	Review of Duncan (1972) - "Characteristics of Organisational Environments and Perceived Environmental Uncertainty	172
6.4.3.2	Review of Dwyer and Welsh (1985)- Environmental Relationships of the Internal Political Economy of Marketing Channels	175
6.4.3.3	Review of Etgar (1977) "Channel Environment and Channel Leadership"	179
6.4.3.4	Review of Achrol (1986) - "The Environment as an Enacted Perceptual Field. A theoretical, Methodological and Empirical Investigation in the Context of Marketing Channels"	180
6.4.4	Perceptual Versus Objective Measures?	182
6.4.5	Summary of Environmental Measures	185
6.5	Conclusion to the Environment and the Organisation	185
6.6	UK Franchising in the 1990's: A Supplementary Literature Review	186
6.6.1	Franchising and Marketing Channels Issues	186
6.6.1.1.	Franchising and Power Relationships	187
6.6.1.2	Franchising and Franchisee Autonomy	188
6.6.1.3	Franchising and Research on General Applications	189
6.6.2	Applied Research Review	190
6.6.2.1	Issues Affecting Franchisee's	190
6.6.2.2	Issues Affecting the Development of Franchisee Systems	191
6.6.3	Summary of Literature Review	192
Chapter 7:	Environmental Dimensions Defined and Developed: Satisfaction and the Environment Hypotheses	
7.1	Introduction	194
7.2	Environmental Dimensions Defined and Operationalised	194
7.3	Discussion of Environmental Dimensions Not Used in the Study	195
7.3.1	The Turbulence - Interconnectedness Dimension	195

7.3.2	Interdependence	196
7.3.3	Domain Consensus/Dissensus	196
7.4	Discussion of Dimensions Used in this Study	196
7.4.1	Complexity (Diversity)	197
7.4.2	Instability/Change	198
7.4.3	Capacity	200
7.4.4	Concentration	202
7.4.5	Conflict	205
7.4.6	Conclusion to Definition and Description of Dimensions	207
7.5	Model and Hypotheses for testing Satisfaction and the Environment	207
7.6	Conclusion to Chapter	210
Chapter 8:	Survey Design, Theory and Methodology for this Study	
8.1	Introduction	211
8.2	Rationale of a Mailed Questionnaire	211
8.2.1	Questionnaire Structure	212
8.2.2	Piloting of the Questionnaire	216
8.3	Construct Theory, Measurement and Explication	218
8.3.1	Introduction to Construct Theory in the context of this Study	218
8.3.2	Construct Theory and Methodology	220
8.3.3	Review and Critique of Construct Theory and Methodology	223
8.3.4	Application of Construct Validity Theory and Methodology	227
8.4	Sample Design and Respondents Profile	229
8.4.1	Defining the Population	230
8.4.1.1	The Sample Element and Review of the Key Informant Methodology	230
8.4.1.2	Definition of the Sample Unit	234
8.4.2	Sample Units Definition and Methodology	236
8.4.2.1	Criteria for Defining Sample Units	236
8.4.2.2	Screening of the Sample Units	239
8.4.2.3	The Extent and Time Period of the Population and Definition.	240
8.4.2.4	Final Sample Size	240
8.4.3	The Administration of the Questionnaire	241
8.5	Conclusion to Survey Design, Theory & Methodology	243

Chapter 9:	Sample and Construct Analysis	
9.1	Introduction	244
9.2	Sample Structure	244
9.2.1	Size of Respondent Organisations	244
9.2.2	Franchise Firms Sectoral Involvement	246
9.2.3	Franchisee Start-up costs and Outlet Turnover	248
9.2.4	Legal Status and Merger and Acquisition of Franchised Firms	248
9.2.5	Franchisee Failures	249
9.2.6	Summary of Sample Structure	250
9.3	Construct Validity and Measurement	250
9.3.1	Satisfaction Measurement	251
9.3.1.1	Reliability of Satisfaction Measurement	251
9.3.1.2	Convergent Validity of Satisfaction Measures	252
9.3.1.3	Discriminant Validity of Satisfaction Measurement	252
9.3.1.4	Nomological Validity	253
9.3.1.5	Summary of Satisfaction Measures	253
9.3.2.	Environmental Dimensions & Measurement Validity	254
9.3.2.1	Reliability and Environmental Dimensions	254
9.3.2.2	Discriminant Validity of Environmental Measures	255
9.3.2.2.1	Discriminant and Nomological Analysis of Complexity ("Difficulty") Scale	257
9.3.2.2.2	Discriminant and Nomological Analysis of the Instability ("Responsiveness") Scale	259
9.3.2.2.3	Discriminant and Nomological Analysis of the Capacity ("Opportunity") Scale	260
9.3.2.2.4	Discriminant and Nomological Validity of Concentration and Conflict Scales	260
9.3.2.2.5	Conclusion to Discriminant & Nomological Validity	262
9.4	Conclusion to Sample and Construct Analysis	262
Chapter 10:	Survey Results and Review of Franchisor Satisfaction and the Environment Constructs.	
10.1	Introduction	263
10.2	Satisfaction Results	264
10.2.1	Descriptive Statistics of the Satisfaction Scale	264
10.2.2	Satisfaction Factors	267

10.2.3	Satisfaction Summary	270
10.3	Environmental Construct Results	270
10.3.1	Complexity "Difficulty" Scale Results	271
10.3.1.1	Descriptive Statistics of Complexity Scale	271
10.3.1.2	Complexity "Difficulty" Factor Analysis	273
10.3.2.	Stability "Responsiveness" Results	274
10.3.2.1	Descriptive Statistics of the Stability "Responsiveness" Scale	274
10.3.2.2	Factor Analysis of the Stability "Responsiveness" Measure	275
10.3.3	Results for the Capacity/"Opportunity" Measure.	276
10.3.4	Concentration Results	277
10.3.5	Conflict Results	278
10.3.6	Conclusion to Environmental Results	279
10.4	Conclusion to Survey Results and Review of Franchisor Satisfaction and the Environment Constructs	280
Chapter 11:	Franchisor Satisfaction and the Environment: Correlation and Discriminant Analysis Results.	
11.1	Introduction	283
11.2	Satisfaction and Environmental Constructs	284
11.2.1	Discussion of Correlation Results	285
11.2.2	Statistically Significant Results	285
11.2.2.1	Complexity	285
11.2.2.2	Capacity	286
11.2.3	Not Significant Construct Correlations	286
11.2.3.1	Instability	286
11.2.3.2	Concentration	287
11.2.3.3	Conflict	288
11.2.4	Conclusion to Correlation Analysis	289
11.3	Predictive Analysis of Satisfaction and the Environment	290
11.3.1	Introduction	290
11.3.2	Construct Discriminant Analysis	290
11.3.3	Construct Discriminant Analysis of Scale Items	292
11.4	Conclusion to Franchisor Satisfaction and the Environment	295

Chapter 12:	Franchising in the 1990's and the Predictive Validity of the Model	
12.1	Introduction	297
12.2	The Development of Franchising in the UK in the 1990's	298
12.3	The Predictive Capability of the Model	300
12.3.1	Broader Environmental Trends 1982 to 1996	301
12.3.2	UK Franchising and the Predictive Capability of the Model	303
12.3.2.1	Franchising and Environmental Capacity	303
12.3.3.2	Franchising and Environmental Complexity	307
12.4	Anecdotal Summary of the Development of Franchising in the 1990's	312
12.4.1	That the agency cost rationale for franchising is not a key motivator for organisations to adopt franchising in the UK compared to the US, particularly in food retailing	313
12.4.2	There has been an image issue for the franchising industry in the UK across the early to mid 1990's	317
12.4.2.1	How to attract new franchisees to the industry?	318
12.4.2.2	The appropriate strategy for the BFA in promoting and protecting the industry	320
12.4.2.2.1	BFA as an inclusive organisation	320
12.4.2.2.2	The BFA and Standard Disclosure	322
12.4.3	Regulatory Support for Franchising	324
12.5	Conclusion to Chapter	325
Chapter 13	Conclusion to the Research and Recommendations for Future Study	
13.1	Introduction	327
13.2	Review of the Study Process	328
13.3	Discussion of Results on Franchising as an Operational Strategy and its potential for long term development	330
13.3.1	Discussion of Satisfaction Scores	330
13.3.2	Discussion of Environmental Scores	331
13.4	Discussion of Results Contributing to Marketing Channels Theory	335
13.4.1	Satisfaction and Marketing Channels Theory	335
13.4.2	Satisfaction and the Environment; an Association and Relationship	336
13.4.3	Robustness of the Political Economy Model	339
13.4.4	Predictive Capability of the Model	340
13.5	Recommendations for Future Research	341
13.5.1	Managerial Approaches and Recommendations	341

13.5.2	Theoretical Specification	343
13.5.3	Methodological Specification	344
13.6	Summary Conclusions to the Research and Recommendations for Future Study	345

Tables

Chapter 2

2.1	Share of Trade of Dry Packaged Grocery January-June 1994 in Great Britain	30
-----	---	----

Chapter 3

3.1	Business Format Franchising Growth in the UK	48
3.2	Number of Franchisors in the United Kingdom 1984-1994	50
3.3	Number of Franchisees in the United Kingdom 1984-1994	50
3.4	Personal Income and Consumer Expenditure 1977-1993	52
3.5	Retail Sales 1986-1993 (1990 Prices)	52
3.6	Expenditure on Recreational Cultural Services 1992 Prices	52
3.7	Expenditure on Leisure and Household Services as a Percentage of Total Household Expenditure	53
3.8	Average Household Weekly Expenditure on Meals Eaten Away from the Home	53
3.9	Average Household Weekly Expenditure on Potato Products	54

Chapter 4

4.1	Case Study Organisations	69
4.2	US Organisation In-depth Interviews and Sector Activity	69

Chapter 5

5.1	Michie and Sibley Factor Analysis for Independent Variables	135
5.2	Regression Results for Satisfaction as a Result of Managerial and Marketing Variables	136
5.3	Regression and Correlation Coefficients of Leader Style and Conflict on Satisfaction	137
5.4	Items of the Franchisor Satisfaction Measure	149

Chapter 7

7.1	List of Environmental Dimensions from Aldrich (1979) and Achrol (1985)	195
7.2	Consumer Expenditure on Food (Constant 1992 Prices; £m).	201

Chapter 8

8.1	Surrogate terms adopted to represent the theoretical dimensions derived from the literature	217
8.2	The Population Definition for the Research of Food Retail Franchise Companies	240
8.3	Key Informant Responsibility and Role	243

Chapter 9

9.1	Comparison of Sample Means for the Number of Franchisees per System; Food sector versus Industry	245
9.2	Distribution of Years in Operation of the Sample Franchises	246
9.3	Percentage Comparison of own versus Power's (1987) Survey by Respondents Activity	247
9.4	Legal Status of Franchise Firms in the Sample	248
9.5	Coefficient Alpha for Environmental Measures	254
9.6	Complexity "Difficulty" Inter Item Correlations	258
9.7	Instability ("Responsiveness") Inter Item Correlations.	259
9.8	Capacity ("Resource") Inter Item Correlations	260
9.9	Concentration and Conflict Inter Item Correlations	261

Chapter 10

10.1	Descriptive Statistics for the "Importance Attached to Franchising Variables" Ranked by Mean Scores	265
10.2	Descriptive Statistics of Satisfaction* Importance Variables, Ranked by Highest Mean	267
10.3	Factor Analysis of the Satisfaction Scale	268
10.4	Ranked Mean scores for Environmental Dimensions	271
10.5	Descriptive statistics for Complexity "Difficulty" measure, Ranked by Mean	272
10.6	Factor Analysis of the Complexity "Difficulty" Scale	273
10.7	Descriptive Statistics for Stability "Responsiveness" Measure, Ranked by Mean	275
10.8	Factor Analysis of the Stability "Responsiveness" Measure.	276
10.9	Descriptive Statistics of Capacity Measure, Ranked by Mean.	277
10.10	Descriptive Statistics of Concentration, Ranked by Mean	278
10.11	Descriptive Statistics of Conflict Measure, Ranked by Mean	279

Chapter 11

11.1	Hypothesis to be Tested.	283
11.2	Key Discriminant Analysis for the Construct Function.	291
11.3	Discriminant Coefficients of Construct Discriminant Analysis.	292

11.4	Key Discriminant Analysis Statistics for the Environmental Items Function.	293
11.5	Ranked Discriminant Standardised Coefficients of Environmental Items.	294
11.6	Test Results for Satisfaction and Environmental Items	295

Chapter 12

12.1	Expenditure on Other Goods and Services as a percentage of GDP and Consumer Expenditure from 1982 to 1996	303
12.2	Spearman Correlation Coefficients for Value of Franchise Sales and the Level of GDP, Total Consumer Expenditure and Expenditure on Other Goods and Services. Based Period 1982 - 1996	305
12.3	Correlation Coefficients for the Number of Franchisors and Franchisees, and the Level of Total Consumer Expenditure and Consumer Expenditure on Other Goods and Services. Based period 1982 - 1996	306
12.4	Correlation between the level of Franchise Sales and the number of Franchises and Franchisees	307
12.5	Percentage Change in Share of Average Weekly Expenditure on Food, for on Pre Prepared Food, Take Away Food and Meals Eaten Away from the home from 1988 to 1996	310
12.6	Number of Food Industry Franchisors by key sector 1988 to 1996	310
12.7	Percent of Grocery Sales by Outlet Size 1990 to 1995	312
12.8	Comparison of the Percentage of Franchised Outlets by Selected Company in Food Retail and Business Service Sectors	316
12.9	Comparison of BFA Membership and Total Number of Franchisors	321

Chapter 13

13.1	Franchisor Perception Ratings on Environmental Constructs	331
13.2	Satisfaction Construct: Hypotheses and Results	336
13.3	Environmental Dimension Hypotheses	337

Figures

Chapter 2

2.1	The Franchisors Value Chain from Franchising	16
2.2	Transaction Costs and the Political Economy Model (Manaresi, 1993,p26)	28

Chapter 4

4.1	Index of US Multinational Franchisors and Outlet Numbers Outside the USA.	104
-----	---	-----

Chapter 5	
5.1	The Group Satisfaction Model adapted from Handy 1985 112
5.2	The Organisation and The Environment (Lee Preston, 1978). 114
5.3	Organisational Exchange (Adapted From Frazier, 1983) 116
5.4	Political Economy Framework Adapted from Sterne & Reve (1980) 121
5.5	Satisfaction and Internal System Relationships 123
Chapter 6	
6.1	The Political Economy Model of the Exchange Dyad(Franchise) and the Environment. 160
6.2	Duncan's (1972) Matrix of Environment and Uncertainty. 172
6.3	Abridged list of Duncan's Factors and Components Comprising the Organisations Internal and External Environment 174
6.4	Mediated Environmental Effect on Decision Making Uncertainty (adapted from Achrol 1985) 181
6.5	Achrol's (1985) Model of Uncertainty and Environmental Dimensions, with Hypothesised Relationships 193
Chapter 7	
7.1	Satisfaction and Environmental Dimensions Hypothesis. 208
Chapter 8	
8.1	Sample Response Rates. 242
Chapter 9	
9.1	Distribution of Sample Organisations by Sector Activity. 247
Chapter 12	
12.1	Comparison of Franchise Industry Sales in Current versus Real values 298
12.2	Index of Franchisor and Franchisee Numbers in the UK (1982=100) 300
12.3	Trends in GDP, total consumer expenditure and expenditure on other goods and services from 1982 to 1996 at 1990 constant prices 302
12.4	Trends in GDP, Total Consumer Expenditure, Expenditure on Other Goods and Services, and the Value of Franchise Sales from 1982 to 1996, at 1990 constant prices 304
12.5	Trends in Average Weekly Household Expenditure on Pre Prepared Food, Take Away Food and Meals Eaten Away from the home from 1988 to 1996. 1988 = 100 309

Chapter 13	
13.1 Statistically Significant Associations between Franchisor Satisfaction and the Environment	338

Equations

Chapter 8	
8.1 Coefficient Alpha	222

Appendices.

Appendix I	References	347
Appendix II	Mailed Questionnaire	360
Appendix III	Members List	370

Chapter 1

Franchisor Satisfaction and the UK Food Retail Industry Environment: An Empirical Investigation Utilising Marketing Channels Theory

1.1 Introduction

A trend towards the increased penetration of franchise systems has been seen in the United Kingdom (UK) from the mid 1980's this as continued into the 1990's. The annual growth rates for franchising in key measures were extremely high in the mid 1980's, for example, an industry survey found that sales turnover for business format type franchises in 1987 was 40 percent higher compared to 1986, at £3.1 billion, or 3.1 percent of retail sales^{1,2}. However, by 1995, business format franchise sales turnover had grown to £5.9 billion This was an increase of eight percent on the previous year in current terms.

In the mid 1980's, franchising experts were forecasting further strong growth with a five year projection for sales to reach £7.7 billion by 1992, an increase of 148 percent in 5 years (Power, 1987; Dutfield 1988). The potential for business format franchising to continue developing into a major form of distribution through an increase in the number of franchise systems and outlets per system in the UK was seen as high. Particularly, when bench marking franchising penetration in the UK, to franchising in the United States (US). In the US business format franchises account for 13 percent of retail sales (Mendelshon, 1993).

Given the potential for franchising growth in this country there is a clear justification for this study and, particularly for an examination which focuses on the food industry for two key reasons. First, the food industry itself is widely accepted as rapidly changing in structure and character (Dawson et al, 1986). The success of franchising will therefore depend on its ability as a system to exploit the predominant environmental conditions.

¹ Additionally, there was a 20 percent increase in the number of franchised outlets from 1986 to 1987.

² We define business format franchises in Chapter 2.2.4.

Second, the food industry is typically a sector where franchise systems have achieved a high penetration, for example in fast food, speciality food retailing and convenience food retailing (Hunt, 1971). The food industry is therefore a key sector to understand what potential there is for franchising development. If franchising does not establish a strong presence in this sector it is likely to limit its presence in the economy as a whole and will in our view not reach a presence similar to that in other countries, such as the US.

Preliminary research into franchising revealed that there was a paucity of statistics and general data for use in an empirical analysis. This required the acquisition of new data which had major ramifications for specifying the scope of the study. The theoretical and methodological approach was therefore driven by the following points;

- a) There is no theory or law of franchising in the literature which provides a ready made framework for conducting a franchising study. Apply related theory was therefore required. More general organisation theory was considered as a basis to develop our analysis of franchising. The most appropriate body of theory within this general theory, was marketing channels theory for two reasons. First, it provided a theoretical framework for developing a testable set of hypotheses concerning the empirical setting, that is, franchising in the food industry. Second, while the marketing channels theory provided a useful framework for our analysis of franchising, it simultaneously gave the opportunity to examine untested propositions within the theory itself. This provided the possibility of contributing to the increased specification of theory and its associated methodologies through our empirical research.
- b) The marketing channels literature is characterised by research which seeks to understand channel behaviour and decision making in the context of power-dependence relationships and constructs such as co-operation, conflict, satisfaction and decision making uncertainty which result from environmental influences. Each of these is an invisible variable, a construct, a creation of the researcher. This approach requires considerable specification of the constructs and model used, if the results of the study are to be meaningful in contributing to theory. Considerable time is spent reviewing the theory to ensure that the approach to developing the constructs used in this study was epistemologically thorough and consistent.

- c) The use of perceptual measures to obtain data for the measurement of constructs creates a validation issue for the researcher. The broad debate in the literature is whether in measuring constructs the researcher is trying to prove the existence and measurement of an invisible variable through the construct validity approach. Or, whether the researcher is "explicating" constructs and evaluating them on the basis of their definition and content meaning, this is the construct explication approach (Nunally, 1978). This issue has basic implications for the development of research measures and the interpretation of the results of a particular study. The different approaches are considered in some detail before the selection of the construct explication process was made as the most appropriate for this study.
- d) Gathering data at an organisational level required the use of a mailed questionnaire. This creates issues which the researcher needs to address in measure development and specification of the sample. Further, the use of the key informant methodology to comment on the organisational experience again creates a series of issues which need to be resolved to develop the optimal research instruments. Time is committed to discuss the approach selected to minimise this problem. Overall, the aim was to develop the optimal survey execution, and to be consistent with the best practices in marketing research theory and measurement.

The specific aims of this research, and the approach about how best to achieve them are discussed below.

1.2 Aims of this Study

There were two overall aims to this study:

- a) To comment on the prospects for franchising development in the UK food industry. This was done by a qualitative investigation of franchising organisations in the UK and the US and an empirical study of franchisor satisfaction. Broadly, we examined the association and relationship between the performance of a franchise strategy and the characteristics of the UK food and franchise industry environment are examined. The benefit was that it permitted greater understanding of the relationship between the environment and franchises, and provided a basis for the assessment of strategic opportunities for franchising in the food industry.

- b) To provide greater specification of marketing channels theory on;
- i) the construct of channel member satisfaction from a franchisor's perspective.
 - ii) whether the sentiment of organisational satisfaction has an association, or relationship with external phenomena in the environment, specifically, environmental constructs. The relationship between satisfaction and the environment is indicated but not tested in the literature to-date. In this respect, this study aimed to make a contribution to theory.
 - iii) Concomitant with elements i) and ii), to comment on the robustness of the political economy environmental model (which is used to develop the environmental model) as an approach to empirical testing of the environment and internal constructs of the organisation. The political economy theory advanced by Stern and Reve (1980) and Achrol, Reve and Stern (1983) is used to develop the model and measures. The model tested for an association and relationship between the environment and satisfaction. To date there have been very few empirical analyses which have used this model, and none have attempted to relate satisfaction with environmental constructs. The study aim was to provide further support for this model as a valuable approach for developing measures and testable hypotheses.
 - iv) A review of the predictive validity of the model is also under-taken. This comments on the development of franchising (since the primary research was under-taken) versus the models' predictions.

To test the hypotheses a variety of statistical techniques are used, which are consistent with other studies in this field. Within the construct explication process reliability, correlation and factor analysis are employed, this follows current best practice in examining construct validity. To test for an association and empirical relationship a correlation and discriminant analysis are used respectively.

1.3 Summary to Introduction

This study discusses and empirically tests aspects of franchising and the environment. The overall aim was to comment on the prospects for franchising in the UK food industry and simultaneously make a contribution to marketing channels theory. The next chapter describes franchising as a form of distribution and reviews its development in the UK economy.

Chapter 2

An Operational and Economic Definition of Franchising and Review of the Advantages and Disadvantages of the System

2.1 Introduction

Broadly, the purpose of this chapter is to establish what franchising is from an operational and industrial economics perspective. The advantages and disadvantages of this system to the franchisor and franchisee are then set out. Specifically this chapter will:

- a) Define franchising through a review of the literature.
- b) Review the different types of franchise that exist, with a particular focus on the business format franchise which is the unit of analysis in this study.
- c) Clarify the advantages and disadvantages of franchising for the franchisor and franchisee in the context of franchising as a form of vertical economic integration.

Additionally, this chapter establishes the definition of franchising that is taken forward to develop the model for empirical analysis. Within the discussion on the advantages of franchising to the franchisor, more detailed background rationale for the development of franchise systems' from the franchisor's perspective is provided. This is because the franchisor is the focus of this study and it is important to establish why a business operator would choose to franchise. The reasons for franchising from a franchisor's perspective form an important part of the discussion of the content regarding the dependent variable used in this study, i.e. franchisor satisfaction.

2.2 Definition of Franchising

The term "franchise" is used to describe a variety of contractual and structural relationships between organisations. A survey of the literature reveals that there is no uniform definition provided. The principal reason for this is due to the diversity of organisations which are loosely described as franchises (Mendelsohn, 1982).

Perhaps the most useful definitions are provided by franchise associations. These are organisations which represent and promote the industry. Franchise associations are trade associations of franchisors. They exist to achieve the economic objectives of their members through political means and by resolving channel conflict (Assael, 1968).³ The UK's franchise association is the British Franchise Association (BFA), this was formed in 1977 by eight franchisor organisations. Membership covers a variety of franchises. These include for example, "manufacturing and distribution" franchises between large firms such as those operated in the soft drinks industry. For example, Britvic manufacture and distribute the Pepsi brand through a franchise agreement with Pepsico. Another type of franchise is the "Business Format" arrangement such as that offered by McDonalds. These are generally off the shelf business packages licensed to individual operators.

The BFA defines franchising as: "A contractual licence granted by one person (the franchisor) to another (the franchisee) which:

- a) permits or requires the franchisee to carry on during the franchise, a particular business under or using a specific name belonging to or associated with the franchisor; and
- b) entitles the franchisor to exercise continuing control during the period of the franchise over the manner in which the franchisee carries on the business which is the subject of the franchise; and
- c) obliges the franchisor to provide the franchisee with assistance in carrying on the business which is the subject of the franchise (in relation to the organisation of the franchisee's business, the training of staff, merchandising, management or otherwise); and
- d) requires the franchisee periodically, during the period of the franchise, to pay the franchisor sums of money in consideration for the franchise, or for goods or services provided by the franchisor to the franchisee; and

³ For a full discussion of the role of trade associations see Assael (1968). The role in resolving channel conflict is particularly applicable to the food industry, where for example, the Institute of Grocery Distribution works to develop better understanding between manufacturers and retailers.

- e) which is not a transaction between a holding company and its subsidiary (as defined in section [736] of the Companies Act [1985]) or between subsidiaries of the same holding company, or between individual and a company controlled by him.

This definition has two key elements which describe franchising in its broadest terms. First, there is a licensed contractual arrangement between two separate businesses. To this end, franchising is a form of vertically integrated partnership between two organisations, the franchisor and the franchisee.

Second, the license will involve the right of the franchisee to use a trade name or trade mark. This will usually have some commercial value or economic rent. This is because it will be recognised by consumers, who have some goodwill associated with the trade name or mark. Franchises are sold to franchisees in a standard format and consumers are usually not able to distinguish between franchised and franchisor operations. The BFA definition is by comparison to other franchise associations specific with regard to business format franchises. The franchisee is buying "an off the peg" business where the systems and processes have already been established and proven out by the franchisor. The standardised nature of the franchise package sold to franchisees enables the franchisor to build up distribution for the trademark and more consumer goodwill towards it, and through this process, franchising can develop large and apparently corporate chains. The process of selling licences and building up a chain through franchising has led to the development of some of the world most successful organisations in their markets, for example, McDonalds, Coca Cola and Snap on Tools.

The franchise format is similar across geographies. For example, the International Franchise Association is the trade association for franchisors in the United States and defines franchising as follows:

"A franchise is a contractual relationship between the franchisor and franchisee in which the franchisor offers or is obliged to maintain a continuing interest in the business of the franchisee in such areas as know-how and training; wherein the franchisee operates under a common trade name, format or procedure owned by, or controlled by the franchisor, and in which the franchisee has or will make a substantial capital investment in his business from his own resources"

This US definition has two key factors in common with the BFA definition. First, that franchising involves the marriage of two separate business entities through a legal and binding contractual relationship. The contract is offered on a take it or leave it basis, much like an insurance policy (Stanwell, 1984; Brown, 1985) and is usually non negotiable in terms of the obligations on the franchisee. However, at all times the franchisee is a risk taker with his own or loan capital. Second, the franchisor has control over the way the franchisee runs the business and at the same time provides support to the franchisee in running the business.

The US model does however have a deliberately more general definition and more easily applies to different types of franchises. More specifically, the IFA definition includes basic contractual marketing systems such as distributorships as well as sophisticated business format franchises.⁴ The BFA's definition is more targeted towards the business format type of franchise, but is broad enough to allow the inclusion of the more basic franchise systems, presumably for the purpose of leveraging membership. In the next section, franchising is considered as a contractual marketing system, the different types of franchise which constitute contractual marketing businesses are then described.

2.3 Franchising, a Contractual, Vertically Integrated Marketing System and the Different Types of Franchise

Franchising is a quasi form of vertical or horizontal integration between two legally independent businesses, where the franchisee is licensed to trade with and use the franchisor's intellectual property. Within this framework, there are several classifications of franchise arrangements which vary in their complexity and sophistication. This variation in complexity reflects the evolution of franchising across time. The less sophisticated franchises reflect early types of franchising, while the more developed arrangements, represent contemporary systems. Before moving on to describe the different types of franchise, the reasons why organisations can be attracted to vertically integrated forms of distribution are discussed.

⁴ For a fuller description of the types of franchise see section 2.4.

2.3.1 Reasons for The Growth of Vertical Integration

The growth and rationale for vertically integrated systems is well covered in what is loosely called strategic management literature (Porter, 1981 and 1985; Rosenbloom, 1983; Stewart Howe, 1983; Johnson and Scholes, 1984; Gardner and Thomas, 1985). The subject of franchising is covered in transaction cost economics. Below, the case for vertical integration and franchising from strategic management and transaction costs theory are considered.

2.3.1.1 Vertical Systems, Franchising and Strategic Management Literature

A vertically integrated system is according to Rosenbloom (1983,p.359) a "rationalised and capital intensive network designed to achieve technological, managerial and promotional economies through integration, co-ordination and synchronisation of marketing flows from points of production to points of ultimate use". This compares to a conventional channel, which is where organisations are loosely aligned, independent and establish transactions on an individual basis.

Franchising lies between the full vertical integration of corporate chains and the independence of exchange through conventional channels.⁵ Franchising is a form of vertical integration called a contractual system (Thompson, 1971). This is because the relationship between the franchisor and franchisee is formalised in a contract. The franchisee is legally independent, but is required to carry on transactions in a manner prescribed by a legal and binding contract (See Appendix IV). The reasons why organisations, including franchises, seek to increase their economic alignment and

⁵ For a full discussion of the concept of "exchange" within marketing channels see Bagozzi (1975). Franchising can be described as "restricted exchange" between the franchisor and franchisee. Economic structures such as franchising in this theory are known as marketing "dyads". Dyadic relationships have two key characteristics which specifically relate to franchising.

These are identified here to extend the definition of franchising to marketing channels theory and establish the principle that franchising is dyadic form of exchange. This is a precursor to the fuller discussion of exchange in a review of the organisational satisfaction literature in Chapter 5. The two characteristics of a dyadic exchange are an attempt to maintain quality, for the franchisor this is of the trademark and system. Second, there is a *quid pro quo* of the exchange of something valuable by one party, for the exchange of something valuable by the other party. Within a franchise relationship valuable entities reflect the advantages of this form of distribution to the franchisor and franchisee, these are discussed in some detail in section 2.5.

integration with other organisations, either through forward, backward or horizontal integration, are as follows:⁶

- a) Organisational actions to establish integration can develop from a managerial strategy to increase control of the supply chain or operating markets which is based on psychological influences. This can be motivated by entrepreneurial spirit, according to Rosenbloom (1983,p.381), “extensive merger activity can only be understood in the light of an entrepreneurial drive spurred by the vision of organising and controlling the use of economic resources on a grand scale”.

Marketing channels theory proffers that psychological influences on decision making work to guide the organisation into increasing its control of external factors, to increase the predictability of the future. In the political economy model of the organisation and its relationship to the environment, 'uncertainty' is seen as a central and organising concept for organisational decision making (Achrol and Stern, 1980; Ardnt, 1983; Johnson and Scholes, 1984; Achrol, Reeve and Stern, 1983; Manaresi, 1993). This body of theory argues that organisations will develop strategies which reduce environmental uncertainty and minimise conflict with other organisations in the supply chain. A strategy to do this is to take control of organisations within the supply chain on the basis of their synergy with the organisation's existing activities (Johnson and Scholes, 1984,p.215).⁷ Further, constituency-based theory (Anderson, 1982; Day and Wensley, 1983) argues that "Each (functional) area attempts to move the corporation towards what it views as the preferred position for long run survival" (Anderson, 1982)

- b) Where two businesses which were once conventionally independent merge and become different divisions of the same corporation the organisation can gain access to economies of scale and lower cost structures. This can take the form of avoiding promotion and advertising costs in the former supplying organisation. For the former retailer there is the advantage of not paying for the supplier's marketing in the

⁶ Forward integration is, for example, where a manufacturer or distributor establishes contractual or corporately owned retail operations. Backward integration is the reverse of this, where a retailer or wholesaler develops or takes control of manufacturing and production processes. Horizontal integration is the establishment of economic links with organisations at the same level in the supply chain. For example, in 1994, Sainsbury PLC opened new stores with Boots PLC chemists on the same premises. In this case, the retail operations were seen as complementary and were designed to build the appeal of these stores with consumers.

⁷ We review the political economy model in detail in Chapter 6 on the Environment.

cost of goods. Administrative and transaction costs are also reduced through the elimination of protracted negotiation on terms of trade and the process of gathering and processing information by the two companies about each other (Stewart Howe, 1983).

- c) By integrating the business can also reduce risk. The organisation may believe that backward integration to control the sources of supplies provides the opportunity for greater control and security. The retailer who integrates back down the supply chain can reduce inventory and expect to manage product availability with more certainty. In addition, the retailer is less exposed to the problem of unforeseen price changes which will help manage his own cost structure and profit. The retailer will have greater access to information on the pricing of raw materials and can build this earlier information into his future pricing decisions. This will help to improve business competitiveness in the market place.
- d) Competitive forces can lead to greater integration. The advantages mentioned above indicate that the firm which integrates has access to greater economies and better cost structures. As rival firms in a given sector secure the benefits of integration they have access to greater resources for expansion at an increased rate. These integrated firms can become larger and tougher competitors. Long term business survival may in these circumstances push the organisation towards a competitive strategy of growth in volume and market share through vertical or horizontal integration.

2.3.1.2 Vertical Integration, Franchising and Value Chain Analysis

The development of franchising can be attributed to the securing of competitive advantages for franchisors (Lillis et al., 1976). Any organisation has to make choices on its form and processes; these combine to make the economic difference between organisations. Securing sustainable competitive advantage as a result of the firms' forms and processes is fundamental to long run above average performance (Porter, 1980). According to Roseby (1989) competitive advantage in franchising is achieved by a strategy of differentiation in niche marketing enterprises. This section describes why franchisors become attracted to franchising as a form of integration from a strategic management perspective.

Within the strategic management literature, value chain analysis provides a clear rationale for why firms or business units integrate to secure competitive advantage. This literature identifies strategies based on differentiation, and also on securing cost advantages

(Porter, 1985)ⁱ. This section outlines why franchising as a form of distribution provides franchisors with a potentially improved value chain versus a company run format. This provides a strategic management perspective on franchising's continuing development. Several of the reasons why franchising creates a value chain for the franchisor are due to its relative advantages as a system. These advantages are discussed in more detail in section 2.5.

Franchising fits with a value chain analysis. This is because it is a system in which each party uses the others management and money to achieve significant benefits. For example, from a profit perspective, the benefits for the franchisor from utilising franchising and franchisees capital are considerable. According to Jordans (1991), franchisors "enjoy a very high rate of return on capital because of the low capital base. The franchisee's investment provides the funds without any debt incurred by the franchisor, thus returns of over 100% over annum on capital are not unusual. Rapid profit growth is also commonplace, growth rates of between 20-50 percent are considered normal expectations".

Whether a value chain exists in franchising depends upon the existence of activities which are shared where there are:

- a) different economics.
- b) high differentiation by sharing activities.
- c) significant and increasing costs.

Porter (1985) identifies physical and support activities which add value to the firms operation. There are five physical activities, these are; inbound logistics, operation, outbound logistics, marketing and sales and service. The service activities are procurement, technology development, human resources management and firm infrastructure. According to Porter (1985, p, 326) "Sharing an activity can lead to a sustainable competitive advantage if the advantage of sharing outweighs the cost....sharing leads to competitive advantage if it affects the drivers of cost position or differentiation."

Within franchising, it is possible to identify aspects of the distribution system which meet each of these criteria. With regard to different economics, Caves and Murphy (1976) show that franchising is prevalent in industries where there are diverging economies of scale. High differentiation can be achieved in franchising by sharing activities, for example, there are numerous reports of franchisees delivering a significantly improved service to customers compared to company run chains (Felstead,

1993). Transaction costs economics provides evidence that franchising is an activity which falls under the third criteria of significant and increasing costs. Transaction cost analysis shows that firms tend to franchise in distant locations because the costs of monitoring company managers to maintain system standards are high relative to franchising (Brickley and Dark, 1987; Martin, 1988).

The interrelationships in the value chains of the franchisor and franchisee are vertical linkages. The creation of these linkages can create competitive advantage compared to company owned outlets. Figure 2.1 illustrates the principal cost and differentiation advantages for the franchisor as a result of franchising. The franchisor is considered here because it is the franchisor who is creating the integration by offering to share his trademark.

The decision to integrate vertically or horizontally by franchising will be a function of the efficiency of franchising relative to other distribution systems, for example, full company ownership. In the discussion below, the two factors which deliver a value chain from franchising, cost and differentiation, are discussed to illustrate the franchise value chain. This will highlight why franchising has developed from a strategic management perspective.

2.3.1.2.1 Franchising and Cost Advantages from the Value Chain

According to Porter (1985) cost advantages are derived from controlling two variables:

- a) Controlling cost drivers.
- b) Reconfiguring the value chain.

Controlling cost drivers stems from gaining the appropriate level of scale. Franchising can lead to rapid market penetration (Oxenfeld and Kelly, 1969; Lillis et al, 1976) because it uses the franchisees capital to fund expansion (Jordans, 1991). This rapid market penetration can lead the firm to achieve a minimum efficient scale quickly, leading in turn to lower distribution costs and better procurement terms (See Freezavan case study in Chapter 4 for a discussion of this issue).

By reconfiguring the supply chain, the firm attempts to reduce costs by performing an activity in a different way, which favours the firm. As noted above, firms have been empirically slow to franchise in markets where there are divergent economies of scale (see section 2.5) i.e. where there are different production efficiencies at different points in the supply chain, for example, mass production at one point and highly personalised

selling at another. Locational effects can also lead to choices about how firms decide to structure, Brickley and Dark (1987) and a Martin (1988) both show that franchising is related to increasing distance from company head offices. By franchising the firm can reduce costs for the provision of an equivalent level of service compared to company operated outlets. This is because the franchisee brings longer working hours for himself and often his family, to manage the business (Felstead, 1993).

2.3.1.2.2 Franchising and Differentiation Advantages from the Value Chain

This approach to achieving a competitive advantage by franchising is more notional than the cost drivers. This is because differentiation is being unique at something which is valuable to buyers (Porter, op cit.). However, to all intents and purposes it is not possible to differentiate a franchised outlet from a company run outlet. Indeed, there an ongoing issue raised in the literature about the extent to which franchisees are in fact independent businessmen (for example, Rubin, 1978; Stanworth et al, 1995).

For franchisors, the decision to franchise can involve a policy choice which is aimed at improving trademark differentiation through a higher level of outlet service. This is derived as a result of the higher motivation of franchisees compared to company managers (for example see McDonalds case study in Chapter 4). Service is a key value activity in many franchising markets because consumer transactions are based on standards associated with the trademark and its associated quality, attributes and reputation (Rubin, 1978; Adams and Prichard Jones, 1987). Within franchising, it is possible for the franchisor to maximise the potential for differentiation as a result of his own policies. For example, only selecting the highest quality franchisees; providing the highest level of training for franchisees and establishing the highest possible standards and practices in outlets.

Figure 2.1 The Franchisors Value Chain from Franchising

**SUPPORT
ACTIVITIES**

Franchisor Infrastructure	COST: Limited Management Structure Required to Supervise Franchisees				
Human Resources	COST: No management perquisites; career pathing; performance reviews due to franchisee independence.				
Technology Development	COST: Franchisees may be persuaded to invest in new technology/systems out of own capital				
Procurement	Cost: better trade terms from scale effects of franchising: e.g. cost of supplies and media buying for sales and marketing				
	<u>COST</u> Lower handling costs due to higher input volume by franchising.	Differentiation Innovation and recommendations for system improvements. <u>COST</u> Lower cost ideas from franchisees.	Differentiation Better utilisation of promotional material by franchise. <u>COST</u> Lower average costs of distribution as a result of volume based distribution efficiencies.	Differentiation High level of customer service as a result of franchisee motivation. <u>COST</u> Franchisees pay advertising royalty	Differentiation High level of customer service as a result of franchisee motivation. <u>COST</u> Lower cost of service vs manager due to longer hours by franchisee & family.
	Inbound Logistics	Operations	Outbound Logistics	Marketing and Sales	Service

**M
A
R
G
I
N**

PHYSICAL ACTIVITIES

Figure 2.1 illustrates the cost and differentiation advantages that can accrue to the franchisor as a result of franchising. It is apparent in the model, that the value chain of a franchise is dominated by cost, as opposed to differentiation advantages. Each section of the model is now reviewed in sequence, starting with the support activities and then the physical activities.

2.3.1.2.3 Illustrative Propositions for the Franchisors Value Chain

Within this section, illustrative propositions (P1 etc.) are used to describe a franchisors potential value chain. These propositions are based on a combination of empirical, qualitative and hypothesised attributes of franchising with regard to value chain analysis. The discussion is designed to be integrative and illustrative. Several of the insights within it are taken forward to develop and test the model in this study. Overall the value chain model provides scope for further empirical testing.

The support activities in the model are enabling resources for the physical activities within the franchise exchange. The cost and differentiation advantages are reviewed below, for both the support and physical activities.

Support Activities:

- P1: Franchisors are able to secure an infrastructure cost advantage as a result of not needing a management infrastructure to supervise franchisees, this was a key rationale for Weigh and Save adopting an entirely franchised system (Chapter 4).
- P2: Linked to the advantage of a smaller management infrastructure are the cost savings due to needing a more limited human resources function to manage for example, policies on remuneration, career paths and performance reviews.
- P3: The franchisor may be able to install better technology systems, more frequently, as a result of persuading franchisees to invest in the purchase of any new systems, rather than having to bear the full cost of purchase alone.
- P4: As a result of potential increased sales volume of franchised outlets (Co-Op Late Late Superstore, Chapter 4), and potential rapid expansion of the chain as a result of franchising (Lillis et al., 1976), the franchisor should be able to negotiate better terms, for example in the cost of supplies and media buying.

Physical Activities:

- P5: The franchisee can make a significant contribution to differentiating the franchisor's trademark, as the physical activities he undertakes.
- P6: Franchisees can increase the scale of inbound logistics by selling more volume in their outlets, this can reduce procurement costs for the franchisor.

- P7: Within operations Stanworth et al. (1995) indicate that franchisees can make a significant contribution to the level of innovation in a firm as a result of their knowledge and expertise. Innovation can lead to improved differentiation of the product or service, and lead to lower cost operations.
- P8: The average cost of outbound logistics to franchisee stores can be lower as a result of the franchisee's outlet selling more volume. For example, it is more efficient for a lorry to drop off a full load to an outlet, rather than travel there half empty.
- P9: Franchisees can add to the differentiation of an outlet through better implementation and utilisation of national promotional materials (Circle K and Unigate, Chapter 4).
- P10: Franchisees typically pay franchisors an advertising royalty as part of their franchise contract (Appendix five), this assists franchisors in paying for the cost of advertising and promoting the trademark.
- P11: The provision of superior customer service by franchisees can most strongly differentiate an outlet from one that is company run. This is as a result of their higher level of motivation and commitment which results from franchisees working for profit. rather than a salary (Dnes, 1992). Additionally, they can actually provide a relatively higher level of service at the outlet level as result of their own hard work and the involvement of their families (Hunt, 1971; Felstead, 1993)

2.3.1.2.4 Summary to Franchising and the Value Chain

This brief section on franchising and value chains aimed to establish why a firm may select franchising as a strategy to achieve greater levels of. The basic rationale is that the firm may secure competitive advantages from franchising which are not so acutely available under a different strategy. In the succeeding Chapters the concept of strategic choice and competitive advantage forms the basis for developing the discussion and model which is tested in this study. The next section expands the theoretical review of franchising and cost issues by considering transaction cost economics.

2.3.1.3 Transaction Cost Economics and Franchising

Franchising has received limited treatment in this theory (Caves and Murphy, 1976; Rubin, 1978; Brickley and Dark 1987; Martin, 1988; Brickley Dark and Weisbach 1991; Dnes, 1992). The emphasis of these studies has been to explain how and why franchising has developed in the context of new institutional economics thinking, with particular regard to transactions costs and agency theory (some empirical support is provided). The purpose of this section is to provide a review of the rationale provided in these studies for franchising in the context of transaction costs and agency theory. This is supported by a critique of the limitations of transaction cost economics in this respect.

This study is however mainly concerned with franchising and political economy theory, and in this respect the review itself is designed to be illustrative, rather than exhaustive.⁸

2.3.1.3.1 Overview of Transaction Costs Economics

The development of this theory, called New Institutional Economics (NIE), originally stems from the work by Commons (1934) and Coase (1937). This work aimed to provide a broader theory of the firm than classical economics, which focused on how the firm maximised its profit within the boundaries of its own production function. Classical economics did not include important and obvious issues regarding explanations for hierarchies, power and control processes and behaviours. NIE theory provided greater scope for developing a theory of the firm than classical economics by considering agency theory, the efforts of the principal in ensuring his agent served the terms of his contract; and transaction costs, the advantages resulting from bringing suppliers and distributors into the firm. This theory attracted much interest in the 1970's as a possible explanation for the development of large corporations (Williamson, 1975). "At the heart of institutional economics is the making, monitoring and enforcing of contracts" (Hubbard, 1997, p, 240). Firms are bundles of contracts and relationships designed to solve particular problems. The agency relationship and their contracts between the firm and its agents who perform services or functions for it give rise to issues concerning ownership and control. These contracts and their associated structures create transaction costs. It is the costs and the subsequent decisions of firms which are the focus of this theory.

⁸ See Chapters' 5 and 6 for a full discussion of the rationale for utilising the political economy as the theoretical basis for this study.

The definition of a transaction cost has changed over time, Williamson, (1975) asserted that a transaction cost occurs through a process which involves the exchange of a good or service passing across an interface which is technologically separable. However, this is not an inclusive definition. For example, it takes no account of the transactions associated which add value through changes of ownership. Hobbs (1995, p,17) expanded the definition to “an exchange between two stages of the production/distribution chain as the product changes form and/or in ownership rights”. Depending on the definition used, the resources consumed in the process of the transaction are the costs of the transaction. These transaction costs are separate from the costs of production and distribution. The true profit that the seller receives for the product is the selling price less costs of production and distribution (transformation costs) *and* transaction costs.

There are two types of costs identified in the literature. The first type is *ex ante*; such as locating buyers and sellers and negotiating trade terms and prices. The second type is *ex poste* ante; such as transferring ownership, monitoring costs to ensure contract adherence and the costs of sanctions for non-compliance.

Variation in costs is explained by five basic behavioural and environmental dimensions which are interrelated. The behavioural factors are bounded rationality and opportunism. The environmental factors are complexity and uncertainty, and small numbers exchange. Transaction costs vary as a result of differential levels of valence in each dimension for different circumstances:

- a) Under conditions of bounded rationality, which is intentional but limited rationality, agents have limited data analysis skills. The costs associated with bounded rationality are increased by an environment which is more uncertain and complicated. In environments characterised by complexity or uncertainty, the institution faces a choice with associated costs. The aim of the choice is to minimise these costs.
- b) Opportunism costs are a behavioural cost in which the agent may seek to exploit contractual or environmental uncertainty through guile for their own personal gain. Williamson, (1975, p, 26) states “The strategic manipulation of information or misrepresentation of intentions are to be regarded as opportunistic and do have comparative institutional significance for assigning transactions to one mode of organisation instead of another.” Without this type of cost it would be possible to enforce contracts on the basis of self enforcing elements to being awarded the contract in the first place.

- c) Complexity and uncertainty costs are associated with the cost of identifying and computing optimal decision trees in an environment with an array of variables, to make the best decisions.
- d) Small numbers costs arise when there is a bilateral monopoly or a limited number of buyers and sellers. Under these circumstances firms may move from joint profit maximisation to spending time and resources on negotiations on the buying and selling prices. This situation is strongest when there are recurring transactions and a changing environment.

Transaction cost are in fact difficult to measure because they represent potential consequences of alternative decisions (Klien, Frazier and Roth, 1990). According to Williamson (1985), researchers have avoided measuring transaction costs directly. Their approach has been to test whether organisational relations correlate with attributes of transactions as transaction cost theory would predict.

As a result of transactional issues associated with these dimensions, firms may seek to become their own supplier, by shifting transactions out of the market place and creating incomplete contracts under conditions of employment. Contracts are incomplete because of bounded rationality and because the world is uncertain. It would be prohibitively expensive to develop contracts which covered all contingencies. Through this process complete contracts with agents are removed from the market. This saves the costs of developing, negotiating and concluding contracts (Coase, 1937). As a result, firms are created where parties come together to perform recurring transactions and optimise the efficiency of transaction costs.

The level of the costs faced by the firm depends on the levels of environmental complexity, uncertainty and small numbers (Hubbard, 1997). Historically, NIE approach seeks to explain the development of various organisational forms on the basis that the firm will adapt itself to the minimum level of total costs i.e. transformation costs as well as transaction costs (Williamson, 1985). More recently, revenue considerations have been introduced into transaction costs economics to provide explanation for the structure of firms. By including revenue, the behaviour of the firm is explained by seeking maximum transactional value, or profit maximisation Zajac and Olsen, (1993). Separately, Klein, Frazier and Roth (1990) found that environmental issues within transaction cost analysis also affect the firms structure, environmental volatility and diversity were shown to differential effects on the levels of integration.

The range of organisational forms is bounded by two poles, perfect markets and monopolistic hierarchies. Between these two poles is a continuum of various organisational modes, within the literature these are described as intermediate forms. Franchising is one type of intermediate form, wholesaling is another.

Organisational types such as franchising represent a type of vertical integration. According to Williamson (1975), within transactional economics, firms vertically integrate to secure the principal benefits of economising on transactions and “permitting and enabling a wider variety of sensitive incentive and control processes to be activated. Thus, the hazards of defection and cheating that are posed when a qualified joint profit maximisation agreement is reached between autonomous or semi-autonomous units are greatly reduced if a comprehensive pooling agreement is reached instead”. The transaction cost literature on franchising seeks to understand why franchising has developed within this broad context. In the next section this is discussed in more detail.

2.3.1.3.2 Franchising and Transaction Cost Economics

Franchising is an inter-mediate market structure. In this structure the franchisee is given the rights to run a business and collect a stream of profits from it over a given time period. The franchisee pays the franchisor for the right to use the trademark and any support services in a one off payment, and usually by an ongoing franchise royalty fee.

The franchise structure relies on co-operation and is a pragmatic approach to sharing profits. Profit sharing is the essence of the franchise contract (Dnes, 1992). The sharing of effort is based on minimising costs according to Rubin (1978, p, 225). The franchise contract is regarded by Rubin as an attempt to give property rights to the franchisee in the “transaction” of the areas they can efficiently manage and control. The franchisee will “perform functions whose average cost curve turns up relatively sooner”. The franchisor will control areas where costs fall for a significant level of output, for example, advertising, training and policing standards. Managing the day to day business can quickly become expensive, particularly when outlets are dispersed, so efficiency gains can be realised by splitting these functions from the large firm.

The predominant NIE discussion in the literature has focused on the key explanation for franchising as being in ex poste ante monitoring costs, attitudes to risk and in franchising’s future benefits for the franchisor and franchisee. We now turn to review the literature in each of these areas and then provide a critique.

2.3.1.3.3 Franchising and Monitoring Costs

Monitoring costs are covered in the franchising literature in an attempt to explain the development of this form of distribution from a NIE perspective. These are costs arising from the monitoring systems adopted to ensure the firms agent acts in its best interests. The monitoring cost is an issue for stockholders, who face a cost/benefit trade off in deciding how much to spend on monitoring. Because share holders are unlikely to want to bear the full costs of perfect monitoring, firms adopt structures which are sub optimising from a value generation perspective (Anderson, 1982).

Franchising markets are characterised by geographical dispersion markets and divergent economies of scale (Martin 1988, Caves and Murphy 1976). The geographic dispersion creates special monitoring problems due to the risk of opportunistic shirking. The problems of monitoring arise because supervisors are not on site, so that there are costs associated with travelling to locations, and more supervisors maybe needed. An empirical study by Brickley and Dark (1987) demonstrated that the costs of monitoring in distant locations may be higher than the average costs of monitoring numerous outlets in dense urban locations. They found that outlets are more likely to be franchised when they are in rural and small urban areas and when the level of repeat custom is high. This was supported by Martin (1988) who found that franchising was a permanent form of distribution in 16 industries due to monitoring and risk factors. This finding was used to assert that transaction costs associated with monitoring could explain franchising development i.e. that under these circumstances franchising was the most efficient organisational form to minimise transaction costs.

The franchisee works for a profit and on this basis is less likely to shirk than a company manager. The franchisor's market power vis a vis the franchisee is based on the franchise contract (Brown, 1985). Without the franchise contract, the franchisee does not have a business (Rubin, 1978). The franchise contract allows the franchisor to terminate the contract subject to under performance or not renew the contract at the end of its term.

However, any costs associated with shirking are borne by the franchisor. Within franchising there is scope for residual shirking because the franchisee does not receive the full amount of the profits as a result of the ongoing franchise royalty or price premiums on the franchisors' tied in supplies. Under these circumstances there maybe shirking because the franchisor and other franchisees bear the full cost of any shirking (opportunism) because of issues relating to the value and management of the franchise trademark. The franchise trademark is valued by customers because it provides

reassurance about product quality and consistency. Where there is a low level of repeat custom, a franchisee who lets the standard of his service fall below agreed standards benefits by the full amount of the savings and pays only part of the cost for doing this.

The ongoing franchise fee specified in the franchise contract ensures that there is an incentive for both parties to maintain standards (Dnes, 1992). The franchisor will maintain standards by effective policing of opportunistic behaviour by franchisees and the provision of quality services to franchisee because his income depends on the stream of income from royalties and the value of the trademark. The franchisee's commitment to maintain standards because of his highly specific investment in the initial fee's. Dnes (1992, p, 312) supports the monitoring costs attractiveness of franchising, "franchise systems generate monitoring costs savings for franchisors relative to full forward integration. These derive from the entrepreneurship and greater trustworthiness of franchisees relative to hired managers...franchisors aim to minimise their monitoring costs by resting contracts on the screening and bonding properties of the franchisees sunk investment.... Which acts as an implicit hostage".

Monitoring costs can work both ways with regard to the development franchising. Lower monitoring costs can explain a reduction in franchising when economies of scale arise from outlet concentration, and when firms can reduce monitoring costs and maintain quality as a result of improvements in technology and their experience of monitoring (Dnes, 1992).

2.3.1.3.4 Franchising and Risk Management

There are two principal issues with regard to risk which are used to explain franchising in the context of transaction cost economics. These are risk issues associated with the franchisors decision to franchise outlets as opposed to keeping them as company run. Second, the impact of the franchisees risk on the level of transaction costs.

Evidence from Martin (1988, p, 960) indicates that risk aversion influences the decision to franchise and in this respect franchising is a form of exchange where satisfying rather than profit maximising objectives explain the decision to franchise. In an analysis of the percentage of company outlets (PCO's) within franchising firms in 16 industries Martin found that "low long run PCO's are associated with higher levels of company owned sales per outlet relative to franchised sales per outlet. Low PCO's are also associated with less risk in company outlets and more risk in franchised outlets. The more selective the franchisor is about the outlets that person retains as company owned units, the more profitable and less risky they appear relative to the franchised units. Within this study,

risk was defined as the variation in sales per outlet. Franchisors who are risk neutral or risk averse would run outlets as franchised in locations where the variations in sales and profits was expected to be high.

The franchise arrangement has risk issues for the franchisee which impact on transaction costs. The franchisee can be expected to have an inefficient risk bearing portfolio because most of his wealth will be tied up in the outlet (Rubin, 1978). Brickley and Dark indicate this has two transaction costs, first investment decisions in the franchise may be affected by judgements of risk. Brickley and Dark found evidence that franchising is less prevalent in companies where there was a high initial investment cost. this is due to the investment requiring the franchisee to establish an inefficient and highly asset specific investment portfolio. Second, higher levels of perceived risk may lead to higher expected rates of return on the investment.

2.3.1.3.5 Franchising and Future Benefits

This benefit explains in part why franchising continues to operate following the establishment of a the contract. Dnes (1992) defines the “measurement of future benefits” as a key explanatory transaction cost based variable in the ongoing implementation of franchising. Where franchising is seen as a competitive advantage and is set up, the fees schedule in a franchise contract essentially bonds the franchisor and franchisee together, both their future interests are served by co-operative behaviour. Briefly, the franchisor’s receipt of continuing payments link his future rewards to his ongoing performance and service to his franchisees. The specific cost of the franchisee’s lump sum protects the franchisor from opportunism. The fact that there is a standard lump sum across all franchisors is explained by the difficulty in predicting a particular outlets and franchisee’s performance. In his case studies, Dnes found that over time a “relational” contract developed between the franchisor and franchisee. This provided a mechanism for adjustments to evolve to the contract to reflect for example, changes in franchisee expertise and the trading environment. Dnes notes that there are very few cases of litigation between the franchisor and franchisee. Similarly, Stanworth (1984) asserts that because there is no tradition of litigation, or special litigation body for franchising in the UK, the burden of managing the relationship is shifted from the formal contractual level to the operational level. Support for the concept of a relational contract is provided by Fulop (1996) who found that in the recession if of the early 1990’s franchisors were helping franchisees survive by adjusting the formal contract. Although Fulop provides some evidence of opportunistic behaviour on the part of franchisors, this was by no means the key characteristic of franchisor behaviour in the recession of the early 1990’s. She found that many franchisees reported that their

franchisors had in fact provided helpful assistance during this period which helped bolster franchisee survival rates. The assistance provided included increasing territory size, reducing marketing and advertising royalty's and reducing initial fees for new franchisees.

2.3.1.3.6 Criticisms of the NIE Approach

Felstead (1994, p, 60) argues that the application of NIE to franchising faces particular challenges because the process of franchising is contrary to what the theory is trying to explain, "the growth of franchising as an organisational form is the exact opposite of what agency cost and transaction cost theories aim to explain, and power theorists predict. Agency cost theory seeks to answer the question: what is the role of management, and what are the consequences of the sale of the firm, or part of it, by owner managers to outsiders who then simply hold equity interest in the firm? Franchising turns this question on its head, since it involves the sale of a notional firm to owner managers (franchisees) by those who hold the brand/idea/format (franchisor). Transaction cost theory faces a similar challenge. It seeks to answer the question: under what circumstances is the take-over of suppliers and subcontractors advantageous? Again franchising reverses the roles, since suppliers (of a brand/idea/format) partly take over those they supply."

Felstead criticises the NIE approach on the basis of three issues.

- a) Felstead points out that to explain the development of franchising on the basis of efficiency gains under a transaction cost definition may involve a "sleight of hand". This is because growth in revenues and profits can be achieved without a reduction in economic or technical costs. Outputs can simply be increased through the hard work of the franchisee and their workers.
- b) The franchisors motives for franchising could be characterised more by a drive towards efficiency and predictability (enforceability) of output through an onerous contract than working jointly with the franchisee towards efficiency savings. We see some evidence for this in Chapter 12, with regard to the practices of US firms and master franchising in the UK.
- c) The analytical techniques are point in time comparisons of organisational modes which show comparative efficiencies for franchising versus company operations. He argues however that this does not explain how and why franchising has developed.

He summarises his criticism with the view that increased economic efficiency is likely to be at someone else's expense, that the franchisors' privileges stem from power rather than efficiency, and that the NIE approach itself is too narrow in explaining structures.

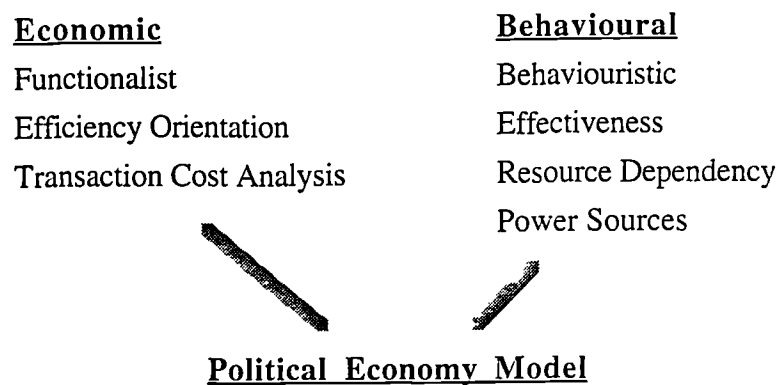
He then develops a model which explains the development of franchising on the basis of power and control to explain organisational outcomes. His model shows that franchising develops against a general principle that firms will seek to increase outputs and reduce costs. If franchising is adopted it is against this principle. Where franchising is adopted, the franchisor's interests are protected by the power of the franchise contract. Franchisees have an entry to business ownership at the cost of operating under the franchisor's format, in a situation where conflict is inevitable, i.e. the franchisor's desire to increase sales turnover against the franchisee's desire to maximise outlet profitability.

Within the empirical research on transaction costs and organisational structures (Walker and Weber, 1984; Klein, Frazier and Roth, 1990), it is notable that although empirical evidence has been found to show that transaction costs are an explanatory variable of firm structure, the results have shown that production costs, in particular, are more important determinants in explaining levels of integration. Walker and Weber (1984, p. 387) found "In general, the effect of transaction costs on make or buy decisions was substantially overshadowed by comparative production costs".

The narrowness of the NIE approach in explaining organisational forms is identified by Manaresi (1993, p. 28). He suggests that transaction costs are important, but do not include other important determinants of organisational form. "Transaction cost analysis pays particular attention to the costs of running the system (negotiating, assembling, information and monitoring of performance). This assumes market based exchange is preferred on flexibility and effectiveness grounds. Opportunism is a key issue (Williamson, 1975)...the transaction cost perspective is consistent with the argument that efficiency is an underlying determinant of organisational relationships. It predicts that transaction cost economies determine whether transactions will be carried out within organisations, in intermediate structures or in the market. The limit of transaction cost analysis and the efficiency perspective is that it only focuses on cost minimisation of each function and is able to explain only a portion of channel member behaviour and performance. For example, no allowance is made for power processes in the channel".

Manaresi, went onto establish the political economy model and the theoretical framework for his study of franchise management issues across countries. In his study, the transaction form was fixed, while countries provided variation. The political economy model was selected because it provided a framework for analysis which captured other important channel issues such as power and behaviours. This are shown in Figure 2.2.

Figure 2.2 Transaction Costs and the Political Economy Model
(Manaresi, 1993, p,26)



2.3.1.3.7 Transaction Costs Summary

Transaction costs can explain certain aspects of franchising development. Particularly in relation to monitoring costs of dispersed outlets and risk management. This discussion has highlighted that transaction cost economics does however have drawbacks in explaining how and why franchising works in a real world sense where behavioural and attitudinal issues such as power, conflict, co-operation and satisfaction do affect the performance of the organisation.⁹ Within this study the political economy theory is used to develop the model for examining the development of franchising in the UK for these reasons. This is discussed in detail in Chapters' 5 and 6.

Franchising is a contractual form of vertical integration which has developed across time. Early, simple "tied" house agreements between brewers and publicans in the 18th century (Stern and Stanworth, 1988) have been used to develop more complex formats, these can offer prospective franchisees a business blueprint and ongoing support and training by the franchisor. The various types of franchises are now described in more detail.

⁹ See Chapter 5 for review of empirical studies.

2.4 Types of Franchising

Throughout the literature, there are taxonomies of franchising which can be condensed into four basic groups (Vaughan, 1979; McCammon, 1983, Rosenbloom, 1983; Hall and Dixon, 1987; Stern and Stanworth, 1988; Adams and Prichard Jones, 1987). These are :

- a) Manufacturer Licence Agreements
- b) Distribution Agreements
- c) Wholesaler- Retailer, Voluntary Group Franchises
- d) Business Format Franchises

The development of these systems broadly reflects a pragmatic alliance between the franchisor and franchisee to exploit the benefits of franchising in favour of alternative forms of distribution. Franchising can, under certain circumstances, deliver specific competitive advantages which overcome technical, geographic, competitive and financial obstacles in the environment better than the independent or wholly corporate enterprise. The types of franchise listed above are in a chronological order of development, with the business format franchise being the most recent and complex system to emerge. In this respect, the development of franchising reflects the development and use of established business practices across time. The amalgamation of these commonly used practices creates the franchise (Prichard Jones, 1987; Mendelsohn, 1982). The different types of franchise arrangements now discussed.

2.4.1 *Manufacturer Licence Agreements*

This is a basic type of franchise where a party is licensed by the grantor of the licence, the right to manufacture, sell or use the intellectual property of the licensor. The soft drinks industry is characterised by this type of arrangement. For example in the UK, Pepsi - Cola licence the right to manufacture the Pepsi-Cola drink to Britvic, which is a separate bottler and manufacturer of soft drinks owned by Cadbury - Schweppes. Britvic then supply the retail, wholesale and catering sectors in the UK with the Pepsi - Cola drink.

2.4.2 *Distribution Agreements*

These tend to be between manufacturers and retailers and are particularly prevalent in the car and truck, and petrol retail sectors. The manufacturer grants the retailer the right to sell the manufacturer's products in a given area. The retailer is usually required to

operate under the manufacturer's trade name to a specified standard and hold a prescribed level of inventory (Hall and Dixon, 1987; p.14). The manufacturer can provide the retailer with a competitive range of products to sell versus competitive manufacturers, advice on how to maintain and sell the products and local and national promotional support (Rosson, 1977).

2.4.3 Wholesaler-Retailer, Voluntary Group Franchises

This is a voluntary relationship more than a formal contractual system. It is held together by a mutual perception that business collaboration is economically effective and consistent with long term survival. Voluntary group franchises are formed when retailers combine under a single trading name with a wholesaler; examples are MACE, SPAR and LONDIS. The emphasis in this type of franchise is mutual co-operation. The relationship is generally more informal and is not necessarily dependent upon a franchise contract (Adams and Prichard Jones, 1987). In Great Britain, these groups have developed in grocery retailing as a defence against the market power of the top four grocery retailers, who account for nearly 60 percent of the market.

Table 2.1

Share of Trade Dry Packed Grocery January - June 1994 in Great Britain

<u>Retailer</u>	<u>Market Share %</u>
Total Top 4	58.2
Sainsbury	19.6
Tesco	18.5
Asda	11.0
Safeway	9.1

Source: Nielsen Homescan, The British Shopper, 1995.

Voluntary groups obtain two principal advantages through their alliances which allow them to compete more effectively against the multiple chains. First, the retailers concentrate their purchasing power through the wholesaler. The wholesaler is able to obtain better trade terms from manufacturers and these can be passed on as price discounts to member retailers who, in turn, can compete at better retail price points.

Second, by combining resources, the voluntary group is able to market a corporate image and branding. The public increasingly uses branding as a guide to make choices, because brands provide a familiar guide to product and service quality, reliability and

convenience (Varah, 1983). To help build a corporate brand, the wholesaler and retailers combine to develop standard store identification material, model stocking plans, advertising and promotion programmes, and store operation manuals (Rosenbloom, 1983).

2.4.4 Business Format Franchises

This form of franchising has grown rapidly in the US and Europe across the last 20 years.¹⁰ The business format franchise is the principal unit of study in this thesis and some consideration is given to its description and definition. The business format franchise offers the same advantages as the previous types of franchise, however, its key characteristic is that it is a more sophisticated contractual arrangement where very specific responsibilities for the franchisor and franchisee are clearly established in a legal and binding contract. As such, the business format franchise is often described as a "second generation franchise" (Hall and Dixon, 1987). Business format franchises tend to be characterised by a high level of continuous franchisor control of the ongoing business activities of the franchisee (Brown, 1985; Adams and Prichard Jones, 1987). A concise description of the features of a business format franchise is provided by Mendelsohn (1982:p.12), this is used to define the business format franchise for the purposes of this study. Mendelsohn (Op cit) defines the key elements of the business format franchise as follows:

- "1. There must be a contract containing all terms agreed upon.
2. The franchisor must initiate and train the franchisee in all aspects of the business prior to the opening of the business and assist in the opening.
3. After the business is opened the franchisor must maintain a continuing interest in providing the franchisee with support in all aspects of the operation of the business.
4. The franchisee is permitted under the control of the franchisor to operate under a trade name, format and/or procedure, and with the benefit of goodwill owned by the franchisor.

¹⁰ See Chapter 3 and Chapter 12 for a review of the growth of franchising. In the UK, for example, Power (1987:p.3) reported that "Business Franchising has now achieved an annual turnover of £3.1 billion, an increase of 40% on last year, but one which is in line with earlier expectations and one which underlines the strength of the business format concept".

5. The franchisee must make a substantial capital investment from his own resources.
6. The franchisee must own his own business.
7. The franchisee will pay the franchisor for the rights which he acquires for the continuing services with which he is provided.
8. The franchisee will be given some territory within which to operate."

At the centre of the business format franchise is the franchise contract. This is a detailed document which defines the franchisor's control and both parties responsibilities within the franchise relationship (Hunt 1972). The franchise contract is produced by the franchisor and generally leverages a high degree of power in favour of the franchisor. The franchise contract establishes the terms of trade between the parties and while specific franchise contracts vary from one organisation to the next they have the following characteristics in common:

First, the contract establishes the specific terms of operation for the franchise. It will cover the length of the term of the franchise, which will need to be long enough for the franchisee to recover his investment, and arrangements for the renewal and disposal of the franchise (Abell, 1989). The contract will specify both parties' obligations in operating and maintaining the business across the duration of the term. To establish these obligations the franchisor will provide an operating manual for the franchisee on how the business should be run. Further, it will stipulate what ongoing franchisee investment will be required to maintain standards for the outlet or service through the replacement of operating equipment. Within the contract, the franchisor's support activities will be specified, such as locating suitable sites and what training the franchisor will provide to the franchisee.

Second, the franchisee is obliged to pay entry costs and ongoing fees to the franchisor for the right to use the trademark, systems and processes that are proprietary to the franchisor. The initial fee will usually be a one off payment, which can be made in instalments (Hall and Dixon, 1987). The ongoing fees, generally termed a royalty, are usually levied as a percentage of the turnover of the franchised business and are therefore a variable cost to the franchisee (Hunt, 1972; Power, 1987). In addition to the royalty payment the franchisor will often levy an advertising contribution from all the

franchisees.¹¹ This creates a central advertising fund which the franchisor will administer. The advertising budget is then spent on marketing the trade name nationally or regionally through advertising and promotion campaigns.

The third key element of the business format franchise contract is the granting of territorial trading rights to the franchisee.¹² The franchisor will agree not to sell other franchises in the same geography as the franchisee, and the franchisee will be required not to promote to consumers in another franchisee's territory. This is an especially important feature of the agreement where the product is taken to the consumer in densely populated locations. For example, in franchises such as Unigate's franchised milk rounds, or door step retailing of frozen foods, or supplying business equipment and services such as the "Snap on Tools" franchise, it is in both parties' interests that the territory granted is large enough to sustain a profitable business, without competition within the franchise.

These are the main characteristics of the business format franchise which is the unit of analysis in this study. Business format franchises have developed strongly in the retail sector across the last decade. This development reflects the advantages of this form of distribution in competitive markets which are becoming increasingly concentrated and dominated by large firms.¹³

Unsurprisingly, the economic rationale for vertical integration are similar to the potential advantages of franchising which explains why franchising has developed in its various

¹¹ The royalty payment varies from chain to chain. It is noted that royalties of five percent of turnover and an advertising levy of one percent of turnover were found in the qualitative case studies in this study (Chapter 4).

¹² Although, in principle, this trend is anti competitive, it is accepted by the regulatory authorities on the basis that the potential competition that franchising introduces in the economy is greater than the internal restriction within systems. According to a report by the US Department of Commerce (1978, p.1), "The remarkable thing about franchising is that it is probably the only form of business entity that, by its very nature, contributes to the creation of new business units". We discuss the benevolent treatment of franchising by the regulatory authorities in Chapter 3.

¹³ In an article in "The Grocer" (1995), Budgens, a relatively small sized food retail chain announced its intention to adopt franchising as a strategy for growth. "The Grocer" commented "As a small player in a market dominated by giants, Budgens has found trading challenging, but is planning to adapt [from a wholly owned firm] in order to expand".

forms across time. Fundamentally, as competitors in the market get bigger and stronger, the costs of entering and competing in a market increase. Franchising offers groups of business people trading under the same name an opportunity (as new market entrants) to compete quickly and effectively with larger firms.¹⁴ The next section describe the specific advantages of franchising to the franchisor and franchisee.

2.5 Advantages and Disadvantages of Franchising to the Franchisor and Franchisee

To successfully establish a franchise, the business must offer benefits which are consistent with the aspirations and goals of both business partners. The advantages and disadvantages of franchising to the franchisor and franchisee are now discussed in this context. At any one time, the extent to which those benefits are derived is a function of the market, operating conditions of the business and its stage in development (Lillis et al. 1974).

2.5.1 Advantages of Franchising to the Franchisor

There are four principal advantages of franchising to the franchisor compared with establishing a company owned operation.

- a) A key opportunity for franchisors is the rapid expansion of a chain of outlets at low cost and, with a concurrent lower risk compared to expansion through company operated chains. This is because expansion is funded chiefly through the franchisee's capital, whereas, expanding through company owned chains requires the franchisor's own, or loan capital. The franchisee will invest substantial capital in acquiring a site to do business, paying for the capital equipment and livery necessary to establish the business and will also pay the franchisor an entry and ongoing fee or royalty for using the franchisor's trade name and know-how.

Linked to this advantage, is the capacity for franchising to deliver widespread geographic coverage at relatively lower cost, lower risk and greater outlet efficiency than the company operated chain (Jordans 1993). According to Martin (1988, p.955) "Geographic dispersion creates special monitoring problems for the firm. Managers of company owned outlets may shirk, since their supervisors are not in permanent residence. Greater dispersion in locations implies more supervisors and higher

¹⁴ See Hunt (1977).

monitoring costs since time is lost moving between locations. Shirking incentives are reduced by the franchise agreement since the franchisee has a claim on the residual. Greater variability in sales implies more frequent periods when sales are less than expected. Periods with low sales require more management inputs and this implies rising monitoring costs. If monitoring costs rise with variability, "risky" locations will be franchised".¹⁵ Martin (op cit, p.965), went on to demonstrate empirically that the decision to franchise is positively affected by uncertainty and that "Given various sites with different risk characteristics, the firm will take advantage of the opportunity to diversify risk [to the franchisee] and to shed locations with higher risk induced monitoring costs." This supports Brickley and Dark's (1987, p.345) empirical results on the firm's decision-making criteria for franchising sites rather than opting for company ownership. Specifically, "the cost of monitoring the store manager appears to be an important factor in the decision [to franchise]. Factors favouring franchising appear to include high employee monitoring costs, low initial investment costs per unit, and higher frequency of repeat customers". Monitoring costs were measured using a surrogate measure of "average mileage to nearest headquarters for company owned and franchised sites". Firms were shown to franchise when the site was further away from the headquarters. In this respect franchising offers the benefit of achieving coverage in locations that the firm would otherwise decline due to risk and cost factors.

- b) Expansion of the chain and build up of market share can deliver economies of scale for the franchisor. For example, through rapid growth the franchisor can obtain cost reductions through buying discounts for goods and marketing services from third parties. The bigger the franchise gets, then the more effective the franchisor should be in securing lower costs and higher profit. Franchising is particularly successful in exploiting economies in markets characterised by "divergent" economies of scale (Thompson, 1972; Caves and Murphy, 1976; Hall and Dixon, 1987). This applies where the optimal scale of organisational activity is different at different points in the supply chain. Hall and Dixon (1987; p. 49) use the motor industry to clarify this point; "in the motor industry, cars must be manufactured on an extremely large scale using mass production techniques in order to achieve the

¹⁵ The "residual" is the net profit from the franchised unit that the franchisee receives. According to Brickley and Dark (1987, p.348), franchising offers the benefit to the franchisor of lower "shirking and perquisite taking", and therefore lower monitoring costs than the company owned outlet. This is because the "costs and benefits of the franchisees' actions that affect the value of their individual units are capitalised onto their shoulders. The compensation to the franchisee is similar to that of the sole proprietor, except the central franchisor receives some portion of the sales revenue as a franchise fee".

necessary economies of scale. The retailing of the finished product on the other hand is best achieved on a much smaller scale using a large number of relatively small localised outlets. For many customers a car is the second most expensive item they will ever buy after their house, they therefore demand a standard of service from the distributor that is difficult to achieve using the sort of huge organisational structure that is necessary for the efficient manufacture of product."

The characteristics of the supply chain and market can make a franchise strategy attractive to the entrepreneur manufacturer. The manufacturer can delegate responsibility for delivering the product and service to the consumer through a highly motivated business partner (the franchisee), rather than maintaining and managing the infrastructure of a large corporate owned retail network, particularly for difficult locations (Ahlquist, 1985). A franchise can therefore extract economies of scale for the franchisor in manufacturing, marketing and administration without incurring potentially high costs of retailing on a local specialised basis.

- c) An often quoted benefit of franchising for the franchisor is high franchisee motivation. Franchisee motivation is reported to track into superior sales and profit performance from franchised outlets, compared to those which are company run. Lillis et al (1976) found that from the franchisor's perspective, this was the most highly rated franchising competitive advantage versus company operated outlets across the life cycle of their businesses. The benefit is derived from the franchisee's personal motivation to make the business succeed vis-à-vis a manager in a company operated unit. The combination of the franchisee's sense of ownership and capital investment increases their personal commitment to building the business. This manifests itself in developing innovative ways of attracting new customers, encouraging existing customers to spend more, and increasing efficiency by closely managing costs. Further, the franchisee will usually have expert knowledge of the local geography and be able to refine the service and product offered to meet local tastes and preferences, where this is permitted by the franchisor. Brown (1985,p.10) underlines this point, "At the inception, franchisees are independent businessmen. They provide a combination of talents, inspiration, and alacrity epitomised in the phrase 'local entrepreneur'. They can decipher local requirements because of their direct customer contact. The goodwill engendered in that contact is meaningful." Building on this, Brickley and Dark (1987) show empirically that where repeat custom is important to ongoing

demand, firms tend to franchise outlets in distant locations. This is because franchising offers a way of delivering the required quality of service for the trade name at a lower level of supervision (and therefore cost) than the managed outlet in the same circumstances.

- d) By franchising, the franchisor can build a chain under his trade name while transferring responsibility for expensive and time consuming management of day to day administration to the franchisee. Compared with company operated chains, franchisors are less concerned with personnel issues at the outlet level e.g. staff turnover and labour relations. Concurrently, franchisors do not need to build and maintain a management structure for employee control, compensation and career management. Franchisees tend to stay in the same outlet. Whereas, managers seek promotion and career development. Where this is not available managers can leave the organisation, resulting in lost efficiency and the cost of recruiting and training new managers. A good perspective on this is provided by Brown (1985, p.13), "In the human arena an integrated system may present insurmountable burdens. For example, a major oil company may have 20,000 gasoline service stations, each of which could require a weekly complement of ten to twenty men to provide service on a seven day twenty four hour basis. It may be an impossible task to assure the constant availability of such a huge labour supply at far-flung locations.

"The wholly integrated employer would have to meet the labour responsibilities of most large organisations. These responsibilities could include collective bargaining demands, fringe benefits for health programs, vacations, pensions, and the overtime and hours of labour standards of eight hour days and forty hour weeks. Considering the 110 weekly hours frequently spent by an independent gasoline service station dealer, these matters can achieve mammoth proportions."

With franchising these issues are significantly reduced.

2.5.2 *Disadvantages of Franchising to the Franchisor*

Franchising has several potential disadvantages for the franchisor compared to operating a company owned chain.

- a) A key disadvantage of franchising for the franchisor is that of maintaining control and standardisation across outlets. The reverse of high franchisee motivation is that the franchisee may have expectations of business independence beyond the scope of the franchise agreement (Sklar, 1977). For example, he may want to develop the business in a non-standard format by offering goods and services to consumers which are outside those prescribed by the contract. Unlike a company employee, the franchisee cannot simply be told what to do. In circumstances where the franchisor and franchisee are not aligned on business priorities, a conflict situation can develop which reduces efficiency and competitiveness (Rosenberg, 1971).¹⁶

Difficulties in maintaining control and standardisation can also arise in instances where the franchisee has an inefficient or undiversified risk portfolio. In these circumstances the franchisor may encounter franchisee resistance to invest in business building opportunities. Particularly, where the franchisee perceives the investment to have a high cost relative to his total investment in the franchise. Basically, the franchisee could judge that the franchisor's plans have a high risk and attempt to defer or simply not implement them. The franchisee is then engaging in sub-optimal behaviour because his investment portfolio is undiversified and inefficient at bearing risk (Brickley and Dark, 1987). Recognition of this issue by franchisors is provided by Wright (1982) who observes that the Pizza Express franchise company were reluctant to engage franchisees who would needed loan capital to buy the franchise amounting to 55 percent of their total investment.

An additional issue in maintaining control is in monitoring franchisee trading activities to ensure that the franchisor can secure his royalties. Under an article headed "Franchise Fraud", Child (1992, p.9) asserted that in the UK "Franchisees who under declare their fees and trade off-record are costing their franchisors around £50m a year, according to conservative estimates". One of the key reasons cited for franchisor inaction in the face of this fraud is a catch 22 situation, where the franchisor may find himself responsible for the rent of the premises if the franchise is terminated and a replacement cannot be found. In this situation, the franchisor is not in control of the franchise and is making a pragmatic trade off; "that half a loaf is better than no bread at all" (Child, op cit).

¹⁶ Conflict is considered in greater detail in Chapter 5. Rosenberg (Op cit, p. 148) defines conflict as a state or situation where "A social relationship between two or more parties (persons, empirically distinguishable entities) in which at least one of the parties perceives the other as an adversary engaging in behaviours designed to destroy, injure, thwart, or gain scarce resources at the expense of the perceiver".

- b) In some cases franchised outlets are less profitable for the franchisor than company operated outlets because of the requirement to share the gross margin between the franchisor and the franchisee, and the high return on investment required by the franchisee for his investment. This can be 25 to 50 percent, with a pay back of two to four years (Gunz et al, 1981). In the UK, there are examples of chains converting franchises to company owned outlets in pursuit of higher profit. For example, Tie Rack reduced the percentage of franchised outlets in its operation from 50 percent to 20 percent in the period 1990 to 1993. In the 1992 financial year Tie Rack increased its profits "five fold".¹⁷

Within the franchise industry, there has been considerable debate about this issue i.e. that in the longer term franchisors tend to convert franchises to company chains for greater profit and control (Hunt 1973, 1977; Lillis et al 1976). Oxenfeldt and Kelly (1968, p.74) state: "Initially, many franchisors establish franchises in order to penetrate the market as widely and rapidly as possible. Once the desired initial coverage is attained, their emphasis usually shifts toward operating efficiencies and market development." However, empirical work by Anderson (1984) examined time series data across ten years for 17 franchising industries and showed that there was no significant evidence to suggest that "company owned establishments dominate in the more mature business areas" (p.428). In any event, the franchisor has the potential to make more profit from converting successful franchised outlets to company run units *ceteris paribus*.¹⁸ The decision to maintain an outlet as franchised under these circumstances can incur an opportunity profit cost to the franchisor.

- c) The franchisor has to commit time and resource to maintaining co-operative relationships with franchisees while achieving his objectives of a standard format across outlets, securing royalty payments etc. A franchise is characterised by high interdependence with support and training responsibilities for the franchisor, these are a cost to the franchisor. Additional complexity and allocation of management time in the execution of franchise operations can arise because the franchisor's power base vis-à-vis the franchisee is much lower than that of a manager and employee. Franchising therefore requires an enlightened management approach. Decisions have to be arrived at through a consultative, rather than a telling process (Wright, 1982). For example, the franchisor has to manage the franchisees'

¹⁷ Source: Franchise World, May - June 1993, p.4.

¹⁸ Particularly where there are low agency and monitoring costs (Brickley and Dark, 1987).

expectations for profit, independence and levels of control in a way he does not have to work with managed employees. If the franchisor lets the relationship breakdown this can result in sub standard service at the outlet and ongoing management issues.

- d) The franchisee can always sell his franchise and ultimately set up a competitive enterprise based on the franchisor's know how and business practices. While franchise contracts will usually have termination clauses which forbid the franchisee from carrying out a similar business in a prescribed time frame and geography, this is in practice difficult to enforce through the law.¹⁹

2.5.3 Advantages of Franchising to the Franchisee

Franchising offers the franchisee major advantages compared with setting up a conventionally independent small business. The key advantages for the franchisee include the following:

- a) The principal advantage to the franchisee is that he is usually purchasing a proven business formula. With an established franchise the cost of entry to the franchisee is usually higher, the franchisee's paying for a lower level of risk on his capital (Gunz et al, 1981). Franchises have a much lower level of failure than other small businesses, only 10% of franchisees fail compared to 90% for other independent small businesses after the first five years (Hall and Dixon, 1987). This is supported by Stanworth and Curran (1987), who put the franchisee failure rate "in the region of five to seven percent". The National Westminster Bank's Franchise Department revealed that it had only six franchisee failures in the period 1981 to 1988. More recently, the recorded franchisee failure rates for 1993 and 1994 were 7.2 percent and 6.3 percent, respectively.²⁰ The franchisee is therefore able to

¹⁹ Typical clauses require the franchisee to:

- a) Keep the franchise business method confidential during and after the franchise termination.
- b) Return the franchise manuals to the franchisor.
- c) Not compete with the franchisor on termination of the franchise.
- d) Not solicit the franchisor's customers after termination.

²⁰ Source: Franchise World. September/October, 1995.

obtain access to the market place via a more reliable in the long term, compared to a small independent operator. This is due to the fact that the franchise chain has an established trade name, livery, and product and service which have consumer goodwill and confidence associated with it.

- b) In many cases, the franchisor will be able to help the franchisee obtain finance to establish the business through dedicated packages already agreed with lending institutions. For example, the National Westminster Bank has a franchise department which will often lend at better interest rates to franchisees than to conventional small businesses due to the lower risk associated with franchising. According to Stern and Stanworth (1988,p.45) “many franchisees are in an advantageous position with regard to access to initial funding because they have taken a franchise as compared to totally independent business”. The main advantage here lies in the transference of the successful record of previous franchisees to the new business. The franchisor is able not only to provide introductions to sources of funding, but, especially if well established, to have funds made available at lower cost. For clearing banks, the development of franchisee finance schemes provides an important marketing tool with which to attract an increased share of franchised borrowing, while facilitating increased administrative efficiency at branch level. However, there is some evidence that although banks have franchise departments, their support for franchising does not necessarily get reflected in branch lending decisions (Fulop. 1996).
- c) The franchisee is supported by the franchisor in key marketing activities which the small scale operator would not be able to afford financially, or in management time. For example, franchisors may use television advertising and national direct mail promotions as part of their brand marketing plans. The franchisor may also have dedicated departments to undertake continuous market research and product and service development. The franchisee would find it difficult and time consuming to do these activities on his own (Stanworth. 1987).
- d) The franchisor provides the franchisee with a safety net. by providing initial and then ongoing training on business management. The franchisor and other franchisees within the franchise are available as an ongoing resource for advice on management of the business. Many of the issues and questions faced by the new franchisee will have, already been encountered and resolved by the franchisor or other franchisees. Diaz and Gurnick (1969; p.12) note that "perhaps the most difficult business ingredients for an individual business to develop are the very components of the franchise package which often includes all or most of the

following: established name and reputation, widely advertised brands, popular store design, carefully chosen location, standardised procedures and operations, and initial and continuing assistance". This can provide the franchisee with reassurance and take away much of the anxiety and uncertainty about managing a business.²¹ To underline the importance of the support aspect of franchising, Varah (1983; p.15) asserts that "psychologically it is comforting to know that he [the franchisee] is part of a larger organisation having a proven track record."

- e) Franchising offers the franchisee the chance to establish relatively secure self employment and economic independence under the shelter of the franchise umbrella. Hunt (1972) found that 52 percent of franchisees would not be self employed if franchising did not exist. In a survey of franchisees in the UK conducted by the National Westminster Bank and BFA in 1994, it was found that 81 percent of franchisees reported that "to be their own boss" was a reason for joining a franchise. There is an ongoing debate among academics and practitioners about the level of franchisee independence (Hunt, 1972; Hunt, 1976; Hunt, 1977; Sklar, 1977; Rubin, 1978; Stanwell, 1984; Brown, 1985; Stanworth et al, 1987) which is outside the focus of this study to review in any detail. In our view, the different sides of this debate are a function of which benchmark of independence is applied. Specifically, the evaluation of franchisee independence is different when compared to the small business person and the employee. On the one hand, it can be argued that the franchisee is not independent because of the franchise contract, a contract of adhesion (Rubin 1978; Brown, 1985), which significantly circumscribes the franchisee's discretion compared to an independent operator. While on the other hand, the argument runs that the franchisee does have independence. His status compares more with the independent operator than the employee or manager. For example, the franchisee risks capital to buy, own and operate the business. For additional perspective, most franchising advertisements and promotional materials compare the freedom offered by franchising to the employee rather than assert that the freedom is the same as that of a conventional small trader.

From a psychological perspective it seems that franchising does attract business people who seek the type of economic status characterised by risk, reward and scope for initiative. Sklar (1977, p.42) demonstrated empirically that fast food franchises attract

²¹ Franchising does however produce examples of bad practice and exploitation of franchisees. While these are in a minority, they nevertheless occur. For a full discussion see Brown (1985) and Adams and Prichard-Jones (1987).

individuals "seeking serious enterprise action". Franchisees in his study used expressions such as "having made it" and "it's the only way to make it" to describe their economic and business status. Franchisees were also found to be just as likely to buy and sell their business, or acquire additional businesses as other small business people.

In the context of this study, the question of independence is a moot point since we focus on the franchisor. Our thinking on franchisee independence follows the pragmatic view of Stanworth et al (1987, p.246): "Compared to the conventionally independent small business, the franchised small business is less independent at both formal and operational levels. But this distinction is a relative one. In practice, in a successful franchise, it can be argued that the differences between a franchisee and a conventionally small business owner, particularly where the latter is operating in a highly competitive market, are not large. The emphasis here must be on the operational level, for this is the reality of small business ownership. To be totally independent in a formal sense but going slowly bankrupt as the market turns to other suppliers of products may be small comfort. To be a franchisee running a business based on somebody else's idea and methods, which provides a high return on capital invested, involves infrequent visits and supervision from the franchisor or his representative but offers vital back up in a crisis, may be more than a fair exchange for nominal total independence. In a semi-oligopolistic economy, dominated by very large enterprises often operating on a multinational basis, the conventional small enterprise exists in a hostile economic environment and, while it shows remarkable powers of survival, its situation should not be seen in terms of any ideological notions of 'total independence'."

This perspective on independence identifies where the focus of the debate should be. Ultimately, business survival and success are the key criteria and in any event, independence is a notional concept because organisations external to the franchisee or small business owner impose constraints on freedom of action in either case. More specifically, the franchisee operates in a larger organisation under a licensed name, with lower risk, but faces control exercised within the franchise system. Conversely, the conventional small business owner operates under his own name with higher risk, but faces the constraints of limited scope to negotiate trade terms with suppliers or banks and limited capacity to fund promotions against massive competitors in increasingly concentrated markets.

Franchising is a pragmatic trade off between security and risk which involves entrepreneurs making a choice in the pursuit of profit. This is summarised by Bernstein (1969; p.36), "Despite the limitations on entry into the franchise arrangement and on the operations of small businessmen within the systems, the growth of these systems has

made for actual enlargement of opportunities for many small businessmen. Specifically, the entrepreneur's economic security is increased by the contributions made by the franchise programmes ability to operate profitably and to reduce risk of loss." In the final analysis, the entrepreneur is more economically independent when the business is viable and growing, if the business falters and fails then perceptions on the level of independence are irrelevant. Franchising has a proven record of delivering more viable businesses than conventional small trading operations.

2.5.4 *Disadvantages of Franchising for the Franchisee*

- a) By design, a franchise system works on a standard formula across outlets. To ensure that this happens the franchise contract sets out legally binding obligations and controls on how the franchisee runs the business. This can be a cause of frustration to established franchisees who may feel they no longer need or want the level of control exercised by the franchisor. For example, the franchisee may want to diverge from the formula in opening hours and product range et cetera, to meet local conditions, but is unable to do so and may miss out on what he perceives to be genuine business building opportunities.
- b) The franchisee is legally tied to the franchisor and the success of the franchisee is very much dependent on the performance of the franchisor. For example, any adverse publicity associated with the franchisor affects all the franchisees who trade under the franchisor's trade name, since consumers do not distinguish between franchised and non-franchised outlets. Additionally, the franchisee's business performance can suffer if the franchisor is not committed to developing the franchisee by the provision of training and ongoing assistance.
- c) The payment of franchisor fees of approximately ten percent of turnover represents an ongoing additional cost to the franchisee which may in fact be a high cost relative to the benefit the franchisee receives from the franchisor in return.²² The turnover from the franchised outlet has to cover the business's operating expenses, provide the franchisee with a satisfactory standard of living and has to pay for two additional franchisor costs; the franchisor's royalty payment or franchise fees, and contributions to a central advertising fund managed by the franchisor. If the franchisor has been over optimistic in profit projections while selling the franchise (either to mislead or simply through poor forecasting), the franchisee may find

²² Source: NatWest/BFA Franchise Survey, March 1995.

himself in a situation where having paid the franchisors fees, the business is delivering poor levels of profitability. For example, Power (1987), in a survey of UK franchisees, found that 39 percent reported their profit position as between "definitely loss making" to "only marginally profitable". Those franchisees who reported making a loss, identified "payments to franchisor" as the key reason for their position.

- d) In seeking to terminate the franchise, the franchisee may face significant constraints on his business options. The franchise contract may stipulate for example, that the franchisee cannot establish a similar business to the franchise in the same area for several years after termination. Often, the franchisor may also have a final veto on who the franchisee can sell his franchised business to.

2.6 Conclusion to Franchising Definition and Description

This chapter has defined the types of franchise, and provided a specific review of the business format franchise which forms the unit of analysis in this study. Franchising, from a strategic management and perspective is a form of vertical integration which has developed strongly in the UK in the last decade. The development of franchising reflects the probability of business success through leveraging the key advantages of the systems for the franchisor and franchisee, compared to other systems. What is critical to the development of franchising is how well it fits with the prevailing business environment. In the next chapter, the environmental factors which favour the development of franchising are discussed, along with a review franchising from a legal perspective vis-à-vis European Community and English Law.

Chapter 3

Review of Factors Favouring the Development of Franchising in the UK Economy and a Profile of its Legal Position

3.1 Introduction

The objective of this chapter is to review the development of the franchise industry in the UK and the factors which have helped this form of distribution penetrate into the retail product and retail service sectors of the economy over the last two decades. The discussion focuses on the development of franchising on the time of the primary research for this study i.e. 1989. A full review of the development of franchising across the 1990's is considered in Chapter 12.

We then consider the treatment of franchising under European Community and English Law. This is a valuable exercise since a review of the supportive stance of the regulatory authorities helps explain the progress of the industry. In our view, a study of franchising would be incomplete without a perspective on its position with respect to the law.

3.2 The Development of Franchising in the Economy

Franchising in the UK is a growing and diverse industry. However, accurate government statistics on the franchise industry in the UK do not exist. This is unlike the US where the Department of Commerce conducts an annual review called "Franchising in the Economy". It is therefore difficult to develop a comprehensive, accurate analysis of franchising development in the UK. The main statistics that are available are from the surveys initiated and sponsored from the mid 1980's by the National Westminster Bank. These surveys have generated sample data on business format franchises and their industry level conclusions are based on extrapolations and interpretations.

A key problem in reading the trends and results in this data is that it is generated from different bases using different research methodologies. From 1982 to 1992 the research was conducted by Power Research Associates using mailed questionnaires, after 1992 the research was conducted by the MIA Research Group using telephone survey

techniques. According to Mendelsohn (1994,p.45) the one thing that the UK has is an independently "garnished set of figures", which would not support a statistically valid time series statistical analysis. The review in this chapter is therefore basic and focused on franchising, its trends and key issues.

Across the mid 1980's franchising achieved strong growth. This trend plateaued and franchising contracted in the recession of the early 1990's, sales turnover then recovered in 1993 and 1994 (Table 3.1) in current prices.

Sales for business format franchises in 1996 were estimated at five and a half billion pounds sterling. This form of distribution accounted for 3.6 percent of the UK retail sales.²³ For perspective, in 1984 , business format franchising sales were estimated at one billion pounds. Business format franchising has achieved an estimated six fold increase in sales in ten years. As a percentage of total retail sales, this compares less well however with the US, where business format franchises account for 13 percent of sales (Mendelsohn, 1993).

Adding in the broader definitions of franchising operations to include distributorships, voluntary groups and manufacturer licences, the total retail sales of the franchise industry in the UK in 1994 was £154 billion, an estimated 34 percent of total retail sales. This is about the same percentage as that for total franchising operations in the US.²⁴ The main difference between franchising development in the UK and US is that business format franchising is less well developed.

While business format franchising growth has been impressive, it has not however, achieved the growth it was forecast to deliver in the mid 1980's. Grant (1985) noted that Power Research Associates (1984) review was "elaborately" forecasting that franchise sales would reach over five billion pounds in five years. These forecasts were based on straight line projections of the shared expansion plans of respondent franchisors in the Power's study. In 1987, Power (1987) was forecasting that franchise sales would reach "£7.7 billion in 1992". It can be seen from Table 3.1, that by 1994 sales had reached five and a half billion pounds, some 70 percent of Power's (op cit) forecast for 1992. The performance of business format franchising is, according to Mendelsohn (1993; p.37), "somewhat disappointing. In order for us to catch up with the US on a pro rata to population basis we need to see over 225 new franchise systems

²³ Franchise World September/October 1996, p.62.

²⁴ Franchise World May/June 1995, p.25.

established with upwards of 65,000 outlets." He went on to question "Are we dragging our feet in the UK, and are business people and existing companies not taking full advantage of the opportunities presented by franchising?"

Table 3.1

Business Format Franchising Growth in the UK

<u>Year Sales</u>	<u>(£m)</u>	<u>Index vs Previous Year</u>
1977	300	100
1982	400	133
1983	500	125
1984	1,100	220
1985	1,490	159
1986	1,860	125
1987	3,100	167
1988	4,450	146
1989	4,700	105
1990	5,200	111
1991	5,000	96
1992	4,500	90
1993	4,950	111
1994	5,500	110
1995	5,900	107
1996	6,400	108

Source: Franchise World; Power Research Associates; BFA.

This disparity between the forecast and actual expansion of franchising is of particular interest in this research. The reason for the misalignment between the forecast and the result is that the forecasts were somewhat over optimistic and, importantly in the context of this study, environmental factors have acted as a brake to franchisor expansion. The environmental effect can be seen in two ways, particularly during the recession of the early 1990's.

First, the number of new franchisors coming into the industry was been less than expected and the industry total has remained static at around 400 across the last seven years (Table 3.2). Mendelsohn's (1994; p.45) concern about the low level of interest in franchising from existing business supports this point. He notes through an

examination of the attendances at franchise seminars that "we have an unwilling audience. The numbers attending franchise seminars have tailed off from what were regularly 50-80 attendees some 8-10 years ago to barely sustainable audiences today".

Second, the expansion of existing franchises has been slower than expected. The average number of franchisees per system has increased from 37 in 1984 to 47 in 1994 (Table 3.3). Power (1984) was predicting that the average would increase to 164 per system by 1989. While Power's (1984) forecasts appear in retrospect to be somewhat bullish, they were based on the plans of franchisors. By 1994 the Executive Director of the BFA made the point that "out of 373 franchisors, those with any significant growth potential are probably something under 200".²⁵

Franchising has not generally achieved the over optimistic growth forecasts of the mid 1980's, in terms of growth in the number of franchisors, or, the number of new franchisees entering the industry. The explanation for this is to some extent a function of the strategic fit of franchising as a strategy with the prevailing environmental conditions. We examine this from the franchisor's point of view in the empirical part of this thesis.

To summarise what has been achieved in franchising growth: there has been an 84 percent increase in the number of franchise systems in the decade from 1984 (Table 3.2). The growth in the number of systems was strong across the early and mid 1980's and was from a relatively low base. The number of systems has however remained relatively stable at around four hundred since 1987. There is a seemingly high level of entry and withdrawal within the industry, at around seven percent. In 1993, there were 35 withdrawals and in 1994 there were 21 withdrawals. This suggests that a large part of the growth since the mid 1980's is generated from established franchisors expanding their operations to include new franchisees. This point underscored by the increase in the average number of franchisees per system (Table 3.3). that is, the average went up across the period suggesting that the bigger firms were expanding.

The penetration of franchising into new markets has been sustained across the last decade. Franchises have clear brand presence in the domestic and business services sectors, mainstream retailing, food restaurants and retailing, leisure and travel, printing,

²⁵ Quoted in Franchise World, May-June 1994, p. 48.

health and beauty services and many other specialist activities.²⁶ In all, the 1994 United Kingdom Franchise Directory carried a list of 17 different trade sectors in which franchise firms operated.

Table 3.2

Number of Franchisors in the United Kingdom 1984-1994

<u>Year</u>	<u>Number of Franchisors</u>	<u>Index vs Previous Observation</u>
1982	250	--
1983	280	111
1984	390	139
1986	429	190
1987	399	93
1992	396	99
1994	414	105
1995	474	
1996	514	

Source: Grant, 1985; Euromonitor; Franchise World; Power Research Associates, Natwest Bank.

Table 3.3

Number of Franchisees in the United Kingdom 1984-1994

<u>Year</u>	<u>Number of Franchisees</u>	<u>Average per System</u>
1982	5,000	20
1983	7,000	24
1984	8,500	22
1986	9,500	22
1987	11,000	28
1992	13,300	34
1994	19,400	47
1995	19,700	
1996	N/A	

Source: Grant, 1985; Euromonitor 1988; Franchise World; Power Research Associates.

²⁶ See full list of the British Franchise Associations members, in Appendix III.

Business format franchising has developed a meaningful presence in the UK since the early 1980's. From a strategic perspective, the development and success of franchising however, is inextricably linked to the prevailing environmental conditions in two key ways. First, that existing franchise systems are able to secure the resources they need for business survival from the environment via franchising and do not leave the industry. Second, that firms which do not currently franchise, recognise that franchising is a strategy for procuring resources for growth and are attracted towards adopting. The environmental conditions which have facilitated the development of franchising as a form of distribution are considered in the next section.

3.3 Environmental Factors Which Support the Development of Franchising

This section highlights the factors which positively affect the development of franchising. As noted by Sanghavi (1990;p.11) external influences are critical to the nature of the way businesses compete and survive, "In today's market place, retailers compete within a diverse range of complex and constantly changing competitive environments. It is, therefore, clear that competitive position and financial success is equally dependent on the ability to organise and execute the internal operating function". The implementation of a franchise strategy is a strategic choice cognisant of the external environment.

Overall, the factors which have been important to the development of franchising are: the development of the service economy behind a growth in incomes (Fulop, 1996), the correlation between unemployment and franchising, the increase in the perceived value of self employment, and the work of the BFA as an effective trade association in promoting franchising.

3.3.1 The Growth of the Service Economy and Franchising

The relationship between economic development and distribution channel structures is generally accepted by marketing scholars (Olsen, 1987). Across the 1980's and 1990's there has been a strong increase in income and consumer expenditure (Table 3.4). This increase in expenditure has tracked into an increase in consumer demand for household, retail and leisure services. A growth in demand for services is a key factor for creating favourable economic conditions for franchising development (Hunt, 1977; McCammon, 1987; Hall and Dixon, 1987; Stanworth, 1987).

Concurrent with the increase in income and expenditure shown below (Table 3.4) there has been an increase in retail sales and demand for services (Table 3.5 and Table 3.6). Although retail sales growth was flat from 1988 to 1993 expenditure on recreational and cultural services grew 41 percent in the period 1980 to 1992, from £11.9 billion in 1980 to £16.9 billion in 1992. This trend continued into the mid 1990's; the percent of household expenditure on leisure and household services increased from 12.2 percent in 1986 to 16.3 percent in 1995, an increase of 33 percent (Table 3.7).

Table 3.4

Personal Income and Consumer Expenditure 1977-1993

<u>Year</u>	<u>1977</u>	<u>1980</u>	<u>1983</u>	<u>1986</u>	<u>1989</u>	<u>1992</u>	<u>1993</u>
Income (£Bn)	124	200	260	333	442	552	575
% Change vs Previous		+61	+30	+28	+32	+25	+4
Expenditure (£Bn)	87	139	187	241	327	382	406
% Change vs Previous		+60	+35	+29	+37	+17	+6

Source: CSO - Economic Trends.

Table 3.5

Retail Sales 1986-1993 (1990 Prices)

<u>Year</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Retail Sales (£ Bn)	125	128	133	132	129	127	128	133

Source: CSO.

Table 3.6

Expenditure on Recreational and Cultural Services at 1992 Prices

<u>Year</u>	<u>1980</u>	<u>1990</u>	<u>1992</u>	<u>Index 1990 vs 1980</u>
Expenditure (£ Bn)	11.9	15.9	16.9	141

Source: CSO

Table 3.7**Expenditure on Leisure and Household Services as a Percentage of Total Household Expenditure**

<u>Year</u>	<u>1986</u>	<u>1988</u>	<u>1990</u>	<u>1992</u>	<u>1994</u>	<u>1995/96</u>
Household	4.8	4.8	5.0	4.9	5.3	5.2
Leisure	7.4	8.9	8.7	10.1	9.2	11.1
TOTAL	12.2	13.7	13.7	15.0	14.5	16.3

Source: Annual Abstract of Statistics 1997

The growth in personal income has increased the consumers' ability to make choices about lifestyle, about how, and on what, they spend their money.

It is possible to illustrate how rising levels of income and expenditure have affected demand in the food industry with two examples; first, eating and meal arrangements have changed across time. Household expenditure on meals eaten away from the home increased by 88 percent in the period from 1985 to 1994 (Table 3.8). The increase in expenditure is driven by an increase in the actual number of meals eaten away from the home. This increased to 102 per year in 1994, this was 14 percent higher than 1990.²⁷

Table 3.8**Average Household Weekly Expenditure on Meals Eaten Away from the Home**

<u>£/week</u>	<u>1985</u>	<u>1988</u>	<u>1990</u>	<u>1992</u>	<u>1994/95</u>	<u>Index 94/5 vs 85</u>
On Premises	3.55	5.13	6.11	6.10	6.74	189
Off Premises	1.12	1.52	1.70	1.67	2.06	184
TOTAL	4.67	6.65	7.81	7.77	8.80	188

Source: Family Expenditure Survey

This increase in the demand for food eaten away from the home provides business opportunities for restaurant and fast food services to meet consumer needs.

²⁷ Market Power Estimates; See 'The British Shopper', 1995, Nielsen, NTC Publications Oxford.

The second example of changing demand for food, concerns an increased demand for convenience food used for meals eaten in the home. In the potato food category, there has been a 145 percent increase in household expenditure on processed potato products from 1985 to 1994/95. This compares to 68 percent increase in expenditure on raw potatoes (Table 3.9) from 1985 to 1994/95. It is also worth noting that the trend in expenditure for processed potato products is *strongly up in each observation*, while the trend for raw potato expenditure is flat across 1988 to 1992. This increase in expenditure for processed potato products reflects higher consumer demand for convenient food, requiring low preparation before consumption. In Chapter 4, there is a case study on a franchise which aimed to exploit the increase in demand for frozen foods through a door step delivery service.

Table 3.9

Average Household Weekly Expenditure on Potato Products

<u>£/week</u>	<u>1985</u>	<u>1988</u>	<u>1990</u>	<u>1992</u>	<u>1994/95</u>	<u>Index 94/5 vs 85</u>
Processed Potato ²⁸	.48	.57	.76	.93	1.18	245
Raw Potato	.48	.61	.68	.61	.81	168

Source: Family Expenditure Survey, HMSO

Sanghavi (1990; p.9) clarifies how changes such as these impact on the retail sector as follows, "Consumer demand is changing as basic physical needs are satisfied. Consumers are seeking additional values, such as exclusivity, information content and greater level of service, which will force retailers to become customer orientated . Well positioned retailers bring key marketing variables of merchandise assortment, pricing, promotion, quality of service and the store environment into finer focus on the target market segments better than other competing firms".

It is particularly within service industries that franchising can achieve a competitive advantage over company owned distribution. This is because services require time consuming attention to detail in meeting individual consumer needs. This requires a high level of motivation by the service provider. Franchisees, with their own invested capital in the business, are highly motivated owner operators who can provide a higher service to the consumer compared to salaried managers. This point is underlined by

²⁸ Processed potatoes include potato crisps, tinned potatoes and frozen chips. The strongest growth has been in chips and crisps (Source: National Food Survey, 1996).

Grant (1985, p.86) "Consumer expectations are in general being raised by higher disposable incomes, increased home ownership and exposure to foreign travel. These changes are being reflected in a demand for a wider range of products and services of good quality provided at outlet level in circumstances which are attractive to the customer. Business format franchising is being recognised as one method of supply and distribution...which can meet this demand."

3.3.2 *Unemployment and Franchising*

The growth in unemployment across the early 1980's and early 1990's has been seen as a factor contributing to the growth in franchising (Adams and Prichard Jones, 1987).²⁹ This view has two supporting points: First, due to recession, the number of people with capital for franchise investment increased through redundancy payments. Second, some individuals see franchising as a means of avoiding unemployment, since it is a credible, relatively lower risk form of small business enterprise. The 1984 Mintel report on franchising commented that "Franchising provides a convenient and relatively risk free business solution for the redundant executive with a golden handshake to invest" (Mintel Report, 1984, p.90). Across the early and mid 1980's franchising achieved strong growth, despite unemployment averaging above ten percent.

For perspective, in 1987, with unemployment at 10.0 percent, Power (1987) reported that business format franchising had reached an annual turnover of £3.1 billion, an increase of 40 percent on 1986. The number of franchised units in the same period had risen by 20 percent.

3.3.3 *Franchising and Self Employment*

A growth in the social and psychological acceptability of being self employed has become apparent in the UK across the last two decades. This has also contributed to the growth of franchising. Hall and Dixon (1987, p.12) comment that "Entrepreneurialism is viewed in a very favourable light, and a high level of self esteem and social acknowledgement can be gained through self employment. The extent of the social value that is placed on entrepreneurialism can be seen in many of the advertisements that are often used to sell franchises. These advertisements tend to emphasise the social and psychological benefits of 'being your own boss'." The increase in desire and perhaps

²⁹ Unemployment in the UK averaged above ten percent from 1980 to 1987. This fell to a low of 5.8 percent in 1990, but rose again during the recession of the early 1990's to 10.3 percent in 1993 (Central Statistical Office, Economic Trends).

the necessity for self employment can be seen in government statistics on the actual number of self employed persons in the economy; these increased 60 percent over the period 1971 to 1994.³⁰

Franchising offers the dual benefit of lower risk and being your own boss for franchisees. This represents an attractive form of economic activity to some who may have work but seek greater economic freedom and there is evidence that the increase in franchising is more than a reflection of the increase in self employment *per se*. Franchising increased in several European countries despite a decline in the number of self employed (Euromonitor, 1988). Grant (1985, p.84) supports this point with regard to the UK, in that, "for franchisees, at least, business format franchising creates a quality of employment, i.e. self employment, which satisfies a need among an increasing number of formerly employed individuals for greater self fulfilment".

3.3.4 *Effective Franchise Industry Trade Association*

A favourable attitude within key commercial and regulatory organisations towards franchising has helped provide the resources and conditions for franchising to develop across the last decade.³¹ A key factor in creating this attitude in the UK has been the work of the British Franchise Association (BFA) which has led a campaign to raise the profile, promote the benefits of franchising and establish clear ethical standards for the industry (Adams and Prichard Jones, 1990). The BFA has helped develop an image of respectability for the franchise industry in the UK and has cultivated the support of key financial and regulatory institutions necessary for franchise development.

The success of the BFA in this respect can be seen in the strong links it has with banking and professional service business which promote their franchising support. Most of the main clearing banks have dedicated franchise departments and are affiliate members of the BFA. The banks provide loan capital on favourable terms through specialised franchise packages which reflect the lower risk of franchising compared to conventional small businesses. This provides attractive resources to fund franchisee start-up costs and franchise expansion. Additional professional recognition of the franchise industry and, in particular, the BFA's role within the industry, can be seen by examining the affiliated membership list of the BFA i.e. 28 solicitors and 6 chartered accountants firms.

³⁰ Specifically, from 2.06 million in 1971, eight percent of the working population, to 3.2 million in 1994, 11.5 percent of the working population. Source: Employment Gazette, August 1994.

³¹ For a detailed discussion of the economic benefits of franchising see Hunt (1972).

A key success of the BFA in managing the attitude of the regulatory authorities has been to create a *laissez faire* approach to franchise regulation. The government has not interfered with the development of the industry to the extent that it has in the US which is governed, inter alia, by the Disclosure and Fair Practice laws. In the US, legislation "closely regulates every aspect of a franchise and imposes arduous registration and public disclosure requirements on the franchisor" (Abell, 1989; p.20).³²

While government has not sought to constrain franchising through legislation, it has not been persuaded to support and sponsor it actively either. This is despite the economic benefits it can deliver in the economy. As a result, it is an area of criticism for the BFA in the trade press. For example, franchising is often quoted as a means of reducing economic concentration (Grant, 1985; Sanghavi, 1990). However, the Department of Trade and Industry withdrew the small firm loan guarantee scheme in 1993 for retailing, hairdressing, taxi and motor service sectors. This was a blow to the development of franchising in these sectors (Franchise World May-June, 1993; p.11). The effect of this decision is to make it almost impossible for potential franchisees to obtain loans if they were turned down by banks. The DTI's main rationale for this decision was that funding in these sectors only served to redistribute business from exiting firms rather than create new jobs. A major criticism of government support for the franchise industry was made by Mendelsohn (1994; p.46), who compared the level of interest in franchising in the Indonesian government with that of the UK government; "I was retained by the United Nations Development Programme and the International Labour Office to advise the Indonesian government, which has recognised that franchising has a vast scope for helping it to develop job opportunities. If Indonesia.... can appreciate the fact that scope exists for job creation through franchising why can't our government take the same view?" Part of Mendelsohn's (op cit) point is that the industry and, the BFA have not secured enough government support. The point that the BFA needs to make progress on securing greater government support was made by Abell (1989; P.19) who stated "In order to become a proper regulatory body the BFA has far to go and must gain the trust of government and franchisees. It must prove itself sufficiently independent, responsible and tough with offending franchisors, to be able to police franchising."

³² See Hunt and Nevin (1976). "Full Disclosure Laws in Franchising: An Empirical Investigation" for the negative effect of regulations on franchisor activity in the United States.

In any event, a review of the trade press suggests that there are a number of experts in that the franchise industry who believe the government has not provided enough tangible economic support, despite the BFA's efforts and the well reported advantages of a strong franchising industry to the economy.³³

3.4 The Legal Position of Franchising in the United Kingdom

As was noted in the preceding sub section, the regulatory authorities have provided a legal environment which is passively supportive to franchising. This is despite the fact that several aspects of the franchise relationship could be interpreted as anti competitive and therefore technically outside acceptable business practices from a pro competition point of view. One of the aims of this chapter is to review the legal status of franchising from European and English law perspectives. This will substantiate the made before, that both regulatory bodies have adopted a passively supportive stance and created a legal environment for franchising development. A technical legal review of franchising and the law is however outside the scope of this section.

Before considering the separate European and English laws, it is helpful to understand the differences in their approach and priority.

The European law on franchising is of relevance to the English law primarily in competition law and, specifically, in relation to Article 85 of the Treaty of Rome (see on). The main purpose of Article 85 is to ensure the creation of a single European market (Franchise Handbook, 1992). Where franchise agreements distort competition between member states or between organisations in different member states, or simply distort competition in one member state, then, Article 85 is likely to apply and a case may ultimately be referred to the European Court following the national courts. The most well known franchising example is the Pronuptia Case.³⁴ In this respect Article 85 is the ultimate legal competition law benchmark.

The focus of the European and English law is different and neatly described by Abell (1989; p.21) "These two parallel legal systems are very different. English law is concerned with how a transaction is structured and is preoccupied with the form of agreements. Simply put, it is concerned with what anti-competitive effects are achieved

³³ See Hunt (1972) "The Socio Economic Consequences of the Franchise System of Distribution"

³⁴ See Abell (1989;p.23)

provided that the documentation complies with, and does not contravene, its highly technical provisions. EC law on the other hand, cares little about the form of a transaction and concentrates upon its ultimate affects", specifically, on whether there is a distortion of competition arising from the arrangement.

3.4.1 Franchising and European Law

As already noted, the main European legislation relevant to franchising, is competition law, and specifically Article 85 (1) of the Treaty of Rome which states:

"The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which affect trade between member states and which have as their object the prevention, restriction or distortion of competition within the common market and in particular those which:

- a) directly or indirectly fix purchase or selling prices or any other trading conditions;
- b) limit or control production, markets, technical development, or investments;
- c) share markets or sources of supply;
- d) apply dissimilar conditions to the equivalent transaction with other trading parties, thereby placing them at a competitive disadvantage;
- e) make the conclusion of contracts subject to acceptance by other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.'

The word "undertakings" is not defined in the article which has the effect of making the article and the jurisdiction of the European Court as broad as possible, in fact down to the individual person level and in this respect, franchisees are undertakings. By the nature of the franchise arrangement there are conditions stipulated in the franchise contract which oblige the franchisee to conduct business in a prescribed way, these could be interpreted as anti-competitive. For example, some franchises require the franchisee to take goods only from the franchisor's supplier e.g. Body Shop.

The European Court has generally supported the franchise industry in cases brought before it. For example, in the Pronuptia Case the Court ruled that clauses in franchise agreements which were essential for preventing the franchisors know how being transferred, or, necessary for maintaining the control of the reputation of the network were not restrictions on Article 85 (1) (Adams and Prichard Jones, 1990).

In 1988 the European Community introduced a Block Exemption for franchise arrangements with respect to Article 85 of the Treaty of Rome. According to Abell (1989, p.3), "The adoption of Regulation 4087/88 by the EC Commission was a major step forward for the franchise industry in Europe. It clearly signifies its coming of age as a method of doing business in the EC. It can be seen as giving a degree of credibility and recognition to franchising on a Pan European level which it previously lacked. No more do the legal and administrative authorities of the European Community regard it as little more than a slight variation upon ordinary distributorship. The block exemption states quite clearly that franchising is here to stay."

The European Community view is summarised in a cover note to the Commission Regulation (EEC) No 4087/88 on the application of existing competition law to franchise agreements.³⁵ This states: "Franchise agreements appear capable of stimulating economic activity in various ways. They improve distribution by providing franchisors with the possibility of establishing a uniform distribution network without the need for major investment, which may assist the entry of new competitors on to the market, particularly in the case of small and medium sized undertakings, thus increasing inter brand competition. They also enable independent traders to establish outlets more rapidly and with a greater chance of success than if they had to do so without the franchisor's experience and assistance. They are therefore able to compete effectively with major distribution undertakings." Broadly, the European Community view is that franchising has the potential to stimulate competition by establishing new systems in the market, and thereby reducing economic concentration.

The European Community regulation 4087/88 on franchise agreements exempts franchises from usual competition rules by allowing, for example:

- a) exclusive territories for franchisees;

³⁵ A copy of this document is held in most business libraries.

- b) "tie - in" supply arrangements where the franchisee is obliged under contract to sell, or, use in the process of supplying the service, goods manufactured and supplied by the franchisor;
- c) restrictions on the franchisee's freedom to solicit customers outside the franchisee's territory;
- d) franchisors to prevent their franchisees from becoming involved in, or acquiring, interests in competitors of the franchise.¹³⁶

There are however practices which are not covered by the Block Exemption which are spelled out in Article 5 of the Exemption. In these cases Article 85 would apply. Examples of these practices are;

- a) resale price maintenance.
- b) a restriction on the franchisee's use of the franchisor's know how after termination, when the know how is in the public domain.
- c) requiring the franchisee to take supplies from the franchisor when the supplies are not essential to maintaining the integrity of the trademark.

Under European Law, franchising is provided with a legal framework and environment which is supportive.

3.4.2 *Franchising and English Law*

Under English Law there is no law of franchising. Franchising is dealt with under the general legal principles of existing law. As established earlier, it is outside the scope of this study to perform a full technical review of the legal status of franchising under English Law. Therefore a basic review of the main acts which are relevant to franchising is undertaken. The key legal areas are franchising and competition, franchising and misrepresentation, and the protection of the franchise trade name and trade mark. The relevant Acts are the Restrictive Trade Practices Act 1976, the Resale Prices Act 1976, the Misrepresentation Act 1967, the Trade Mark (Amendment) Act 1984 and the 1956 Copyright Act. These are now discussed these with regard to franchising.

¹³⁶ For a full review of the Block Exemption see Adams and Prichard Jones (1990; p.57).

3.4.2.1 Franchising and Competition Law

3.4.2.1.1 The Restrictive Trades Practices Act 1976

This is the most relevant competition act vis-à-vis franchising and provides for the registration and investigation of agreements which distort competition in goods and services. The act deals with restrictions on pricing and charges, terms and restrictions, the form and approach with which services are to be sold in the context of areas or places the service is supplied, and conditions for the manufacturing process of goods with respect to their specification of quantities and quality.

This Act presumes that restrictions on trade are against the public interest. Franchise arrangements such as tie -ins and territorial exclusivity are restrictions which are usually viewed as restricting competition. As a result, franchise agreements have to be sent to the Director General of Fair Trading who, if satisfied that the provisions of the contract are in order registers the arrangement. The arrangement can then be referred to the Restrictive Practices Court for a full legal review. In practice few registrations go to the Court since the Director General can exercise discretion and not refer agreements. The Office of Fair Trading is the watchdog of the franchise industry in the UK. The view of the office towards franchising is basically supportive, seeing that it has "enhanced inter-brand competition and had a pro-competitive effect (Howe. 1988; p.445).

3.4.2.1.2 The Resale Prices Act 1976

This Act basically prevents suppliers and dealers stipulating the minimum price that goods are to be sold at. Franchisors do however have the scope to recommend or set maximum prices. In addition, it is possible for the franchisor to stipulate minimum prices where the franchisee has added some processing to the franchisor's supplies, for example, in fast food restaurants (Abell, 1989).

3.4.2.2 Franchising and Misrepresentation

With respect to unethical aspects of franchising, the most frequent problem is sharp practice by franchisors which falls short of actual fraud (Adams and Prichard Jones. 1987). An example is misleading profit forecasts in sales material for franchises. Under English Law there are several acts which are capable of dealing with this problem. In terms of their effectiveness, Adams and Prichard Jones, (1987: p.294) proffer that "English law is probably better equipped to handle many of the abuses of the sort which

occurred in the United States in the boom of the 1960's. Obviously fraudulent persons are likely to enter the franchising field, but the criminal law is already capable of dealing with them".

Legal redress is currently through two main laws. First, the Misrepresentation Act covers advertisements and oral representations by the franchisors' agents to franchisees. Second, regarding forecasts and promises made by the franchisor to the franchisee, the Trades Descriptions Act offers redress for deception. For example, if a franchisor promises to provide a service in helping run the franchisee's business and has no intention of doing so he can be prosecuted under this Act. Under this Act, dishonesty extends to not extending enough care to make sure statements are correct.

There is no disclosure law in the UK. A review of the trade press however, revealed that there is evidence of franchisor sharp practice, similar in nature to that which stimulated legislative intervention to regulate franchisor activity in the US during the 1970's. It was suggested by Seaman and Chaplin (1989; p.39) that "There is the possibility of a move towards more statutory regulation of the industry in response to complaints from an increasing number of franchisees that franchisors are not meeting their training, back up and profit and loss promises." The sensitivity of the industry to maintaining ethical standards to protect the industry from adverse publicity was highlighted by Rose (1994; p.33) who comments that "The success of franchising, however attracts the 'cowboys' at the bottom end of the scale and prospective franchisees need to be on their guard...we are seeing these cowboys masquerading as franchisors, promoting their dubious schemes with striking claims of how little the potential franchisee needs to invest and how much he is likely, or even guaranteed to make". Examples of this are covered below.

The "Franchise Magazine" includes a section called "Franchising and the Law" which is a section for letters to the magazine's legal advisor. This provided several examples of alleged or perceived franchisor malpractice. For clarity we divide the examples into two categories. First, franchisor disclosures to attract franchisees before the signing of the franchise contract, and second, franchisor sharp practices occurring after the franchisee's business is established.

There are several examples in the first category about claims made by franchisors to sell franchises and the practices they used in the selling process. "When I took on my franchise, I was partly sold on the P & L projections provided. After 18 months trading I cannot see any progress towards anything resembling these projections. Two other franchisees have experienced the same" (The Franchise Magazine, Autumn, 1988, p.41)

In the Autumn 1988 issue of Franchise Magazine a franchisee claiming to represent the views of 20 franchisee colleagues in the same system complained of: "negative exploitative attitude killing profits and motivation" (p.40). The existing franchisees were worried that other prospective franchisees might fall into the same contractual trap as they had found themselves.

An apparent misrepresentation of fact was reported in the Spring 1988 edition. This reported that a franchisor had made a grossly inaccurate projection of market potential. The franchisor's promotional material had estimated that 75 per cent of British homes were potential customers. Having enquired with the relevant trade association the prospective franchisee was told that the actual figure was more in the region of 25 per cent (p.39). With respect to promotional material, the main reason for franchisee complaint is that franchisors were promoting their franchises on the basis of over optimistic or unattainable profit and loss projections. Corroboration for this is implicit in the findings of the 1987 Power's Survey (1987) where a substantial, 39 per cent of responding franchisees reported their units to be "only marginally profitable" or "loss making". One of the key reasons reported for poor franchisee profitability was lack of turnover.

Applying unwelcome pressure on prospective franchisees to purchase the franchise was an area which the American legislative bodies found it necessary to legislate for. The Federal Trade Commission and State laws now provide for a 'cooling off' period where the franchisee can consider the decision of whether to invest in a franchise. In the UK there is no such legislation to protect franchisees which can give rise to high pressure selling. An example of this is reported in the Spring Edition of Franchise Magazine (1988; p.41). "When I expressed interest in a franchise and requested a brochure, I was surprised to receive within a week, a visit from one of the company's executives, who proceeded to present the offer to me there and then ... I was being pressed to more or less sign upon the spot. I was told that if I delayed the franchise fee would be going up in a few weeks."

In the second category of sharp practice, where the franchisee has joined the franchise, these are numerous franchisee complaints about alleged abuses committed by franchisors. These were directed primarily at franchisors reneging on the provision of business support and back-up services. The examples are as follows:

"When I took up my franchise I was granted exclusive trading rights in my area. However the franchisor opened another outlet in the same territory...I have lost around one third of my trade to a competitor in the same company...When I complained about the infringement of my territory the company told me that I had been granted an exclusive franchised outlet. The new outlet was a company owned outlet, so I had no complaint to make." (Franchise Magazine, Winter 1989; p.41).

Another example was "Our franchisor has started mail order selling of products that we sell in our shops. Mail order prices are lower and customers are aware of this. Many of our shops have been closing recently due to this kind of pressure. When we signed up there was no mention of this level of competition, so we went in unprepared." (Franchise Magazine, Autumn 1988; p.41).

The franchise industry has been successful in limiting the amount of restrictive legislation applied to it. This is partly due to the fact that there have been no spectacular examples of franchisees being ruined by the sharp practice of franchisors. This seems to be, due to the industry being relatively new without major failures and partly because of the efforts of the BFA to maintain the high franchisor standards. The main challenge for the industry, and in particular the BFA, is to keep to an absolute minimum the number of complaints against franchisors by franchisees through effective self regulation.

3.4.2.3 Franchising and Trade Mark Protection

There are two elements which protect the franchisor's trade mark or trade name. The trade mark is the substance of the franchise and a key element of what the franchisor sells in the franchise. The first element of protection is from abuse by the franchisee. The franchisor covers this in the franchise contract and we have discussed this in the section on Competition Law.

The second element of protection is against exploitation by competitors. The franchisor can incorporate the company name by applying for a Certificate of Incorporation from the Companies Registration Office. This will prevent a competitor or new entrant from using exactly the same, but not similar name, for its enterprise.

The protection of the trademark, and goodwill associated with it, is a critical requirement for franchising. Quoting from Adams and Prichard Jones (1987; p.21) "a mark protects the public so that in purchasing a product bearing the mark it will get the product it asks for and wants; and second, where the owner of the mark has spent time, energy and

money in presenting the product to the public, he is protected in his investment from its misappropriation by pirates and cheats." From the 1st October 1986, franchisors could protect their trademark in relation to services as well as goods under the Trade Mark (Amendment) Act 1984. This extended the application of legal protection of trademarks to services, and was a development to the goods only protection of the 1938 Trade Mark Act. There are however technical legal issues to resolve in the administration and effectiveness of legislation on trademark protection and the reader is referred to Adams and Prichard Jones (1990) for an in-depth review.

The protection of a logo and designs used by the franchisor on store fascia, packaging and products et cetera is provided by the 1956 Copyright Act. Copyright is held by the author of the design and it is the design and drawing to which copyright applies. Franchisor's can instruct designers of their logo or design to ensure that they adequately cover ownership of the copyright in their agreement.³⁷

3.4.3 Conclusion to Franchising and European and English Law

Franchising has the support of the regulatory authorities in that it is not subject to restrictive legislation and is therefore provided with the opportunity to expand. This approach is based on a view that governments do recognise the economic benefits of franchising as positive so long as the law is not broken. The extent to which franchising will continue to operate under relative freedom compared to the United States is probably a function of how well the industry manages to regulate itself. The negative implications of any future regulation, particularly on disclosure and fair practice, to the development of the industry are serious. Hunt and Nevin (1976) found in an empirical investigation, that the costs of administering the requirements of franchise disclosure laws were so great that small franchisors were "squeezed out" of states where these laws operated. In their study, they found that the State of Wisconsin's share of new franchises dropped by 4.5 percent following the enactment of State disclosure laws. Further to the discouragement of new franchisors, they hypothesised (but did not test) that disclosure laws will also discourage existing corporate businesses from entering into franchising due to the cost element. We would therefore expect that any future disclosure and possibly fair practice laws specific to franchising, would act as a brake to franchise development (Hunt and Nevin 1976; Nevin et al. 1980).

³⁷ For a guide to franchising and copyright see Adams and Prichard Jones (1987)

3.5 Conclusion to Factors Favouring the Development of Franchising in the United Kingdom Economy and Profile of its Legal Position

This chapter has reviewed the main forces that encourage the development of franchising, including where appropriate a UK perspective. Overall it was found that the environmental conditions in the UK have been favourable to franchising and that franchising has achieved some strong growth across the 1980's, but declined in the recession of the early 1990's. More recently, franchising appears to be on another growth trend (Table 3.2 and 3.3 show a growth in the number of franchisors and average number of franchisees per system from 1992 to 1994). Within our review however, we find that franchising has not achieved the growth experts thought it would, and there is some concern within the industry that it is not developing as strongly as it should. This is discussed in more detail in Chapter 12, where the predictive validity of the model is considered in the light of events across the early and mid 1990's in more detail.

Chapter 4

Franchising Qualitative Research: Depth Interviews and Fieldwork

4.1 Introduction

This chapter reports the results of a set of qualitative studies of franchise firms and their trading environments using depth interviews in the UK and US.³⁸ This qualitative research had four principal aims, these were as follows;

- a) To develop our understanding of the franchising industry by getting a feel for the profile and nature of the issues perceived by franchisors and industry experts.
- b) To understand how franchising worked within the marketing strategy of franchising firms.
- c) Gain insights into how franchising firms perceived and interacted with their environments, and how franchising as an integral part of marketing strategy mediated or constrained the organisation's goal achievement.
- d) To generate a data base of variables for the content of the measures used in the empirical part of the study. These are discussed within this chapter in the context of marketing and operational issues, and in Chapter 5 as content for the franchisor satisfaction measure.

The methodology for this qualitative research was semi-structured in-depth interviews. The interviewees were senior managers, who were involved in key decision making processes of the company and could speak with authority about their organisations' franchise experiences and plans.³⁹

The selection of the six organisations in the UK study reflects a priority to develop a broad, cross-sectional view of franchises operating in the UK food industry. Companies were selected on the basis of size, stage of life cycle and sector activity. The six companies are identified in Table 4.1.

³⁸ The US study aimed to acquire general perspectives and data on its more mature franchise industry.

³⁹ See Chapter 8 for discussion of Key Informant research.

Table 4.1
Case Study Organisations

<u>Name</u>	<u>Size Life Cycle</u>	<u>Business Sector</u>
Circle K	Large and Expanding	Convenience Stores
Unigate	Large and Mature	Dairy Manufacture/Retail
Weigh & Save	Small/Medium Expanding	Bulk Food Retail
Freezavan	Ceased Trading	Frozen Food Delivery
McDonalds	Large and Expanding	Fast Food

In the US fieldwork, the focus was on generating broad based data on franchising and the food industry. This data was used to compare the mature US industry against the UK industry (via case studies and desk research) and to pick out any salient industry specific or environmental differences between the two countries. To generate the data depth interviews with franchise operators and industry experts were used, and also fieldwork visits to franchised stores. Interviews were conducted with senior managers of the US organisations shown in Table 4.2.

Table 4.2
US Organisation In-depth Interviews and Sector Activity

<u>Name</u>	<u>Sector Activity</u>
Southland Corporation (7 Eleven)	Convenience Stores
Circle K	Convenience Stores
Food Marketing Institute	Industry Analysts/Research
International Franchise Organisation	Trade Association

In the sections which follow the UK and US research, is reviewed with a summary of results for each country. This summary of the key research findings provides much of the content used in the questionnaire. This proved to be a valuable research exercise to improve the questionnaire content and clarify phraseology for the respondents who would complete it.

4.2 UK Case Studies: Circle K ⁴⁰

4.2.1 *Company Overview*

Convenience store retailing is typically a sector where franchises operate successfully. In the US for example, the largest convenience store chain 7 Eleven has over 7000 outlets and franchises about 40 percent of these. The convenience store sector is a target for franchise firms in the UK. Organisations such as Circle C, Late Supershop (an arm of the COOP) and 7 Eleven are currently developing franchise operations.

Circle K attracted much media attention following its entry into the UK food convenience store sector, this was due to its rapid expansion. Prior to July 1986 Circle K had only two stores in the UK, but by June 1988 the organisation had approximately 200. The rapid expansion of Circle K (UK) was driven by an acquisitions policy characteristic of its US parent, the Circle K Corporation. Acquisition of chains such as "Sperrings" and "Eversheds" convenience stores in the UK made rapid growth possible. These chains however, had existing franchisees in their organisation and Circle K's involvement in franchising was therefore more by inheritance than strategy.

The interviewee had been with the organisation since its entry into the UK. One of his key roles was to reduce franchise business involvement. Franchising as a means of distribution and company expansion was to be "frozen". In 1987 there had been 17 franchisees, at time of interview in June 1988 there were eight franchisees running nine stores. The replacement distribution strategy developed and implemented at Circle K was "area licensing".

It is valuable in the context of this study to include an organisation which has made the strategic decision to abandon franchising, because it provides the perspectives of a manager who had no commercial or personal interest in over selling the franchise experience to the researcher.

⁴⁰ Key Facts Summary for Circle K:

Key Informant - Mr Richard Hunt; _

Position - Director of Oil and Licensing.

<u>Franchising Operation</u>	<u>Licensing Operation</u>
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*8 Franchisees	*50+ Outlets
----------------	--------------

	*£12,000 licence fee
--	----------------------

*Franchisees paid a	*1% Sales to Corporate Advertising
---------------------	------------------------------------

* No Further franchising	*Investment per 40 store programme approx. £ 2 million
--------------------------	--

4.2.2 *Product*

Circle K is a "product" orientated company, the store outlet itself is seen as a product. The core business is confectionery, tobacco and newspaper products, which account for 45-50 percent of turnover. Emphasis is placed upon innovation and development through new additions to, and uses for the outlet. Consumer service is critical, since it is key to building turnover and profit. New services are constantly tested; with the aim of developing the overall store offering to customers, examples include film processing, flower ordering, stamp machines, shoe repairs, fast food in the form of pizza, fried chicken and doughnuts.

A wide range of up to 4000 products are stocked in an average store size of 1800 sq. ft. An average store will cost in the region of £70,000 to develop. However, Circle K actively seek alternative formats to develop growth. The store concept has now been expanded to petrol forecourts and contracts have been signed with the petrol companies Total, Amoco, Texaco, Fina and Elf, to incorporate Circle K convenience stores into their garage sites. Mr Hunt claimed that the addition of the Circle K trademark would increase turnover by as much as 30%. A further innovation was the opening of Mini Ks which were as small as 800 sq. ft in floor area, with a 25% smaller range than the average store.

The consumer benefit of a convenience store is shopping through extended opening hours (16 hours per day from 7am to 10pm) and proximity of location, typically, the store is located in a residential site. Circle K's objective is to develop a high standard of consumer service and a friendly local store atmosphere.

It would seem that the highly motivated owner operator competitive advantage of franchising offers an ideal strategy for this type of operation. which requires long hours and commitment from store staff- it begs the question; why did Circle K reject it?

From the interview it was apparent that there were three principal reasons. First, and a classic reason for veering away from franchising was that Circle K's analysis of its Sperrings stores found that the profit returns from franchised units versus company run units were much lower. Circle K needed a combination of a much higher gross margin from sales and higher turnover from the unit to service payments on its acquisition borrowings.

Second, the informant believed that the Circle K proposition was basically too complex for franchising. Circle K stores carry 4000 items in a fairly small store which requires expertise in stock and space management to ensure product availability to consumers. The informant thought that at the start of a franchise, the learning curve demonstrated by franchisees was too flat, and that they did not display enough independence. He suggested that a satisfactory level of independence was not reached in many instances for up to two years. From a Circle K perspective this development time incurred a management and store efficiency cost which was described as "horrendous".

This links into the third reason, which is that Circle K had no culture of franchising and no management systems in place to handle a franchise. Given Circle K's history of a company owned structure, it is not surprising that the company decided to close its franchise operations (despite the advantages of franchising) since it was an area in which they had no organisational structure and management expertise.

4.2.3 Distribution

At a strategic level Circle K have chosen a combination of company operated outlets and Area Licensing as their distribution system.⁴¹ The licensing arrangement involves the formation of a new company. The entrepreneurs for this company are head hunted by city agencies. A company is established with a management team of a Chief Executive, Finance Director and Retail Director. Sponsored by Circle K, this small company approaches "City" financial institutions to raise circa. £2 million to finance a mini store purchase programme of up to 50 stores per license area. By June 1988 there were 50 licensed stores.

The key reason for choosing the licensing option lay in its potential for very rapid expansion. Fast growth in the pursuit of market dominance was a key objective for Circle K. Franchising, incorporating a high proportion of "cold starts" and "one off's", would not have generated the store number growth needed to achieve the company's market share objectives. These objectives directly tied in with the profit objectives.⁴²

⁴¹ Company operated outlets were chiefly developed by acquiring smaller chains. In May 1990 it was reported in "The Grocer" the parent US corporation had debts of \$1.1 billion and was seeking refinancing. The debts of the US parent were apparently causing "image" problems for the UK division in the business community. The Managing Director of Circle K UK told "The Grocer" (1990, p 11) that 80 percent of Circle K stores were ahead of performance targets. The target was a net margin of 5 - 7 percent

⁴² Quantitative research on the association between market share and higher profitability (Return on Investment) is demonstrated by the PIMS programme study (Schoeffler, 1977; p.115).

4.2.4 Price

Pricing policy for a convenience store is guided by the belief that consumers will pay a premium for convenience. Circle K targeted neighbourhood sites in areas where consumers had high disposable incomes (though not necessarily high wages).

Product lines fall into three broad groupings, regular demand, distress and impulse purchases. Higher margins are added to the latter two. Product range was decided by Circle K who set the cost prices for franchisees and licensees from a company "price book".

Price was seen as a key area where franchising had a poor track record, this was based on the financial performance of Sperrings acquisitions. It had been reported in *The Grocer* (May 1987) that the Sperrings chain struggled because of the high levels of pricing independence given to franchisees.

Mr Hunt believed the poor performance of the Sperrings chain was in part due to franchisees failings as businessmen. Hunt's central point was that franchisees looked to develop margins by higher pricing rather than cost control. He felt some franchisees believed that they were assured of success. Sperrings (the franchisor), he believed, had compounded this by assuring franchisees that, they could not fail, since their stores would be bought in the event of poor performance. The outcome was high priced stores which struggled to offer sufficient consumer value to be viable in the long term.

4.2.5 Promotion/Advertising

Circle K has developed a "friendly and local" promotion format. Consequently, Circle K gets involved in charity and welfare events. For example it helped sponsor a Sussex police campaign about youngsters "getting smart to strangers".

The informant indicated that within the franchise format there were real benefits for both parties in promotion strategy. Promotion is an area of marketing where the small trader has serious failings. Franchisees however get the benefit of tailor-made point of sale material and promotion formats as well as high profile regional TV advertising undertaken by Circle K, which they would not have access to otherwise. Consequently, the promotional resources provided by the franchisor increased the franchisee's competitiveness.

For the franchisor, the benefit was in better promotion implementation. Mr Hunt believed franchisees were better than store managers at implementing promotions. At store level Mr Hunt claimed that franchisees made very good use of promotional material due to their higher motivation. Their extra commitment could boost promotional sales by up to 15-20 percent through better use of point of sale material, compared to company managers.

4.2.6 People

One of the major reasons behind the rejection of franchising is what we refer to here as people factors.

First, franchising was seen to incorporate too many "one-off's", each one of these would have brought another person into the system. The management team felt that franchising might lead to a system control problem as some managerial functions were transferred to a string of owner operators. The Circle K franchise experience in the US had produced control problems.⁴³

Second, the demands made of management in supervising a franchise system were seen as restrictive to managerial discretion. Circle K did not want a lot of individual operators, preferring instead to deal with a small number of licensed groups. This reflects the more centralised culture preferred by the management team.

Third, fewer not more decision making points were their priority. In this regard licensing was a better solution than franchising. Circle K are a marketing company where strategies are led by consumer demands. The company felt it needed a responsive structure to enable rapid implementation of changes to outlets and formats to be competitive. Our impression was that franchisees were perceived as representing a drag on speed of decision making and tended to be difficult to deal with e.g. requiring a great deal of persuasion to invest in new fascias, layouts etc. Consequently, the management at Circle K judged that the maintenance of a uniform corporate image and

⁴³ William Rimmers (Vice president of Circle K US) indicated that franchisees had altered the store concept contrary to the franchisor's policy. One example given was of a franchisee who had turned his convenience store into a saddlery. The franchisor had to undertake protracted litigation to force the franchisee to operate in the terms of the franchise contract.

format in the market could be undermined by difficult franchisees.⁴⁴ This was not seen as a problem with licensing since the people were seen as higher calibre, better in attitude, and "more professional". Indeed Circle K have already learned some lessons from their licensees in promotion ideas. This short statement by Mr Hunt sums up the Circle K view:

"I think we win hands down (with licensing) on franchising because we have got higher calibre people. On the Spar type operation we win hands down again because of the calibre of people. When it comes to Independents we have far more opportunities".

4.3 UK Case Studies: Unigate Dairies⁴⁵

4.3.1 Company Overview

Unigate Dairies is the largest processor and retailer of liquid milk in the UK. Doorstep delivery of milk is a key sector for Unigate which has suffered volume decline as sales of milk through supermarkets increase. Unigate have set a strategic objective of zero decline in volume for doorstep deliveries of milk. Franchising and a scheme called "Partnership" have been identified as strategies to reverse the downward volume trend by enhancing the doorstep service to consumers.

The "Partnership" is a commission based role for employees. The milkman is paid by Unigate by volume of sales, and is not on a fixed salary. This is a less risky relationship for milkmen who want to balance security against the earnings potential offered by the franchising option.

⁴⁴ In markets where there is a low search and brand loyalty, such as grocery retailing, (for example, shopper expenditure loyalty to top retailer chains such as Tesco and J.Sainsbury is 30 percent amongst primary shoppers, Nielsen Homescan 1995) the maintenance of standardisation and consistency is a primary objective. Hence protecting the integrity of the trademark is a prime franchisor concern.

⁴⁵ Key facts Summary:

Key Informant: Mr. Eric Finch.

Position: Distribution Manager.

Unigate number of franchises: Approximately 600.

Franchisee set-up investment: £2,000 to £3,000.

Royalty: 7.5% of cost of milk.

Advertising Contribution: Nil.

The franchise is a more independent relationship. Unigate developed this scheme to increase employee participation and responsibility. The franchise offered is a "job franchise", the activity is doorstep delivery of milk in a predetermined area. The franchisee uses the Unigate name and vehicle at a cost, and operates on a self-employed basis.⁴⁶

The first Unigate franchise was sold in 1983. In 1990 over 10 percent of Unigate milk rounds were operating under the franchise scheme. Finch indicated that Unigate's franchising scheme had been introduced slowly. This was due to Unigate's caution in making sure the scheme worked before it represented a significant proportion of distribution.

This is a valuable case study because it offers a contrast from the stereotype franchise story of small grows big, fast. This is a case study of a large corporation looking at franchising as a competitive advantage in a declining rather than a growing market. Unigate's franchise initiative also contradicts the theory that as firms mature they seek to increase the percentage of company-run compared to franchised operating units. In this study we have a large company which is introducing franchising to improve its competitiveness.

4.3.2 Product

Unigate's product is liquid milk and dairy products delivered to the doorstep. Milk sales have declined markedly in recent years. In 1980 milk consumption was 2.3 litres per head per week, by 1985 this had fallen to 1.9 litres per head per week⁴⁷. For Unigate, the volume problem has been exacerbated by a growth in milk sales from superstores. Set against declining consumption and fierce competition, Unigate's objective was to hold volume flat year on year.

Franchising was judged to be an opportunity to develop the product by improving the service element. The product incorporates a high service element and is labour intensive, with long hours, requiring attention to detail in providing the consumer with what they want, every time. Unigate believe franchising can provide consumers with a higher class of service in many cases because it is in the franchisee's interest to be friendly and use personal contact to build the business. According to Mr Finch, the

⁴⁶ Self employed status is within a franchise contract.

⁴⁷ This downward trend in whole milk consumption has continued in to the 1990's. By 1990, whole milk consumption was 1.2 litres per week and 1995, 0.8 litre per week. Source: NFS 1997

strategy appears to be working, most franchised milk rounds have seen increased sales of milk and dairy products as a result of franchisee commitment to a better level of service in terms of personal attention to individual customer needs.

4.3.3 *Distribution*

Franchising has been adopted to increase the effectiveness of distribution by extracting greater commitment from milkmen by offering them greater work satisfaction and financial reward. The competitive advantage that Unigate wants to establish through franchising focuses on the classic franchisor benefit of franchisee motivation. There is evidence that this strategy has great potential and Unigate has measured a three fold increases in sales volume from franchised rounds previously run by employees. Unigate believe that franchising is a vital component of their strategy for competing with supermarkets and independent milkmen.

Franchising has provided other benefits: First, labour cost reductions are gained through not having to administer and pay for pension schemes, paid holidays, sick pay, national insurance contributions etc. for employees. Second, higher volumes through franchised rounds are providing extra economies of scale in milk manufacture and processing which are driving down average fixed costs. Third, income is derived from franchisees through a royalty of 7.5 percent of the wholesale cost of milk.

Fourth, franchising is regarded as a solution to overcoming the problem of attracting suitable employees as roundsmen. Unigate were having severe recruitment problems, even in areas of high unemployment - as a result, service declined. Franchising is seen by Unigate as one route to attracting better calibre people by providing a challenging and motivational business opportunity.

For franchisees the system works through the purchase of an allotted milk round called a 'book right' from Unigate. The area of the round is determined by Unigate. Franchisees purchase milk from the depot and pay for van storage and maintenance. The area selected by Unigate is designed so it will produce a net income of at least £13,000 for the franchisee. This income is 30 percent higher than Unigate's employed roundsmens salary. Most of the franchises have been taken by Unigate's own roundsmen and, so far, most have seen a significant increase in earnings.

For employees, franchising is a route to achieve the kudos of economic independence, a factor which was also believed to increase the attraction of being a milkman and was therefore helping to alleviate recruitment problems. The franchise costs £2,000, which

acts as a refundable deposit accruing interest while held by Unigate. Eric Finch felt that the low cost of the franchise offered an excellent opportunity for individuals to become self-employed without a heavy, initial financial outlay for the franchisee.

4.3.4 *Price*

According to Mr Finch demand for liquid milk is price inelastic. Price competition with supermarkets was not seen as a viable competitive tool of Unigate. A pricing offensive would simply have the effect of devaluing the market and reducing turnover, margin and cash profit as demand would not increase enough to offset the lost returns from each unit sold. Unigate clearly see their product as being quality milk and dairy products with good service and it is particularly within the service element of the product that they want to differentiate their brand from competition.

The retail prices charged on franchised rounds are determined by franchisees, they are not contractually bound to sell to consumers at Unigate stipulated retails, prices, however, franchisees tend to follow Unigate's guidance.

Franchisees bought milk from Unigate at final manufactured cost plus 7.50 percent. Franchisees source the milk and various products solely from Unigate. For Unigate their franchisee is a captive market.

4.3.5 *Promotion/Advertising*

Franchising in milk supply is marked by divergent economies of scale.⁴⁸ Milk round franchising requires high labour inputs and individual attention to customers' needs by the franchisee. Unigate franchisees get the benefits of large scale corporate promotional activity designed and paid for by Unigate to help them build sales. An independent trader would be unlikely to have the time or resources to develop promotion activity which could be motivational to customers. They therefore lose out on this important marketing tool compared to the franchisee who has access to promotional events which can, for example, build trial of new products or loyalty to existing items.

Unigate benefit from motivated franchisees really trying to exploit promotion material. It has been seen that franchisees, in comparison to employees, think about how to best use the promotion leaflets which Unigate make available. Finch comments "The benefits are

⁴⁸ This is evident in the milk supply system where huge economies are gained in production but not in the distribution of this commodity product through doorstep delivery.

there for them, they are more adventurous than a managed person and in developing their mind as franchisees, and as businessmen, they can see the opportunities, and the financial rewards are therefore attained. They are now saying 'pounds, shillings and pence'. Many come back to the depots requesting more leaflets"

4.3.6 *People*

The Unigate culture vis-à-vis franchisees seems to be more paternal rather than based on partnership. Unigate like to think of their operation as being a big family, and this is reflected in the way they select and treat their franchisees. According to Finch this involves a paradigm shift, Unigate are "making sure that the attitudes of senior management are right, to carry franchising forward in its right form".

In terms of franchisees, a rigorous process is used and franchises are not offered until extensive interviews are undertaken with applicant's, and a further check step is added through consultation with the applicants spouse to ensure total family commitment. Finch comments "We are a very caring company, we do not just throw them in at the deep end and say 'there is responsibility, get on with it'."

Most applicants are experienced in the business as previous employees. That coupled to the extremely low start-up cost gives franchisees a high chance of success in achieving the targets set out in Unigate's prospectus. There have however been failures at Unigate. These are based mainly upon the poor business skills of franchisees when faced with the challenge of managing their business, rather than a milkround. Unigate have learned from several franchise terminations that it is necessary to franchise to people who have the skills and aptitude to be self employed. Evaluating against this criteria was now part of Unigate's interviewing process.

Unigate are a large conventional corporate organisation, with little experience or tradition in franchising. Within their organisation they have had a strong trades union presence for many years. The implementation of franchising breaks with traditional work practices and corporate structure. Finch stressed that working closely with trades unions had been a key factor in successfully rolling out franchises. Without their co-operation the process could have been slow and damaging to labour relations . He recommended that any other organisation considering franchising from the same base should actively seek to enrol their trades unions into the consultation process early.

4.4 UK Case Studies: WEIGH AND SAVE⁴⁹

4.4.1 *Company Background*

Weigh and Save (W&S) are the leading specialist multiple bulk food operation in the UK. The chain is structured as a wholesale - retail franchise operation. The franchise company was established in September 1984 and continues to advertise for franchisees. W&S has converted its distribution structure from company run to entirely franchised outlets. In this new structure, the franchisor is the wholesaler and franchisees are retailers. In comparison to the other franchises studied W&S is unique in this respect. The other franchised chains use franchising to complement rather than substitute for conventional company run retail outlets.

From a theoretical perspective, this strategic decision is contrary to the view of Oxenfeld and Kelly (1969), that franchises would typically become wholly owned chains because of the higher profits to be gained, and in this respect W&S is of particular interest. Weigh and Save appears to be an example of the transaction cost rationale for franchising being a key determinant in organisational form. For perspective, in 1988, the chain closed all of its company stores (except two test stores) because keeping control of the company owned stores proved difficult and expensive as Weigh and Save expanded (Grocer, 1988 April 9, p.5).

4.4.2 *The Product*

The consumer proposition is quality food at cheap prices where customers help themselves to quantities of loose, dry foods, typically cereals, pasta, spices etc. This format delivers cheap prices and value for money through packaging savings etc. The other key consumer benefit is that they can help themselves and visually inspect precisely what they are buying.

⁴⁹ Key facts summary:

Key Informant: Claire Amos

Position: Franchise Manager.

No. franchises: 56

Franchisee set-up investment: £35,000 -£40,000

Licence fee: £5,000

Royalty: Nil

Advertising contribution: Nil

W & S's livery and fittings are intended to convey an "upmarket" perception. The idea is to appeal to a broad consumer base through smart stores offering value. The challenge faced by W&S is to avoid a sole reliance on cheap prices as the main marketing strategy and therefore only appeal to low income consumers. W&S want to attract higher income and higher spending shoppers. In this respect instore management is crucial in keeping high standards of tidiness and cleanliness. W&S believe this is achieved best in their type of business by having owner-operators in retail outlets. This was a key factor in the decision of W&S to franchise their company stores.

W&S are determined to keep the number of outlets per franchisee to one or two. Franchisees have in the past taken on up to 4 outlets, resulting in a loss of control in store standards, which is unacceptable to W&S. It seems that the product concept requires a high degree of personal attention. W&S believe they achieve consistency of performance through franchising on an individual basis.

Stores are ideally 700 square feet, in secondary positions where rent is between £16,000 and £18,000 per annum on a new lease. Site locations are focused where there is good customer flow e.g. near bus stations or markets, but not near supermarkets. W&S judged that the convenience benefits of supermarkets outweighed its own value benefit in terms of attracting consumers.

4.4.3 *Distribution*

W&S have franchised all their stores. They are a wholesaler who supplies franchised retailers. This structure has increased W&S profits by delivering two benefits. First, franchising has increased turnover at all the sites that were previously company run and consequently increased W&S's (franchisor) buying volumes. This in turn allows them to negotiate better trade terms from suppliers, who now give discounts based upon the "expected" requirements of W&S in one or two years time.

Second, the franchise structure allowed W&S to remove retail management costs out of their cost structure. Their stores are geographically dispersed and when they were company run this created a substantial supervision cost. The administration of a corporate chain was seen as a drag on profitability, e.g. the cost of managerial perquisites such as company cars, "the expense of maintaining an upper structure made managed stores far less cost effective. We were having to employ two people in place of every one franchisee and, at one point, had 19 company cars on the road for Area and District managers" (The Grocer, 1988: p.8).

Franchising rationalised the company's activities and reduced costs which increased profitability. The primary function of W&S now is to be the supplier and distributor of goods from a central distribution centre. The franchise system at Weigh and Save is based upon the franchisor acting as a central supplier (wholesaler) to all franchisees.

The franchise contract binds franchisees to W&S because all products are supplied by the franchisor. Alternative supplies are only permitted when the franchisor is unable to provide the product after a period of 21 days.

The question of store sites figured highly in the interview. Until the last six months of 1988 site acquisition and availability was not a constraint to expansion. However appropriate sites with suitably low rents became very scarce, and site availability was seen as a problem.

4.4.4 *Price*

Low prices and value for money represent the core of W&S's pricing strategy. For the customer, a given quantity of a product could be as much as 30% cheaper than a similar quality product purchased in a supermarket. Franchisees were expected to communicate the message that the customer will save money at the shop by word of mouth and point of sale material. Weigh and Save set store prices across the chain, and franchisees are not permitted to alter these.

The commodity characteristics of the products mean that they do not command high prices, this leads to a fairly low store turnover of around £3,000 per week. Bulk foods do however deliver relatively high margins at an average of 45 percent. Of this W&S take 12 per cent leaving franchisees with a gross margin of 33 percent. Roughly speaking, this left the franchisee earning a gross cash profit of £1000 per week. The informant would not be drawn on whether this was perceived a healthy cash return by their franchisees.

4.4.5 *Promotion*

Weigh and Save sell simple non branded products out of self service tubs. The promotional focus is every day low prices for quality products. To attract customer interest to the store attention is paid to product presentation, i.e. food barrels and various dispensers, in conjunction with bright store fascias. The emphasis is on simplicity. One possible analogy is to say that W&S is a bulk food equivalent of Body Shop in terms of the presentation striking store images, inside and outside.

The franchisor provides point of sale material such as window posters and stickers for barrels illustrating special offers on products relevant to the time of year. The promotions are uniform throughout the chain, taking no account of regional variations. W&S do not undertake advertising, and building traffic depends upon "word of mouth". This places great emphasis upon the franchisee to ensure that the "word" is communicated which is, as we have noted earlier, an area where small businessmen have been typically short on skills. However, W&S franchisees do not pay advertising royalties, which therefore reduces their costs.

An aspect discussed with the interviewee was whether there would be any advantage in trying to promote the chain as being franchised to the consumers and trying to leverage a "better service" message. In Amos's view this may provide some advantage if consumers understood the outlet was run by an owner operator.⁵⁰

4.4.6 *People*

Weigh and Save franchisees require little experience and no qualifications. They have a broad age range (23 years to 55+) and have various backgrounds. The franchisor is especially concerned that franchisees have full family backing, and suitable physical capability to perform the often demanding, lifting and carrying required.

All marketing functions are controlled by the W&S. Prices are set by the franchisor, supplies are obtained from the franchisor, promotion is franchisor organised and developed and takes no account of regional variations. (Small variations in product range are permitted with additions of commodities such as eggs, bread and milk). The role of the franchisee in this organisation seems to be to do basic store retailing well.

The franchisor does however have good relationships with franchisees, this was attributed this to careful franchisee selection. W&S have an internal franchisee association. The principal objective of this is to establish an ethos of self help and an "esprit de corps" among franchisees. The franchisor encourages the association, believing that it overcomes the feeling of isolation that franchisees can often experience. The association was not seen as a potential countervailing power with trades union undertones, but more of an open forum for the discussion and exchange of ideas, and for problem resolution. Franchisor representatives were invited to attend these

⁵⁰ This approach had been tried by LLS (Coop Late Late Supershop), see Chapter Endnote. Attempts had been made to promote the stores as franchised. For example competitions had been organised and customers were instructed to return their competition entries to their local franchisees. Results however had not been conclusive because it was felt that customers did not know who or what a franchisee was.

meetings. This initiative was thought to increase the feeling of co-operation in the organisation and lead to better performance overall. This is supportive of Lusch (1977) who found that the use of positive power by the franchisor led to an increase in franchisee satisfaction.

4.5 UK Case Studies: Freezavan (A case study on a franchise withdrawal)⁵¹

4.5.1 Company Background

This case study is interesting in that, on the one hand, it raises food industry structural trends such as vertical integration and the search for scale economies, while on the other, it raises issues of high entry barriers and economic concentration. The impact of these issues was to create trading conditions for Freezavan in which it could not compete. In November 1987 Freezavan Ltd was sold to Eismann, a larger competitor with greater resources.⁵²

Freezavan Ltd was established in 1983 by Froqual, a food manufacturing company. Froqual was the sole shareholder in Freezavan and provided the management for the subsidiary company. Directors of Freezavan were Executive Directors of Froqual. The initiative was an attempt to develop new distribution of Froqual products through forward vertical integration from manufacturing to specialist doorstep retailing. The objective was to develop the niche quickly and establish market leadership through fast geographic coverage.

⁵¹ Key Facts Summary:

Key Informants: Mr T. Worth and Mr R. Lowe.

Company Positions: Managing Director and Promotions Director.

Total number of operators : 25

Royalty : 5% (of turnover)

Advertising Contribution :0.5% (included in 5% Royalty)

Licence Fee : £4,500

Approx. total initial cost : £7,500

⁵² Eismann were a similar operation in terms of business concept. The company had 14 years experience of franchising in Germany where it is the market leader. It expanded its operations to the UK in 1987 looking to grow by acquisition and franchising.

4.5.2 *Product*

The product concept was doorstep delivery of premium quality, branded frozen food products. Major brands sold by franchisees were Birds Eye, Ross, Findus and Blue Crest, several products were sold under the Froqual frozen foods label. The vans used by franchisees in the operation carried a comprehensive range of 210 lines. Customers were required make orders to a minimum value of £25 per delivery, they selected these from a catalogue supplied by the franchisee.

Selling only branded goods (as opposed to private label) meant a price premium on the same goods that could be bought in supermarkets. The informants claimed that this was a viable proposition because their target consumers expected to pay a premium for the service. Further, they believed that this proposition was better than the Eismann format of own label products sold at a discount to supermarket brands because customers prefer the perceived quality assurances of branded goods.

4.5.3 *Distribution*

The Freezavan case study offers the opportunity to examine what was in effect a franchise failure. The obvious question is, why did Freezavan withdraw? Franchising involves a power relationship overwhelmingly weighted in favour of the franchisor. Franchising has in the past attracted unethical franchisors, who have exploited franchisees and made quick returns on the basis of this power.⁵³ We probed into the approach of the Freezavan management to franchising to determine whether there was an unethical approach which might have explained the failure of the business. We found that it was strategic problems which led to the sale of this business. In our view, these have broad application to many businesses in the food industry.

The management approach to the introduction and implementation of franchising at Freezavan was well organised. First, a company operated pilot scheme of eleven employees was undertaken to identify problems before full franchises were offered. Second, managers were sent on BFA sponsored seminars to learn about the principles that should be used in the operation of a franchise. Third, franchisees were given intensive training over a period of 3 weeks for what was a basic operation, and were assisted in their early days of being in the field by the company's area managers. Fourth, monthly meetings with franchisees were set up to discuss problems, prospects and development plans. After approximately 2 years the company was in the process of

⁵³ See Chapter 2 for a discussion of the legal history of franchising.

applying to the BFA for full membership. The management believed that they had gone about franchising in a stepwise, ethical fashion and the implementation followed the procedures recommended by industry experts.

The explanation for withdrawal was not due to bad practice but rather to a strategic choice which had to be made by the parent company which had reached a cross-roads in its own development. An assessment of the strategic alternatives indicated that selling was probably the best option. The entry of Freezaman with greater financial resources to develop the business, meant that Freezavan would have had to grow at a much faster rate in order to compete. Freezavan did not feel that they would be able to achieve the rapid growth needed to compete effectively in the long term and the decision was then made to sell the business to Eismann.

The food retail sector is a stable market in terms of the volume consumption of food. The respondents were convinced that in order to be successful it was imperative for the operation to reach a minimum efficient scale of operation as quickly as possible and before serious and well organised competition was established. Freezavan had not done this by the time Eismann arrived in the UK and, consequently, they did not believe they had the resources to fully develop their plans for forward vertical integration.

This case study raises a discussion point in respect of franchising in concentrated markets. This is, that in concentrated markets dominated by large firms it is unlikely that franchising will generate enough growth for new firms to survive long enough not to be bought out by large firms looking for growth through acquisition. As a consequence, new brands built out of franchising could be less likely. The withdrawal of the government's Small Firms Loan Guarantee Scheme for the retail sector in 1994 would not have helped in this respect and it could be argued that, in the food sector, the trend towards increased concentration may not be off set by new franchised brands.

To illustrate the difficulties facing small scale operators, a description of the physical distribution of Froqual goods to franchisees [who were centrally located in and around London] is insightful. The goods were supplied from a central depot in Peterborough by two lorries delivering to prearranged drop off points. The following extract from the interview illustrates the pragmatic compromises and innovation that smaller scale operations have to make in order to simply survive.

"There were 8 [drop off points] around the M25, they tended to be in small garages...and there was the odd back to back ... these lads picked up their stuff on the whole late at night or early the following morning. We had two lorries which worked day and night."

Keeping the vans fully stocked with 210 lines required substantial co-ordination, the above extract is indicative of the nature of small scale distribution. This is a sharp contrast to centralised warehousing and computer driven stock control systems employed by large food retailers and distributors.

The management of Freezavan were convinced that franchising was the best means of distribution for their type of operation. This was due to the extra motivation of the owner operator, with his own stake in the business. They believed he would seek ways of exploiting and maximising opportunities in his area to the ultimate benefit of Freezavan. The franchising approach has worked well for other "man and a van" sales operations, for example, Snap on Tools is market leader in the tool manufacture and supply sector.

A further issue in this case study was whether selling branded food goods at a premium price was an appropriate trading format. Our conclusion was that while the distribution mechanism delivered a consumer benefit of service, the products were not sufficiently differentiated to justify the considerable price premiums on packs which could be easily compared on price to those on supermarket shelves.

4.5.4 *Promotion/Advertising*

Generating customer awareness is extremely difficult for any small enterprise. Promotional activity is expensive, difficult and time consuming, while the rewards are not always apparent. Yet for the franchisor it is an activity which is crucial for the survival and growth of his business. The basis on which a franchise is sold to the franchisee partly rests upon the notion that the franchise trade mark embraces an element of customer goodwill and recognition. To develop consumer goodwill the franchisor must build consumer awareness of the business by advertising and promotion, which in turn increases the attractiveness of the business to potential franchisees. This allows the franchisor to charge an economic rent for the use of the trade mark - his intellectual property. Franchises which have not built up consumer goodwill are therefore more risky for franchisees, but they are also cheaper to enter into because the cost of renting the trade mark is lower.

Freezavan found that it could not compete with its chief competitor on promotion activity. Generally, consumers were more "aware" of Freezavan's competitor and Freezavan was failing to build up its market as result. Freezavan judged that it could not break a vicious circle where its size limited the amount it could spend on promoting its trade name to consumers, this prevented it from creating a strong franchise proposition to attract new franchisees - ultimately franchises would be from the same potential "pool" of possible applicants that their chief competitor would be recruiting from. The Freezavan management were convinced that in their type of operation it was essential to be effective in promotion and they did not have the resources to do this. Essentially, they found promotion costs to consumers and franchisers to be an effective barrier to entry for their small franchise.

4.5.5 *Price*

The interview indicated that pricing policy was critical to the problem of inadequate growth. The crude strategy was based on the following process, Freezavan bought supplies from manufacturers and distributed these to franchisees at cost with the addition of a charge for the delivery, franchisees then added a 50% mark up to the goods. All this added up to a significant price premium for customers which had little relation to whether it represented good value. Without researching this issue further, Freezavan could not be sure whether they had created the right price and product relationship to generate demand. When pushed, it was clear that the managers were not sure they really knew how much customers were prepared to pay for a service on a undifferentiated products. This study indicated that pricing is a key variable when selling undifferentiated products. When pricing was not set appropriately the company was offering transparently poor value to customers.

4.5.6 *People*

This particular job franchise required tremendous effort to make it work in the field. The demands of the operation required a physically and psychologically tough person to be a franchisee. The job was 7 days a week, working long hours each day, requiring close attention to individual customer's requirements, with plenty of driving and delivering activity. To succeed, franchisees had to go out and get the business and then manage it: key to this were strong inter - personal and initiative skills.

For this sort of operation it is difficult to get satisfactory performance from employees; franchising does get that commitment. The attraction of franchisees to this business was however difficult. Franchisors who are not well known have the problem of being selective so the trade name is not brought into disrepute at an early stage by unsuitable franchisees, set against this in the need to sell franchises to get the business going.

Freezavan claimed that they had to reject about 50% of those who came to interview because they were unsuitable. After becoming franchisees, 6 withdrew finding the business too difficult. Lowe commented that these were unsuitable candidates and it is not easy to make the right choice of franchisee. The availability of suitable franchisees was a general point raised in several of the case studies. The problems were perceived to be that potential franchisees often could not cope with the demands made by running a franchise, the franchisee had misjudged the scope of the challenge and confused it with a type of employment.

4.6 UK Case Studies: McDonalds⁵⁴

4.6.1 Company Overview

In 1988, at the time of interview, McDonalds was a smaller operation in terms of number of outlets trading, than the longer established Wimpy and Kentucky Fried Chicken franchises, against whom it was competing.⁵⁵ However, McDonalds forecast to overtake both across a 4-5 year period. In 1974 the first UK McDonalds was opened in Woolwich, by the end of 1988 there were approximately 300 UK McDonalds. This expansion was mainly through company owned outlets. McDonalds opened their first franchised outlet in the UK in 1986.

McDonalds provides an interesting case study. The company has achieved market penetration and is viewed by industry experts to be the future market leader in terms of number of outlets and market share. The success of the organisation appears certain, yet the company will franchise 25 percent of its outlets in the UK. This seems strange since traditionally the arguments in favour of franchising are associated with the early part of the life cycle of a company, rather than when it is in the latter stages of its growth phase (Lillis et al, 1976). McDonalds UK intends to open around 30-40 outlets per year and

⁵⁴ Key Informant: Mr. Sid Nicholson, Company Position: Vice President of Planning and Personnel

⁵⁵ The "Wimpy" chain was sold by United Biscuits to Pillsbury in 1989, and was incorporated into the "Burger King" chain.

operate approximately 900 outlets in the UK. This number of outlets is associated with estimated market saturation. A ratio 25-30 per cent will be franchised, the reverse of the US structure.

Fast growth was not the central reason for franchising. The key rationale for implementing franchising was franchisee motivation and lower monitoring costs in distant locations.

4.6.2 Product

The McDonalds brand is a global phenomenon and offers a burger based, short fixed menu in a fast service restaurant. Consumer "service" is the main benefit from franchising for McDonalds. Service is expected to be better in franchised restaurants due to the extra drive added by the franchisee. This drive would manifest itself in extra levels of store cleanliness and availability of product on customer order in distant locations.

Products on the menu are fixed, franchisees are not allowed to make alterations. The only menu variations that occur in the UK are in Scotland where the soft drink Iron Bru has been added. All products sold through the franchised outlets have to be franchisor approved [that even includes milk for the milk shakes].

There is great attention to high standards and uniformity in a strict franchisor led regime. Franchisees have to conform to specifications. In an article which appeared in the Financial Times, September 14, 1987, the respondent was quoted as saying "McDonalds is a system that has to be strongly adhered to." In the interview he was candid that maverick franchisees would be taken out of the franchise programme through termination of contract. McDonalds epitomises standardisation and uniformity. In its franchise programme this is achieved by strict control of product quality, range and service.

Franchisees have no scope for alteration of the product to cater for regional tastes. They cannot make local product line modifications, which suggests that the description "entrepreneurial" is somewhat overstated. What franchisees can add is extra hours and attention detail, aspects which might not be so well performed in a company run outlet.

The UK has presented product problems for McDonalds, finding supplies of suitable quality meat and bread buns, which meet the company's specifications initially proved impossible. In a market increasingly influenced by product quality, assured supply

quality is important.⁵⁶ The response was partnership and the creation of two new enterprises as sole suppliers. Golden West Foods was established to supply the buns and McKay Foods were established to supply the 100 percent beef burgers. Both products are distributed from central distribution to company run stores and franchisees alike.

4.6.3 *Distribution*

Introducing franchising into the organisational structure relatively late in the development of the company is interesting because undoubtedly, it would serve to complicate the corporate administrative structure; in effect adding costs, and the potential for internal political conflict. The monitoring and dealing with franchisees now requires a whole department specialising in this function.⁵⁷

Franchising was used by McDonalds in the UK to obtain the advantage of distant delegating the supervision of outlets to motivated owner operators, particularly in Scotland and the South West. The smaller ratio of franchised stores in the UK vis-à-vis the US reflects different population demographics. The emphasis in the UK is on more company run outlets due to the high concentration of the population and the consequent ease of managerial supervision of the outlets.

McDonalds face an issue on the number of suitable sites for two reasons. First, getting planning permission from local authorities who are reluctant to see site reclassification [from store to restaurants] was difficult, it was believed that local authorities judged restaurants to cause a loss of site control. Second, McDonalds prefer freehold sites [at present they own 35 per cent of their sites], when difficulties with planning permission are encountered property vendors frequently withdraw. In the context of franchising this creates a problem. McDonalds make a part of their franchisor income by charging a rent to franchisees as their landlord. To what extent this problem might inhibit the growth of franchising at McDonalds was not possible to determine at the time of the interview.

⁵⁶ Examples are numerous of stores moving their image through superior products "up market", the better known are Tesco and Argyll (who purchased the Safeway group and upgraded their Presto supermarkets by converting them to the Safeway format).

⁵⁷ Such a policy as adopted by McDonalds was contrary to the assertion of Mr W Rimmers of Circle K that an organisation should be definitely either franchised or company run, in order that strategy objectives and planning are not compromised, and corporate control and direction is not lost.

4.6.4 Price

McDonalds retail pricing is based upon the product costs and required product margins, rather than reflecting McDonalds competitors price for equivalent products. "We don't consider Wimpy, we don't consider anybody when we are pricing, our competitors might look at us but we don't look at them", commented Mr Nicholson. This has changed as the strength of the Burger King franchise has increased in strength through the 1990's and McDonalds now advertise their meals in particular on a strong value platform.

From a technical, legal perspective, franchisees are free to set their own menu prices. However, in practice all franchisees were following the company's recommended prices.

4.6.5 Promotion

McDonalds uses TV advertising and huge promotional expenditures at both the national and local levels. For franchisees this requires involvement in community, civic and charitable activities. The use of the Ronald McDonald character at children's parties, visiting children's wards in hospital, and "Litter Patrols" helps raise the company profile and builds favourable local attitudes. Franchisees are expected to become more involved in this type of activity than a company manager.

Mr Nicholson did not believe that it would be in McDonalds interests to promote any of their outlets as being franchised; the effect simply being to confuse consumers and complicate the only image that McDonalds want, which is simply McDonalds.

4.6.6 People

The company receives some 40 enquiries per week from would be franchisees and has over 8,000 enquiries on file. McDonalds want people with a "burning desire" to be a McDonalds franchisee. Business experience, personal and financial qualifications coupled to a proven track record of business success is essential. Outlets are franchised only to owner operators, no investors in a franchise are considered. There is an extended period to the signing of the franchise agreement, one year training on a part-time basis of 16 hours per week and various selection procedures. This rigorous approach characterises the Company's determination to be successful in franchisee selection.

The McDonalds franchise is offered on the "take it or leave it basis"; the franchisee is a very junior partner in this very strong corporate culture. The franchise is "entirely controlled because that guarantees the success of the system". Mr Nicholson supports this statement with the view that "one of the corporate responsibilities is making sure that all licensees endeavour to reach the standards we want, if they don't we take them out of the system". With respect to competition and franchising, Nicholson commented "I would say from my observations that competitors have not exercised that degree of control over their franchisees and have suffered as a result." At McDonalds franchisee success is very strongly equated with system control. Since McDonalds is probably the most successful franchise in the world a factor that must be considered when examining franchise performance is the level of control achieved by the franchisor. For the franchisee, the package offers a trade off between a very high probability of profitable trading and very limited business freedom.

4.7 Summary of the UK Case Studies

The case studies were used as a research tool to better understand franchising, the key marketing variables, and how franchisors perceived franchising in their operation. The following discussion consolidates the salient points from these case studies in terms of internal and external (environmental) variables that affect the franchises.

4.7.1 Internal Factors Affecting the Organisation

Franchisees did not appear to control "marketing" as distinct from "operational" activities. In this sense, "Entrepreneurialism" - a concept of innovation and self determination is circumscribed for franchisees. If being your own boss is taken to mean the right to set your prices, develop and implement your own promotions, and choose and source your own products and supplies, then this research points to the fact that the franchisee is fundamentally not his own boss.

To argue to the contrary seems fanciful in this context. For example, the system at McDonalds has to "be strongly adhered to". Circle K removed from their system all franchisees whose main characteristic was a discernible lack of adherence to corporate priorities. These aspects of a franchise reinforce the "Master and the Vassal" (Le Monde 22/10/88) conceptualisation of the franchisees' position.

Franchisees' responsibilities can be loosely described as staffing, bookkeeping and general maintenance, management and supervision of product standards. These are operational as opposed to strategic responsibilities. However, many franchisees invest large personal financial resources into the business or take out substantial loans, just as any entrepreneur would. Their achievements are often outstanding, out performing similar or previous company run outlets with as much as 50% increases in turnover. Interviewed franchisors commented that these achievements were the result of high motivation and a personal commitment to succeed by the franchisees. All the franchisors were able to report that sales turnover performance in franchised outlets was generally superior to that in company run equivalent outlets.

There is a potential cause for future conflict in franchising if franchisors over sell the scope of the franchisee role in their recruitment. Specifically, franchisors are looking for highly motivated individuals who are prepared to take risks and invest large sums into a business venture. However, the franchise package does not provide much scope for franchisee management of the marketing variables. This constraint could frustrate the expectations of franchisees when one of the most important franchisor objectives was franchise control. This point was highlighted in the interviews, several interviewees felt that franchisees did not always understand that they were in a large organisation, a component part of it and not independent. There was some evidence that franchisors were frustrated by their franchisees lack of co-operation in trying to understand the principles and importance of outlet uniformity and system wide implementation of new concepts and, on an administrative level, the timely payment of franchisor fees.

The most confident franchisors were those who believed they exercised a sharp discrimination on franchisee selection and subsequent control of those recruited. The concept of control appears to be very important to franchisors. Where control has been perceived as a problem, organisations have withdrawn from franchising, for example Sock Shop found that satisfactory standards instore could not be maintained with franchising, consequently, the two franchised stores were closed and the franchise strategy was abandoned. In this research, franchisors who perceived that they ran a tightly controlled system did seem more optimistic about achieving their objectives.

With regard to the development of franchisee associations and a high level of informal contact between franchisees, the franchisors thought this would be beneficial by helping franchisees, to produce a self help group and *esprit de corps*. None of the franchisors felt that this activity would produce a countervailing franchisee power to threaten their position. What did seem apparent was that franchisors were often concerned about the level of cooperativeness from franchisees on business priorities.

One of the most frequently mentioned benefits from franchising was an increased level of sales turnover, compared to company run alternatives. The advantage of this to the franchisor was increased volume which improved trade terms with suppliers and provided income in the form of larger royalties and exclusive supply arrangements.

Some franchisors were charging royalty based on turnover and not franchisee profit. This places an inherent cause for conflict in the franchise relationship, this was pointed out by Ozanne & Hunt as early as 1971 (see Felstead 1993). The problem lies in the fact that the franchisor wishes to see turnover maximisation to optimise his income, this however is not necessarily consistent with the franchisee's objective of profit maximisation. This "seed" of conflict could cause problems as many presently "young" franchise systems mature. Power's (1987) survey discovered that a major reason for lack of franchisee profitability was the royalty payment to the franchisor.

A point of some interest is that franchisors had some interest in the idea of promoting their operation as a franchise to differentiate themselves from company run competition. The challenge with doing this was to avoid customer and business confusion, and to clearly communicate the benefits of franchising.

4.7.2 External Factors Affecting Organisational Survival

External factors are critical to the survival of the organisation. If the firm cannot obtain suitable resources from the environment then it will perish. In the boom economy of the late 1980's the interviewees were generally positive about securing the resources they needed for growth. Key resources identified were the number of suitable franchisees, finance from lending institution e.g. banks, and overall support for the industry through the efforts of the British Franchise Association.

There were however some concerns and these chiefly focused on the ability to procure suitable sites. All franchisors reported site procurement problems. These ranged from site suitability problems such as those encountered by Weigh & Save, to site acquisition problems - for McDonalds this revolved around planning permission. The other key issue was the complexity in working to meet and understand consumer needs in very competitive food retail markets.

4.8 United States Fieldwork & Case Studies

4.8.1 *Overview to Study*

The preceding discussion has reported findings of UK case studies in the context of a relatively new franchise industry. To provide a valuable perspective and control to the UK study similar research was undertaken in the US. There are clear rationale for choosing the US for a research visit. First, the US is acknowledged by most franchise observers to be the birth place of the business format franchise. Therefore comments on the franchise experience would be more in-depth, especially through both boom and recession economic cycles, whereas in the UK, the franchisors experience is more associated with boom only because of the relatively recent development of franchising.

Second, the prevalence of franchising and, in particular business format franchises, is more pronounced in the US than any other country. Consequently, informant perspectives on the industry and its interaction with the environment would be more in-depth.

Third, several franchise markets have matured in the US, for example, fast food and convenience store retailing. US franchise companies have therefore looked at overseas options for expansion to Europe and especially the UK. Therefore an assessment of the intentions of US franchisors to expand to Europe would prove useful since their investment would undoubtedly affect the rate of growth of the franchise industry in UK.

4.8.2 *Research Design*

There were two objectives for the research: first to generate primary qualitative data from in-depth interviews and fieldwork observation. In particular, to understand more closely the factors that account for the original and continued development of franchising in the US food retail sector; second, to discuss more general issues in the food industry. For example, the nature of demand for food products and the structure of food distribution channels. Ultimately, this data provided perspectives on the UK research and to generated content for the questionnaire.

The informants for the study visit were representatives from important commercial organisations and trade associations. Because of time and cost constraints to contact was made with four major organisations. The selection of organisations represented a pragmatic trade off between researching an area in detail and understanding broad franchise and food industry issues. The commercial contacts were the two leading convenience store operations in the US, jointly accounting for nearly two-thirds of the convenience store outlets. These were 7 Eleven, one of the largest franchise organisations in the world and the US's largest convenience store chain, and Circle K, who are 7 Eleven's biggest competitor and entirely company run. With regard to trade associations, we secured interviews from the International Franchise Association (IFA). This is the trade association for US franchisors, and an obvious choice for us because of its expert knowledge on the major issues and developments in US franchising. Two representatives of the Food Marketing Institute (FMI), the foremost research organisation on the US food sector were also interviewed. In total this research provided some valuable insights and data on the structure of franchising operations in the US food industry.

The research technique used was the 'Depth Interview', this was the best approach given the priorities of the study⁵⁸; principally, to obtain and then compare and contrast perceptions and attitudes of leading executives.

4.8.3 US Research Findings and Discussion

The structure of this discussion is divided into seven key areas. This is consistent with the main aim of the US research, i.e. understanding the broader issues in a more mature franchise and food industry.

4.8.3.1 US Consumer Needs

The key aspects of consumer demand in the US are a need for immediate consumption, the requirement for choice and a high level of convenience in products and stores. These needs were judged by the respondents to make for a complex, competitive and rapidly changing trading environment. Understanding the needs of the consumer and supplying high quality products to meet these needs was judged to be crucial for long term survival. For example, in convenience retailing consumer needs affect the store

⁵⁸ Tull & Hawkins (1984) point out , "the advantage of this type of research lies in its ability to generate detail, elicit information on an individual's idiosyncratic preferences, and to expand upon subtleties. As such it is a technique eminently suitable for this qualitative investigation".

proposition and merchandising strategy where instore space is at a premium. The opportunity cost of using capital and space for an unsuccessful initiative can be high. In the US, the convenience store has to offer a range of food products which are accurately targeted at consumer needs - 85 percent of all the goods sold through US convenience stores are consumed within 15 minutes of purchase (Interview note with William Rimmers, Vice President, Circle K)

The US convenience stores offer a wide variety of services to reinforce the convenience benefit to consumers, this simultaneously works to establish consumer loyalty. Many of the stores incorporated dry cleaning services, stamp vending, fast food and drink, newspapers, and a substantial number of lines of alcohol. Depending on location some stores served fine champagne, petrol and videos. At the time of interview, in the UK by comparison, convenience stores tended to be a hybrid of a mini supermarket focusing on packaged groceries and a news agent products. It is likely that as consumption patterns and consumer expectations on store services change in the UK, food retailers will have to invest in more sophisticated retailing systems such as those in the US. For franchising firms this may be an issue since it is noted in the UK case studies that one of the causes of franchisor and franchisee conflict was franchisee reluctance to spend capital on new fixtures and fittings. In the Circle K interview, it was noted that in one early test of franchising one franchisee attempted to turn his convenience store into a saddle store, subsequently franchising was abandoned because of control issues such as this.

4.8.3.2 Technology and Retailer Management Systems

The technology of computerised distribution and inventory management systems provides cheaper operating costs through lower working capital and savings in administration costs. A competitive advantage accruing to the users of information technology are lower costs (Porter and Millar, 1985). Lower costs provide scope to cut retail prices and develop market share, or to use cost savings to fund the development of other competitive edges. In the US the major convenience store chains were using high technology systems to manage their business.

Technology has traditionally been associated with reducing costs in areas of repetitive information processing but, more recently, has expanded into sophisticated models for understanding cost and profit opportunities in the supply chain through use of complex models. For example, through the use of Direct Product Profitability models, managers spot potential profit opportunities in the distribution system by focusing on packaging and space efficiencies. The model allows modelling scenarios of different pallet, carton

and individual packet configurations to reduce costs and increase profit.⁵⁹ Data can be provided on stocked item profitability in terms of sales rate and space costs (a major issue in small store retailing). Sophisticated technology has the potential to raise barriers of entry to what used to be "Mom & Pop" store retailing as better cost control feeds through into sharper retail pricing and other forms of competitiveness, e.g. promotions and advertising. In summary, the FMI indicated firms in the food industry were embracing technological development and this was leading a drive to control cost and to provide the consumer with better value. Stores which did not have technology support would increasingly become uncompetitive and unlikely to survive in the long term.

7 Eleven managers believed that franchising provided economic independence for franchisees and access to important technology that they would otherwise not be able to afford. With franchising "Mom & Pop" could still exist but in the increasingly sophisticated food retail sector it would have to be under a franchised umbrella. Technology was perceived by all respondents to be a catalyst of increased economic concentration.

4.8.3.3 Technology Led Channels

The corporatisation of small outlet food retailing in the US was a clear message that emerged from the research. The use of systems such as electronic scanning, computerised stock management through EPOS Systems, Electronic Data Interchange with suppliers etc. requires a substantial investment which raises barriers to entry for new entrants and builds significant competitive disadvantages for existing firms which do not similarly invest.

The shopping environment and services provided can be improved by the retailer who makes investments in technology. An example of retailer technology leadership is the provision of customer facilities such as the Co-operative Retail Societies "divi" system or Tesco's "Clubcard" which create a competitive advantage in convenience and value and encourages consumer loyalty to the retailer.⁶⁰

⁵⁹ The Direct Product Profitability model is designed to assist decision making in distribution strategy formulation and implementation. This technology measures direct product cost (i.e. all costs associated with selling the product e.g. space and handling costs) and generates profitability calculations to produce an "adjusted Gross Margin". Products which have higher adjusted gross margins tend to have a high sales rate, higher gross margin and are space efficient because they best utilise cubic packaging.

⁶⁰ The Grocer (1990, p17) states that the "card operates through an EFTPOS based system with an option of cash payment. It also serves as a COOP Bank cheque card, cashpoint, savings, credit, and charge card" EFTPOS which is an acronym of Electronic Funds Transfer Point of Sale.

The expected effect of the increased use of technology in retail systems in the UK would be that large retailers' economic power will further increase. This puts pressure on the wholesale and manufacturing sector in terms of their profitability (Fitzroy, 1985). Under these circumstances we would expect manufacturers' time and resources to focus on the larger retailers to maintain their brand sales volume. To offset a profit squeeze manufacturers may for example increase buying costs for smaller traders by stipulating minimum deliveries. These effect work to increase concentration which is positively associated with profitability for larger retailers (Fitzroy, op.cit).

4.8.3.4 Geography and Competition

One of the most striking observations of the visit was the "geographic" rationale for franchising in the US. We discussed this in Chapter 2.3.1 where we argue that franchising offered a more efficient distribution system than the company-operated format when monitoring costs (transaction costs) are high and customer service is key to successful trading. This centres on managerial dis-economies resulting from managing geographically distant and dispersed outlets. In the US, many of the major highways that connect large cities have very few small towns between them, especially in the continental interior. Road journeys to the next town can take many hours. Such routes however have high traffic flows of commercial lorries, passenger buses and private motorists. The market for providing goods and services to these consumers has been recognised as a major opportunity by several fast food and petrol companies who use franchising as the mechanism for achieving geographic coverage in locations where it would be difficult to establish and maintain successfully company-run outlets.

In the visit it was noted that the typical arrangement along state highways was of clusters of fast food outlets and at least one petrol station catering for the fuel and food needs of consumers. Often in a single site there are several competitors offering comparable foods; for example; it was not uncommon to observe a McDonalds, Burger King and Wendy's around a single petrol station.⁶¹

Obviously competition is intense and since the product is relatively undifferentiated between competitors, high quality service is a key aspect of competition. Franchising in such locations usually produces a higher standard of service because of the franchisee's

⁶¹ Each of these is a fast service burger chain.

motivation, thus the integrity of the trademark can be assured. Staff recruitment, motivation and supervision are managerial functions delegated to the franchisee, in such circumstances and his vested interest usually means they will perform these tasks more efficiently than a manager.

In the UK, the situation is very different in several respects. This may reduce the probability of a significant number of franchised restaurants being opened which follow the American model described above.⁶² First the UK is a much smaller geography, is much more densely populated with already established organisations offering motorist services. With lower journey times in the UK the cost of monitoring and managing company operated outlets would be lower than the US. Therefore the reduced monitoring costs argument for franchising versus the company run outlet seems less appropriate in this country.

Much of the motorway traffic trade is now already serviced by non franchise company's such as Trust House Forte and Granada who operate brands such as Little Chef which are not involved in franchising and focus on offering a full service facility to consumers, as opposed to the fast food format. Sommerville (1988; p.21) reported that on "UK road sides the full service segment is growing at a quicker pace than fast food because 'the unit cost is lower for full service restaurants, primarily because they require less expensive equipment". Given that much of the market has already been covered by corporate chains the opportunity for franchised fast food outlets in new locations is limited in the UK. From the early 1990's fast food outlets such as Burger King have been opened as a complementary service in existing motorway locations. However, many of these restaurants are not franchised on an individual basis.

One aspect of operation crucial to the success of franchising is suitable site availability. For convenience stores, the prime site criteria is locational convenience in residential areas. The US food retail market is very large and geographically dispersed, the concentration of total sales is not as developed as in the UK where the top 4 food retailers control nearly 60 percent of all grocery sales. The FMI indicated that a firm could open 500 stores in the US and still be a small, local chain in the US. For perspective, in the UK, Tesco are the largest retailer with a market share of 19 percent of grocery expenditure this is delivered by 620 stores (Source: AGB, 1995).

⁶² A survey reported by Day and Bond (1988) provides extra support for the relatively few franchisees in UK food retailing. They stated "people in the UK seeking to become their own boss by buying a franchise are not after the types represented by traditional leaders in this industry like McDonalds, The Body Shop.....Such categories are nowhere near the top 10 franchise preferences expressed by Britain's franchise seekers - in fact the top three favourites, in descending order, are: estate agents, parcel delivery services and discount airline tickets." p.16. (highlight added).

In summary, it appears that there are greater opportunities for small firms to franchise in the US than in the UK because market resources, that is, consumers and their spending power are much more dispersed. Further, in the US, the advantages of franchising in terms of lower monitoring costs are more pronounced than in the UK. In this respect we would expect less food firms to adopt franchising in the UK compared to the US.

In the US, firms have used franchising to become established in their local markets which can be several hundred miles in radius. Franchising has offered the opportunity to grow quickly and dominate a specific area while building consumer loyalty and creating cost barriers to entry. In the UK, it can be argued that similar opportunities are not so available because of the geographic concentration of resources and the current exploitation of the same markets by highly profitable mature corporate chains.

4.8.3.5 Mature Franchise firms - 7 Eleven

7 Eleven, which is a large mature firm has had financial difficulties in servicing large debts. This caused the company to sell off of over 500 non-franchised stores to their major competitor Circle K. It was put to the franchise manager of 7 Eleven that maximising profit through higher margins achieved by operating company outlets (instead of franchising) might have avoided this problem. In response the manager claimed that the competitive advantages related to franchisee motivation were the reason that the company kept its commitment to franchising. Particularly because it generated more sales and more viable outlets in distant locations. The ratio of franchise outlets to company run had increased, and this point was used to underline the company's commitment to develop franchising as a means of achieving its corporate goals.

Obviously, 7 Eleven believed that franchising was important in maintaining its competitive position in the market on the basis of franchisee motivation. 7 Eleven believed the opportunity cost of giving up this particular competitive advantage, even in a mature market for slightly better margins was too high.

This research has shown three examples of where franchise firms have not in the long term switched to company run formats as they move through their life cycle and as their markets mature. The competitive advantages of franchising in terms of the high quality service provided by franchisees seem to be too valuable an edge for some successful firms to give up in highly competitive markets.

Simply changing an outlet from franchising to company run in pursuit of profit does not necessarily mean better profits because other factors intervene to affect costs and sales volume. This point was raised Circle K who have store management problems; given the long hours, menial nature of the work and danger of working in stores open 24 hours a day, staff turnover was up to 300 percent in some stores in the US.

4.8.3.6 Franchising and the American Dream

A major cultural phenomenon in the US is the desire to be your own boss. As such the US provides a supply of franchisees for franchise expansion. The impact of culture on the availability of franchisees is important. In the US there is a developed enterprise culture, providing a substantial supply of people ready and willing to invest substantial amounts of personal capital in franchised businesses with the expectation of being their own boss. On this point Mr Cherkasky of the IFA thought that franchising was a phenomenon of the US and its enterprise culture.⁶³ He believed that the cultural differences between the US and other countries meant that franchising would not develop so strongly elsewhere. That is, the growth of franchises outside the US would be slower because the population of people willing to expose themselves to risk and become franchisees was comparatively lower.

4.8.3.7 Globalisation

One aspect of the research was to determine the attitude of US franchising and non franchising companies towards expanding to the UK and European markets. Unfortunately this area of discussion met with guarded replies such as "we're in Europe to make money beyond that is proprietary information". This was disappointing if understandable given the sensitivity of the subject.

On the issue of international expansion of US food companies some insight into intentions can be gained from the literature obtained during the visit to the FMI. Sommerville (1988), reported that the American restaurant market was saturated and that American firms were looking to internationalise their operations to achieve growth. An analysis of the top 50 restaurant chains ranked by size (according to number of units) indicated that of the top 20, 18 chains were American. Of these 18 chains, eight had at some stage operated in the UK and seven of these had implemented franchises.

⁶³ Mr William Cherkasky is President of the International Franchise Association.

Certainly, the UK appears to be a target for US companies for expansion. Kostecka (1988) found that there were 75 US franchisors operating in continental Europe and 74 in the UK, the UK ranked fourth as a target for US franchisors - higher than Japan (69 chains).

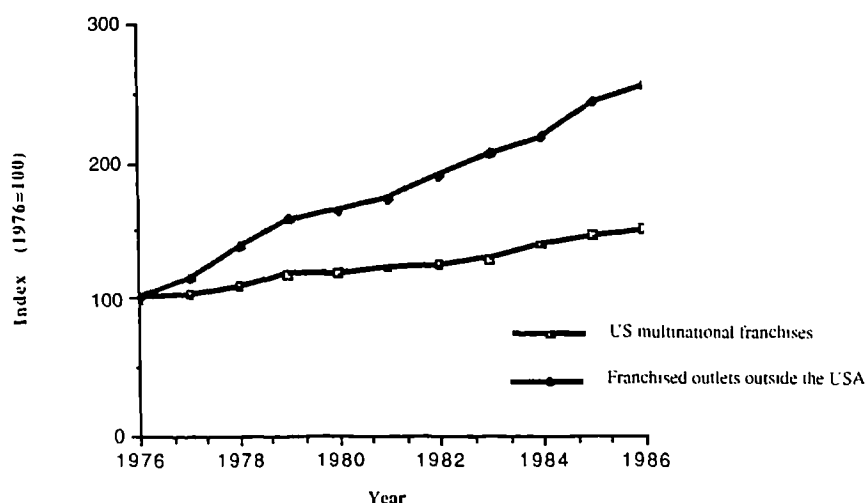
The trend in the total number of US franchisors and their franchised outlets operating outside the US is shown in Figure 4.1. The number of franchise operations that have become multi-national in a 10 year period had risen by 50 percent. The number of franchised outlets has risen by over 150 percent. The bulk of the increase is in Canada, Australia and Europe.

The reasons suggested by Kostecka (op cit) for this relate to the emergence of environmental factors in these countries that also contributed to the development of franchising in the US: "These attributes include rising demand for consumer goods and services, expanding urbanisation, increasing mobility, rising disposable income and the shifting emphasis in many countries from manufacturing to services." (p.7). In the late 1980's many of these trends were prevalent in the UK.

In terms of further expansion, in an internal survey of its members the IFA found 228 franchisors were considering foreign expansion, 38 of these were restaurant chains, and 38 were retailers of various food products. It would appear that there is a potential supply of US franchisors ready to establish franchise operations overseas, historically the UK has been a favoured start point.

Figure 4.1

Index of US franchisor multinational operations and outlet numbers outside the USA



Source: Kostecka (1988) & author's calculations.

However, Mr Cherkasky of the IFA was sceptical about the long term overseas prospects of franchising, for two reasons. First, several of the large corporations which franchise in the US have set up joint ventures with UK firms who offer local knowledge, expertise and finance, however, they have no franchise involvement. In the UK, a good example of this corporate non franchise arrangement is Pizza Hut and Whitbread. Mr Cherkasky expected that future joint ventures would typically not use franchise distribution strategies and would instead build on the already established company owned distribution systems in these new joint ventures.

Some US food operations which have entered this country with a plan to develop via franchised operations, for example, Burger King and Wendy's have had poor results in penetrating the market across the late 1980's and early 1990's. The Burger King company which struggled to penetrate the UK market achieving only 18 store openings in the period 1975 to 1988, announced a plan to develop a chain of 300 outlets in the UK (Britton, 1988).⁶⁴ . But, 2 years after this announcement, there were still less than 30 UK outlets. The Wendy's chain struggled to develop in the UK and finally sold its 12 outlets to Wimpy in 1987. Clearly there are issues to franchise expansion and these will have played a part in the lower than expected expansion of franchised outlets in the UK that was discussed in Chapter 3.

4.8.4 Conclusion to US Study Visit and Fieldwork

Many of the points discussed relate to the environmental conditions present in the US. Franchising in the US has seen much of its growth because of the degree to which as a means of business it 'fitted' the environment. The growth of franchising in the UK will similarly be a function of the level of environmental fit. This research identified key themes and issues which were then used to form the content for the environmental measures in the questionnaire. As a result this study visit was valuable contributing towards content validity of the measures.

⁶⁴ It was reported that the reason for the poor performance in the UK was "no dedicated management in place to support franchisees."

4.9 Conclusion to Qualitative Research

This qualitative research had four objectives. First, to understand the main issues perceived by franchisors and industry experts to affect franchising. Second, to see how franchising (a distribution strategy) linked with the overall marketing strategy of franchisors. Third to understand how franchisors perceived their environments and how franchising fitted with this. Fourth, to generate a content valid data base for the measures used in our questionnaire.

Overall, each of these was achieved, one of the key extra benefits was to clarify and get a feel for the everyday priorities and issues facing managers in business. This really helped make the content of questionnaire more user friendly for respondents since questions were communicated in their language. The learning is that going out and talking to people in the industry (as well as conducting literature reviews) makes the study more relevant and helps to crystallise theoretical concepts in the applied setting.

From this research it was confirmed that the environment is important to the development of franchising in the long term. Attention now turns to consider organisational satisfaction and performance from a theoretical perspective. This establishes the dependent variable for this study, that is, franchisor satisfaction.

End Note:

Initially there were seven interviews conducted with franchisors in the UK. However only six of these are reported. The reason for this is respondent sensitivity. The interview with the Product Manager of the Late Late Supershop is not discussed because of the difficulties the chain has had subsequently. The case is worth mentioning in that it is an illustration of a franchise not achieving growth targets and being wound down as a means of operation by the Coop. The case is discussed only in the context of what is reported in the press. The franchise initiative was undertaken to cure the small shops problem of the Coop in the UK. Many of their small stores were performing poorly and had a bad image. The objective was to establish a chain of franchise stores that were operated on a convenience store format by converting 300 stores from company-run outlets to franchised. After three years trading the chain had managed to convert 12 stores. The success of the franchise stores (turnover was often increased by 50 percent) attracted the Co-operative Wholesale Society to the idea of the convenience store format, but instead of franchising they decided to use a company run format. A pilot scheme by the Scottish Coop saw takings rise by 45 to 70 percent (The Grocer, Week 14;1989; p.12).

For the Late Late Supershop this spelled disaster because the number of sites supplied by the parent Coop decreased dramatically. The change in strategy by the Coop led to the accusation of undermining and snubbing the franchisees (The Grocer, 1988; Week 24; p.10). Several weeks later conflict between the franchisor and franchisees became overt when the franchisees asked the BFA to arbitrate in the dispute. The Managing Director of Late Late Supershop (also on the board of the BFA) was reported to have been told by the Coop not to take part in the proceedings and subsequently left the organisation. The Late Late Supershop ceased trading as a separate business in 1991.

Chapter 5

Organisational Satisfaction

5.1 Introduction

Before moving on to discuss the objectives of this chapter it is appropriate to review the question of why consider organisational satisfaction in the context of franchising in the UK food industry? The answer lies in considering two issues raised in Chapter 3.

The first issue is that, from a practical view point, we are unable to obtain consistent or reliable industry time series statistics on franchising. This prevents a quantitative analysis to understand the performance of franchising in the food industry using financial or company growth variables in an econometric type analysis. Therefore, surrogate measures were required. Satisfaction is a variable with supporting theory which is connected with performance and one for which data could be relatively easily obtained through a mailed questionnaire. We are interested in a measure of performance because this will provide an insight into the longer term prospects for franchising.

The second issue is more related to theory. In Chapter 3 it was noted that franchising had not achieved the strong growth that had been forecast for it in the 1980's. Much of the industry debate on why this happened has been focused on the effect of environmental issues (Fulop, 1995a; 1996). A key aim of this study is to understand better the relationship between franchising and the environment, and in a theoretical context to understand the relationship between organisational variables and environmental variables. The relationship between satisfaction and the environment is covered but not tested in the literature and in this respect this study can make a contribution to theory.

This chapter has three main objectives. First, to review the theory of satisfaction vis-à-vis the organisation, to identify where this variable fits in the organisation's processes and, in particular, its effect on strategy evaluation and strategic decision making. Second, to discuss the various treatments of satisfaction in the literature in terms of how it is conceptualised, measured, analysed, and what results were obtained. Third, to develop a definition and measure of franchisor satisfaction for the empirical element of our study.

5.2 Overview of Organisational Literature and Satisfaction

The concept of satisfaction has been given some attention by researchers in organisation and, marketing and distribution channel theory. It is from these sources that a discussion of the theoretical basis of satisfaction in an organisational setting is undertaken.

We begin our review with organisational theory. Much of the focus on satisfaction in this body of literature is on its relationship to performance. The unit of analysis in this literature has typically been the employee or the work group. Satisfaction is recognised as an important psychological state because of its relationship to performance and productivity. This is relevant to this study because the employer and employee relationship does have similarities with the arrangement between the franchisor and franchisee. The establishment of a contact which establishes a differential power relationship in favour of the franchisor is similar to the employer and the employee relationship.

The benefit of considering organisation theory is that when applied to the franchise relationship we can develop an understanding and definition of satisfaction based on a broad review of the literature. Reukert and Churchill (1984: p.224), point out that organisational literature offers the best potential for the development of a measure of channel member satisfaction. They argue that "Though consumer satisfaction literature offers several perspectives (Churchill and Suprenant, 1982), the conceptual approach to satisfaction used by organisational theorists and industrial psychologists in assessing job related phenomena comes closest to capturing the essence of channel satisfaction".

A franchise is a marketing channel relationship and examining franchisor satisfaction is exactly what we focus on in this study.⁶⁵ The requirements for an analysis of satisfaction are present in the franchise relationship from an organisation theory perspective. Specifically, these are: first, an ongoing relationship of the partners; second, dependence and formality within the relationship which produces interaction between the partners in which goals and objectives are mediated or restricted by the actions of one partner on the other, and the prevailing environmental conditions.

This next section discusses this theory.

⁶⁵ See Achrol, Reve and Stern 1983: The Environment of Marketing Channel Dyads: A Framework for Comparative Analysis.

5.3 Satisfaction and Performance

In a review article Schwab and Cummings (1970) discussed the relationship between satisfaction and performance. They considered three propositions. First, satisfaction leads to performance. Second, satisfaction and performance are moderated by influencing variables. Third, performance leads to satisfaction.

They found that the two variables were related but that organisational theory itself was shown to be in conflict in determining the causality of the satisfaction and performance relationship. In their review they noted that one study had found no directional causality in the relationship, while Triandis (1959) suggested that satisfaction and performance need not co-vary under all conditions. Empirical evidence for the association between satisfaction and performance is provided by Vroom (1964). In a study on motivation he was able to demonstrate the direction of correlations in 20 out of 23 cases. The association was positive with a median correlation coefficient of +0.14, indicating that satisfaction was associated with good performance and vice versa. While this study confirmed an association between satisfaction and performance, it did not comment on causality. Performance as a causal variable of satisfaction is an instinctively more appealing proposition than the reverse. Porter and Lawler (1967) created a framework in which satisfaction is the result of performance levels. They modelled performance leading to some level of "rewards" which, if they are perceived as equitable will lead to some level of satisfaction and, if inequitable, dissatisfaction.

In the Porter and Lawler (1967) model the only way that satisfaction can influence performance is through a relationship mediated by the effect of the "value" attached to actual rewards. This feeds into the "effort" committed to the task. Effort is moderated by the "role perception" and "abilities and traits" of the individual. The causality of satisfaction on the level of performance is subject to more intervening variables than performance as a cause of satisfaction. Porter and Lawler concluded that satisfaction is a function of performance. To our knowledge however, no empirical study has been undertaken which categorically shows that satisfaction is a function of performance. This is a function of the difficulty in disentangling satisfaction and performance because their processes are so ongoing and interactive, and satisfaction is an intangible variable. Satisfaction itself is a state of mind regarding an ex post evaluation of the performance and rewards from an activity. Schwab and Cummings (1970) state that "satisfaction can be regarded as an evaluative component of an attitude". They show that high satisfaction is positively associated with high performance and high rewards and *vice versa*.

Notwithstanding the fact that the causality of the relationship between performance and satisfaction is not empirically established, it is clear that the two positively co-vary. From this it can be deduced that where satisfaction is measured, the researcher is simultaneously measuring performance which, for the purposes of this study, makes satisfaction an appropriate variable to consider with regard to performance. The discussion now focuses on where satisfaction fits in the organisation's processes.

5.4 Satisfaction and The Organisation

Schwab and Cummings (1970; p.428) recommend that future investigations on satisfaction research should be aware that "in all probability overall satisfaction is made up of component parts; for example, in the employee context - pay, promotion, supervision and co-workers." Little however, is known about the variable "overall" satisfaction. As a result they state any study should be within the "context of well defined and specified individuals, organisations, occupations and communities".

Their prescription is thoroughly consistent with the construct explication process which we use to model satisfaction and the environment.⁶⁶ In executing this approach, there are two key questions, first, what do we mean by satisfaction and what is it related to? Second, what is the content of franchisor satisfaction which will ensure measurement validity in an empirical study? For example, is franchisee motivation important to franchisor satisfaction?

To answer these questions the principal organisational and marketing channel models of exchange are reviewed. This is because franchising is an exchange relationship between the franchisor and franchisee and therefore, the models noted above provide an ideal framework to progress the discussion. The review starts with a more basic model of group satisfaction and moves onto consider organisational satisfaction through a detailed review of Frazier's (1983) inter-organisational exchange model and the political economy model of Stern and Reve (1980) which jointly provide the main theory for this study.

In the context of this thesis it is important to examine the nature of group satisfaction. This is because we attempt to measure empirically the satisfaction of organisations which are collections of individuals.⁶⁷ A principal model of group satisfaction is depicted below in Figure 5.1.

⁶⁶ For a full discussion see Nunally (1978) and our review in Chapter 8.

⁶⁷ Even though in the measurement process we use the "key informant" methodology. See Chapter 8.

Figure 5.1

The Group Satisfaction Model adapted from Handy 1985

	The Group Size	The Task Nature	The Environment
The Givens	Member Characteristics Individual Objectives Stage of Development	Criteria for Effectiveness Salience of Task Clarity of Task	Norms and Expectations Leader Position
Which all effect the Intervening Actors		Choice of Leader Style Processes & Procedures Motivation	
Which determine the Outcomes		Productivity Member Satisfaction	

Source: Handy (1985: p. 183)

This 3 x 3 matrix is a flow model. The "givens" affect the "intervening variables" which jointly affect the "outcomes". The final outcome variable in the process is group satisfaction. This model demonstrates the impact of the environment and performance as key factors leading to satisfaction. Satisfaction is the outcome of the working process of the group with other parts of the organisation, and the external environment.

One of the study aims is to comment on the longer term prospects for franchising by understanding franchisor satisfaction and what associations the environment has with satisfaction. In this respect, Handy's model is particularly helpful. This is illustrated by discussing how the model works when applied to a franchise relationship as follows: The focus group is the management team of the franchisor organisation. Their task is to achieve goals and objectives through franchising (an intervening variable). These goals and objectives in a franchising context would typically be to open a target number of new franchised new outlets or some level of turnover growth in a given time frame.⁶⁸

The environmental effect is registered in the context of how effectively the franchise forms relationships with external (i.e. environmental) groups and individuals to obtain the resources necessary to achieve the goals and objectives. According to Porter (1985:

⁶⁸ See Lillis et al (1976) on the competitive advantages of franchising.

p.362) the environment is "all those factors which surround the firm and create the totality of the "world", "state" or "situation" in which the firm finds itself". The organisation does not have control over the environment and it is therefore a "given" in this model.

The intervening factors are the process and procedures of how the organisation will accomplish the task goals and objectives by organising and structuring its resources. At a company level this is the competitive strategic plan (Johnson and Scholes, 1984). The strategy employed (in this case a franchise strategy) is function of its perceived "fit" (Thorelli, 1967) with the prevailing environmental conditions. The intervening factors are a relative tailoring of the organisation to the "given" environment in pursuit of its objectives. To underline the importance of recognising the impact of the environment, Handy (op cit) comments that "No leadership style, no process, motivation principle can work in an impossible position."

The outcomes are the extent to which "task" goals and objectives have been achieved. In the evaluation process the management group will consider whether franchising was instrumental as an intervening variable in delivering the actual results versus their goals and objectives. Satisfaction is an outcome state, based on an evaluation of the groups performance against its goals and objectives. This includes an assessment of how well the intervening variables of "processes and procedures". this is the franchise strategy, have worked in mediating the achievement of the objectives.

The literature is clear that satisfaction and performance can be regarded as criteria for organisational effectiveness (Schwab and Cummings, 1970). The organisation (franchisor management group) is satisfied, when the strategy has worked to achieve the group's goals and objectives. Further, the effectiveness of an organisation in achieving goals and objectives will be reflected in the appropriateness of its structures and processes in coping with the environment. "the law of survival of the fittest is as inexorable for organisations as it is in nature" (Handy, 1985: p.297).⁶⁹

This clear link between satisfaction and performance to the effectiveness of an organisations strategy in coping with the environment is a key relationship which we use in our study. In our empirical analysis we test for whether satisfaction correlates and is related to the environment.

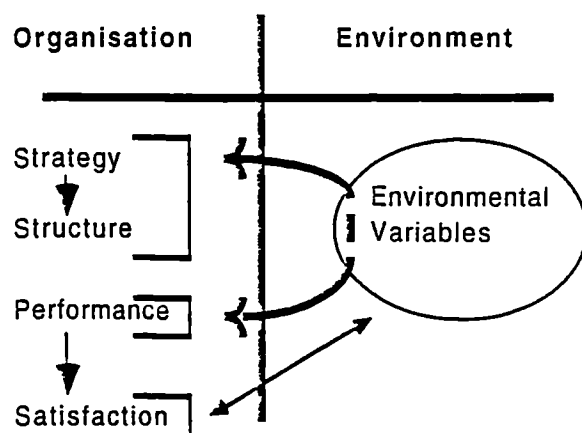
⁶⁹ A franchising strategy reflects the view of the organisation's management group that franchising is a structuring of the organisation which is compatible with achieving their goals and objectives. For an organisation, "strategy and structure are linked because of their mutual dependence on decision making....strategy gives rise to structure" (Lee Preston, 1978: p.35)

Satisfaction should have correlates with the environment because effective strategies and structures will lead to performance, performance is positively and inextricably linked to satisfaction. This relationship with the environment is modelled in Figure 5.2. an adaptation from Lee Preston (1978).

On the left hand side of Figure 5.2 is the organisation. on the right, the environment. The organisation's domain shows that strategy produces structures and that satisfaction is tied up with performance. The combination of strategy and structure interacting with the environment via the half loop produces a level of performance. The half loop which leads to performance is partly composed of strategy implementation by the organisation, and partly by the contribution of the environment as moderating and mediating influence.

Figure 5.2

The Organisation and The Environment (Lee Preston, 1978)



The variable of satisfaction is directly associated with performance. The narrow double ended line in the figure, between the environment and satisfaction, indicates the implicit association and relationship that we test in our hypothesis. Satisfaction is an evaluation of the factors that have affected performance and within this we would expect decision makers to be cognisant of the environmental variables that have led to a level of performance.

To summarise, the environment in this model has two effects. First, the development of a strategy is shown to include environmental assessment by decision makers. Therefore, the strategy chosen will be influenced by environmental conditions. Second, the environment affects the outcome of the strategy by supplying or blocking the

procurement of resources which affect performance. The performance outcome will determine satisfaction in the model. Satisfaction will include an evaluation of performance, and the key influences that led to the performance outcome.

5.4.1 Frazier's (1983) model of Inter-Organisational Exchange

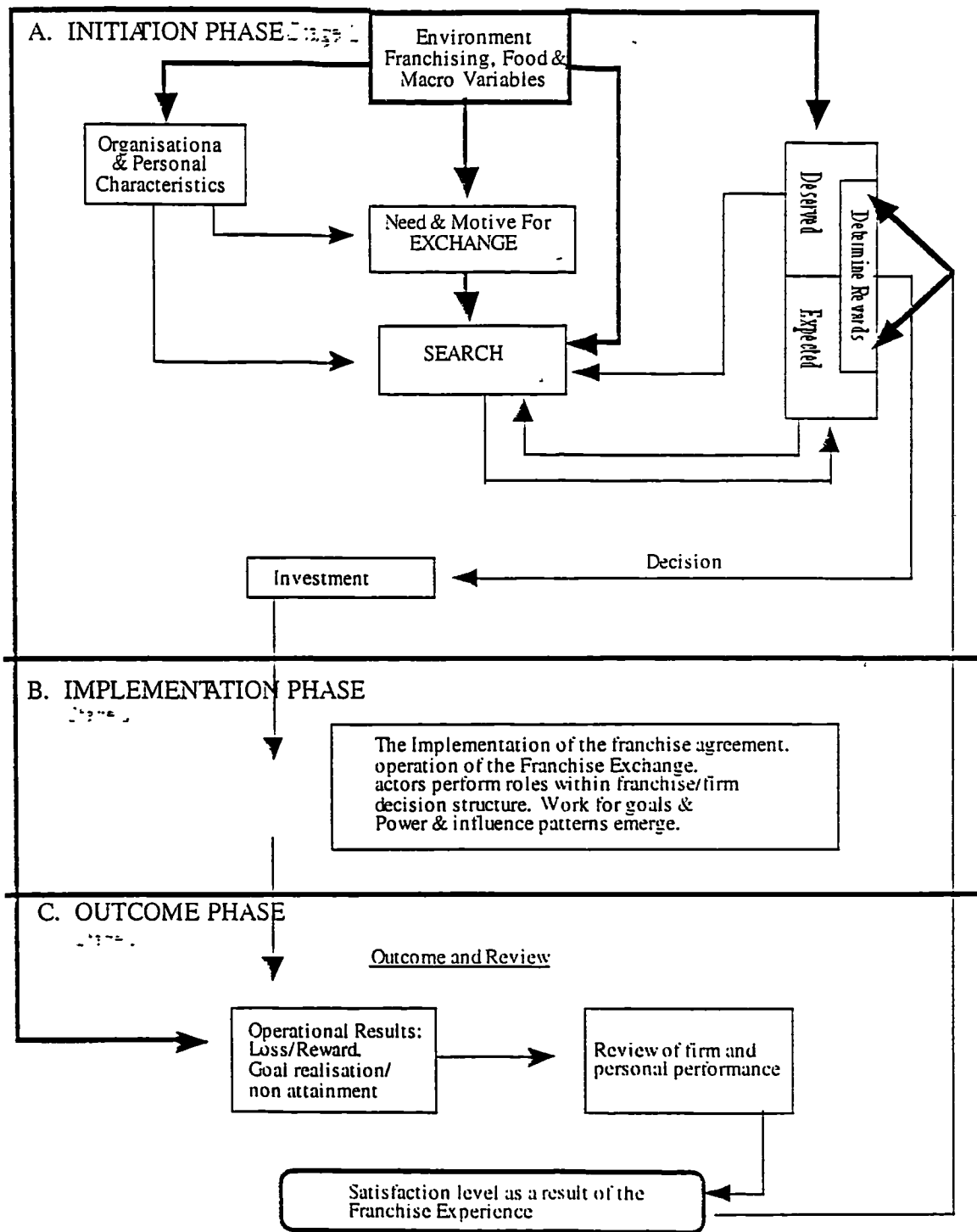
Frazier (1983), developed an integrative and comprehensive framework of inter-organisational exchange which is valuable for mapping construct relationships and generating hypotheses.⁷⁰ His model is shown in Figure 5.3. This is an important model because it shows various proposed relationships for satisfaction, and where satisfaction sits in the exchange process. The model has three key benefits regarding this discussion.

First, it integrates behavioural and economic aspects of exchange, and uses empirical studies to show that both of these factors have an influence on satisfaction. This is valuable because it clarifies the range of variables affecting satisfaction. This will enable more effective development of the hypotheses and measures used in this study. For example, Frazier's model indicates that the researcher should consider economic aspects of exchange as well as behavioural in influencing satisfaction. This built upon work by Pickle and Rungeling (1971) which showed that satisfaction was related to financial criteria such as "Return on Net Worth" and "Average yearly profit over ten years". Additionally, the relationship between satisfaction and economic performance is pointed out by Robicheaux and El Ansary (1975) in proposition 21 of their general model: "Efficient and effective economic performance creates greater satisfaction among channel members, and greater satisfaction leads to improved channel member performance" In summary, high levels of satisfaction will be associated with high levels of economic performance and vice versa.

⁷⁰ A construct variable is a concept, such as satisfaction, conflict or co-operation. There is no tangible thing called satisfaction or co-operation, they are behaviours and states. For a full discussion see Chapter 8.

Figure 5.3
Organisational Exchange (Adapted from Frazier 1983)

Inception of the Decision to



Second, though highly interactive, Frazier's model is depicted as a sequential process. The "position" and effect of constructs in the model are mapped out clearly. It is an illustrative framework of construct relationships which indicates the effect of these constructs in the process of exchange. This helps the researcher to disentangle connections between variables in the exchange process and then test important relationships. This basic framework is used to test the relationship between satisfaction and external environment.

Third, Frazier discusses the model in the context of the "source" and the "target", the former being the initiator of the relationship, the latter being the consenting partner. This approach fits franchising, which is our empirical setting, the franchisor is the source and the franchisee the target. With this in mind the discussion now turns to consider how model works in a franchise context. Frazier's original model has been slightly modified to demonstrate its application to the franchise relationship and this is shown in Figure 5.3.

The model is divided into three phases and these are discussed in turn. The first is the **Initiation Phase** which is concerned with why an organisation seeks to exchange. The process begins with a motive to establish exchange relationships by the source, i.e. the franchisor. From a business management perspective, this is the need to achieve goals and objectives, which is the antecedent to developing a strategic choice of how to achieve them (Anderson, 1982). Strategy, is the "major link between the goals and objectives the organisation wants to achieve and the various functional area policies and operating plans it uses to guide its day to day activities" (Hofer and Schendel, 1978: pp.13). In our discussion, the organisation's goals and objectives drive the strategic decision to use franchising as a competitive strategy.

Within the model, the need produces a search and evaluation of alternative strategies. The decision maker will adopt a strategy which is likely to lead to the achievement of goals and objectives (Barker, 1980). The decision of whether to implement a franchising programme is a competitive strategic choice, and a function of the likelihood that the strategy will yield rewards concomitant to managerial objectives

Having gathered and considered the information on alternatives, the decision maker will form notions of *expected rewards* with intrinsic and extrinsic properties. In a business management context, the competitive advantages of a strategic choice are its extrinsic *expected rewards* i.e. what results the choice should deliver for the organisation.

In evaluating different strategies the decision maker will have in mind a level of *deserved rewards*, these are what the decision maker wants from implementing a strategy i.e. the goals and objectives. When considering a franchise strategy, the decision to proceed will be made if the *expected rewards* exceed or are equivalent to *deserved reward*. For example, the "Late Late Supershop" franchise initiative was adopted by the COOP to secure the deserved rewards of rapid expansion to 300 new franchised stores, and it expected these rewards because franchising offers the potential for rapid market share growth (Lillis et al, 1976).⁷¹

Frazier's (1983) framework shows the environment has an impact on the exchange process in the formulation of *deserved rewards* which then feeds through into the *expected rewards*. In making a decision of whether to franchise the decision maker will consider the environment in two respects.

First, the environment is uncertain and therefore creates risk for investments. A strategic choice relates to whether the rewards sought by the decision maker can be achieved through acceptable levels of risk and investment. According to Anderson (1982), "risk [being] reflected by the perceived variation in the level of expected rewards, over time". Risk and investment considerations posed by the environment affect the decision of whether to franchise. For example, the decision maker may consider that franchising offers a low cost, and therefore lower capital gearing strategy for expansion versus company run alternatives. The level of investment required to achieve expansion goals and objectives is therefore lower while still providing an "offensive" marketing strategy designed to grow market share quickly (McCammon, 1977).

For more risk averse decision makers franchising offers a lower risk and therefore more appealing strategy than being fully corporate owned (Martin 1988). This is because it provides a diversified "portfolio of operating units (Marchland and Furst, 1974) [which can be] continually adjusted to reflect changing costs and revenue opportunities" (Anderson, 1984: p.421). The choice of which strategy to adopt will take into account a review of how environmental conditions will affect the probability of achieving the organisation's goals and objectives at acceptable levels of risk.

⁷¹ See End Note Chapter 5. In Chapter 5 the reasons given by respondents for choosing a franchise distribution system were consistently the competitive advantages as defined by Lillis et al 1976.

Second, the behaviour and decisions of decision makers on whether to franchise are derived from "signs" i.e. stimuli from the environment that suggest responses likely to result in attaining the objectives in mind." (Chisnall, 1975: p.23). Specifically, a manager will chose a franchise strategy because the signs and stimuli coming from the environment indicate that it will deliver the desired goals and objectives.

Having decided on a franchising strategy, the franchisor will enter the second phase of the model which is the **Implementation Phase**. Our discussion of the implementation phase is somewhat simplified from Frazier's (1983) original for two reasons: First, many of the interactions shown were intended as a guide for future research into different company structures; in our study the franchise is already chosen as the structure. Second we need not consider in detail how the franchise structure works, since we have covered this in Chapters 2 and 3. For the purpose of explaining the model content in the implementation phase we note that in the franchise structure the major interactions are clear and defined in a "contract of adhesion" (Brown, 1985). The implementation phase is the execution of the franchise strategy. At this stage the behavioural interactions between the two parties (and the environment) occur through the dimensions of power, control, conflict and co-operation, as each of the exchange partners works towards their respective goals and objectives. These behavioural interactions are important to the outcome of the implementation of the franchise strategy.

⁷² For example, in a franchise, the power - dependence relationship is defined in a legal contract in which the sources of power are skewed to the franchisor. Ultimately, the behavioural interaction of the franchisor and franchisee (who are the exchange partners) and the strategic fit of the strategy to the environment will determine the outcome of the franchise strategy and whether the franchisor's goals and objectives have been achieved.

The final section in Frazier's model is the **Outcome Phase**. Figure 5.3 shows that the environment not only impacts on strategic decisions in the initiation phase, but also on the outcomes derived from the implementation of the franchise. Collectively, the environment and the internal behavioural interactions of the franchisor and franchisee contribute to the initial outcomes which are *losses* or *rewards*. "Evaluation", is a process of attributing the responsibility for performance versus goals and objectives to self, partner and strategy. From this evaluation, a satisfaction state is arrived at.

⁷² For example, Lusch (1976) shows conflict to be dysfunctional to operating performance.

The model shows that satisfaction feeds back into expected rewards. The effect of this is that high performance will increase the commitment to the strategy i.e. to franchising, "Because expectancy levels tend to change in the direction of reinforcement received in the past a high level of satisfaction will reinforce if not heighten *deserved and expected rewards*" (Frazier, 1983: p.75). Further support for this effect is from Chisnall (1975: p.23) who, using Gestalt theory to explain consumer behaviour, stated that: "If a product is satisfactory in use, reinforcement is likely to occur and this may result in further purchases" and "When consumption or utilisation of a good - object leads to gratification of the initiating needs there is reinforcement" . Clearly, where franchisor expectations of a franchising strategy have been met, the franchisor will view the strategy as satisfactory and will continue to support it, *ceteris paribus*.

Satisfaction is the final variable in the model. This reflects its importance as a variable for research because it is an outcome which includes an evaluation by decision makers. It can therefore be used to examine what franchisors feel about franchising as a means of structuring their business and its resulting performance against their expectations. The strategic decision to structure the organisation on a franchise basis commits the organisation to franchising in the medium term. However, the decision to abandon a franchising strategy can also be made if franchising does not deliver against management's goals and objectives. A key factor in management's decision to continue franchising is whether there is an acceptable level of performance and concurrent satisfaction with the franchise strategy. It is this relationship which we use to comment on the longer term prospects for franchising in the UK following our empirical analysis.

5.4.2 *Discussion of the Political Economy Model*

The political economy model was applied to distribution channels by Stern and Reve (1980). We have adapted this slightly to demonstrate its application to franchising (Figure 5.4). The model conceptualises exchange relationships as the focal point for any analysis. The relationship is viewed as "comprising interacting sets of major economic and socio-political forces which affect collective behaviour and performance." (Stern and Reve, 1980: p.53).

Figure 5.4

Political Economy Framework Adapted from Stern and Reve (1980)

Internal Political Economy

The internal and external structure and processes of the franchise are divided into economic and socio-political components (economy and polity).

External Political Economy

1. Internal Economic Component

- Economic Structure: i.e. Franchise Strategy
- Economic processes: i.e. Transaction processes are established in the contract. e.g. Franchisee royalty payments.

1. External Economic Environment

2. Internal Socio-Political Component

- Socio-political structure: i.e. The franchise contract creates this.
- Socio-political process: i.e. Franchisor power vis-à-vis the franchisee e.g. Supply terms and termination clauses
Behaviour such as conflict and co-operation and sentiments such as satisfaction

2. External Socio-Political Environment

Exchange relationships in this model are social systems (Stern and Reve, 1980). Arndt (1983) uses the term "social unit" to apply the concept of a social system to the partners of a business relationship. This highly integrative framework encompasses economic and socio - political dimensions which are internal and external to the social unit. Of relevance to us, is that the model includes satisfaction and the environment. The main questions considered in the model are; first, how surpluses are generated by the relationship? Second, how they are distributed?

The model is divided into "external" and "internal" systems. The external system (the environment) of this model forms much of our discussion in Chapter 6, hence not much time is spent considering it in detail here. The internal system is divided into economic and socio-political components. These components have structural and process characteristics which describe the "structuring and functioning" (Stern and Reve, 1980) of the exchange relationship. The discussion now explains the economic and socio-

political structure of the "internal" system using franchising to illustrate the model and its supporting theory.

The internal economy consists of economic structures and economic processes. Economic structure refers to the nature of the integration and the transaction arrangements between the partners. The economic structure is in fact the competitive strategy, i.e. the franchise structure. In a franchise this is a vertically integrated system defined by contract.

Internal economic processes refer to decision making mechanisms and control systems which cover the transactional and administrative arrangements between the franchisor and franchisee. In a franchise, the majority of strategic and marketing decisions are made by the franchisor and formalised in the franchise contract. Decision making is highly centralised and control is skewed to the franchisor when compared to an administered system (McCammon, 1977). In a franchise it is more or less the day-to-day running of the franchised outlets which is delegated to the franchisee (Ozanne and Hunt, 1971).

The socio-political system is divided into "structures and processes" of the internal political system. The internal political structure refers to the power - dependence relationship between the exchange partners. In a franchise, power and control is centralised in the hands of the franchisor through the franchise contract. Franchisees are dependent upon the franchisor for the on going use of the trade name and logo, the franchisor's training and the franchisor's advertising and promotional campaigns.

The processes of the internal socio-political system are the dominant behaviours and sentiments of the exchange partners. Within a franchise relationship, the prevailing behaviours and sentiments are important to effective performance (Lusch, 1977). It is within this part of the political economy model that satisfaction is located. According to Arndt (1983: p.48) the sentiments are superstructural variables influenced by the substructure of exchange. He states "superstructural variables such as sentiments and behaviours can be viewed as dependent variables determined by the external and internal political economy".

This point is important in four respects, since it supports and underscores several points in the preceding models. First, it is consistent with other models which see satisfaction as an outcome and dependent variable. Second, satisfaction can be influenced by all of the internal system, i.e. economic and socio-political. The studies which are reviewed subsequently have tended to examine satisfaction as a function of variables which fall

under the internal socio-political component e.g. satisfaction as a function of power sources (Lusch, 1977). For the purposes of this study satisfaction is a multi-dimensional construct and will reflect economic aspects of the exchange, as well as socio-political. Third, the political economy model links satisfaction to the internal economic structures and processes i.e. to strategy and structure. Fourth, Arndt (1983) indicates that the external environment affects "superstructural" variables such as satisfaction.

Satisfaction and its principal relationships with other variables in the internal system of the political economy model are discussed in more detail below. These relationships are summarised in Figure 5.5.

Satisfaction is a sentiment which falls into the internal political process part of the model and is conceptualised as an outcome variable. Stern and Reve (1980) use a series of illustrative propositions to describe how behaviours such as co-operation and conflict in the internal social system affect goal and objective realisation. The propositions were based on existing empirical results or hypotheses.

Figure 5.5
Satisfaction and Internal System Relationships

<u>Satisfaction</u>	<u>Economic/Political/Behavioural Process</u>
Relationships :	+ve to Co-operation -ve to Conflict
Political Behavioural Structure:	+ve to Non Coercive Power -ve to Coercive Power
Economic Process:	+ve to effective Decision Making & Control
Economic Structure:	+ve to Strategy goal realisation +ve to Financial performance.

The key political processes of the political economy model are the behaviours of conflict and co-operation according to Stern and Reve (1980). These two variables have been empirically shown to affect satisfaction. The sentiment of satisfaction is positively associated with the level of co-operation of exchange partners (Dwyer, 1980). Satisfaction has been empirically shown to be negatively related to the use of coercive power and positively associated with the use of non-coercive power (Lusch 1977). Schul (1987) also showed that satisfaction is positively associated with "considerate" and "initiating" leadership styles, which are a function of the power sources available to the franchisor (Arndt 1983).

These behaviours are a function of the level of effective use of power by exchange partners. The power relationship is the political structure (rather than process) of the relationship, and in a franchise this is identified by the franchise contract. Power is the ability to secure higher than normal levels of profit from exchange (Stern and Reve, 1980). Hunt and Nevin (1974) found that effective use of power reduces conflict, which is associated with higher performance (Lusch, 1976) and competitive viability (Stern and Reve, 1980).

The model asserts that the purpose of the power structure is for profit optimisation. For a franchisor this would suggest he uses his power in two ways to maximise profit. First, by charging the highest percentage royalty payment for his intellectual property that the market will stand (Adams and Prichard Jones, 1987). Second, the franchisor would try to influence the franchisees' business activities to maximise sales, since a significant proportion of franchisor income is from the royalty payments of franchisees based on turnover. A high level of franchisee turnover will mean a higher level of franchisor income.

We now consider satisfaction and the internal economic component of the model. As we noted earlier the internal economic structure is the business's strategy which is "an integrated organisational emphasis on securing and sustaining a competitive advantage within the markets served by individual business units" (Wensley and Day, 1983: p.80). In a franchise, the internal economic structure is the franchise strategy which is designed to achieve the necessary competitive advantages for goal and objective realisation. Franchisor satisfaction is related to the internal economic structure through the extent to which the franchise strategy is perceived to be instrumental in delivering the organisation's goals and objectives.

The internal economic processes are concerned with decision making through the dimension of control. In a franchise, the contractual nature of the relationship makes decision making and control highly formalised and weighted in favour of the franchisor. The level of control that the franchisor is able to exercise will determine the extent to which the franchisor perceives that effective decision making and business operations are taking place. Where the franchisor perceives that his decisions are being effectively implemented by the franchisee, we would expect there to be a high level of franchisor satisfaction.⁷³

⁷³ Vice President of McDonalds (UK) who in commenting on the decision making processes of his organisation stated that, it is "entirely controlled because that guarantees success for the system", further, "one of the corporate responsibilities is making sure that all licensees endeavour to reach the standards we

5.4.3 Political Economy Model Summary

The political economy model has been used to illustrate the inter relationships between satisfaction and other constructs. A franchising perspective was used to describe how the model works in relation to this study. Satisfaction was shown to be associated with economic and socio-political components. Arndt (1983) notes that the internal political component of which satisfaction is a part, is widely regarded as being affected by the environment. This relationship is examined in some detail in Chapter 6. For the purposes of understanding satisfaction, the proceeding discussion has provided greater clarity on the variables which are relevant to satisfaction and where satisfaction fits in the organisational processes of decision making and evaluation.

5.4.4 Summary of Satisfaction

Above, main models of organisational exchange were considered within the marketing channels literature, to review where satisfaction fits within the exchange process and what satisfaction is related to and why.

The conclusion from this review is that there is a broad consensus on the key aspects of the role of satisfaction in organisational exchange. First, satisfaction is an outcome variable, which is based on the evaluation (of decision makers) of whether their goals and objectives have been realised. Second, satisfaction is positively associated with the performance of economic and behavioural dimensions. Third, the environment is a phenomenon which interacts with the organisation to affect performance. The environment is included in the decision makers review of performance and therefore influences satisfaction. Frazier (1983) indicates a more formal link between satisfaction and the environment.

Empirical studies in the marketing channels literature are reviewed to understand: first, how satisfaction has been conceptualised and measured. Second, what analysis techniques have been used by researchers and third, what results have been obtained in these studies. Later, we use the best approaches in these studies to develop our own hypotheses and analytical approach.

want, if they don't we take them out of the system" (Scott, 1989: p.68).

5.5 Review of Empirical Studies on Channel Member Satisfaction

A review of the literature indicates that relatively few studies have examined satisfaction in the marketing channels literature, despite the recognised importance of this variable in that body of theory (Robicheaux and El Ansary, 1975; Reeve and Stern, 1980; Ardnt, 1983; Frazier, 1983; Reukert and Churchill, 1984). None of the studies placed its approach in a consistent theoretical framework such as the models of Frazier (1983) and Stern and Reve (1980). As a consequence we observe that the body of theory on organisational satisfaction is somewhat dis-jointed.

5.5.1 *Review of the Definition and Measurement of the Satisfaction Construct*

Mitchie and Sibley (1985) observe that no systematic effort to examine the construct of satisfaction has been undertaken. They point out that "Despite its obvious importance, few empirical studies of channel member satisfaction have been reported (Hunt and Nevin 1974; Lusch 1977; Wilkinson 1979). Unfortunately, these studies reported contradictory, and not particularly significant results. The tenuous results reported previously may have been due to research design and measurement deficiencies found in those studies." (p.188). In our review, we spend some time evaluating the design and measures of these studies to build the best approach for this thesis.

In terms of testing concepts most of the studies we review have used franchise channels as their empirical setting. This is because many of the structures and processes of organisational interaction between the exchange partners are formalised by contract, this provides a more homogeneous sample of respondents. Consequently these studies and their findings can be considered as highly relevant to this thesis because of their focus on franchising.

Previous studies have tended to concentrate on the relationship between power and satisfaction. Power being the overt use of control systems (El Ansary, 1975; Stern, 1977; Michie and Sibley, 1985) and where the stronger party stipulates to the other (Stern, 1977). In a business relationship this will relate to the ability of one partner to influence the decision making of another for the pursuit of higher profit. The potential for exercising power is a function of the "stake" and "commitment" of the partners to the relationship (El Ansary, 1975). In a franchise setting, power is weighted in favour of the franchisor by contract, while the franchisee has a high stake in the relationship by the purchase of the franchise. According to Sims et al (1977, p.158) "the franchise industry

provided an example of a very stringent set of obligations that the franchisor is usually successful in getting the franchisee to agree to without much concession”.

The first major study of satisfaction in the marketing channels literature was conducted by Hunt and Nevin (1974). The study was conducted in a franchise channel with franchisees as the respondents. Hunt and Nevin's model examined the relationship between franchisee satisfaction and the sources of franchisor power.

The model tested was:

$$S_{ij} = F(C_{ij}; N_{ij})$$

where: S_{ij} = Satisfaction of channel member j with channel member i

C_{ij} = Coercive power i over j

N_{ij} = Non coercive power of i over j i.e. power that j willingly yields to i because j believes that:

- (a) i has the ability to mediate rewards for him
- (b) i has a legitimate right to prescribe behaviour for him
- (c) he has an identification with i
- (d) i has some special knowledge or expertise in a difficult area

Note, that under a-d such qualifications make this model particularly suitable to a franchise investigation since these characteristics are easily identifiable in franchising: the franchisee is bound by the terms of a "contract" (Brown, 1985); as his decision making role in the business is limited and subject to franchisor influence.

Satisfaction was measured as the dependent variable through the question "Would you do it over again ?" If the respondent answered [1] for "yes" the franchisee was treated as satisfied; a [0] indicated an answer in the negative and was treated as a dis-satisfied response from the franchisee.

There are several criticisms to be made of the measurement approach in the Hunt and Nevin (1974) study. First, the measurement of satisfaction through a single item measure is very crude. Multi-item scales produce more internally consistent and reliable measures (Churchill, 1979). Second, no attempt to explore the relevant domain of satisfaction was undertaken and no explicit construct definition was provided. Third there was no assessment of the validity of their measures: for example, there may well have been other reasons why franchisees might indicate that they would not "do it

again", which are separate from being dissatisfied. Thus, it could have been that the authors used measures that only partially captured the concept they were attempting to measure.

Power was the independent variable in the study. The authors used the power classifications of Simon (1964) and French and Raven (1959) to define the sources of power. In these classifications, power emanates from one coercive and four non-coercive sources. Coercive sources reflect the ability of an individual or organisation to inflict punishment on another individual or organisation for non-compliance with attempts to influence behaviour. Non-coercive sources in the French and Raven model are Reward, Expert, Legitimate and Personal power. Personal Power relates to charisma and rests with the individual and personalities. Their theoretical basis is that one partner willingly yields to the influence attempts of the other because of prospective gains from doing so. For example, expert power may be seen when a franchisee follows a franchisor's recommendations to invest in a new store fascia because the franchisor has experience or research that this change will build the franchisee's sales.

Hunt and Nevin (1974) measured coercive power through a six item scale. This was partly composed of dichotomous Yes/No responses regarding, for example, "termination threats", and Likert rating scale responses to the franchisees perceived need for "protective legislation". The four non-coercive sources were collapsed into one "non coercive sources" variable because of problems in finding items which could discriminate between the four power sources. Non-coercive power was then measured through a 14 item, six point rating scale measuring the "quality of assistances" provided by the franchisor as a surrogate for "non-coercive sources".

In the measurement of non-coercive sources of power Hunt and Nevin (1974) assessed the "quality of assistances" provided by the franchisor. However, no attempt was made to examine the measurement validity of the scale, so there is no guarantee that "quality of assistances" measures non coercive power. For coercive power, a mixture of attitude rating scales and dichotomous Yes/No type questions were used to measure potential punishment (threats made by the franchisor). One item in this scale asked whether franchisees felt the need for protective legislation, another asked whether the franchisee owned the land/site. It is far from clear that such items are part of the same concept and no tests of validity were reported.

Lusch (1977), attempted to improve on the "intuitively pleasing" model of Hunt and Nevin (1974), by adding instrumentalities (importance weights) to the measurement of the power items in order to increase the predictive capacity of the model. It was hoped

to achieve this by measuring how power type and the likelihood of the power type being used, affected the perception of franchisees on the mediating or blocking effects of franchisor power on their objectives. This was a valuable development because it recognised that satisfaction is linked with goal and objective realisation, which is consistent with our previous discussion on modelling satisfaction. In several respects, Lusch's (1977) study was an improvement on the earlier work by Hunt and Nevin. The improvements were primarily in how his measures were constructed and the validation analysis he conducted on the measures used. Satisfaction was measured through a 16 item four point rating scale, thereby reducing the chance of measurement error by effectively capturing the domain of satisfaction for the respondents. The "domain" of franchisee satisfaction was explored by Lusch and was indicated as being associated mainly with economic and financial considerations. The power constructs were both measured using multi item scales, for which, the instrumentalities of each item were measured on a four point scale.

Lusch (1977) took particular care to examine the validity of the measures before proceeding to analyse the relationships between them. For satisfaction, content validity was examined using expert reviews. The reliability of the measure was assessed using coefficient alpha, yielding a coefficient of 0.87.⁷⁴ In administering the survey a single question asked respondents to report their "overall satisfaction". a correlation analysis of the multi item and single item measures of satisfaction was used to test for convergent validity. The correlation coefficient between the two satisfaction measures was 0.653 which was adequate to show convergent validity (Lusch, 1977: p.132).

Lusch (1977) then assessed the power measures for their discriminant validity. Specifically, checking that coercive and non - coercive sources of power were measured as different concepts. This was done by confirmatory factor analysis. The procedure was to examine whether any of the items for the coercive or non-coercive sources loaded on to both factors. In no instances did this occur, therefore, the discriminant validity of the measures of coercive and non-coercive power was demonstrated.

Michie and Sibley (1985) in their study of channel member satisfaction broadly followed the measurement and validation procedures used by Lusch (1977). However, they posited that the relationship between satisfaction and power would be better explained by managerial operational criteria, rather than by the theoretical coercive and non-coercive sources of power (French and Raven, 1959). They explained non coercive power as:

⁷⁴ See Chapter 8.3 for a discussion of coefficient alpha.

"M2: The multiple dimensions of non-coercive sources of power are identified as a set of strategic policy issues". (Michie and Sibley, 1985; p.195).

The channel used for their study was also a franchise channel. franchisees were the survey unit of analysis. Satisfaction was for the first time in any of these studies explicitly defined as a sentiment, "Pleasure". There was also comment on the relationship between satisfaction and other variables. They highlight the inextricable link between satisfaction and performance, and they viewed satisfaction as a "primary output variable" (p.189). We see Michie and Sibley's approach as a positive step since it links theory to managerial operating criteria. Their approach strongly relates theory to the research setting.

Michie and Sibley (1985) hypothesised that the main determinant of satisfaction is control , "The ability of channel members to control marketing decision variables determines the level of satisfaction perceived to be present in the relationship" (Michie and Sibley, 1985; p.189).

The relationship was examined in the context of the effect of the franchisor control on franchisee satisfaction. In such an empirical setting, the franchisor, through legal arrangements, legitimately stipulates the marketing and managerial activities of the franchisee and influences their performance levels.

With regard to the validation of measures, the authors applied the same validation techniques as Lusch (1977). To determine the reliability of their measure of satisfaction they used using coefficient alpha. they claimed that their 0.91 coefficient indicated that the construct of satisfaction was unidimensional. This assertion is not accepted in this study. Empirical evidence is provided by Schul (1987) who showed that satisfaction is multi-dimensional, which is consistent with the organisation theory discussed so far. Schul's 22 item satisfaction measure contained four factors in a factor analysis. We believe that Michie and Sibley (1985) appear to have used measures of "validity" to over-state the general application of their findings.⁷⁵ It is more probable that they measured a key aspect of franchisee satisfaction. This was possibly the franchisee's perception of the helpfulness of the franchisor in assisting the franchisee to get "pleasure" from running the franchise.

Schul (1987) researched the relationship between the nature and style of a channel members leadership and the level of conflict upon another channel members satisfaction.

⁷⁵ See Chapter 6 for discussion of construct validity.

Again the study was performed in a franchise channel using franchisees as survey respondents. Leadership behaviour was dichotomised into "leader consideration" and leader "initiating structure". Both of these variables were hypothesised to be positively related to the other member's satisfaction. Conflict was hypothesised to be negatively related to the other member's satisfaction. In this study satisfaction was measured as the "franchisee's perceived satisfaction with the franchise arrangement" (Schul, 1987; p.46). The measure used was a 22 item scale. To evaluate measure validity, the scale was subjected to a factor analysis which provided contradictory evidence to Michie and Sibley (1985) on the dimensionality of the satisfaction construct: "The 22 item satisfaction scale was subject to factor analysis which yielded four independent dimensions with Eigen values greater than one (Schul et al. 1985)". (Schul, 1987: p.50)

Given that Schul (1987) obtained a satisfactory reliability coefficient, it can be concluded that the items of the scale represented different dimensions of satisfaction. Dwyer (1980), in an effort to extend the understanding of channel interactions beyond the empirical setting of the franchise channel, conducted a laboratory study simulating the interactions in a conventional channel. He notes, "In a franchise system the franchisor trades (promises of) rewards for authority over certain franchisee behaviours. The bounds of channel member authority have not been likewise legitimised in conventional channels". (Dwyer, 1980; p.45). Dwyer's objective was to test Proposition 20 and 21 from the general model of channel member behaviour proffered by Robicheaux and El Ansary (1975), in a non franchise setting. These propositions were:

- P.20: Channel member satisfaction with a vertical channel varies directly with the level of self control achieved and inversely with the level of the other firm control over marketing decision variables.
- P.21: The level and nature of channel member co-operation and conflict affects directly the level of channel members satisfaction.

Proposition 20 and 21 widen the discussion of channel member satisfaction. Proposition 20 refers to the importance attached to own control and the satisfaction of channel members. The studies discussed so far look at the effect of control policies of one partner on another. Proposition 20 is valuable because it prompts us to look at a new area, the franchisor's satisfaction at his own level of control. In Proposition 21, the determinants of satisfaction have again been broadened, instead of control being the

critical variable, it suggests that the additional dimensions of co-operation and conflict are also included in an analysis. The results of these studies are considered in section 5.6.4.

5.5.2 *Summary of Satisfaction Definition and Measurement*

The definition of satisfaction has been generally weak. That is, researchers have paid little attention to defining what satisfaction is in the context of their studies. The most explicit definition related by this thesis is provided by Michie and Sibley (1985) satisfaction is the "pleasure" derived from the operating policies of franchisors. The measurement of satisfaction has developed in succeeding studies from a single dichotomous question in Hunt and Nevin's (1974) study to sophisticated 22 item scales in Schul's (1987) study. The strongest measures of satisfaction have been multi-item scales which better tap the domain of satisfaction.

With the exception of Dwyer (1980), previous studies examined satisfaction and power. Only Dwyer has examined the effect of perceived own control and other variables on satisfaction from a marketing channels perspective.

5.5.3 *Data Analysis of Channel Member Satisfaction Studies*

In this subsection the analytical techniques employed in satisfaction studies are discussed in terms of their relative merits and deficiencies. It was found that most analyses have attempted to establish causal relationships through regression and have therefore treated attitude rating scales as "interval" data.

Hunt and Nevin (1974) used Multiple Classification Analysis. This assigns a coefficient for each category and for each independent variable. The dependent variable is expressed:

$$Y = Y_1 + X_{1i} + X_{2j} + e$$

Where: Y_1 = the grand mean of the dependent variable.

X_{1i} = the effect of membership in the i th category of independent variable X_1

X_{2j} = the effect of membership of the j th category of independent variable X_2

e = error term

In their questionnaire Hunt and Nevin (1974) used simple Yes/No type questions to measure coercive sources of power. Those type of questions produce ordinal data which should only be used in non-parametric tests (Siegel, 1956). The classification techniques employed by Hunt and Nevin (1974) only produced ordinal data which they then used in a parametric analysis. For parametric analysis, interval data provided by multi-item rating scales should have been used (Tull and Hawkins, 1984; p.515).

Hunt and Nevins' model of satisfaction as a function of coercive and non-coercive power explained 30 percent of the variance of franchisee satisfaction. Such a low Coefficient of Determination indicates that the model has poor explanatory power, and that important explanatory variables were missing. In succeeding studies on franchisee satisfaction and franchisor power, similar results were obtained; Lusch's (1977) regression achieved a R^2 of 0.38, and Michie and Sibley's (1985) regression a R^2 of 0.37. These are not compelling results and similarly suggest that explanatory variables were missing from their analyses.

A further criticism of the analysis by Hunt and Nevin (1974) is that they did not attempt to examine the discriminant validity of their measures of power. Consequently there was no evidence to show that the concepts had been measured as linearly independent. There was no examination for multicollinearity, which could have affected the analysis and explained in part the poor significance levels of the reported results.

The factor analysis performed by Lusch (1977) and Michie and Sibley (1985) demonstrated that their concepts had been isolated in their measurement approach. For example, Lusch's (1977) analysis confirmed French and Raven's classification of the sources of power and demonstrated the discriminant validity of the measures of coercive and non-coercive power. he confirmed their independence before his regression analysis. Lusch ran four analyses. One for each of the two sources of power without the instrumentality weights and one for each with the weight applied. For 16 of the non-coercive items, there were insignificant regression coefficients. When the regression included the instrumentalities it was found that the predictive power of the model actually declined, the Coefficient of Determination in the first run was 0.387 and in the second was 0.312.

For the coercive sources of power the same analysis was performed. Three of the six items had coefficients significant at the five percent level. Ultimately, Lusch was able to confirm that the use of coercive power by the franchisor adversely affects franchisee satisfaction, and that the use of non - coercive power enhances franchisee satisfaction.

It can be argued, however, that multicollinearity affected his analysis, especially for the non-coercive items which were all regressed together, as it is not clear that functional independence of the items was established. Evidence of multicollinearity is suggested by the low "t" values and an R^2 , which was significant at the 0.001 level.

An interesting point in Lusch's study was that instrumentalities appear to have little utility in explaining satisfaction. Lusch (1977) believed that this might be due to a "halo" effect, i.e. when respondents score items they automatically evaluate a variable in the context of its importance to them, consequently any weights attached mechanically by the researcher could be redundant.

In an effort to overcome such analytical problems Michie and Sibley (1985) extracted their power factors from the research data. In attempting to define power bases in a managerial context, they performed a varimax rotation of their 34 item scale. 19 were retained to produce five factors. The final factors are illustrated in Table 5.1 and represent "derived" independent variables. Through this procedure the independent variables were confirmed as independent of each other. The table shows the separation of items. The principal division is between factor one and the rest and is, in effect, a division between coercive and non-coercive power.

Table 5.1

Michie and Sibley Factor Analysis for Independent Variables

	FACTOR 1 Coercive Power Support	FACTOR 2 Franchisee Operational Support	FACTOR 3 Product Presentation	FACTOR 4 Dealer Training Support	FACTOR 5 Sales Information Support
National Advertising	-.029	.147	.149	.058	(.547)
Local Advertising	-.060	.147	.108	.083	(.572)
Dealer Training	-.098	.151	.169	(.824)	.295
Service Training	.237	.174	.224	(.803)	.186
Sales Promotion	-.144	.285	.159	.260	(.567)
Service Manuals	-.311	.134	.168	.227	(.469)
Salesman Incentives	-.140	(.683)	.078	.084	.210
Dealer Incentives	.074	(.455)	.343	.274	.306
Payment Warranty Work	-.134	.205	.343	.065	.288
Delivery of Product	-.150	.236	(.601)	.200	.255
Office Record Systems	.035	(.613)	.074	.030	.020
Service Reps	-.202	.399	(.407)	.384	.006
Sales Reps	-.105	.234	.36	.350	.091
Tools/Equipment	-.108	(.665)	.252	.105	.068
Product Warranty	-.282	.187	.370	.167	.031
Product Quality	.165	.044	(.662)	.161	.219
Product Training	-.183	.191	(.471)	.148	.337
Floor Display Arrangmts	-.141	(.675)	.273	.191	.227
Parts Availability	-.165	.246	(.744)	.068	.091
Order Processing	-.128	.200	(.720)	.129	.161
Purchase Rebates	.006	.260	(.609)	.068	.014
Financial Assistance	-.055	.264	.268	.060	.068
Assistance to Design					
Customer Facilities	-.078	(.551)	.270	.085	.022
Design Dealer Facilities	-.139	(.749)	.177	.118	.117
New Customer Accts	-.071	(.443)	.095	.276	.170
Retail Financing	.005	.218	.253	.176	.250
Unfair Distribution of Eqpt	(.609)	-.029	-.031	.038	.031
Red Tape	(.846)	-.076	-.140	-.017	.021
Slow Payment Warranty	(.749)	-.032	-.078	-.217	-.105
Restrict Manufacturers					
Representative Contract	(.656)	-.182	.025	-.188	-.163
Limit Promotion Assistnce	(.772)	-.150	-.011	.027	-.234
Turndown Warranty Work	(.754)	-.133	-.159	-.074	-.162
Threaten Termination	.352	-.112	-.090	-.022	-.035
Limit Financial Help	.391	-.112	-.090	-.022	-.035
Eigen	12.27	3.25	1.55	1.42	1.00
% Explained	57.9	15.3	7.3	6.7	4.7

Source: Michie and Sibley (1985)

Michie and Sibley then conducted a regression analysis using the derived factors as independent variables to explain satisfaction. The results (Table 5.2) were stronger than those of Lusch (1977), but once again, it is conceptually questionable whether the items which composed the factors were independent. Specifically, are the items in the factor "Franchisee Operation Support" such as "Office Record Systems", really different

enough from the items in the factor "Sales Information Support" such as "Service Manuals" not to introduce multi collinearity into the regression analysis? The relatively low Coefficient of Determination and not significant regression coefficients suggests that this could have been the case.

There is little doubt that power is related to satisfaction. What is apparent from these analyses is that the independent variable of power explains up to 40 percent of the variation in satisfaction. This implies that more variables should be included in further research to explain franchisee satisfaction. Care also needs to be taken about generalising these results to alternative settings. The results in these studies are basically about franchisee satisfaction. They do not develop thinking about franchisor satisfaction.

Table 5.2

Regression Results for Satisfaction as a Result of Managerial and Marketing Variables

VARIABLE	STANDARDISED REGRESSION	"T" VALUE	SIGNIFICANCE LEVEL
Operational Coercive Policies	-0.314	3.674	0.005
Product Presentation Support	0.223	2.214	0.025
Dealer Training Support	0.209	2.151	0.025
Franchisee Operation Support	0.05	0.522	ns
Sales Information	0.03	0.322	ns

$R^2 = 0.374$ Significant at 0.001 level

Source: Michie and Sibley 1985.

Evidence indicating that other constructs should be included in a study on satisfaction is provided by Schul (1987) who considered different variables in his study. Specifically, the style of leadership and the nature of exchange on satisfaction. This is a different model of satisfaction and franchisor power. For example, Lusch (1977) had measured non-coercive power through the "quality of assistances". Michie and Sibley (1985) through the "helpfulness" of assistances. Schul's independent variables are more focused on business issues, they refer to the usefulness of the franchisor in helping the franchisee achieve economic goals. Schul was examining whether satisfaction is

determined by behavioural interactions which make the franchisee "feel" more or less a partner in the relationship.

The model also includes the effect of conflict on satisfaction. Schul's (1987) model achieved a much better coefficient of determination than Lusch, or Mitchie and Sibley; the analysis explained 57 percent of the variation in satisfaction. The results of his four explanatory variables analysis on channel member satisfaction are shown in Table 5.3.

Table 5.3 shows that leader styles and conflict do have a significant relationship with satisfaction. Considerate and initiating behaviour by the franchisor does increase satisfaction and conflict reduces satisfaction. A Coefficient of Determination of 0.57 was the strongest for any of the studies which used regression to test their hypotheses. This was due to the inclusion of more variables in the explanatory part of the analysis, particularly conflict.

Table 5.3

Regression and Correlation Coefficients of Leader Style and Conflict on Satisfaction

VARIABLE	STD REGRESSION COEFFICIENTS	TOTAL CORRELATION WITH SATISFACTION
Leader Consideration	0.4708	0.6960
Leader Initiating Structure	0.4124	0.4252
Administrative Conflict	-0.1267	-0.5568
Product /Service Conflict	-0.2117	-0.5554

$$R^2 = 0.57$$

Source: Schul (1987)

Dwyer (1980) was able to demonstrate that another construct strongly associated with satisfaction is "perceived co-operativeness of other channel members". Through a simple correlation analysis, satisfaction was also shown to be strongly correlated with the level of own control over own decision making variables. This is in fact a different relationship than that examined by previous studies which looked at the effects of the control of the franchisor on franchisee satisfaction. Control was empirically demonstrated to be associated with satisfaction. "control is a chief contributor to satisfaction" (Dwyer, 1980; p.55). Given that we examine the satisfaction of the franchisor, who holds the levers of control in the franchise relationship, the implication

of Dwyer's finding is that an examination of satisfaction should include the franchisor's perceived own control of the organisation and exchange process.

5.5.4 *Review of the Results and Conclusions of Empirical Studies*

In this subsection the results and conclusions of the studies of channel member satisfaction are discussed to provide an overview of the level of knowledge to date.

Hunt and Nevin (1974) found that franchisee satisfaction was positively related to the use of non - coercive sources of power. Evidence for this was provided by the fact that their analysis yielded coefficients indicating that higher "quality of assistances", the non-coercive sources, increased franchisee satisfaction. The use of coercive sources of power depressed the level of franchisee satisfaction. They contend this has value for managers because it indicates that by increasing the quality of assistance offered to franchisees the satisfaction of franchisees will increase. Therefore they will be more committed to the business. and increase their performance to the mutual advantage of both parties.

These results were generally supported by the studies of Lusch (1977) and Michie and Sibley (1985), and were given greater credibility through the measure validity analysis performed in both of these studies. Lusch (1977) was not able to provide compelling evidence for the utility of instrumentalities or importance weights in the measurement process.

Schul (1987) found that leadership style, defined by consideration and initiating behaviours, has a negative relationship with the level of conflict in an exchange relationship, (leader style was modelled as an antecedent to conflict in the Path - Goal analysis). The satisfaction of franchisees was positively related to leader styles and negatively related to conflict.

Dwyer (1980) found that satisfaction was positively associated with co-operation. "The contribution of B's co-operativeness is something more than the added control stemming from co-operative partners. That is, A's perception of B's co-operativeness has a direct impact on satisfaction as well this interpretation supports Proposition 21'." (Dwyer, 1980; p.55). The correlation coefficient was 0.512 for the relationship between satisfaction and perceived co-operativeness of channel partners and was significant at the 0.001 level.

Dwyer (1980) also found some evidence that the level of personal control over decision making variables is important to satisfaction, the correlation coefficient was 0.187 significant at 0.06. This suggests that franchisor satisfaction could be influenced by the extent of control that the franchisor perceives himself to have over the functioning of the business relationship.

The key conclusions from this review of satisfaction are as follows:

- a) Several factors affect satisfaction. viz conflict, co-operation, power, control and leadership style and financial performance.
- b) There is no consistent approach for how to develop a satisfaction measure in terms of its definition or content. This suggests that satisfaction should be conceptualised and measured according to the empirical setting. What is important to franchisor satisfaction is different to that for franchisees. This is because their status, roles and priorities in the relationship are different.
- c) It is mainly correlation and regression techniques that have been successfully used to demonstrate associations and relationships between satisfaction and other variables. This approach has typically treated rating scales as interval data and produced statistically significant results. Overall, these studies have developed theory and provided a valuable basis for the analytical approach used in this study.

5.6 Developing a Definition and Measure of Franchisor Satisfaction in this study

As part of a rigorous study and to be consistent with the construct explication (Chapter 8) process it is essential to define the variables under observation. Therefore attention should focus on defining what satisfaction is in this study, to do this, the insights gained from the literature and the qualitative research one extensively used.

5.6.1 Literature Research Perspectives on Satisfaction

Franchisor satisfaction is a sentiment, an outcome variable produced in an organisational context by the evaluation of the performance of strategy and structure in mediating goals and objectives. Where managers are satisfied, we expect reinforcement of the use of the strategy and structure. Where there is dissatisfaction, it is probable that a search for alternatives will be undertaken; this could mean a modification of the existing strategy

and structures, or a total replacement. For example, in a franchise, this could mean replacing franchised outlets with company run outlets.

Satisfaction has been shown to be a multi-dimensional construct which includes behavioural and economic dimensions. To capture the domain of satisfaction in a measure, it is necessary to include the variables which are central to the organisation's success vis-à-vis its goal and objective achievement. This study is interested in own satisfaction with own strategy.

In Frazier's (1983) and Stern and Reve's (1980) political economy model, the environment is shown to have an impact on the organisation. Specifically, to influence strategy, performance and therefore satisfaction. The environment is the independent variable in this study. Items such as control, conflict and co-operation are "internal" economic and social variables and form part of the content of our measure of satisfaction, our dependent variable. The qualitative research supported this view, and this is expanded upon below.

5.6.2 *Qualitative Research Perspectives on Satisfaction*

The qualitative research reported in Chapter 4 had two objectives which are relevant to this discussion. First, get a feel for the issues important to franchisors from a strategic and marketing point of view. Second, to develop valid content for the measures of satisfaction and the environment based on first hand franchisor contact and input.

Below, illustrative statements made by interviewees are recounted to indicate :

- a) What aspects of franchising attracted the organisation to use it as a strategy.
- b) What aspects of implementing a franchise strategy are crucial to its overall success. This part of the interviewee's reports guided our approach to using items such as control, conflict and co-operation as part of the domain of franchisor satisfaction.

5.6.2.1 Attractions of Franchising as a strategy to Franchisors

Four major items were identified as key the benefits derived from franchising in the depth interviews. These were;

- a) Rapid expansion
- b) Reduced risk
- c) Franchisee motivation
- d) Higher turnover levels

The discussion proceeds to describe the perception of these advantages from the franchisor's viewpoint.

The principal advantages of franchising for the franchisor were succinctly stated by Bill Cherkasky (President of the International Franchise Association).

"You expand rapidly, you penetrate the market, you use someone else's money and you have an entrepreneur out there working with you rather than a manager who won't work half the time."

On the importance of rapid expansion, Tony Worth of the Freezavan organisation believed that franchising offered the franchisor entering a new market the possibility of quickly reaching a minimum efficient scale of operation. In the case of Freezavan this was imperative because of the impending entry of a much larger European entrant to the UK market. Freezavan's objective was to develop 100 rounds in five years. i.e. their minimum efficient scale. This objective would not have been achievable if the company had to rely on its own resources to fund expansion.

The Late Late Supershop also considered franchising as a route to building a large chain quickly, the organisation had an objective of opening 300 franchised shops after one year of operation.

Across all the interviewees, the main advantage of franchising cited was franchisee motivation. This is consistent with the findings of Lillis et al (1976). An interesting example in this is McDonalds (UK), this organisation commenced franchising in 1986 after it had opened 200 company stores, this was 12 years after the first store opened in the UK. The immediate advantages of franchising to the small business - reduced risk, rapid expansion, low capital requirement - were not key to McDonalds thinking about

Further support for this point was provided by Karen Rangeley, the Product Manager for the Co-Op's Late Late Supershop franchise initiative. She remarked that the instore standards of the franchised stores was much higher than the Co-Op's managed outlets. One of the previously "managed" stores which was later franchised had increased turnover by 50 percent.

Second, levels of sales turnover increase the franchisor's scale and bargaining power with suppliers, and increases income through higher franchisee royalty payments. Tony Worth, the Managing Director of the "Freezavan" operation, saw turnover growth as a key franchisor benefit;

"Franchisees grow the business. The bigger it is, the more turnover there is, the better you buy the goods you sell - the better the terms you get....you shave costs and increase returns." Tony Worth. Managing Director. Freezavan.

5.6.2.2 Internal Items Crucial to the Success of Franchising

Effective interaction between the franchisor and franchisee is vital to the successful operation of a franchise because of the high interdependence between the two partners. In this section we review interviewees' perspectives on the effectiveness of their franchisee interaction. The most important internal dimension to the franchisor is control of the franchise by the franchisor. Other important variables cited were co-operation and conflict. These are discussed below.

The partnership created by a franchise creates responsibilities for the franchisor. The most fundamental of which is control, with the aim of maintaining the integrity and uniformity of the system. The philosophy at McDonalds, possibly the world's most successful franchise operation, was that:

"we have strict control, they [the franchisees] know they are going to be inspected regularly, they know their services consultant will visit regularly, they have got to be consistent in standards. I would say from my own observations that competitors [franchised fast food chains] have not exercised that degree of control over franchisees and have suffered as a result" Sidney Nicholson. Vice President, McDonalds UK.

Control has two clear benefits for the franchisor. First, that "free rider" problems are minimised. Second, the franchisor's trademark is not undermined. A secondary benefit of franchisor control was proffered by Sidney Nicholson, i.e. it helps build the confidence of franchisees in their franchisor. This is on the basis that franchisees perceive that the franchisor is fulfilling his role in maintaining the integrity of the total franchised system by demonstrating a firm grip on the organisation's activities. The respondent illustrated the point with the following statement:

"The man who opens in five hours time in downtown Chicago, opens in the knowledge that the guy who is closing in Singapore has put in the same kind of performance as he will. If he hasn't he has let him down. Control is essential for the licensees themselves. That is where they draw their strength from - in the knowledge that all over the world we are exercising *the same degree of control over licensees. It is absolutely essential.* Sidney Nicholson. Vice President, McDonalds UK.

It was issues related to maintaining control that led Circle K in the US and the UK to withdraw from franchising;

"we want that control, we want to be able to control our customers. we don't want some individual franchisee telling us what he is going to do" William Rimmers. Vice President. Circle K. US.

Having acquired several franchised stores through acquisitions in the UK. Circle K terminated a number of franchises, reducing the number from 17 to 9 franchised outlets. The manager with the responsibility for this plan stated:

"We didn't kill franchising, I just decided that I didn't want anymore people [franchisees]....one of the problems was that within a week everyone was an expert." Richard Hunt. Director of Oil and Licensing, Circle K, UK.

The maintenance of control, achieved through the use of power, affects the behavioural dimensions of co-operation and conflict. In a franchise, the successful interaction between partners is vital to the process of goal and objective realisation.

With regard to co-operation, according to Alderson (1969, p.195) "marketing channels cannot function without sustained co-operation in which each party knows what to expect from his opposite number. Issues in the franchise relationship can initiate high

level strategic structural change, as at Circle K (US). The lack of co-operation was seen as a real problem in Circle K:

"probably the image [of franchised stores] and overall co-operation with the company and its goals was the biggest problem. We just didn't get that co-operation." William Rimmers. Vice President, International Division. Circle K, US.

The issue of conflict is especially important in a franchise, since the partners are contractually bound and there is a mutual dependence on goal realisation. A problem with franchising is that its structure creates tension and possible conflict because of the quasi independent nature of the partners. This is exacerbated because of the entrepreneurial type of people who are attracted to become franchisees. (Sklar, 1977; Nevin et al, 1981; Hunt et al, 1980). This issue was underscored by Bill Cherkasky. President. International Franchise Association who stated that:

"I think that the level of conflict in a franchise business is higher than the level of conflict in most other businesses."

From comments made by the interviewees, the level of conflict seemed to be explained by the extent to which objectives differed. On the one hand franchisors want to build a strong business using franchising as a strategy to achieve their goals and objectives. While on the other hand, franchisees tend to see franchising as a route to economic independence and can resent what they see as excessive control by the franchisor on their business. From one franchisor's perspective, conflict stems from the personality and behaviour of franchisees:

"They are difficult people to manage. You have recruited them to have their individuality, to do their own thing and run their own business and therefore they tend to resent being managed and directed. You have the 'get away with it aspect' as well, they try to screw you for another half percent. But you expect that." Tony Worth. Managing Director. Freezavan.

Further support was provided by experiences at Co-Op's Late Late Supershop.

"The biggest problem is that they are independent. But we have the company to think of. There is conflict there. They want to do their own advertising which they can do on our approval, but we have to work to a

particular branding and colours. You get some stores [franchisees] who say 'I want to do my own pink shelf strips, or something like that, and you also get franchisees who say I am going to bring in a totally new range and it isn't within the concept." Karen Rangely. Product Manager, Late Late Supershop.

Successful conflict management is a crucial aspect of the franchisor's role because minimising conflict is essential to enhancing franchisee performance and hence goal achievement (Lusch, 1976). Successful conflict management will be represented by low perceived levels of conflict from a franchisor's perspective. The preceding discussion has recounted the remarks of franchise practitioners regarding strategic and internal aspects of franchising. The aim was to determine the strategic and internal variables of major importance to the franchisor, which affect goal and objective realisation. This data was used to generate a relevant definition of franchisor satisfaction and valid content for our franchisor satisfaction measure.

The interviews also identified what can be interpreted as a corporate image dimension. This was based on the insight that franchisors believed that franchising was a people focused system which brought benefits to the community over and above those which could be supplied by a corporate owned system by. This is as a result, for example, of the consumer being provided with better service, greater job satisfaction for franchisees and, broadly, franchisees enjoying the benefit of the status of self employment. In a sense this is a dimension of corporate social responsibility. In that, the strategy of franchising produces operational and marketing practices with social benefits over and above the economic and legal minima (Bowen 1953). Franchisors articulated this as an attribute of their operation and it was decided to include it in the dimension of satisfaction because it appeared that franchisors were proud of this aspect of franchising. Additionally, there was some evidence reported in Chapter 4 that franchisors thought there may be some marketing advantage to be secured from promoting retail outlets as being franchised.

5.7 A Definition and Measures of Franchisor Satisfaction

This concluding section has two purposes. First, to establish the definition of franchisor satisfaction for this study. Second, on the basis of the literature and qualitative research, to itemise the content of the measure of franchisor satisfaction. These procedures follow the construct explication approach proffered by Nunally (1978).

Reukert and Churchill (1984) defined channel member satisfaction as:

"Channel member satisfaction comprises the domain of all characteristics of the relationship between a channel member (the focal organisation) and other institutions (the target organisations) which the focal organisation finds rewarding, profitable, instrumental and satisfying or frustrating, problematic, inhibiting, or unsatisfying."

The definition above is valuable to us in two respects. First, it indicates that the domain of satisfaction is concerned with relationships with other business and individuals, and the nature of the relationships, expressed by characteristics such as control, conflict and co-operation. Second, the definition includes the role of instrumentality, reward and financial considerations as important to the level of satisfaction. This definition indicates that satisfaction is concerned with the nature and importance of relationships, and also that financial considerations (consistent with the achievement as goals and objectives). In this study, that satisfaction will be treated as a multi dimensional construct.

However, Reukert and Churchill do not include the evaluative component of satisfaction in which decision makers reflect on performance levels versus "deserved rewards" (Frazier, 1983) in their definition. Also, there is no mention of the process of evaluation in arriving at a satisfaction state concerning, for example, the performance of strategy and structure in achieving goals and objectives. We believe that their definition would have been strengthened if they had included a specification of what satisfaction actually is. The definition used here is designed to be more explicit in these respects. The definition of franchisor satisfaction in this study is:

Franchisor satisfaction is an ex post evaluation (outcome variable) of the performance of an implemented franchise strategy in realising franchisor goals and objectives. The domain of franchisor satisfaction is composed of those variables which are necessary for the realisation of franchisor goals and objectives and are specific to franchising operations.

In this regard, franchisor satisfaction will be concerned with the strategic, externally focused competitive advantages of franchising, internal behavioural interactions between the franchisor and franchisee e.g. co-operation, conflict and an image based dimension. Franchisor satisfaction will be associated with favourable performance, and goal and objective achievement, and dissatisfaction vice versa.

From a review of the literature and depth interviews, we hypothesise that franchisor satisfaction is a multi - dimensional construct as follows (Table 5.4 for items).⁶

Satisfaction Hypothesis:

H₀: The construct of franchisor satisfaction is Unidimensional.

H₁: The construct of franchisor satisfaction includes three dimensions (Strategic, Behavioural and Corporate Image)

The construct of franchisor satisfaction includes three principal dimensions. First, a strategic dimension which reflects the advantages of implementing a franchise system (a financial variable of sales turnover is included). Second, a behavioural dimension which *concerns the social and behavioural interaction of the franchisor and franchisee*. Third, a corporate image dimension in which franchisors see franchising as a distinct type of operation producing higher social and economic benefits than company operated businesses.

Asking franchisors about their satisfaction with franchising as a strategy will involve them in an ex post evaluation of how effective to perceive their strategy is in the attainment of their goals and objectives. The items in the measure of satisfaction have to be key to performance. These are shown in the Table 5.4.

To measure the instrumentality of these items to the franchisor's goal and objective realisation, respondents were asked to give a score from zero to ten indicating "the importance you think each aspect has to your company's successful operation."⁷

⁶ This challenges Mitchie and Sibley's (1985) view, that the construct of satisfaction is unidimensional.

⁷ See Appendix II for a copy of the survey questionnaire. Satisfaction questions are covered in Section C of the questionnaire.

The informant was then required to report directly the extent to which they were satisfied with company's level of achievement on each item. Asking respondents to report directly on their satisfaction was shown by Reukert and Churchill (1984) to be an epistemologically acceptable approach to the measurement of satisfaction.

Table 5.4

Items of the Franchisor Satisfaction Measure

a) Strategic items:

- i) High Levels of franchisee motivation
- ii) Growth in terms of franchised outlets opened
- iii) High level of sales turnover
- iv) Low capital requirements for expansion
- v) Growth in terms of market share
- vi) Sharing of risk between franchisor and franchisee

b) Behavioural items:

- i) High level of co-operation between franchisor and franchisee
- ii) Low level of conflict between franchisor and franchisee
- iii) Tight control of the franchised operation by franchisor

c) Image items:

- i) Customer awareness of the company being franchised
- ii) Awareness in the business community of the company being franchised

To test for the convergent validity of this multi item measure we also included a single item measure of satisfaction which is consistent with previous studies (Hunt and Nevin, 1974; Lusch, 1977). In the questionnaire this was question C1 "Please indicate on the scale below the overall level of satisfaction that your company (i.e. as the franchisor) feels about its involvement in franchising".

This is the definition and measure of franchisor satisfaction used in this study.

5.8 Conclusion Organisational Satisfaction

This chapter has examined the literature to understand and model franchisor satisfaction. The literature on organisation theory and marketing channels provided the theoretical basis for conceptualising franchisor satisfaction. The literature review of empirical studies on channel member satisfaction and the qualitative research developed the concept into a relevant definition and measure for this study.

The construct explication approach (Nunally 1978) was used to define and develop satisfaction. Satisfaction was measured via a 12 item measurement scale. The measure used a seven point rating scale which is consistent with other studies. By using Frazier's framework (1983) and the political economy model to develop the model, used in this study the key informant methodology is necessarily used to collect data (Arndt, 1983). This is because the researcher is measuring an intangible attitudinal construct i.e. satisfaction. This in itself creates special measurement and validation issues, which are discussed in Chapter 8.

Chapter 6

The Environment and the Organisation: A Literature Review

"In the short run , if we assume organisations are capable of piecemeal modification of structures and activities, we can predict adaptations they are likely to make in their life time ...Our analysis would then be of organisations adapting to their environments" (Aldrich, 1979: p.73)

A principal aim of this study is to comment on the prospects for franchising development in the UK with particular reference to the food industry. The above quotation establishes the approach used to achieve this. That is, to consider the question of how appropriate is franchising as a strategy with respect to the environment? Broadly, this chapter models the approach used to answer this question.

In terms of measuring the adaptations organisations make. Bourgeois (1980: p.29) proffers that "We should no longer restrict our attention to the content of actually implementing strategy...we should investigate the outcomes of perceptual and political activities inherent in both the intention and manifestation of strategy." This statement raises two key points. First, by looking at "intention" the focus becomes the examination of the goals and objectives of decision makers. Second, "manifestation" is the outcome of strategy decisions, it is its structures, processes and resulting performance (Grieve Smith, 1985). Bourgeois recommends using perceptual, unobservable variables to review the outcome of strategy.

The relationship between channel structure and industrial and macro economic development is generally accepted by the academic community. Regarding franchising, there is clear empirical support for the types of economic conditions in which franchise operations develop. For example, Caves and Murphy (1976) in an analysis of US government statistics on franchise sales, compared the percent of sales accounted for by franchise organisations versus corporate and independent traders across different trade sectors. They found that franchises were prevalent in sectors characterised by divergent economies of scale, where customers were mobile, where the presence of an entrepreneur contributed to product differentiation and where production occurs at the point of consumption and location itself forms part of the sales promotion. Brickley and Dark (1987) in a 36 firm, cross sectional, "agency cost" analysis of the distribution of franchised versus corporate outlets found that franchises were distributed in sectors where there is low initial investment, high frequency - repeat custom, high employee monitoring costs and where the cost of management is important. On this basis, this

study of franchising and the environment will look at understanding the levels of franchisor satisfaction, and look for an association and relationship between franchisor satisfaction and the prevailing environmental conditions.

It follows from the above discussion and, in particular, the statements of Aldrich and Bourgeois, that in understanding the perceived fit of franchising to the environment, we will be able to comment on the effectiveness of franchising in achieving the goals and objectives of franchisors. Given the effect of satisfaction in either reinforcing existing thinking, or initiating searching behaviour by decision makers for a new strategy, it is expected this study will be able to develop a model which predicts the medium and longer term prospects for franchising under differing environmental conditions in UK food industry. Chapter 12 discusses this in some detail.

6.1 Introduction

In the previous chapter, the dependent variable satisfaction was specified as an outcome evaluation inextricably linked to performance. In Frazier's (1983) model, satisfaction and performance were affected by the environment. In Stern and Reve's (1980) political economy model, the environment was also shown to have an impact by affecting the internal political economy and thereby affecting performance and satisfaction. The environment itself is an independent variable.

This chapter is divided into two broad sections. First, there is a review the theory of organisations and their interaction with the environment. Second, the empirical studies on the organisation and environment (specifically we consider the differing methodological approaches used) are discussed to develop a coherent approach to model *environmental impact in this study*. *This establishes the theoretical background for franchisor satisfaction and the environment.* This is then used to develop the environmental measures and hypothesis in Chapter 7.

6.2 The Organisation and the Environment

Prior to discussing an amorphous variable like the environment, it is necessary to direct considerable attention to clarifying the concept and defining it. Having searched the literature, we have encountered an all too common theme - heterogeneous approaches to the discussion of the environment. This is typified by Lee Preston's (1977: p.30) observation that:

"I find the same words such as strategy, structure and performance used in quite different senses in different branches of the literature. And correspondingly the same empirical phenomena and research results are described in quite different terminology and variously interpreted as benign and malign in the work of major analysts."

To counteract this problem this study uses the political economy literature as its corner stone of theory for the environment, and its relationship with the organisation. This was because it has a broad and unifying approach to considering the environment (Manaresi, 1993). To develop the discussion the researcher must consider the role of the organisation's strategy and its effect in determining strategic choices vis-à-vis structure (Oshaughnessy, 1984)..

6.2.1 Organisations and Strategies

Organisations are collections of individuals, and the *raison d'être* of organisations is the *achievement of goals and objectives* (Howe, 1986). To achieve their goals and objectives organisations develop strategies. The interaction between the environment and the organisation is through the structures and management systems that the organisation develops to implement strategy. The environment requires that an organisation formulates a strategy that is tailored to cope with its demands and exploit its opportunities for long term survival (lee Preston, 1977).

Strategies are medium to long term plans and are the planning mechanism that commit resources to achieving goals and objectives (Stern, 1969). In the shorter term, the organisation uses tactics consistent with the strategy to move towards its goals and objectives. The form of a strategy not only takes account of the goals and objectives of the organisation but also the "nature and proximity" of environmental influences. "The formulation of strategy is concerned with matching the capabilities of the organisation to the environment" (Johnson and Scholes, 1984: p.52). In this respect franchising is a strategy chosen by the organisation to achieve its goals which simultaneously reflects the minimisation of threats from the environment and exploitation of opportunities. Additionally, the formulation of strategy will include an assessment of future trends in the environment (Greave Smith, 1985), so that, the structure adopted will enable the firm to exploit its environment while remaining flexible enough to attend to future changes (Murray, 1984).

The literature indicates different levels of strategy used in the pursuit of objectives. Johnson and Scholes (1984) proffer that there are "corporate" and "operational" strategies at work at the same time in the same firm. Bourgeois (1980) similarly distinguishes between "primary" (Domain selection) and "secondary" (Domain navigation) strategies. Thomas and Gordon (1985) assert that strategy formulation occurs at the corporate, business unit and functional level. The decision to franchise falls into the second classification of each model. Franchising is a decision of how to do business in a selected industry. In a cross sectional study such as this we are concerned with franchisors who have selected franchising as their domain navigation strategy.⁷⁸ In the context of this study, it is the performance outcomes of the "domain" navigation strategy, strongly influenced by the environment, which will affect franchisor satisfaction.

6.2.2 *Environmental Impact on the Organisation*

The importance of the environment to strategy implementation is highlighted by Bourgeois (1980; p.25):

"Strategic decision making is at the heart of the organisation and environment co - alignment process [that] delineates the activities through which organisational leaders establish the social or economic mission of the organisation, define its domain(s) of action and determine how it will navigate or compete within its chosen domain(s)."

There is a clear alignment in the literature that the environment can impact on the organisation and be a pool of resources which the organisation exploits. Where ambiguity arises is when the question; 'what is the environment?' is asked. Lee Preston (1977) suggests that it is everything not inside the organisation. Duncan (1972; p.314) states that it is "the totality of physical and social factors that are directly taken into consideration in decision making....outside the boundary of the organisation." Duncan's point is important in that he argues that the environment is perceived (despite being composed of observable variables e.g. interest rates) and includes socio-political attributes which the decision maker is cognisant of, and uses to form an opinion about the environment.

⁷⁸ See Bourgeois 1980; Elements of the Domain Navigation strategy are: mission; administrative decisions; entrepreneurial decisions; competitive weapons; distinctive competences.

Despite the environment's importance as a variable, there is no consensus in the literature regarding its conceptualisation and measurement. As was noted in Chapter 5, the most inclusive discussion of this area is the political economy model advanced by Stern and Reve (1980) and developed further by Achrol, Reve and Stern (1983). This offers the researcher a framework to build and test hypotheses and contribute results which build on an intuitively appealing and partially tested model. This is now discussed in some detail.

6.3 Political Economy Theory and the Environment

6.3.1 *Overview of Political Economy Theory and the Environment*

The political economy model advanced by Stern and Reve (1980) and Achrol, Reve and Stern (1983) is a highly integrative approach to the analysis of exchange relationships and the impact of the environment. This approach has synthesised much of the organisational literature to develop a coherent blueprint for examining the environment (Achrol, Reve and Stern, 1983; Arndt, 1983). The political economy model uses an "open systems" (Thompson, 1967; Silverman, 1978) and "resource - dependence" approach (Thompson, 1967; Pfeffer and Salancik, 1978; Aldrich, 1979) to explain the relationship between organisations and environment.⁷⁹

The open systems approach proposes that the determination of organisational form is subject to environmental conditions.⁸⁰ The theory works with the guiding concept that the goal of an organisation is survival. The organisation is part of an environment which contains resources such as money, people, geographical locations, raw materials, knowledge etc. for the organisation's survival. The organisation is dependent upon other organisations within the environment to obtain the resources it needs for survival and it has to interact with these to survive.

Resource-dependency theory sees the environment as a stock of resources for which organisations compete. The level of, and terms by which organisations compete to procure finite resources is critical because resources are needed for survival (Osborn and

⁷⁹ A discussion of Open Systems and Resource-Dependence is undertaken in section 6.3.2

⁸⁰ This introduces the concept of a relationship between the firm and environment to explain organisational phenomena. This compares to previous research which used "closed systems" theory, i.e. where exogenous influences are assumed constant.

Hunt, 1976). To ensure survival organisations will strike favourable exchange arrangements with firms who hold resources (Pfeffer and Salancik, 1978), while at the same time trying to avoid too much dependence upon these firms in obtaining the resources. Organisations which procure their resources easily are of a better fit than those which have difficulty (Aldrich, 1979).⁸¹ Therefore, the nature and distribution of resources are a key (but not the only) factors that guides organisational design. One of the factors cited as explaining the growth of franchising in the early eighties was that the recession created a pool of redundant executives - with redundancy pay-offs, which could be tapped by franchisors. Franchising, under these circumstances, offered franchisors a pool of potential franchisees with capital who would be necessary for their franchises growth.

By becoming dependent upon other organisations, inter-relationships are developed which span the boundary of the organisation. The character of these relationships is determined by the "boundary spanning" structures and management processes created by the organisation to manage their dependency. Divergent organisational adaptations, e.g. franchising versus voluntary wholesaler groups, are explained by the "sense" (Silverman, 1978) that decision makers attach to environmental conditions. The concept of sense is driven by the fact that organisational decision makers do not have all the data needed to make perfect decisions. As noted by Thompson (1967: p.10). "The organisation is a problem facing and problem solving phenomenon. The focus of an organisational process is related to a choice of courses of action in an environment which does not fully disclose the alternatives available or the consequences of those alternatives".

In formulating strategy, developing structures and management processes the organisational decision maker operates under conditions of uncertainty and "bounded rationality" (Williamson, 1975)⁸². The final choice of strategy aligns the organisation's resources and structures to obtain resources from the environment with appropriate (low risk) dependencies vis-à-vis other organisations. This management process aims to reduce decision making uncertainty.

⁸¹ A study by Pennings (1975) could not however demonstrate a statistical correlation between environmental variables and structural forms.

⁸² Bounded rationality asserts that decisions which appear to be leading the organisation towards non maximisation activities are the outcome of decisions made subject to the constraints of: a) complexity - the volume of data to absorb, store and compute, b) language - the inability to articulate what others feel, and c) uncertainty - the fact that a complete decision tree cannot be computed.

Aldrich (1979) proffers the alternative "information gathering" approach to explain the development of organisational strategy as a function of the environment. The "information gathering" approach sees the environment as a source of information which is used by decision makers to generate decisions on strategic plans and, ultimately, to evaluate the performance of strategies. The environment does not make available all the required information to the decision maker and its impact is therefore through levels of uncertainty which are created by a lack of information. This view relies heavily on the perception and cognition of decision makers to explain their activities.

The political economy model builds on both approaches and is aligned to Pennings (1975) in seeing organisations as dependent on their environments for resources and information. The effect of this combination is to leverage the strengths and minimise weaknesses of the resource-dependence and information gathering approaches. Taking the information view on its own is myopic since information itself can be viewed as a resource for strategy formulation. The resource-dependence view is improved by using theory which includes the role of perception as a key vehicle through which the environment is filtered, assimilated and built into the organisation's plans and actions.

6.3.2 The Impact of the Environment in the Political Economy

The theoretical impact of the environment on the organisation in the political economy model is decision making uncertainty (Achrol, Reve and Stern, 1983: Arndt, 1983: Achrol, 1986; Achrol and Stern, 1988). This is consistent with previous studies in organisation literature (Thompson, 1967: Lawrence and Lorsch, 1967: Duncan, 1972: Jurkovich, 1974; Pfeffer and Salancik, 1978: Aldrich, 1979).

Uncertainty is viewed as the unifying variable through which the impact of environmental phenomena are perceived by the organisation's decision maker. Achrol and Stern (1988; p.37) see uncertainty as the organising variable through which the environment affects the organisation. "Uncertainty is a pivotal notion in organisational behaviour theory. Thompson (1967 p.9) sees it as the "cutting edge" of organisational analysis and sees coping with uncertainty as 'the essence of the administrative process' (see also Weick, 1969 p 29). This view of uncertainty as the key variable affecting channel conflict, co-ordination, power balances and integration is adopted in Achrol, Reeve and Stern (1983) for analysing marketing channel environments".

In the political economy model, strategy is a tool for managers to use to reduce uncertainty. As the above quotation makes clear, the organisation formulates strategy and action steps in response to the extent to which the environment creates uncertainty. The effect of environmental uncertainty regarding organisational strategy in the political economy model is stated by Achrol, Rege and Stern (1983: p.62) as: "Environmental uncertainty influences the structuring and functioning of marketing channel dyads. In terms of its economic structure, a dyad may move from market mediation to some level of vertical integration (in terms of ownership or contractual changes). Such developments are not likely to be manifested in the very short run. The more immediate effect may be to alter the perceived power balances between actors (political structure), the functional processes such as negotiation of new terms of trade (economic processes), or the dominant sentiments of conflict and co-operation."⁸³

The relevance of the above quotation to this study is that it indicates that a sentiment such as satisfaction (a political economy sentiment) is an intermediate predictor of whether it is likely that a franchisor will continue to use franchising in the medium and long term. This is due to the decision maker considering whether franchising, a political economy (economic) structure, is performing versus the franchisor's objectives. Therefore the focus in this study is to understand which types of environmental forces, if any, are associated or related to satisfied or dissatisfied franchisors to enable us to comment on the prospects for franchising development in the UK.

In a study using the political economy to examine the impact of the environment on the organisation, Dwyer and Welsh (1985; p.398) used the model to clarify how the organisation is affected by the environment: "The political and economic relations to the environment represent vehicles by which environmental conditions are interpreted and translated into constraints or opportunities for the internal political economy. Any particular environmental characteristic (e.g., concentration) may exert both political (i.e. influencing goals) and economic market structure impact."

⁸³ The term dyad is used extensively in the political economy model to describe a marketing relationship between two organisations in which there is the exchange of resources (for greater discussion see Bagozzi 1975). This conceptualisation fits with the franchise relationship, since the franchise relationship is formalised in contract and the nature of the exchange between the two parties is very clear. Therefore, the franchisor relationship can work within this model.

The quotation encapsulates how appropriate the political economy framework is to the objectives of this study. Dwyer and Welsh's statement supports our view that an environmental force or condition can affect internal political variables such as satisfaction, and the organisation's internal economic structures, such as its strategy and management structures and processes.

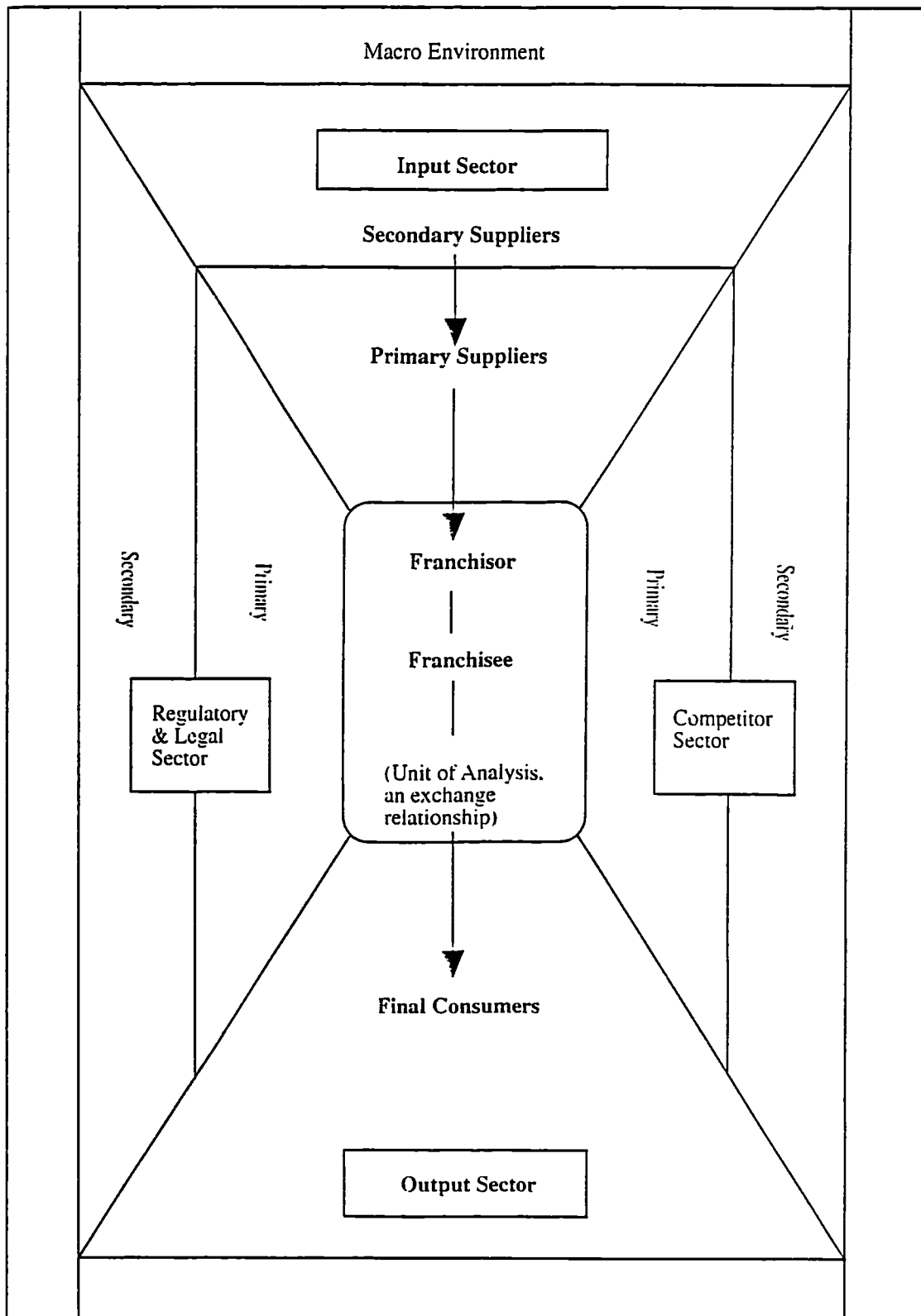
This review of the theory has shown that the environment has a strong relationship with the organisation. Within this theory, the environment impacts to influence the working of the organisation through the concept of decision making uncertainty.⁸⁴ This impact feeds through to affect the internal political and economic structures, processes and sentiments such as the satisfaction of the franchisor. In the medium to long run the environment will affect whether an organisation will maintain or change its strategy, dependent on how effective the strategy in procuring the resources and information necessary for survival. Having discussed how the environment affects the organisation, it is appropriate to review how the environment is conceptualised in the model.

6.3.3 The Political Economy Model (PEM) of the Environment

In an examination of the environment, considerable attention needs to be paid to conceptual specification because this allows succeeding researchers to build upon well specified concepts. In conceptualising the environment we use the political economy model (PEM) (Achrol, Reve and Stern, 1983; and Achrol 1985), since, it offers the best approach for modelling the environment. The political economy model of the environment is illustrated in Figure 6.1 with slight modifications: first, to include a franchise as the exchange relationship for illustrative purposes, and second the output sector is defined as the consumer to represent a retail operation.

⁸⁴ Although managing uncertainty does have an important role in the determination of managerial action and strategy, we do not accept that it is the sole and central variable for determining decision making as is proffered in this model. See Section 6.3.4 for a detailed critique.

Figure 6.1
The Political Economy Model of the Exchange Dyad (Franchise) and the Environment



Adapted from: Achrol, Reve & Stern (1983)

The model breaks the environment down into two levels and four sectors of interaction which are considered in turn. The levels of interaction are split into primary and secondary levels and apply to all four sectors of the environment. What discriminates between the primary and secondary levels is the type of interaction between the exchange organisation and the environment. The primary sector is defined by individuals and organisations which have direct contact with the organisation of interest - the franchise. Direct contact is modelled through the concept of a task environment (Dill, 1958; Thompson, 1967; Child, 1972; Aldrich, 1979), in which direct transactions or exchanges of information or resources with other organisations are undertaken.

The primary task environment is a series of actors in the four sectors of the environment with whom the franchise completes exchanges. Exchange in the primary level also includes key influences which cannot be physically attributed to an actor per se. but do affect goal realisation. For example, trends in consumer preferences such as increased demand for product convenience and service.⁸⁵

The secondary level impacts on the organisation via primary actors. for example, the trade terms obtained by the franchisor from a wholesaler are a function of those obtained by the wholesaler from the manufacturer. Effects of increased factory gate prices from the manufacturer will ultimately affect supply costs to the franchisor as price increases are passed on by the wholesaler.

The model defines four sectors of the environment with which the franchise organisation interacts. The output sector is consumers, whose demand for the franchises products provides sales turnover. The input sector is suppliers of resources necessary for production (this includes banks who supply franchisees with start up loans etc.). The legal sector is the government and trade associations which create and police the rules and regulations by which the franchise operates. This is an important sector for franchises in particular, since high levels of disclosure legislation, for example, can decrease franchise activity.⁸⁶

⁸⁵ This proviso gets past any theoretical or methodological difficulty of what is and what is not exchange, the concept is taken from Osborn and Hunt (1974) who state that the task environment is "all those portions of the total setting relevant for goal setting and goal attainment" p.232.

⁸⁶ Hunt and Nevin (1979) found that Disclosure and "State" Fair Practice Laws reduced franchise activity in Wisconsin.

The competitive sector is composed of the franchises' competitors (e.g. other retailers). But also other franchises who compete for franchise specific resources in the input sector, such as franchisees. The success of the organisation's competitive strategy will depend on its ability to procure the resources necessary for survival.

The final segment of the model is that of the macro environment. The effects of the macro environment on the franchise will be mediated through elements of the secondary and the primary levels (Achrol, Reve and Stern, 1983). For example, government policy on interest rates does not directly affect the franchise, but will be mediated through transactions, for example, the price of loans from banks to franchisees. or. exchange rates affecting the cost of imported raw materials and export prices.

While the model has an appealing conceptual logic and is based upon existing theory, noted two specific concerns are identified which lead to adaptations to the model for this study. First, Achrol, Reve and Stern (1983) posit that input and output sectors exert vertical influences on the exchange relationship, while competitive and legal sectors exert lateral pressure. This implies that the sectors are mutually exclusive. While this makes conceptual sense, it would be extremely difficult to dis-entangle sector effects to the extent where it is possible to comment on the direction of pressure. For example, how does the respondent attribute the effect of a competitor's promotion strategy (lateral impact) which significantly reduces demand for the organisation's goods in the output sector (vertical impact). For perspective, how would the researcher assign a variable to a sector when consumer consumption was characterised by high "search" elasticity and low levels of brand loyalty when a competitor executed a high price discount promotions.⁸⁷ This issue is analysed in the primary research to understand whether the measures used for the environment do decompose into the separate sectors of this model. The objective is to determine the robustness of this approach for modelling the environment, by examining whether the pattern of responses in the questionnaire survey is consistent with the model. No comment is made on the direction of pressure however.

The second, more technical issue is that the secondary level of the environment will not directly affect the competitive strategy of the organisation.⁸⁸ This element is therefore not included in the model.

⁸⁷ Consumers will spend more time in search for more expensive non repeat purchase goods.

⁸⁸ Achrol (1986) points out that it is difficult to describe the secondary level impact of the environment and to try to do so will reduce the research focus.

Having described the political economy model, some of the issues within it are considered by a critique, based on a review of the literature.

6.3.4 Critique of the Political Economy Conceptualisation

The model sees the organisation as reactive to uncertainty, rather than active in taking resources from the environment. There are two main criticisms to this approach. First, it does not cater for the case where the entrepreneur sets objectives, designs a strategy and enacts it in the environment.

Second, it is not clear that the sole aim of strategy is to manage or reduce uncertainty per se. While there are empirical studies to show that the environment has an impact on the degree of uncertainty faced by a business, this does not prove that the organisation's strategy is designed to manage uncertainty. The literature suggests that a broader more pragmatic approach should be used to consider the effect of uncertainty upon the ability or ease of making decisions in implementing a chosen strategy.³⁹ Strategy and therefore structure are not solely dependent on uncertainty regarding the environment (Murray, 1984). High levels of uncertainty do not mean poor business results and poor inter organisational relationships. Ultimately, a strategy (and the structures concomitant with it) will be seen as successful, or not, depending upon whether objectives are realised, not whether there is perceived uncertainty.

Dwyer and Welsh (1985), see the management of uncertainty as an ingredient in strategy design, not the purpose of strategy. Uncertainty in their view is a variable which managers must deal with in formulating strategy. "uncertainty about environmental conditions reflects a decision makers need to both assimilate and anticipate environmental conditions in order to take strategic actions". The inference is that uncertainty about the environment affects strategy formulation but does not determine it. Murray (1984) for example, argues that strategy and structure decisions reflection array of issues such as, fit with marketing strategy, co-ordination of intra firm functions and the responsibility for results fitting with the authority to determine them.

In reviewing earlier literature, the theoretical foundations of the political economy model have come under some criticism. In a critique Child (1972) argued that environmental determinism of organisational form (e.g. Thompson, 1967) was over estimated. Child argued that organisations can select which environments they will compete in and that

³⁹ For a review of strategy formulation and the theory of the firm see Anderson (1983), Thomas and Gardner (1985).

organisations are not passive, "some degree of environmental selection is open to most organisations, and some degree of manipulation is open to most larger organisations" (Child, 1972; p.4).

In response to Child's argument, Aldrich (1979) added the qualification that barriers to entry such as scale economies and product differentiation circumscribed strategic discretion. Indeed they do, however, strategy is developed to achieve goals and organisations do in fact enter new markets and develop new products with the objective of winning business from their competitors and, in this respect, organisations seek to change the environment rather than simply operate within it as a given. For example. Kimberley Clarke's entry in to the UK Diaper market in 1994 was based on a growth objective. To underline this point, when firms enter new markets they actually increase their uncertainty by choice, since they are competing in an environment in which they have limited experience and data (bounded rationality).

The proposition that organisations develop strategic structures and processes (e.g. franchising) as a response solely to uncertainty is too basic. The extent to which organisations differ in structure and process reflects a multitude of factors e.g. personality traits of the chief executive (Handy: 1985) or corporate culture, which do not boil down to different approaches for uncertainty management.

This view is based upon three perspectives. First, the body of strategic management theory built around the concept of management by objectives (MBO). An academic leader in this area is Drucker (1982) who points out that the primary and key consideration of practical organisation design is finding and prioritising the key activities that the organisation has to perform in order to achieve its objectives. Nowhere in his model does he recommend that the organisation is designed to manage uncertainty.

The start point in the MBO process is the desired result, or final objective. The organisation designer then compiles a list of *key activities* in which the organisation must demonstrate excellence. Activities in which poor performance will endanger desired results are also identified. Finally, the designer identifies the key values of the organisation: "what are the *values* that are truly important to *us* in this company" (p.531), this might relate to product quality or outstanding customer service. The designer then begins to fashion appropriate structures for the organisation.

This theory places the achievement of objectives at the centre of organisational design and structure, i.e. the decision maker starts with the end in mind. Howe (1996) suggests few broad objectives which lead to strategy and structure design.

- a) Financial - usually Return on Capital Employed - compares objectives with current situation and indicates a gap for which strategic decisions will be made.
- b) Broad Mission - this focuses on the product market and which of the firms resource areas need support to achieve objectives.
- c) Corporate Goals - prioritise and link objectives for different divisions of an organisation.
- d) Time Frame - builds in the ability to *measure* and verify performance.

An example of corporate strategy objectives is that of Flymo Ltd in Management Today (1981; p.59)

- 1. To expand in size, influence and profitability:
- 2. To strive to be just that bit more professional than our competitors in the total package we present to the customer:
- 3. To remain in advance of all others world wide in air cushion mowers, petrol and electric:
- 4. To expand our range of products with other quality yard care products (i.e. garden care) which can be marketed through our existing channels.

This is a list of objectives places the emphasis on growth and beating competition in product quality within existing markets. No mention is made of uncertainty. Without uncertainty addressed in objectives, uncertainty cannot therefore be a key component in the design of the strategy and structure of the organisation.

The second perspective looks at the emphasis on the centrality of uncertainty in organisation design. This ignores those who have a very high tolerance of uncertainty, or, indeed enjoy working under conditions of uncertainty. This type of decision maker may well not perceive environmental forces as influences which require "coping" structures when formulating objectives and strategy. For example, Howe (1986: p.25) cites the entrepreneur Sir Charles Forte's personal objective as "I have always been ambitious to undertake projects which will earn money, because this is my principal job - to earn money".

This point is underlined by Bagozzi (1975; p.35) who states "Human behaviour is more than the outward responses or reactions of people to stimuli. Man not only reacts to events or the actions of others but he self generates his own acts. His behaviour is purposeful, intentional. It is motivated." In an organisational setting, a key human motivator is achieving objectives and gaining reward. To do this, the individual attempts to control the environment and as such, the ambitious manager is active rather than reactive to environmental uncertainty.

At an organisational level, managers mobilise their resources to obtain more of the resources they need from the environment. This process is at variance with the PEM in explaining organisation structure which relies heavily on the concept of uncertainty in explaining strategy and structures⁹⁰. In developing the concept of strategy and organisation theory, Child (1972) uses organisational productivity and the concept of strategy to argue that the "deterministic" factors in Thompson's approach, are in fact reference points used by decision makers to formulate strategy.⁹¹ Quoting Child (1972) at length illustrates the appeal of this point:

"In Chandler's view, In regard to structure, his general thesis (which he supports with comparative historical data) is that a 'new strategy required a new or at least refashioned structure if the enlarged enterprise was to be operated efficiently' (p.15). The process of strategy formulation in this way constitutes a major interface between the 'working organisation' and the 'political system' within organisations.

Chandler's analysis and that presented in this paper, leads to the conclusion that strategic choice is the critical variable in a theory of organisations. Other variables which have often been regarded as independent determinants of organisational structures are, within this perspective, seen to be linked together as multiple points of reference for the process of strategic decision making. Woodward's recent research (1970) has, for example, illustrated how the degree of uncertainty about the environment with the underlying technological rationale of the product both enter into decisions on operating plans. These operating plans were found to possess implications for both formal and informal structures."(p.4).

⁹⁰ See Section 6.3.2

⁹¹ The deterministic factors are 1) Environment, 2) Organisation Size, 3) Technology.

Following on from Child (1972) the view taken in this research is that the operation of a particular structure will depend on its perceived appropriateness for obtaining resources and information consistent with strategy and the achievement of objectives, rather than handling uncertainty. Where a structure (as measured by the organisation's own measurement systems) fails to meet performance expectations there will be strategic changes designed to increase the organisation's effectiveness in achieving its objectives. "A theory of organisational structure therefore has to take account of performance dimensions" (Child, 1972: p.10). This is a key point for this thesis, since it relates strategic structures to performance, which were shown to co-vary with satisfaction.⁹²

Uncertainty is not the dependent variable used to examine the level of fit between franchising and the environment, since it is not clear that uncertainty is a causal variable in evaluating strategic performance. Further, uncertainty does not necessarily threaten organisational survival (Aldrich 1979). Further, the empirical evidence on the relationship between environmental uncertainty and structural correlates (Pennings 1975; Dwyer and Welsh, 1985) is not conclusive. However, poor performance does threaten survival and will result in structural alterations to strategy and structure to improve performance. On this basis, the prevalence of franchise structures will depend upon their business performance against franchisor objectives in the prevailing environmental conditions. Where franchisors see poor performance of their franchise strategies, decisions will be undertaken to create better performing, perhaps, non-franchise strategies, e.g. corporate vertical integration (Williamson, 1975; Brickley and Dork, 1987; Martin 1988).

Building on this point, several empirical studies (e.g. Dwyer and Welsh 1985; Pennings 1975) which have attempted to demonstrate that structure is a primary function of uncertainty basic yielded weak results. However, in taking other determinants of structure, researchers have been able to show structure is a function of environmental conditions. Particularly those associated with transaction costs and economics (e.g. Lowes and Murphy 1976; Brickley and Dork 1987; Martin 1988). The point here is that it does not seem appropriate to blame uncertainty at the centre of a discussion on determinants of structures.

In this section, the theoretical basis for examining the association and relationship between the environment and its effect on the performance of a franchise strategy, and the resulting effect on satisfaction has been established. This provides the theoretical framework for tackling the initial question in this chapter i.e. how appropriate is

⁹² See Chapter 5 for a discussion of satisfaction and performance.

franchising as a system with respect to the environment. Having established this theoretical framework, attention now turns to the conceptualisation and measurement of the environment in empirical studies.

6.4 A Review of Empirical Research Into Organisations and Environments.

6.4.1 Overview of Empirical Research into Organisations and Environments.

This literature search has not uncovered specific empirical analyse of the relationship between franchisor satisfaction and the environment. Previous research has chiefly focused on the relationship between the characteristics of environments and resulting organisational structures. or levels of decision making uncertainty (Duncan 1972: Pennings 1975; Dwyer and Walsh 1985). Most follow Terreberry's (1968) concept of the environment as a domain of casual "texture" which is semi - independent (Emery and Trist, 1965). Their underlying assumption is that organisations attempt to minimise uncertainty through structural arrangements. Therefore, they focused on environmental causes of uncertainty and corresponding structures.

This reviews proceeds to review the empirical literature on the impact of the environment on the organisation. The aim is to develop the strongest conceptual and measurement approach for the model used in this study. Across the various studies there is a debate concerning four main questions. These questions are:

- a) Should the environment be dimensionalised or itemised?
- b) Should dimensions of the environment be established by the researcher through an a priori or ex post process?
- c) Should the researcher use objective or perceptual measures to measure the environmental variable of interest?
- d) How can we be sure of concept measurement validity?

Questions (a), (b) and (c) are now considered by reviewing empirical studies in the literature. Question (d) is discussed in some detail in Chapter 8.⁹³

6.4.2 Environmental Concepts and Measures

In analysing the environment the PEM uses bi - polar dimensions to describe its characteristics.⁹⁴ These are a series of constructs which "parsimoniously" describe the nature of the environment (Johnson and Scholes, 1984). Different descriptive terms and typologies have been generated by researchers. The list of environmental characteristics generated in the literature is extensive, the most common are:

Homogeneity; Dill, 1958; Thompson, 1969; Aldrich, 1979; Dwyer and Welsh, 1985, Johnson and Scholes, 1984.

Complexity; Duncan, 1972; Child, 1972; Jurkovitch 1974.

Dynamism; Lawrence and Lorsch, 1967; Duncan, 1972; Achrol, 1985; Johnson and Scholes, 1984.

Diversity; Lawrence and Lorsch, 1967; Achrol, 1985.

Capacity; Aldrich, 1979; Achrol, 1985.

Conflict; Pfeffer and Salancik, 1978.

Change/ Instability; Jurkovitch, 1974; Child, 1972; Thompson, 1967; Aldrich, 1979.

Turbulence; Emery and Trist, 1965; Terreberry, 1967; Aldrich, 1979.

Interconnectedness/ Interdependence/ Concentration; Emery and Trist, 1965. Thompson, 1967; Pfeffer and Salancik, 1978; Aldrich, 1979; Achrol, 1985.

⁹³ Empirical investigations of the concept of uncertainty have been subject to strong criticism. See Downey, Hellriegel and Slocum (1973) and Tosi et al (1973), for a critique of the Lawrence and Lorsch (1967) and Duncan (1972) measures. Question (d) is considered in great depth in Chapter 8 and is not reviewed vis-à-vis measurement validity literature in this Chapter.

⁹⁴ These dimensions are a bi-polar continuum rather than exclusive conditions (Aldrich, 1979).

Hostility; Achrol 1985.

Organised and Unorganised; Jurkovitch, 1974.

Typically researchers have focused on determining whether levels of uncertainty are correlated with types of structures. Terms used to describe structures are for example: the amount of specialisation, formalisation, participation, delegation, and centralisation an organisation uses in its management processes (e.g. Dwyer and Welsh, 1985).

Franchising organisations have a formalised decision making structure through the franchise contract. In this study the sample will be relatively homogeneous since all the units of analysis are franchisors and many are members of BFA. In this respect an examination of the variability in decision making structure as a result of environmental influences is irrelevant i.e. the variance in decision making structures as a consequence of environmental influences is controlled because only franchising firms are considered. The relevant learning from previous studies concerns how they have conceptualised and measured the environment. The discussion now proceeds to discuss the three questions stated in Section 6.4.1 (p.165).

6.4.3. *Dimensions or Itemised Environments?*

The principal debate is whether the researcher should use dimensions or an itemised approach to model the environment. To describe the environment through a set of dimensions is to conceptualise it in terms of abstract perceptual descriptors such as those noted above, for example complexity and dynamism.

The itemised or balance sheet approach is to pick out a list of the salient environmental variables which are seen as crucial to the success of the organisation. In reviewing the literature we have found approaches which follow each methodology. Below the merits of each approach are described and discussed.

Howe (1986) and Sharplin (1985) that an analysis of the environment should follow a "Balance Sheet" approach. In this technique the analyst or decision maker scans the environment to determine which items which are important to the organisation, for example, items relating to competition, technology, and the legislative sectors. The analyst then formulates a list of strategic options to develop hypotheses or objectives. This balance sheet approach is criticised not only in the PEM literature but also in

business strategy literature (Johnson and Scholes, 1984).⁹⁵ Achrol, Reve and Stern (1983) highlight the problems of an itemised approach. Principally, these are;

- a) That using a series of objective variables means creating an "inventory". The problem with this is specifying those items which are relevant - many variables can also be broken down into sub variables. For example, a particular piece of franchise legislation has many points and caveats some of which could be interpreted as encouraging franchising and other sections as being restrictive.
- b) Generalising the impact of items across "time and situations" is difficult, especially in a cross sectional study. The problem with the itemisation approach is answering the question - when do you stop adding items?

Using qualitative dimensions overcomes the problem of specification. Dimensions are abstract variables which exist at the general perceptual level. Aldrich (1979: p. 57) notes that the problem with conceptualising the environment is its enormous variation. Environments have "endless variation and complexity to study. The problem is not one of finding variation, but of conceptualising it."

The bulk of the literature proffers that dimensions offer the best theoretical platform for the conceptualisation of the principal forces in the environment. Further, dimensions provide the best approach for modelling how these forces affect the organisation. Taxonomies of environmental dimensions are well established in the literature. Therefore, any study employing these dimensions follows a well established tradition.

A review of the methodologies for developing dimensions raises a key question, whether dimensions should be derived a priori or ex-post to the execution of the survey. Linked to this issue are two further important questions for research design. First, whether the dimension should be induced or taken from basic scores? Second, what is the optimal method for selecting items which will represent the dimension?

The discussion now proceeds to review the leading studies which have utilised dimensions to conceptualise and measure the environment. Within this review, these two questions are answered in the context of this study.

⁹⁵ Johnson and Scholes argue that this is an activity that should only be conducted after an examination of the nature of the environment. They use a similar matrix as Duncan (1972) to perform such an analysis.

6.4.3.1 Review of Duncan (1972) - "Characteristics of Organisational Environments and Perceived Environmental Uncertainty."

Duncan (1972) used a sample of 10 work groups with decision making authority in two manufacturing organisations and, 12 work groups in three research and development organisations. The aim was to establish whether there were differences in the level of perceived uncertainty between the groups as a result of different environments.⁹⁶

Duncan wanted to develop the theory on how different types of environment contribute to differing degrees of uncertainty and, in common with other studies, present a matrix to show this (see Figure 6.2 for Duncan's matrix). The matrix shows how uncertainty varies according to characteristics of the environment.⁹⁷

The results of the study would then assist in predicting which decision making structures will succeed in which type of environment. For example, environments characterised by complexity and dynamism could be shown to require a flexible decentralised structure. Centralised structures would be most appropriate for simple/static environments. Where structures are matched to the environment, the decision maker will experience less uncertainty. Duncan (1972) found that uncertainty was positively associated with environmental dynamism.

Figure 6.2

Duncan's (1972) Matrix of Environment and Uncertainty

	<u>Simple</u>	<u>Complex</u>
<u>Static</u>	Low uncertainty	Moderate/ low uncertainty
<u>Dynamic</u>	Moderate/ high uncertainty	High uncertainty

Source: adapted from Duncan (1972).

Duncan conceptualised and characterised the environment in terms of dimensions which were established a priori to his empirical research. His bi -polar dimensions were static/dynamic and simple/complex. In order to model these environmental dimensions Duncan used a series of semi structured interviews with managers.

⁹⁶ The different organisations were chosen because a priori it was expected that they would face differing environments.

⁹⁷ See Thompson (1967) Jurkovich (1974) and Johnson and Scholes (1987) for descriptive examples.

To measure the environment Duncan established an internal and external environment. In total he derived eight "components" (dimensions) and 25 "factors" (items), to measure the environment. For example the Competitor component was made up of two factors, these were "Competitors for Suppliers" and Competitors for Customers". The work groups had to indicate whether they had to give consideration to the factors and components in their decision making.⁹⁸

1. Duncan's model aimed to maximise the difference between reported simple and complex environments. with a view to understanding whether different environments create different levels of uncertainty. His approach was to create a simple-complex environmental index to amplify any effects as follows:

$$\text{Environmental Index} = (F) \times (C)^2$$

To create this he took the number of decision "factors" (CF) faced by a decision making unit, for example, consumer demand, and multiplied these by the square of the number of "Components" (e.g. "Customer Component") (C) a decision making unit had to attend to. To illustrate this an abridged list of components and factors is shown in Figure 6.3.

⁹⁸ The internal components were Organisational Personnel, Organisational Function and Staff, Organisational Level. The external environment components were Customer, Suppliers, Competitor, "Socio Political" and Technology. The components are much like the sectors as defined in PEM.

Figure 6.3

Abridged list of Duncan's Factors and Components Comprising the Organisation's Internal and External Environment

Internal Environment.

1. Organisational personnel component
 - a. Educational and technological background and skills.
 - b. Inter-personal behaviour styles
 - c. Previous technological and managerial skill.
2. Organisational level component
 - a. Organisational objectives and goals
 - b. Nature of organisation's product or service

External Environment.

1. Customer component
 - a. Distributors of product or service
 - b. Actual end users of product or service
2. Competitor component
 - a. Competitors for suppliers
 - b. Competitors for customers

Note: Duncan used 8 components (C) and 25 factors (F) to model the environment.

An issue with this method of measuring the complexity dimension is that it is by no means certain that he actually measures complexity.⁹⁹ A possible criticism of Duncan's measurement index is that it adds abstraction to what is an already an abstract concept.

The dimension of dynamism was measured using a Likert type rating scale measuring "change" on two sub dimensions. The first being whether factors are stable over time. and the second, whether new factors have to be considered. Each scale was anchored

⁹⁹ Jurkovich criticises any inductively derived definition of complexity, suggesting that it induces abstraction, triviality and vagueness. He suggests that a better definition would be to simply define complexity in terms of whether the decision maker believes the environment to be complex. Such an approach we accept.

from "never" to "very often". To arrive at a score for perceived levels of dynamism Duncan averaged the scores for each sub dimension and added the averages together for each decision making unit (work group). Decision making unit scores were then ranked and split into those having dynamic or stable environments through the median.

Duncan's measurement of the dynamism dimension does not raise the same issue because it is not induced by the researcher, i.e. dynamism is measured by a single score of the perception of those who make decisions. This approach lends itself to measure validation techniques.¹⁰⁰ However, Duncan's classification for dynamism, i.e. through the median, score is an arbitrary imposition by the researcher. We cannot be sure that decision making unit scores for the "rate" and "frequency" of changes in their environments would have been perceived by the groups as consistent with the subsequent classification given by Duncan: Starbuck (1973, p.24) notes "the same environment one organisation perceives as unpredictable, complex, and unstable, another organisation might see as static and easily understood." The key point is that it is better not to abstract the measurement of a concept and arbitrarily impose classifications on the basis of measure scores. This is because the extent to which the researcher can be sure that he is still talking about the valence of the same concept is undermined. A better approach to classification might have been to use the natural mid-point scores within the rating scales to capture the valence of respondents attitudes.

6.4.3.2 Review of Dwyer and Welsh (1985), Environmental Relationships of the Internal Political Economy of Marketing Channels

Dwyer and Welsh (1985) examined the effect of environmental dimensions on the internal structures of 12 retailer - supplier relationships from different industries. Specifically, they tested for a relationship between differing environments and what marketing channel and decision making structures had evolved.¹⁰¹ The decision making structures examined in the research were: centralisation, participation, formalisation and specialisation. They modelled these structures as developing in response to decision making uncertainty caused by the environment.

¹⁰⁰ The more complicated a measure, the more it can be argued that the researcher has not measured what he set out to measure. See Chapter 8.

¹⁰¹ Marketing channel structures refers to the number of linkages in the movement of goods, i.e. manufacturer to wholesaler to retailer. Or, manufacturer to retailer.

In conceptualising and measuring the environment Dwyer and Welsh (1985) attempted to induce their dimensions from informant reports. They did this by an ex post multivariate analysis of their survey results. This compares to Duncan's qualitative a priori approach to developing dimensions based on depth interviews with industry managers. Dwyer and Welsh measured retailers' perceptions of their environment by asking them to indicate the extent to which each item was present in their industry on a five point Likert type scale.

The approach used by Dwyer and Welsh to model the environment is consistent with the technique of "itemising" which we discussed in Section 6.4.3. In creating their item list, Dwyer and Welsh used six broad sectors, each with several items to describe the environment. These broad sectors were: regulation, technology, demand uncertainty, cultural, competition and resources.

On completion of the survey, the list of environmental items were factor analysed. In the first instance, the analysis produced seven factors with Eigen values greater than one. Dwyer and Welsh then arbitrarily consolidated these seven factors into two and called them Homogeneity and Output Sector Variability. On examination of their approach it is possible to identify three issues: specifically, these are how the environment was itemised, how the environmental dimensions were derived, and then how the dimensions were employed in the analysis. These are discussed below.

In itemising the environment, Dwyer and Welsh use uncertainty items (i.e. the dependent concept) in the independent domain of the environment i.e. as independent variables, specifically these were:

Uncertainty re demand trend

Uncertainty re business cycle

In the context of their study, these are clearly internal dependent variable items concerning decision making uncertainty and not aspects of the environment. In their factor analysis, these independent items loaded onto a factor that represented organisational dependence. In the PEM model uncertainty is a function of dependence and no two way causality is referenced.

When one looks at other items in their environment, some appear confusing and inconsistent with other empirical studies, for example:

Competition on brand advertising

Resource scarcity

The item "competition on brand advertising" was similar to Achrol's (1985) "changes in competitor sales promotions/advertising" which measured the dimension of environmental diversity. Achrol empirically demonstrated that diversity was a primary explanatory variable of uncertainty. Similarly, the item "Resource scarcity" was shown to be a determinant of uncertainty by Achrol (1985) and is itself a dimension of the environment rather than an item. Consequently, Dwyer and Welsh's derived dimensions are in fact multi-dimensional and attributing specific causality to these induced, general measures would be difficult.

In deriving their dimensions, Dwyer and Welsh's (1985) procedure of consolidating factors onto one another seems questionable in a causal analysis. This is because factor analysis maximises the difference in variance between factors and looks to establish independence between them. It does not therefore seem theoretically justified to load one factor onto another and call them the same "thing" and then proceed to examine the effect of this "thing" on the dependent variable. The determination of variation in the dependent variable would therefore be confused.

To test for a relationship between the marketing channel structures and the environment. Dwyer and Welsh regressed the independent homogeneity/heterogeneity dimension on their "channel configuration" and "decision making structure" dependent variables. Variation in the dependent variables was to be explained as a function of variation in the environmental homogeneity/heterogeneity dimension. On examination, the items regressed look more like an analysis of the similarity and dissimilarity of technology and legislation items, rather than a representative collection of environmental items.

Homogeneity/ heterogeneity was composed of eight "regulation" and five "technology variables" - technology can easily be argued as being a sub dimension of dynamism.¹⁰² This being the case, then the remaining regulation type items are a poor representation of the degree of homogeneity/heterogeneity in the environment.¹⁰³

Some support for this point can be found in examining the commonalties produced in their factor analysis. The commonalties show the amount of common variance in the items which compose the derived factors. These were quite low in both of their derived

¹⁰² Dynamism - "the perceived frequency of change and turnover in marketing forces" (Achrol and Stern, 1988: p.37)

¹⁰³ A robust definition of homogeneity is " The degree of similarity between the elements of the domain of the population, including individuals and organisations" (Aldrich, 1979)

factors, indicating that the factors were not well represented by the item content.¹⁰⁴ The commonality range in Factor 1 was 0.24 to 0.67. eleven out of the 14 variables that made up Factor 1 (Homogeneity/Heterogeneity) had commonalties lower than 0.50 .

The commonalties for Factor 2 (Variability in the output sector) were very poor. the range was 0.18 to 0.60 with only two variables out of 10 having commonalties greater than 0.50.

In our view their measurement of the dimension of homogeneity was poor and this can be attributed to the process of deriving the dimension ex post.

Further, they chose to examine the variable of heterogeneity as a problematic environmental force affecting decision makers. Duncan (1972) demonstrated that dynamism is a more important variable in causing decision making uncertainty. A similar conclusion was reached by Jurkovitch (1974). It is asserted sense that Dwyer and Welsh's study would have been more robust if it included the variables in their regression which they believed a priori to be primary contributors to variation. In considering only two dimensions at a time, they could well have been missing the impact *of other important environmental dimensions in their analysis.*

These issues may account for the relatively poor results that were obtained in the Dwyer and Welsh (1985) study. They were able to show empirically significant statistical support for only three of their 10 tested hypotheses: these were that heterogeneous environments are associated with less formalised procedures, that variability in output sectors is associated with less complex channel configuration, and less retailer control over marketing decisions.

¹⁰⁴ A commonality expresses the percent of a variable's variance that contributes to the correlation with other variables, or is common with other variables. Thus low commonalties in a factor imply that the items are not strongly associated.

6.4.3.3 Review of Etgar (1977) "Channel Environment and Channel Leadership"

Etgar (1977) used a different approach to conceptualise the environment. He looked at the level of control achieved by suppliers (as perceived by their dealers) in eight different marketing channels. He used the dimensions of demand uncertainty, stage in product life cycle (demand variables), intensity of inter-channel competition and technology to model the environment and look at how these dimensions affected the administration of marketing channels. Etgar found that stability of demand and the characteristics of the channel leader was positively related to the level of control of channel leaders and recommended further research into how channel leaders emerge.

Apart from technology, the other dimensions are in fact similar to the four environmental task sectors in the PEM (see Figure 6.1). A criticism of Etgar's technology dimension is that technology is an attribute of a dynamic environment and should be treated as such in a cross sectional perceptual survey such as Etgar's. This is because examining the impact of technology as a contributory factor in the evolution of a power relationship would really require a historical perspective based on a case study or time series analysis looking at, for example, investment in computer software as a percent of turnover.

The dimensions of the environment in Etgar's study were in fact poorly measured which may explain the relatively weak results. For each dimension he used only a single item measure.¹⁰⁵ For example, the technology dimension was measured by the item - "importance of personalised selling", this was supposed to reflect the level of human activity required in the business process. This item was measured on a seven point scale, anchored from "very important" to "very unimportant". This item was supposed to capture the extent to which the organisation's activities are standardised and correlate with the hypothesis that the higher the standardisation of operations, the greater the level of control for suppliers.

This measurement of technology ignores other aspects which could be considered important in examining technology, such as; the rate of innovation, the cost of technology etc. As a result, the domain of technology was poorly defined and represented in the analysis.

¹⁰⁵ See Chapter 8 for discussion of single versus multi item measures.

6.4.3.4 Review of Achrol (1985) - "The Environment as an Enacted Perceptual Field. A Theoretical, Methodological and Empirical Investigation in the Context of Marketing Channels"

Perhaps the most authoritative treatment of the environment in the context of dimensions is by Achrol (1985) and Achrol and Stern (1988). Achrol's work focuses on the causal interaction between a set of environmental dimensions and uncertainty.¹⁰⁶ The model devised is a composite of those developed by Duncan (1972), Pfeffer and Salancik (1978), and Achrol, Reve and Stern (1983).¹⁰⁷

Achrol (1985) noted in a review of previous studies that there was "overlapping in content domains" and, in some cases, there was only "subtle" distinctions between many of the environmental dimensions. Therefore, Achrol rigorously developed his dimensions by looking at the "meaning of the content" (i.e. the items derived from his qualitative research) to assign descriptions to the relevant environmental forces affecting his unit of study. He recommended that content to develop dimensions is from a specified time frame to ensure its relevance. For his study this was "the last 12 months". Achrol's dimensions were developed by attributing appropriate dimension descriptions to items and creating perceptual, multi-item measures.¹⁰⁸

The items used to generate the content of the environmental dimensions included some that were general and some specific. In the case of "environmental capacity", for example, items were;

- potential for economic growth in market area
- demand for products/brands of focal supplier
- demand for focal supplier's product category
- general consumer demand conditions for dealership

The items were measured on a seven point scale and anchored from "very favourable" to "very unfavourable".

¹⁰⁶ Dimensions are used as an organising concept to relate environmental processes to the internal polity. The dimensions of Achrol's (1985) model were diversity, dynamism, capacity, concentration, interconnectedness, each of these variables was modelled to have a direct effect on uncertainty. The last three variables were also hypothesised to have dependent effects on conflict and Interdependence- which were in turn modelled to create decision making decision making uncertainty. The model was analysed via LISREL, see Joreskog and Sorbom (1983).

¹⁰⁷ See Endnote for a diagram of the full model.

¹⁰⁸ See Chapter 8 for discussion of advantages of multi item measures in research.

From a theoretical viewpoint, dimensions such as "capacity" are qualitative, invisible variables called constructs (Nunally, 1978)¹⁰⁹. To examine the constructs in his study, Achrol used the construct "explication" approach advanced by Nunally (1978). Construct "explication" focuses the researcher on very carefully defining the qualitative variable of interest, and from this, developing a measure where its items clearly reflect the meaning of the construct definition. Such a procedure explicates a word into a research variable which is well defined and measured with valid items¹¹⁰. To illustrate this point, Achrol's definition of environmental capacity looked at the "favourableness - unfavourableness of economic and demand conditions" (p.153) in the organisation's output market.

Achrol's (1985) objective was to develop a comprehensive list of environmental dimensions based on well defined concepts and test for their relationship to uncertainty (see Figure 6.5, chapter endnote). The empirical setting for the study was the output sector of franchise organisations. Data was gathered by a mailed questionnaire. Achrol found that customer diversity, dynamism, and capacity had significant positive effects on uncertainty, while concentration had a negative effect.

In developing his model, Achrol included construct relationships in which environmental relationships with uncertainty, such as the level of "interconnectedness", were mediated by the secondary construct of "interdependence".¹¹¹ The results obtained for these hypotheses produced insignificant or contradictory results which led Achrol to suggest that "On balance, the evidence seems to suggest that most environmental impacts on decision making uncertainty (and implicitly other channel processes and relations) are captured as direct main effects." (Achrol and Stern, 1988: p.47). This cautions against trying to develop elaborate environmental impact models and supports our point in the review of Duncan's measures that over sophistication should be avoided when attempting to measure the environment.

¹⁰⁹ See Chapter 8 for discussion of constructs and construct validity. Although there is a difference in approach to the "validation" of constructs, the work is supported by Churchill's (1979) paragon for developing better measures in marketing.

¹¹⁰ For a description of validating and piloting the questionnaire see Chapter 8.

¹¹¹ For example, Interconnectedness of environmental variables was hypothesised to have a positive effect on uncertainty, shown in Figure 6.4. Interdependence was a mediating variable for interconnectedness, since without dependence there is no basis for connectedness.

Figure 6.4 Mediated Environmental Effect on Decision Making Uncertainty (adapted from Achrol 1985)

Dependent Variable	Mediating Variable	Independent Variable
Uncertainty	(+) Interdependence	(+) Interconnectedness

Achrol (1985) and Achrol and Stern's (1988) research is important in that they show that a conceptual dimensionalisation of the environment, using the construct explication process, provides significant empirical results in a causal analysis. In particular, Achrol was able to demonstrate direct dependent effects for the variable of uncertainty, with respect to the environmental dimensions of capacity, dynamism and diversity. This relationship was established using perceptual measures. Given that Achrol's approach was based on political economy theory and provided significant results, it is an appropriate reference model for this study.

In answering the first two questions posed in section 6.4.1. concerning; first, should the environment be dimensionalised or itemised? Second, should dimensions of the environment be established by the researcher through an a priori or ex post process? It is clear that, following a review of empirical studies, that the best approach is to use environmental dimensions to model the environment and establish which dimensions to utilise a priori of any analysis for results.

Attention now turns to discuss the epistemology of perceptual measures in environmental analysis. This answers the third question in section 6.4.1. i.e., should the researcher use objective or perceptual measures to measure the dimension of interest?

6.4.4 Perceptual Versus Objective Measures?

All the studies reviewed in this study used perceptual rating scales to measure environmental forces. In this sense the environment is not external to the organisation, but is in fact part of the perceptual and cognitive processes of decision makers.

Perceptual measures differ from objective measures which represent real processes in the environment, and are external to the organisation: examples are the interest rate, exchange rates, the Retail Price Index, or balance of trade deficit. The use of perceptual measures of the environment warrants discussion here to establish the theoretical context for the way the environment is specified to affect the organisation in this study.

The use of perceptual measures in environmental research follows the view of Weick (1969: p. 28), who saw the environment as an enacted perceptual field. In this view, organisations "create and constitute the environment to which they react; the environment is put there by actors within the organisation and by no one else. This reasserts the argument that the environment is a phenomenon tied to the process of attention, and that unless something is attended to it doesn't exist."

Using this theoretical premise researchers have developed perceptual measures of environment of phenomenon and have obtained statistically valid results. However, the researcher has to carefully consider the context of the study to correctly choose whether to use perceptual or objective measures.

The idea that perceptual measures of the environment provide a panacea is rejected by Bourgeois (1980) who is critical of the over reliance on perceptual data in analysis and the centrality of uncertainty as the mediating variable of environmental impact.

"James Thompson's overwhelming influence in promulgating "coping with uncertainty" as the "essence of the administrative process" [1967, p.159] has unfortunately led some researchers to rely exclusively on perceived environment, because Weick argues, it is only through managerial perceptions that environments become known to organisations. This view has deteriorated into an exclusive reliance on perceived environment which relegates [the] researcher to the study of the psychological state of uncertainty per se rather than extra organisational phenomena. and thereby negates the very concept of the external environment" (p.34)

He suggests that objective data does have its place in environmental analysis. this is in deciding appropriate primary strategy i.e. where organisations decide which markets they will operate in. rather than how to operate in a market.

Bourgeois (1980; p.37) however, notes the importance of perception in strategy formulation at the domain navigation level (i.e. how to operate in a market): "environmental perception is an element distinct from the objective task environment and is a prime input into strategy making". This is supported by Dwyer and Welsh. (1985; p.399) who state that "strategic and managerial action is driven by perception of the environment". The approach in this study is consistent with Weick and Bourgeois in that we considers the perceptions of franchisors about their franchising strategy (a domain navigation strategy) and the environment.

Another practical argument for perceptual measures is based upon their fit as a data gathering tool with the way many decisions are made. and perceptions formed in a commercial situation i.e. bounded rationality. In many instances decision makers are confronted with a paucity of data. This can occur for several reasons: published government or industry data to make objective decisions is not available; prohibitively expensive to acquire; the manager is not aware of its existence; or the manager does not

6.6.1.1 Franchising and Power Relationships

Hamid (1989) examined whether there were differences in the franchisor and franchisee relationship in a developed country, the United Kingdom, compared to a developing country, Malaysia. He investigated whether power, conflict and autonomy affected the level of franchisee satisfaction. While the earlier literature has examined the effect of power and conflict on satisfaction and performance levels (e.g. Hunt and Nevin 1974, Lusch 1976 and 1977), Hamid added the variable of perceived autonomy to explain satisfaction in his model. Additionally, he included a simultaneous test between countries to provide further insights on management issues relating to satisfaction, and the extent to which the marketing channels literature regarding franchising is applicable to a developing country.

With regard to power, Hamid tested two main hypotheses, these were;

- a) whether the utilisation of sources of franchisor power (coercive and non coercive sources, French and Raven, 1959) affected franchisee satisfaction.
- b) whether the utilisation of franchisor sources of power affected levels of conflict between the franchisor and franchisee.

The results were consistent with previous studies and showed that franchisee satisfaction is negatively related to the use of coercive sources of power by the franchisor, in the UK and Malaysia. The use of coercive sources of power is positively related to levels of conflict, but in the UK only. The key implication of this research for a firm with an international franchising strategy is that the franchisor does not have to significantly adapt the franchise contract to reflect cultural issues in a developing versus a developed country.

Manaresi (1993) examined the effects of power and conflict on the organisation's performance and structures as follows;

- a) Understanding the effect of the franchisor's economic and non - economic sources power on the level of the franchisee's perceived dependence; levels of conflict and decision structures i.e. levels of formalisation and participation.
- b) Determining the causality of performance and conflict.

- c) Clarifying whether the levels of interaction between franchisees affected the level of conflict and performance in a franchise system.
- d) Confirming that there is no relationship in the perceptual data reported by franchisors and franchisees about the power and conflict process.

The theoretical framework used was the political economy model (Achrol and Stern, 1988). This study found broad support for power theory as a theoretical approach to explain franchisor and franchisee behaviour. Where franchisees perceived their franchisors to have high non - economic sources of power, the variation in dependence, decision structures, conflict and information exchange was explained. Conflict was shown to be negatively related to franchisee performance, causality was demonstrated as one way. Finally, the results were demonstrated as being applicable across countries.

Further support for the utility of power in explaining franchising issues was provided by Felstead (1993,p, 90). Following a critique of the new Institutional economics (NIE) approach to explaining the development of, and working processes within franchising, a model based on power, control and dependency theory was developed. This emphasises the “social relations of production as the crucial determinant in of work organisation and business strategies”. Through this approach Felstead was able to show how power theory explains improved productivity under franchising. Power is used to explain increased productivity gains via franchising through the concepts of franchisee motivation and co-operatives, both of which result from the fact that franchisees are profit earners. Franchisor control was shown to be enhanced through the franchise contract, but also through the process of recruitment; franchisors are able to be selective in recruitment and franchisors recruit franchisees they prefer.

6.6.1.2 Franchising and Franchisee Autonomy

The level of franchisee autonomy has received some attention in the literature, due to the broad hypothesis that greater levels of franchisee autonomy will lead to greater franchisee satisfaction, which in turn, will lead to increased productivity for the franchise system (Hamid, 1989; Stanworth, Price, Purdy and Zafiris 1995). This issue was considered by Hamid (1989) who tested for whether the franchisee’s perceived level of autonomy affected their level of satisfaction and separately, whether autonomy affected levels of conflict within the franchise. Hamid found there was no statistical

support for the two hypotheses concerning the effect of autonomy in the UK or Malaysia. Hamid observed that this result could have been due to the fact that franchisees perceived themselves to be independent in the first place, rather than branch managers.

Stanworth et al (1995,p,18) argue that increasing environmental complexity and dynamism require the firm to innovate to ensure optimal competitiveness. Franchisors should therefore seek to exploit the expertise and motivation of franchisees in innovative activities to optimise their own competitiveness. They argue that they should do this by creating an organisational climate and structure which encourages franchisee innovation, rather than focus on contract adhesion. Anecdotal evidence is provided to support this assertion, for example, franchise organisations do survive in fast changing market places and this, in itself, is testament to an institutional ability to innovate and adapt. Despite a stress upon predictable beurocratic structures....franchise organisations tend to operate, in tandem with these, methods of harnessing the innovative potential of franchisees”.

6.6.1.3 Franchising and Research on General Applications

Within marketing channels research, the issue of the general application of a particular study's research to developing a comprehensive theory has been highlighted (Achrol, 1986; Mitchie and Sibley, 1985). The issue concerns whether the results and conclusions of successive marketing channels studies really do contribute to the theory, this is because they have used different definitions, concepts, measures and analytical techniques.¹¹³ The issue of the generality of marketing channels research has received some treatment by Hamid (1989) and Manaresi (1993). Both studies compared the nature of franchise relationships between firms in different countries. Hamid compared franchising in the UK and Malaysia. Manaresi compared franchising in the UK and Italy. Their overall aim was to demonstrate the applicability of the model across countries. The results show that the concepts and models developed in these studies have broad application across countries.

¹¹³ See Chapters' 5 and 6.

This research indicates that operational issues in the management of an international franchise does not require significantly different strategies as a result of cultural differences. Specifically, Manaresi asserts that; the same policies can be performed in different countries; franchisors should not attempt to reduce franchisee information sharing, and the use of non-economic power (e.g. training assistance's) should be used to benefit channel operations, decision making and performance.

6.6.2 *Applied Research Review*

Many of the publications on franchising have continued to focus on how to establish and run a franchise through recommendations for managers and professional services e.g. Adams and Prichard- Jones (1990) and Fulop (1995a). Since the mid 1990's however, a series of studies have been produced on franchising as the industry has developed, albeit behind the expectations of the late 1980's and early 1990's. The emphasis of this research has generally been to develop a clearer understanding of the factors affecting the development of the industry.

In Chapter 12, the results of these studies are discussed in some detail in the context of the predictability of the model used in this research i.e. following the completion of the primary research in 1989. A review of the model's predictability was possible in the light of succeeding developments in the industry and the completion of this study. As a result, this section briefly outlines the key themes of the applied research vis-à-vis franchising in the UK.

6.6.2.1 *Issues Affecting Franchisee's*

In sequential surveys of franchisees needs and attitudes in UK franchising, Fulop (1995b; 1996) found that franchisees had significant issues with their franchisors. These related to three main areas: changes in products; changes in operating methods, and changes in territory sizes. These issues, and tougher economic trading conditions were partly responsible for an increase in franchisee associations between 1990 and 1995. These associations were created to increase the power of franchisees relative to their franchisor. Fulop's surveys identified that there was a significant perception gap between franchisors and franchisees concerning the problems and difficulties in their business relationship. This observed result was also supported by the theoretical analysis of Manaresi (1993). He hypothesised that there was no relationship between the perceptual data reported from different channel participants regarding power and conflict, this was statistically supported in his analysis. Franchisees seeking to protect themselves is consistent with theoretical expectations i.e. Where franchisors use coercive

power in handling their franchisees (power theory) and behave opportunistically (transaction costs theory), for example, reneging on the provision of training assistance (Fulop, 1996), we should expect franchisees to develop countervailing systems (Manaresi, 1993).

6.6.2.2 Issues Affecting the Development of Franchise Systems

The development of the franchise industry in the 1990's has been at best static (Fulop 1996). However, the benefits of franchising are clearly perceived by its supporters and this has seen the applied literature seeking to determine the key factors which explain why franchising development is behind the expectations of the late 1980's (Power, 1987). The research methodologies focus on large scale postal questionnaires and in-depth interviews.¹¹⁴

The two broad factors identified are as follows:

- i) Franchisee recruitment issues. Two issues are identified in the literature. First, franchisors have identified a need to recruit higher quality, better financed franchisees to increase the survival rates of their franchisees (Fulop, 1995b, 1995c; 1996). This issue was also identified as key to the development of franchising systems in the US (Tatham, 1972). As a result, franchisors tightened their franchisee selection criteria in the UK in the 1990's. Second, the conversion ratio of enquiries about franchising to the signing of quality franchisees is low. This is chiefly as a result of a lack of understanding of the key benefits of franchising by those enquiring. Broadly, franchising does not appear to have been seen as an attractive option by potential franchisees (Stanworth, Purdy and Mills, 1995; Fulop, 1996).

¹¹⁴ See Chapter 12 for a full review of franchising development in the 1990's

- ii) The effect of the environment has been a major factor affecting the development of franchising.¹¹⁵ For example, across the early 1990's, the adverse trading conditions (Fulop, 1995b, 1996), and environmental capacity issues such as the level of employment are identified as key factors which are external to franchising which have affected its development (Stanworth, Price, Purdy and Zafiris 1995). This is the relationship which is examined in detail in this study.

6.6.3 Summary of Literature Review

This supplementary literature review indicates that the focus of the research effort on franchising in the UK has been directed at developing familiar theory, specifically, power theory and agency cost theory. Manaresi (1993) uses the political economy model as a basis for developing and testing his hypotheses, this is consistent with the theoretical approach used in this study. An increasing amount of applied survey research has indicated that both the ongoing management of the franchise relationship and the further development the industry, face issues which need to be resolved to make strong progress in future. Particularly, the management of information in the franchisor and franchisee relationship, and the recruitment of high calibre franchisees.

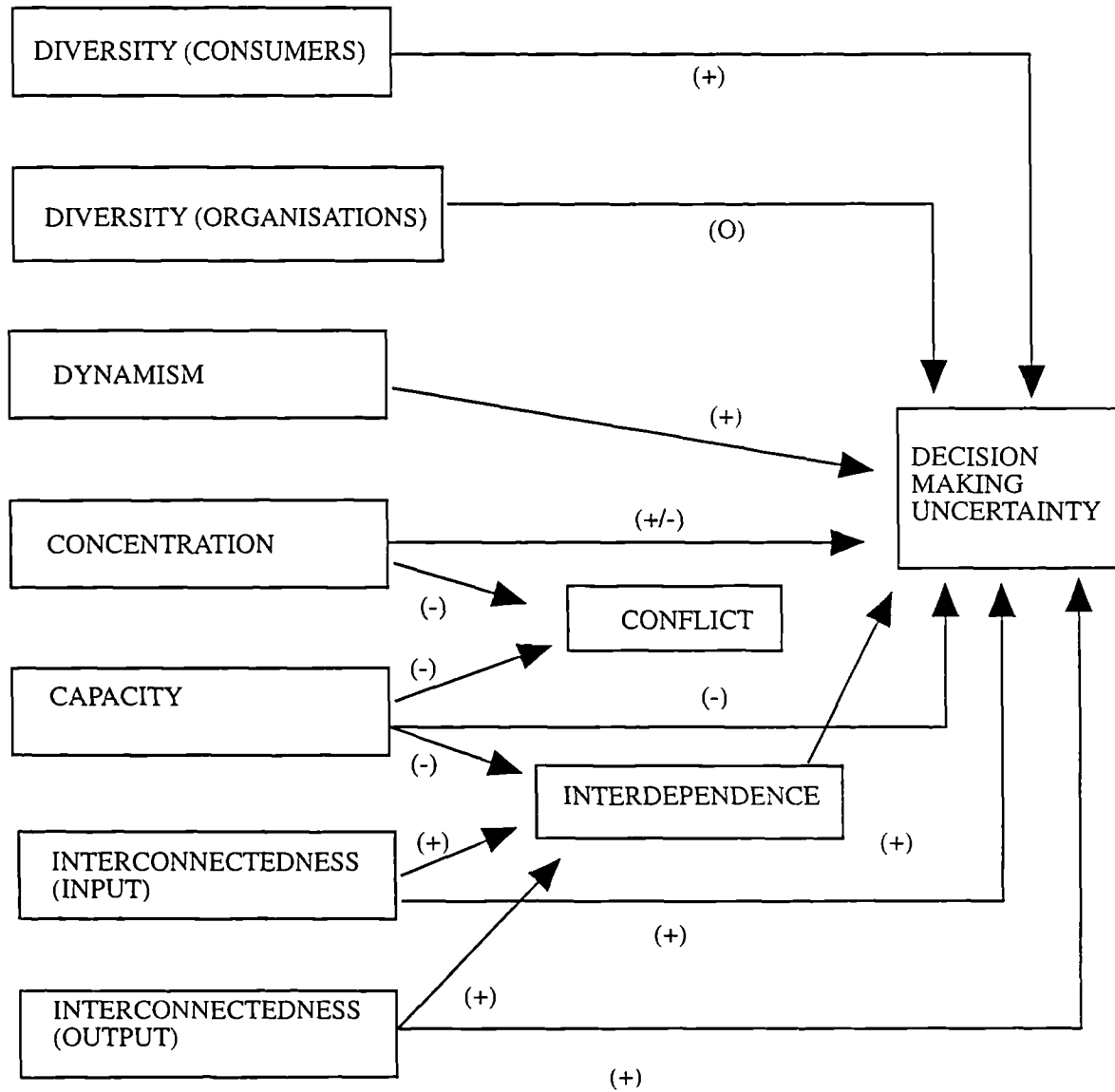
Within the literature no tests have been found relating to franchisor satisfaction and the environment. Additionally, no research has been uncovered which tracks the development of franchising within the food industry in particular. Therefore objectives and findings of this study, particularly with regard to better understanding franchisor satisfaction, its association with the environment, and the impact of franchising in the food industry, mean that it will make an original and valuable contribution to research on franchising and marketing channels theory.

¹¹⁵ See Chapter 12 for a review of the trends in franchising with key environmental variables.

Figure 6.5

**Achrol's (1985) Model of Uncertainty and Environmental Dimensions,
with Hypothesised Relationships**

Environmental Dimension



Chapter 7

Environmental Dimensions Defined and Developed: Satisfaction and the Environment Hypotheses

7.1 Introduction

The first purpose of this chapter is to define and describe the environmental dimensions used in this study. The basis for the selection of dimensions is a combination of the theory of the political economy model (Achrol and Stern, 1988), organisation and marketing channels theory from the literature reviews, and the results of the in-depth interviews research. Following this, the model and hypotheses for testing satisfaction and environment are developed, which is the second aim of this chapter.

7.2 Environmental Dimensions Defined and Operationalised

Two of the most extensive reviews of environmental dimensions are provided by the descriptive work of Aldrich (1979) and the empirical study by Achrol (1985).¹¹⁶ Both devise taxonomies of environmental dimensions, which are shown in Table 7.1. These studies provided the basis for the selection of the dimensions used in this study. Two criteria guided the selection of the dimensions; the first was to choose dimensions which were consistent with the existing literature and the results of our qualitative interview research (Chapter 4). The second criterion was to use dimensions which have already been used in empirical research. This was to minimise the amount of untested variables in the model. Additionally, the literature and qualitative interview research indicated that the previously untested dimensions were irrelevant to the research context anyway. Some dimensions from the taxonomies were therefore omitted from the model, these are the last pair in each list in Table 7.1.

¹¹⁶ The PhD thesis by Achrol (1985) provided the basis for the journal article by Achrol and Stern (1988).

Table 7.1

List of Environmental Dimensions from Aldrich (1979) and Achrol (1985)

<u>Aldrich (1979)</u>	<u>Achrol (1985)</u>
Homogeneity/Heterogeneity	Diversity
Stability/Instability	Dynamism
Concentration/Dispersion	Concentration
Capacity	Capacity
	Hostility

Turbulence	Interconnectedness
Domain Consensus/Disssensus	Interdependence

The reasons why these dimensions were omitted from this study are discussed in more detail below.

7.3 Discussion of Environmental Dimensions Not Used in the Study

7.3.1 *The Turbulence - Interconnectedness Dimension*

The term “turbulence” is used by Aldrich (1979) to describe the level and rate of interconnection between individuals and organisations in the environment. The effect of turbulence is to obscure how processes are taking place in the environment. As Achrol (1985) notes, the term turbulence has nothing to do with chaos in the environment. The dimension is concerned with the flow of information inputs into the decision making process and how easily they are perceived as a function of their level of connectedness. Highly inter connected information causes higher levels of uncertainty (the dependent variable in Achrol’s study). Achrol therefore re-named the turbulence dimension as inter connectedness. He then tested for a direct positive effect of the level of inter connectedness on uncertainty, and for where inter connectedness was mediated by the level of interdependence between organisations.¹¹⁷

¹¹⁷ See Figure 6.3 and 6.5

Achrol (1985) found that he had to reject his hypothesised effects of inter connectedness causing uncertainty. Achrol also concluded that environmental effects should be captured directly and the researcher should avoid using mediating variables in their models.

7.3.2 *Interdependence*

Theoretically this dimension was viewed as being related to interconnectedness, and indeed is difficult to distinguish from it. Achrol (1985; p.166) states "...interdependence exists whenever one actor does not entirely control the conditions necessary for the achievement of an action". Clearly, it is difficult if not impossible to empirically separate the dimension of interdependence from interconnectedness. Achrol therefore modelled interdependence as a function of interconnectedness (Figure 6.5). In his analysis this relationship was confirmed, but the effect of interdependence on uncertainty was not confirmed. Given that Achrol did not secure a significant result for the effect of interdependence on the level of uncertainty, there appears to be no value in trying to establish an empirical association or relationship with satisfaction.

7.3.3 *Domain Consensus/Dissensus*

This is defined as "The degree to which an organisation's claim to a specific domain is disputed or recognised by other organisations" (Aldrich, 1979; p.74). The consensus dimension is more relevant to non - profit organisations (Aldrich, 1979). Where consensus is seen as a dynamic to achieving progress against objectives, and is a desirable attribute of the organisation's relationship with the environment. This study examines competitive organisations who try to achieve profit and growth objectives. Therefore, they will ultimately compete with, and intrude into the domain of other organisations, particularly in a static consumption market such as food. This dimension is rejected from the analysis for these reasons.

7.4 Discussion of Dimensions which are Used in this Study

The environmental dimensions used in this study are defined and described below. Five dimensions were employed. Following Nunally (1978), the process for developing the dimensions focuses on a clear definition, based upon supporting theory and the results of the desk and qualitative research.

Following this, each dimension's measure is established. The items used in the measures are designed to tap the relevant domain of each dimension. The items are the salient environmental influences identified in the desk and interview research and reflect the four sectors of the PEM of the environment (though not all sectors are included in each dimension).

7.4.1 Complexity (Diversity)

Achrol (1985) followed Aldrich (1979) and defined the dimension of "diversity", a synonym for complexity as: "The degree of similarity or differentiation between elements of the population dealt with, including organisations, individuals and any social forces affecting resources" (Aldrich, 1979; p.66). This straight forward definition forms the basis for our dimension of complexity. Building on this to make the dimension more relevant to the study which focuses on franchising, it is helpful to take Child's (1972; p.4) point that complexity is "the heterogeneity and range of environmental activities which are relevant to an organisation's operations." This is consistent with Aldrich (1979), but adds the perspective that complexity should be relevant to the organisation's activities. In this study the dimension should be relevant to franchising in the food industry.

Complexity in itself does not present problems to the franchisor if the activities and structure introduced by franchising efficiently monitor the "facets of the complex environment" (Child, 1972; p.4). Complexity is only an issue for the franchisor if franchising and its structures do not adequately cope with complexity, i.e., it is difficult to deal with the diverse or complicated requirements of environmental phenomenon.¹¹⁸

The definition of complexity in this study is:

"The degree of difficulty facing the franchisor in coping with the differentiation between elements of the population dealt with, including organisations, individuals and any social forces".

Twelve items were selected to represent complexity. A seven point, semantic differential scale was used to measure franchisor perceptions. This measurement scale was anchored from "Very high degree of difficulty" to "Very low degree of difficulty".

¹¹⁸ "Difficulty" was the word used in the questionnaire to measure the degree to which franchisors found that they encountered problems in attending to complex environmental phenomena. This descriptor was used following questionnaire piloting, see Chapter 8.

The items used to represent complexity were;

- Food quality requirements of customers
- Service requirements of customers
- Food convenience requirements of customers
- Demand for speciality foods
- Price requirements of customers
- Customer store convenience requirements
- Negotiating satisfactory supply terms
- Locating suitable supplies
- Obtaining planning permission for sites
- Conforming to food hygiene, storage and handling legislation
- Observing correct legal procedures for operating a franchise system
- Understanding legal requirements and laws relevant to franchisors

The measure included a significant number of items concerned with consumer demand to reflect the widely held view that food industry organisations face complex demand requirements.¹¹⁹

7.4.2 *Instability/Change*

This is the degree of ‘turnover’ in environmental elements (Aldrich, 1979). This dimension represents the concept of change. Instability and change are used synonymously in the literature. Coping with change is an essential management function vis-à-vis structure and strategy. According to Duncan (1972) stable environments allow for a formalised organisation structure, with little delegation or participation. Unstable environments require speed of response and make planning

¹¹⁹ This point is underscored by Beardsworth and Kiel (1992; p.23);

“the food industry may find itself faced with not only a taste for novelty and a relative openness to new ideas on the part of consumers, but also with an unwelcome volatility in demand. Rapidly changing fads and fashions in food consumption patterns may impose significant strains, particularly of areas in the food industry where adjustments in production may, of necessity be relatively slow and relatively costly. Consumers too may experience the negative aspects of flexible and rapidly changing food beliefs and practices. It seems almost inevitable that traditional food ways will be weakened as regional and class affiliations become attenuated and alternative food selection criteria move on and off stage. There are likely to be two important consequences from this:

- a) Customary ways of maintaining food confidence in and satisfaction with the food being consumed will be eroded.
- b) Customary limitations on culinary aspirations will be eroded.”

difficult (Jurkovitch, 1974). Appropriate strategies in unstable environments are more flexible and organisations have more adaptive structures. Duncan (1972) found that unstable environments are more difficult for managers to work in.

Child (1972) offers the most comprehensive definition of change which is based on three variables:

- a) The frequency of changes in relevant environmental activities.
- b) The degree of difference involved at each change.
- c) The degree of irregularity in the overall pattern of change - in a sense the variability of change.

Achrol (1985; p.159) observes that there are difficulties in examining the second and third point in a generalised and perceptual survey. These are that an examination of b) requires a "dissaggregated treatment" of the environment by specifying a variable and examining the magnitude of change as well as the incident. An examination of c) would require "precise longitudinal data for particular environmental elements over particular time periods".

Consequently, this study follows Achrol's (1985) prescription and uses the first component of Child's (1972) definition of change [which is very similar to that of Aldrich (1979)], this is;

The perceived degree of change in elements in the environment by franchisors.

If franchisors perceive their environment as unstable and achieve poor performance, one can expect that they would reach an evaluation in which franchising was perceived as inappropriate for dealing with the demands of a changing environment. To illustrate this point, one can expect that, where there is a correlation with satisfaction and change there is evidence of a fit between the strategy and the environment.

In franchising, the structure involves sharing and delegating responsibility of operational tasks to quasi-independent franchisees. There is evidence from the qualitative research that franchisors have difficulty in securing implementation of some plans because of poor franchisee cooperation. In a market characterised by change (Beardsworth and

Kiel, 1992) point out that this could undermine the competitiveness of the franchise and reduce franchisor satisfaction.¹²⁰

To develop the measure of change used in this study, franchisors were asked to indicate the extent to which they had to respond to change in items listed below. This indicates the extent to which the franchisor must attend to a series of environmental phenomena. The items used were;

- Changing promotion and advertising strategies of competitors
- Change in product service mix strategies of competitors
- Changing strategies of competitors
- The extent to which your market has attracted new competitors
- The extent to which competitors withdraw or fail
- Changing consumer brand / product loyalty
- Changing technology in product development and improvement
- Changing technology in stock control and distribution management
- Changing regulations regarding franchising

7.4.3 *Capacity*

This refers to the relative richness or leanness of the resources which are available to the organisation in the environment. In rich environments, there are more resources and vice versa. The meaning of capacity is not controversial, it is defined here as:

The extent to which important resources in the environment, necessary for the survival of a franchise, are available.

Environments characterised by a lack of capacity tend to cause organisational integration, such as franchise arrangements, the aim is to better compete for scarce resources (McCammon 1968).

The food retail sector is characterised by a finite limit on resources. For example, consumers can only eat a limited volume. For perspective, expenditure on food, actually declined by 8 percent from 1980 to 1992 (Table 7.2). There is slower growth in total consumer expenditure on food than the growth in total expenditure. Although there has been very strong growth in expenditure on “meals out”, growth in expenditure on total

¹²⁰ See Chapter 6, especially the Circle K case study.

food is roughly half that of the growth in total consumer expenditure. This is shown in Table 7.2.

Table 7.2

Consumer Expenditure on Food (Constant 1992 Prices; £m)

<u>Year</u>	<u>1980</u>	<u>1990</u>	<u>1992</u>	<u>Index '92 vs '80</u>
Food	49,013	45,974	45,402	92
Meals Out	16,331	31,499	30,907	189
Total Food	65,344	77,473	76,473	117
Total Expenditure	289,267	384,769	386,606	133

Source: CSO.

In these circumstances, organisational growth needs to look towards product differentiation cutting costs to build sales and profit Proctor (1985). This issue of finite resources in the retail sector was recognised by the government when they withdrew the Small Firms Loan Guarantee Scheme for retail enterprises.¹²¹ Franchise systems will only survive if the resources they need are available and the franchise successfully competes to acquire them. Aldrich (1979) highlights this point:

"the greater the resource similarity of two resource limited competitors, the less feasible it is that a single environment can support both of them in equilibrium (Hannan and Freeman, 1977 p.943). Competition will either eliminate one firm, drive it to another environment, lead to its modification to resemble the more fit competitor, or end in some sort of agreement to share the environment. Consider the high degree of similarity amongst fast food restaurants, regardless of whether they specialised in hamburgers, fish, roast beef, or tacos: large parking lots, self servicing, pre cooked food, young staffs employed at the minimum wage, small tables for only two and four people, and a minimum of amenities so that customers are encouraged to eat quickly and leave. Restaurants not employing this form find themselves at a severe competitive disadvantage. (Aldrich, 1979; p.66)

¹²¹ See Chapter 3 and Chapter 2.

To measure the capacity dimension, respondents were asked to comment on the degree to which attributes of the environment (these were derived from the qualitative research) which were important to the survival of the franchise, presented real opportunities for growth. The items were;

Potential for sales growth is

Number of potentially suitable franchisees is

Available number of suitable sites or locations is

Availability of finance for franchisees is

Goodwill of government bodies to franchises is

The importance of promotion and lobbying by the BFA is

7.4.4 Concentration

The desk research indicated that the food retail sector was highly concentrated. In the period from 1971 to 1993 the multiples increased their share of grocery turnover from 44.3% to 81.4%..¹²² An analysis of the food retail environment should therefore include this dimension. The implications of the trend towards concentration for firms in the UK food industry is summarised by Dawson, et al (1986; pp.155); "the concentration of market share in the hands of fewer retailers has generally strengthened their buying position. Concentration is reflected in a reduced number of decision points controlling the buying of a large number of stores in the UK , ten decision points control 58% of sales volume. This concentration of buying decisions into so few decision points has obvious consequences for the purchasing power of retailers. The food retailer has generally been in the position to extract concessions from the manufacturer in addition to the terms of supply which already favour those retailers able to purchase in large quantities."

For large retailers, quantity purchases may be rewarded by additional acquisition price discounts. Large retailers also seek additional support at the manufacturer's expense, such as contributions to the retailer's advertising and promotion costs, the provision of sales and merchandising staff, and favourable payment terms. For example, some larger retailers may negotiate longer settlement terms for the payment of goods invoices which significantly increases their relative working capital compared to smaller retailers.

¹²² Source Nelsen: NTC Publications.

As this trend develops, it has two implications which need to be reflected in the analysis. First, concentration creates a capacity issue in that the resources of the environment are controlled by a few large firms. Second, the cost of reaching a minimum efficient scale of operation is increased because the cost of winning resources such as market share from powerful competitors becomes more difficult. This is because they have relatively high levels of resources to defend their business against new entrants.

Since the measures used in this study are perceptual, an appropriate definition follows that of Pfeffer and Salancik's (1978; p.50) concept of concentration. They consider concentration in terms of resource control; "the extent to which input or output transactions are made by a few, or only one organisation".

To define and develop our dimension of concentration we considered two aspects of markets which affect how easy it is for firms to enter and compete within them;

i) Economies of Scale

ii) Market Power

Economies of scale are derived when falling costs per unit of output are achieved behind an expansion of production. In concentrated markets the notion of minimum efficient scale (MES) becomes important, this is the scale of operation that must be achieved before the organisation becomes profitable. Where the MES is high relative to total market size then we would expect the market to be concentrated in the long term because of the high cost of entry. We noted in our interview research that the increasing use of technology in organisations and consumer expectations of higher service was increasing start up costs in food retailing.

The concept of a concentration ratio indicates the extent to which the share of the total market is controlled by the top firms (Begg, Fischer and Dornbush 1984; p.198). To examine retail concentration respondents were asked to record the level of control of the top three firms in their market. In this measure, the market is seen as concentrated by the extent to which the resources and transactions, and therefore market power, are located in the hands of a few retailers.

For the input sector i.e. suppliers to franchisors, a similar item was not included. This is because retailers obtain their supplies from many suppliers across many product categories and developing measures which captured the perception of supplier concentration at the company level would view lead to an abstract measure. To

underline this point, the food production industry is traditionally characterised by having many producers (i.e., tending towards imperfect market conditions). Respondents were therefore asked to indicate the perceived degree of concentration in their supply sector.

To understand whether a high MES was perceived by franchisors, a direct question of whether the franchisors market was characterised by high entry barriers was also asked.

Concentration is defined as;

The perceived extent to which organisations in the input and output markets are few in number and the extent to which market entry is difficult.

The items used in the measure of concentration were;

The degree market share is concentrated in the hand of the top 3 retailers in your market sector is

The degree of concentration of suppliers is

The degree to which your market sector imposes high entry costs on new competitors is

An often cited competitive advantage of franchising is rapid outlet growth and development of market share, even in concentrated markets. On this basis it could be expected that franchisors would be satisfied with a franchise strategy if it was successful in achieving the franchisor's growth objectives. Support for franchising as a means to break into concentrated markets is provided in the literature. Hunt (1972) saw franchising as a means of reducing concentration in the US, because franchises would successfully penetrate markets that were concentrated in the hands of a few corporately owned chains. McCammon (1977) suggested that franchising could be of interest to new entrants because it proved to be effective in quickly getting "consumer acceptance of new products, new services and methods of operation."; From a transaction cost economics perspective, Caves and Murphy (1976) found franchises could be expected to penetrate markets characterised by diverging economies of scale, and where there was a high MES (see also Brickley and Dark 1987; Martin 1988). Evidence supporting this point was obtained from the Freezavan case study, where it was apparent that a principal reason for franchising was to reach a minimum efficient scale quickly before the entry of the more

powerful Eismann operation into the UK. Freezavan managers believed they would need to establish a 100 van operation to be profitable in the long term. This was prohibitively costly for the company to achieve by corporate expansion (due to a lack of start up capital and costs of ongoing management support for managers) and franchising was adopted as a result.

It could be expected that if a franchise strategy was performing effectively in delivering the franchisor's objectives then the franchisor would be satisfied and not perceive concentration to be a barrier to growth. Conversely, if the performance of the franchise strategy was unsatisfactory then it could be expected that high concentration would be perceived as a barrier to growth, and negatively associated with satisfaction. This is because the franchisor would evaluate the franchise strategy as being ineffective in competing with the market power of competitors to win the required resources from the environment.

7.4.5 Conflict

Research has shown that the construct of satisfaction is negatively related to conflict (Hunt and Nevin, 1974; Lusch, 1977; Dwyer, 1980; Mitchie and Sibley, 1985). Further, that conflict reduces performance (Lusch, 1976). Therefore conflict is included in this study in the context of the franchisor's relationship with organisations in the environment. Conflict is identified as an environmental dimension by Pfeffer and Salancik (1978; p.67) who state that the requirement for conflict is, "interdependence, for unless social actors are interdependent, there is no basis for conflict".

Achrol (1985) uses the concept of "threat to viability" as a basis for developing his conflict dimension. This approach is used to define conflict as; the perceived level of disagreement with organisations who control or influence resources necessary for the franchise's successful operation.

Achrol used conflict as a sub-dimension of the term "hostility" which he used to simultaneously measure issues such as stress and illiberality. Conflict was a specific sub dimension to capture "abnormal" competitive behaviour, this follows Achrol, Reve and Stern (1983) who see conflict as "opponent centred".

Determining what is, and what is not “abnormal” competition presents problems for the researcher both in the quantification and validation of “abnormal”. However, a measure of environmental conflict should include competitive behaviour, because competitors meet the criteria for “dependence” in that they control and influence the availability of the resources the franchise needs for its growth and survival. For example, both need outlet sites and consumers. In the measure of the competition element of conflict used in this model respondents were asked to indicate their perceived “intensity” of competition with competitors. This was on the basis of discussion with industry practitioners during the development of the questionnaire (Chapter 8), i.e. intensely competitive markets are likely to be characterised by conflict. This approach establishes competition and conflict on a scale and overcomes the problem of quantifying what is meant by “abnormal” competition as opposed to normal competition.

To provide a broad measure of other key organisations that the franchise has relationships with were included in the measure. The input sector was examined in terms of the “frequency” and “intensity” of disagreements. This was judged to provide an insight into how much conflict there was with suppliers.

The legal sector was measured in terms of agreement with the general policy approach of the BFA and the legislative community. The main activities of the BFA are lobbying, delivering seminars, conferences and supporting franchise exhibitions with the aim of promoting the industry and, the maintenance of ethical practice in franchising through rigorous membership criteria.

A finding in the qualitative interview research was that franchisors were not convinced the BFA did enough to promote the industry. Further, they believed that the Association did not provide a very good forum for its members to interact with each other. Another criticism was that its membership criteria were too demanding for small businesses, thereby prohibiting smaller franchises from gaining the acceptability and credibility of BFA membership which they needed to attract franchisees, i.e. this created a catch 22 situation; small firms could not grow because they were not BFA members, but were not big enough to become members.

With regard to the legislative community, their activities can affect the viability of a franchise system. Hunt et al (1979) found that US states which had enacted franchise regulations saw a decrease in franchise activity because their laws imposed a compliance (transaction) cost which made franchising unprofitable. The measure therefore included a general item on the legal sector which looked to establish whether there was an underlying level of conflict between the franchising community and the legal sector.

Conflict was measured using six items and respondents were asked to report the “degree of conflict” they perceived against each item.

The items in the conflict measure were;

- Frequency of disagreements with suppliers is
- Intensity of disagreements with suppliers is
- Intensity of competition with competitors is
- Your company’s agreement with the way the BFA promotes the franchise industry is
- Your company's agreement with the way the BFA attempts to enhance the reputation of franchising is
- The extent of difference in opinion between your company and the BFA and / or government agencies on how a franchise should be run is

The hypothesis for the association and relationship between conflict and satisfaction reflects the results from earlier studies which showed that intra-channel conflict is negatively related to satisfaction.

7.4.6 Conclusion to Definition and Description of Dimensions

This chapter has so far focused on the definition and description of the environmental dimensions which will be used in the empirical part of this study. Theory and the qualitative research was used to derive the dimensions. In the next section of this chapter the model and hypotheses are developed.

7.5 Model and Hypotheses for testing Satisfaction and the Environment

The model for testing satisfaction and the environment is based on the framework of Frazier (1983) and the political economy model advanced by Stern and Reve (1980), Achrol, Stern and Reve (1983) and Achrol (1985). Each models the environment as interacting with the organisation through uncertainty. The impact of the environment is on the behavioural and economic processes of the organisation and modelled to be mediated by uncertainty. Satisfaction in this model is a sentiment, part of the internal ‘polity’ of the PEM. It will be influenced by an array of factors which were discussed in Chapter 6, but not solely by uncertainty. In the model used in this study, satisfaction (and performance) are hypothesised to be affected by the environment.

The review has shown that satisfaction is associated with performance and it used as an indicator of the franchisors' perceptions of the effectiveness of franchising in achieving goals and objectives. Franchisor satisfaction has a domain of behavioural and economic attributes which the environment could influence. On this basis the model for examining satisfaction and any association and relationship it has with the environment is built.

Satisfaction is modelled as the dependent variable in this study. The key elements of franchisor satisfaction which make this appropriate are; it is an ex post evaluation (outcome variable) of the performance of a franchise strategy in realising franchisor objectives; satisfaction includes in its domain those variables which are key to the realisation of franchisor goals and objectives; in this regard satisfaction will be concerned with the strategic competitive advantage issues, the internal behavioural interactions of the franchisor and franchisee in the process of goal and objective realisation, and franchisor views on corporate image. Satisfaction will be based on satisfactory performance versus objectives, and dissatisfaction vice versa. Therefore satisfaction can be used to comment on franchise performance and the potential for further franchising development.

The environmental dimensions are the independent variables in the model. The model for testing is shown in Figure 7.1.

Figure 7.1

Satisfaction and Environmental Dimensions Hypotheses

<u>Hypotheses</u>	<u>Dependent Variable</u>	<u>Sign</u>	<u>Dimension</u>
H ₁	Satisfaction =	-ve <i>f</i>	Complexity
H ₂	Satisfaction =	+ve <i>f</i>	Stability
H ₃	Satisfaction =	+ve <i>f</i>	Capacity
H _{4a}	Satisfaction =	0 <i>f</i>	Concentration
H _{4b}	Satisfaction =	-ve <i>f</i>	Very High -Concentration
H ₅	Satisfaction =	-ve <i>f</i>	Conflict

The specific hypotheses are as follows:

a) Complexity;

H₁: High degrees of environmental complexity will be negatively associated and related to satisfaction.

If franchisors find their environments to be complex then they will have difficulty in interpreting its demands. This will suggest poor strategic fit with the environment and lead to low levels of satisfaction.

b) Instability;

H₂: Satisfaction will be associated and related to perceived stability in the environment.

This tests whether satisfaction is related to a perceived stable environment. From this, we would expect that if franchisors are satisfied and perceive their environment as stable then franchising is a good strategic fit.

c) Capacity

H₃: Environmental Capacity will be positively associated and related to franchisor satisfaction.

If the franchisor believes that the franchising strategy is obtaining the required resources from the environment the franchisor will be satisfied.

d) Concentration

H_{4a}: Satisfaction will have no association and relationship with the level of concentration.

H_{4b}: Satisfaction will be negatively associated and related to high perceived concentration.

Based on the discussion in Section 7.4 it can be expected that a neutral relationship would exist in imperfect market conditions, and a negative relationship in markets with high levels of concentration. This is because the organisation will find it more difficult to obtain the resources it needs for growth and survival when it competes with larger and fewer competitors.

e) **Conflict**

H₅: Increasing degrees of environmental conflict will be associated and related to low levels of franchisor satisfaction.

This hypothesis builds on the literature which has established a negative relationship for satisfaction and conflict between exchange partners. Hypothesis '5' builds upon this by examining conflict with individuals and organisations in the environment.

7.6 Conclusion to Chapter

This chapter has carefully defined and described the environmental dimensions we use in this study. The hypothesised the associations and relationships between satisfaction and our environmental dimensions have been established. The analysis, will test for associations between satisfaction and the environment, and then look for stronger empirical relationships using multivariate analysis in Chapter 11. To generate the measurement data for the analysis a mailed questionnaire survey with food industry franchisors was used.

In the next chapter, the survey approach is discussed in the context of the theory and methodology of market research techniques.

Chapter 8

Survey Design; Theory and Methodology for this study

8.1 Introduction

This chapter discusses the design and execution of the survey. A mail questionnaire survey was used to generate primary, quantitative data for the empirical part of this study. Construct explication and marketing research theory is applied to develop the methodology. The chapter breaks down into several components. First, the approach to developing the questionnaire in the context of our research hypotheses is described. Second, the theory behind the successful use of questionnaires which use perceptual measures and key informant methods is reviewed. Third, a definition of the sample is developed which rigorously specifies the sample element and sample unit. This approach follows the best practices in marketing research (Tull and Hawkins, 1984). Finally, a review of the administration of the questionnaire and subsequent response rates is provided.

8.2 Rationale for a Mailed Questionnaire

This section discusses the design of the questionnaire in the context of the research setting. This includes a review of the factors which influenced the decision to use a mailed questionnaire, and the type of measures used. Mailed questionnaires are only one of several data gathering alternatives open to the researcher. Others for example are administered questionnaires by personal interview or telephone.

The choice of which to use is a reflection of objectives of the research, the value of information sought, the characteristics of the population to be surveyed and the resources available to the researcher. Below the three factors which influenced the decision to use a mailed questionnaire are recounted.

First, a mail questionnaire (Appendix II) was judged to be the most appropriate research technique with regard to the study aims. This is because it is possible to design the mailed questionnaire so that responses can be directly comparable from one respondent to the next. The technique minimises the effect of interviewer induced biases and errors in personal interviews, either by telephone, or, in face to face meetings. For example,

interviewers can lead the respondent to answer questions and can incorrectly interpret and record responses.

Second, as a research technique, mailed questionnaires can produce respondent answers of higher quality than other techniques. The basis for this point is highlighted by Aaker and Day (1986; p.157), "There is consistent evidence that mail surveys yield more accurate results among those completing the survey. This is because the mail questionnaire is answered at the respondents discretion, the replies are likely to be more thoughtful and others can be consulted for necessary information. Mail surveys are generally superior when sensitive or potentially embarrassing topics are covered."

Third, the mailed questionnaire permits the gathering of a broad range of information at reasonable cost. The resources available for the survey were not extensive. Interview techniques with a broad sample were not feasible because of the travel cost implications.

8.2.1 Questionnaire Structure

The final questionnaire was arranged into four sections. The first two sections were used to obtain background and descriptive data on the franchising companies. There were three purposes to this; first, to get a feel for the size and structure of the companies which had responded. Second, to provide control measures to estimate whether there was a bias to the non response group. Third, to obtain objective classification data for our analysis.

The third and fourth sections of the questionnaire were concerned with the measurement of satisfaction and perceptions of the environment. The measurement of satisfaction and the environment involves measuring attitudes, these were measured through self report questions. This approach asks respondents what their attitudes are, and scores them on an attitude rating scale. The process assigns numbers to objects in a way that represents quantities of the attributes (Nunally, 1978; p.3).

In developing the structure of the questionnaire the objective was to develop a survey instrument which provided the right data and at the same time optimised the response levels. The issues which cause low response rates were identified and steps were taken to develop a questionnaire which would minimise these.

The major problem with mailed questionnaires is that they can be characterised by low response rates. Many of the studies we reviewed earlier used mailed surveys and achieved fairly low response rates. For example, Ozanne and Hunt (1971) obtained an 18 percent franchisor response rate in a US government sponsored research project; Lusch (1977), 47 percent response rate from franchisees; Michie and Sibley (1983), 40 percent from franchisees; Schul (1987), 37 percent from franchisees; Power (1987) in a commercial study of the UK franchise industry obtained response rates of 23 percent from franchisors and only 16 percent from franchisees. Given the small population identified in this research (less than $n=50$) it was crucial that we secured at least 30 usable responses, to make the quantitative analysis statistically robust.

To optimise the response rate a significant amount of time was spent on rigorous preparation of the document. The focus was on accurate wording of questions, logical question sequences and using questions which avoided ambiguity so that the respondent was able to answer easily. This process is discussed in detail in the following subsection on piloting the questionnaire.

The draft questionnaire was eight pages, in accordance with Aaker and Day's (1986) recommendation that mail survey documents be no longer than this. Questions were carefully developed from the qualitative interviews and literature research to ensure the use of the most appropriate variables and words.

To achieve the aim of keeping the survey document as user friendly as possible, the focus was on questions which were quick and easy to complete. Where possible, we "closed", or, perceptual measures were used. Closed questions use predetermined answers such as "yes" or "no" to which the respondent simply indicates a single response. For the respondent, this approach has several advantages compared to "open" ended questions; first, by using broad classifications for "closed" questions we could ask for financial information such as "average outlet turnover" without the respondent feeling the document to be intrusive or too sensitive, since there was no requirement to give away precise company information. Second, closed questions are generally less time consuming for the respondent to complete, because the respondent does not have to consider them and then write a response.

For the researcher, closed questions offer the advantage of direct comparability of responses across the sample. Therefore these questions are easier to code in analysis and tabulation.

In sections C and D of the questionnaire, the questions asked respondents about their perceptions of satisfaction and the environment.¹²³ This should have helped response rates for two reasons; first, this type of question is quick and convenient for the respondent to complete because it does not involve a search for data. Second, perceptual measures are similar to closed questions in that they do not ask for specific data on the company which may deter some respondents from completing the questionnaire. Perceptual measures require only an expression of opinion which respondents would be more willing to part with (Tull and Hawkins, 1984).

Using perceptual measures raises the issue of how to measure attitudes? This discussion would be incomplete without a brief review of how the measurement of satisfaction and the environment in this study, is consistent with the theory of attitude research. This is achieved by discussing how the research dimensions are consistent with attitude measurement theory and measurement methods.

The review starts with a definition of attitudes, Allport (1935) provided a ground breaking definition when he asserted that attitudes are "a mental and neural state of readiness organised through experience, exerting a directive or dynamic influence upon the individuals response to all objects and situations to which it is related".

Of importance and direct relevance, is that attitudes are a mental state affected by experience. Nunally (1978) points out that attitudes concern feelings about particular objects. Satisfaction is a component part of an attitude towards an object, because it is a sentiment, a feeling, and frame of mind which will have positive, neutral or negative states. It is possible to measure these. The franchisor will have a level of satisfaction concerning franchising (and franchising's attributes) affected by his experiences of franchising.

From a theoretical perspective, the use of attitudinal measurement techniques to report on franchisor satisfaction with franchising is therefore appropriate. Support for this position comes from the market research literature.

¹²³ Using perceptual measures in this research is epistemologically justifiable for three key reasons;

- a) Perceptual measures have been established as theoretically appropriate for measuring the environment in relation to strategy in Chapter 6.
- b) This dissertation deals with questions regarding franchisor satisfaction and the environment, both of which are comparatively unresearched. In investigative research it is appropriate to utilise perceptual measurement techniques (Etgar, 1977).
- c) Previous studies in the same field (Etgar, 1977; Reve, 1980; Dwyer and Welsh, 1983; Achrol, 1985; Achrol and Stern, 1988) have used perceptual measures of both constructs to obtain significant results.

Aaker and Day (1986), divide attitudes into three components. These relate to the measures of satisfaction and the environment in this study as follows; the first component they define is cognition. This incorporates what individuals believe, with associated value judgements about the characteristics of a phenomenon. This component forms the theoretical basis of our satisfaction question C2 and environment questions in Section D of the questionnaire (Appendix 2). For question C2, respondents have to assign a value to a list of ten attributes thereby making a value judgement. In Section D they are required to indicate the relevance of an array of environmental items to their company's operation.

The Affective or "liking" component of an attitude was the second defined by Aaker and Day (1986). This refers to the part of attitudes from which feelings emanate. This is the basis of the satisfaction questions C1 and C3 in the questionnaire. Franchisors are requested to indicate their feeling of satisfaction with their company's involvement in franchising.

The third component of an attitude is behaviour. Aaker and Day state that "the view is widely held that attitudes are precursors to behaviour". Again, this fits with the models we have discussed on organisational satisfaction, where satisfaction levels are seen as a key factor in deciding the organisation's activities, for example, whether an organisation will search for an alternative strategy to achieve its objectives.

With regard to attitude measurement methods, the questionnaire was designed to measure franchisor satisfaction and the perception of environmental phenomena using attitude rating scales. The concepts of satisfaction and the environment were measured using seven point semantic differential rating scales. Earlier studies on the construct of "satisfaction", for example Hunt and Nevin (1974) and Lusch (1977), used only five point scales. A seven point format was used for this study because the respondent has greater scope to discriminate a sentiment along the measurement continuum. Achrol (1985) and later Achrol and Stern (1988) use the seven point scales for their studies of environmental effects.

Satisfaction and the environment are measured using multi item scales. These scales are superior to single item measures because they are more reliable. This is due to the fact that they overcome the possibility that a single item may be more related to another concept than the one of interest. Multiple item measures therefore reduce the probability of measurement error. Aggregating and averaging scores over a number of items increases the reliability that some measurement of the concept has in fact taken place (Nunnally 1978).

Differences were deliberately incorporated into the layout of Section C versus Section D. These reflected differences in the phenomenon to be measured. The questions in Section C on satisfaction were made bi-polar, and provided a conceptual neutral point to allow for respondents being satisfaction neutral with regard to a specific item.

All the rating scales used in Section D were monopolar in that they simply measured the extent to which an item was perceived by a respondent. This approach forces the respondent to indicate a score for the item of interest. The seven point rating scales focused on the perceived presence of an item. This was anchored between the extreme values of "Very High" and "Very Low".

Having developed the draft questionnaire on the basis of measurement theory and the context of the research setting, piloting procedures were then employed, these are reviewed below.

8.2.2 *Piloting of the Questionnaire*

Piloting is an essential prerequisite to the administration of any questionnaire. This is because it helps eliminate ambiguity with questions and structure. The questionnaire was piloted through consultation with academics and industry experts and franchisors.

Two rounds of piloting were undertaken. In the first round there were three phases; first, five lecturers involved in applied marketing research projects were consulted and asked for their comments on the questionnaire layout and structure. The second phase was to discuss the document individually with nine food industry analysts from the Institute of Grocery Distribution with the aim of confirming the content as relevant and clear. Third, six senior staff in different franchise organisations were asked to complete and note any difficulties they encountered in the completion of the draft questionnaire, and to comment on Section C for content relevance.

There were several changes made to the document as a result of the first round of piloting. Of these, the majority were concerned with question wording. Perhaps the most notable in this respect was changing the name of three dimensions in Section D. It was almost unanimously believed by the experts that using the environmental theoretical dimension names would produce difficulties in interpretation for respondents. As a result inter-changeable names had to be found which on the one hand adequately represented the original dimensions and on the other hand were unambiguous to respondents. Discussion with these experts produced the changes shown in Table 8.1.

Table 8.1

Surrogate terms adopted to represent the theoretical dimensions derived from the literature

Theoretical Dimension	Surrogate Adopted
a) <u>"Complexity"</u> (Duncan, 1972)	<u>"Difficulty"</u> in meeting the demands of the environment
b) <u>"Dynamism"</u> (Achrol & Stern, 1988)	<u>"Responsiveness"</u> to change in the environment
c) <u>"Capacity"</u> (Achrol et al, 1983)	<u>"Resources/Opportunities"</u> in the environment

A problem with question structure was encountered in question C2. The draft question had been a constant sum rating scale, whereby respondents were asked to allocate points, out of a total of 100, to a list of twelve items. The allocation of points reflected the degree of importance the respondent attached to the item, compared to other items in the list. The most important items would be awarded most points and vice versa. The advantage in this technique is that it allows comparison of items at the same time from the same conceptual space (Tull and Hawkins; 1984).

The piloting process indicated that respondents would find the task too tedious or time consuming to make the scores allocated sum to exactly 100 points, and this would have an adverse knock-on effect on the response rate. Consequently, a simpler format of individually scoring each item out of 10 was adopted. From a research viewpoint, this step was less attractive since the respondent does not actively compare one item with another. It was not theoretically possible under the amended question to assume that where franchisors indicated a score for one item of eight, and another item, a score of four, they considered one item twice as important as the other. All that can be reasonably deduced from the question used is the general importance of an item.

Regarding question content, an item was added to the "difficulty" dimension. This was about interpreting consumers' pricing requirements, feedback from the food industry analysts indicated that a price item should be included in the scale.

Having included all the above changes to the draft document a second round of piloting was undertaken, this had two phases. In the first phase, all the first round procedures were repeated with different individuals in most instances, no changes were found necessary. In the second phase, five post graduate students, from Law, Business Administration and Agricultural Economics disciplines were individually interviewed

and asked to read the questionnaire aloud. They were asked to indicate any instructions or words (apart from relevant jargon) which they had difficulty understanding. A few minor alterations were made to the questionnaire as a result of this step.

The final questionnaire was prepared and mailed to the sample on 24th August 1989. The questionnaire was sent out with a paid return envelope and an accompanying covering letter from the researcher and the collaborating body in the project, the Institute of Grocery Distribution, this explained the aims of the project and encouraged a response.

This section has described the piloting of the questionnaire to ensure its relevance to the research setting. The final mailed questionnaires were sent to senior managers in franchise organisations. By using this approach, key informants were in effect, asked to represent the organisation's attitudes to satisfaction and the environment. This approach raises theoretical issues which are considered in the next section.

8.3 Construct Theory, Measurement and Explication

8.3.1 *Introduction to Construct Theory in the context of this Study*

The preceding section raised the point that there are practical issues in measuring attitudes, which are unobservable variables, in mailed questionnaires. The unobservable variables are franchisor satisfaction and the environmental dimensions of "difficulty", "change", "resources", "conflict" and "concentration". By asking respondents to evaluate their satisfaction with franchising and the presence of environmental phenomena in their environment, the researcher is attempting to measure component parts of attitudes. These components are, according to Churchill (1979) "constructs of the mind". The theoretical issues in the use of constructs and the key informant methodology in mailed questionnaires are discussed below. The purpose of the discussion is to justify the approach used for measurement.

The measurement of constructs raises two theoretical questions which are addressed in some detail. First, how can the researcher measure something which cannot be observed? Second, how authentic is the measure in representing the concept under consideration (an unobservable variable is a concept) i.e. how does the researcher know that what is set out to measure was measured, and not something else? In attempting to answer these questions the discussion focuses on the construct validity literature, within

this, the reasons why this research adopted the construct explication approach led by Nunally (1978) are recounted.

With regard to the first question on how does the researcher measure something we cannot observed? The process of measurement should involve using several or many variables that to some extent or other are observable manifestations of a latent variable. The observable items are then assigned" numbers to objects in such a way as to represent the quantities of attributes" (Nunally, 1978).

The measures of satisfaction and the environment used in this study have three important functions, these are:

- a) Representation of the concept in terms of content.
- b) Measurement of satisfaction and the environmental dimensions (or attributes).
- c) Determination of the statistical association and relationship between franchisor satisfaction and the environment.

The use of attitudinal, (or psychological) measures assumes an important role in this thesis. However, the procedure for using this type of measurement is not straight forward. The difficulties are highlighted by Nunally (1978; p.96), "Psychological measures mean that an abstract has to be heavily operationalised. Such a variable is literally a construct in that it is something that scientists put together from their own imaginations, something that does not exist as an isolated, observable dimension of behaviour. A construct represents a hypothesis (usually only half formed) that a variety of behaviours will correlate with one another in studies of individual differences and/or will be similarly affected by experimental treatments"

This quotation does raise several points which need further comment, in order to demonstrate that the approach used follows the best practices in measurement.

First, it should be clear that a construct such as franchisor satisfaction is simply a device of the researcher, heuristic in nature. The issue this observation raises is, what is the legitimacy of the constructed device in terms of the theory from which it is derived and the methodology used to obtain the measure? This is discussed in detail in Section 8.3.2.

Second, constructs are themselves hypotheses and only half formed. In this respect, the scope of this study is an initial investigation of the constructs of franchisor satisfaction and the environment. This is because validity, the meaning of this is discussed below in greater detail below, cannot be a property which a single exploratory study. The construct of franchisor satisfaction has received no specific attention in the literature and treatment of the PEM environmental model is limited. With this in mind, clarity is required about what expectations are reasonable for discussing the meaning of conclusions drawn from analysis. The research setting and constructs considered, create three limiting factors which set expectations as follows: to establish the principal associations between the constructs, and comment on their direction and sign. Having determined what associations there are between satisfaction and the environment, the researcher can then look to establish basic statistical relationships.

Second, to develop knowledge on the constructs, but no expectation to prove that we have measured absolute satisfaction or the presence of environmental dimensions such as capacity. Third, recognition that the survey methodology imposes constraints. Specifically, a mailed questionnaire is retrospective and only permits a snapshot cross-sectional investigation which does not allow for the effects of time. The study cannot therefore be claimed to be experimental because the independent variables (dimensions of the food industry environment) are not capable of manipulation for observation and there is no control for the sample. As a result this study cannot build hypotheses which include "what if" scenarios.

This study involves abstraction in which the constructs are relatively unresearched. Because the survey is *ex post facto* there are theoretical and methodological limits to which the study can examine the constructs and their inter-relationships.

8.3.2 *Construct Theory and Methodology*

The principal question in the preceding section was; what is the legitimacy of the constructed device in terms of the theory from which it is derived and the methodology used to obtain its measure? To develop the discussion this question is broken down in to two further points;

- a) how do can the researcher measure the unobservable?
- b) to what extent is it certain that what is measured, is what was meant to be measured?

These questions concern how "validly" constructs are measured. Despite the fact that there can be little dispute over the basic meaning of the term "validity", there are differing views concerning its theoretical meaning in construct analysis. There are two schools of thought. First there is what is referred to here, as the "fundamental" construct validity approach. This sees the establishment of valid measurement of the construct (an unobservable variable) as essential before a particular study's findings can be admissible in theory. Validity is therefore a matter of procedure in the scientific process (see for example: Bagozzi, 1980; Peter Paul, 1981; Phillips, 1981).

The second approach is that of Construct "Explication" (Nunally, 1978; Achrol, 1985), in which validity is not seen as an "all or non" property. Individual studies in this school of thought are seen to make a contribution to establishing degrees of confirmation of the measurement of a collection of observable variables which are judged to fall to the domain of a construct. This approach does not attempt to absolutely validate the measurement of an unobservable variable.

The construct explication approach is adopted in this study as the theoretical approach which guides the attempt to deal with questions a) and b) above. The "fundamental" construct validity approach is rejected. Below a further explanation of what the fundamental construct validity approach is provided. An argument for why it is rejected is given in Section 8.3.3.

Under the "fundamental" validity approach a construct is assumed to have a true score of Y_t at any one time. In theory, the objective in measuring a construct is to get a score in the measurement process Y_o that is equal to Y_t . Where $Y_t = Y_o$ perfect validity will have been demonstrated for the measure. According to Peter Paul (1981;p.134), construct validity is the "vertical correspondence between a construct which is at an unobservable conceptual level and a purported measure of it which is at an observable level. In an ideal sense the term means that a measure assesses the magnitude and direction of 1) all the characteristics and 2) only the characteristics of the construct it is purported to measure".

However, Y_t is unobservable. Therefore, the extent to which Y_t and Y_o correlate cannot be calculated. This reduces the validation process to one of inference based on a series of logical procedures which are well reported in the literature. (Heeler and Ray, 1972; Churchill, 1979; Bagozzi, 1980; Peter Paul, 1981).

In the most rigorous execution of the “fundamental” validity approach, the researcher requires that the measure of a construct should demonstrate the following six criteria (Bagozzi, 1980):

- a) Theoretical meaning
- b) Observational meaning
- c) Internal consistency
- d) Convergent validity
- e) Discriminant validity
- f) Nomological validity

The first two items relate to what is called "content" or "face" validity. The objective of these criteria is to make sure that nothing important in explaining the behaviour of a construct is omitted from the measure. The researcher attempts to specify the domain of items relevant to the construct through desk and qualitative research before developing the measure of the construct.

Item three concerns establishing the internal consistency of a measure, and is a quantitative test of whether the items selected for the measure do in fact measure a common attribute. The items in the measure are correlated with each other to measure the amount of systematic variance that must be present for a measure to be internally consistent. The most widely used method of testing for the internal consistency of a measure is Cronbach's alpha coefficient.¹²⁴ Establishing the internal consistency of a

¹²⁴ Coefficient Alpha is a test for reliability which produces a coefficient of internal consistency. This is based on the average correlation among items in a measure, and the number of items. Cronbach's Alpha indicates how much correlation there is in the measure items used. We assume that the items in the scale are positively correlated because they measure a common entity. The researcher interprets the reliability of the measure depending on the size of the coefficient. If the coefficient is low at the 0.3 or 0.4 level then the measure is flawed by including items which have little in common, or, measurement process is run over a too short a time period. Under these circumstances the researcher should re-examine the measure itself. The formula for calculating Cronbach's Alpha is shown in Equation 8.1.

$$\text{Equation 8.1} \quad \alpha = \frac{K \overline{\text{cov}} / \overline{\text{var}}}{1 + (K - 1) \overline{\text{cov}} / \overline{\text{var}}}$$

K = number of items in the scale.

$\overline{\text{cov}}$ = average covariance between items.

$\overline{\text{var}}$ = average variance of the items.

measure is crucial to establishing its quality, since it allows the researcher to understand whether the items selected for the measure are appropriate to the construct. Developing this point further, coefficient alpha is an important test in that it establishes the extent of the reliability of a measure. That is, the extent to which measurements are different from one test to another only as a function of random influences or measurement error.

The convergent and discriminant validity criteria are used to check whether the construct and its measure behave in a logical way when correlated with other variables. For example, it can be expected that a construct such as "convenience shopping" will be positively related to another variable; "my usual store is less than half a mile from my home". The Multi Trait-Multi Method (MTMM) matrix was originally developed by Campbell and Fiske (1959). Within this, different concepts (traits) and different methods (measures) of the same traits are correlated to determine the extent to which variables have a covariance which fits with the researchers' expectations. Convergent validity is demonstrated when different measures of the same trait correlate. Discriminant validity is shown when "predictably low correlations are observed between a measure of interest and other measures that are not measuring the same variable or concept", (Heeler and Ray, 1972; p.362).

The final criterion is nomological validity. This concerns the nature of the relationship "between measures purported to assess different (but conceptually related) constructs" (Peter Paul, 1981). The researcher is obliged to ask himself the question, does the measure behave in a law like fashion in terms of a priori expectations? These expectations should be based upon existing theory regarding the construct of interest and other relevant and related constructs.

8.3.3 Review and Critique of Construct Theory and Methodology

According to Achrol (1985), full adherence to the six point fundamental approach proffered by Baggozi (1980) is a process marked by rigidity, incurring difficulty and inconclusiveness. Following Achrol, the full six point fundamental approach is not utilised in this study, instead Nunally's (1978) construct explication approach issued. The "fundamental" approach is rejected (though not in its entirety) because of theoretical issues concerning criteria d) and e) in Baggozi's taxonomy, these are explained below.

Criteria a), b) and c) are well established procedures to develop the best measure possible. Any measure should be derived from a credible theory and be appropriate to the observational setting for which it is intended. Point three provides the researcher with an empirical assessment of whether the items which the researcher used to create

the multi item scale are measuring the same thing. Confounding or irrelevant items should be purged from the multi item scale. If a multi item scale has a low internal consistency, then the items in the scale are not measuring the same thing and the researcher is prompted to develop a better measure.

Combined together, criteria a) to c), provide a basis for commenting on the quality of a measure. They do not say however, whether the construct has been validly measured. Construct validity is demonstrated according to Bagozzi's (1980) criteria when points four to six are also demonstrated. It is here that we have concerns with the "fundamental" approach. The central issue is that Bagozzi's approach implies that something which cannot be observed or proven to exist has been validly measured if criteria d) to f) have been successfully tested.

From a theoretical and methodological viewpoint, the MTMM matrix, which is used by some researchers to address criteria d) and e) of Bagozzi's (1980) list, has three issues which can undermine it as a procedure for the determination of construct validity:

First, the basic theoretical assumption when measuring a trait (concept) in this procedure is that it does have some objective or true score. The researcher should not attempt to employ measures to show that a concept exists. As Nunally (1978; p, 107) points out, this leads the researcher into pointless exercise where they are trying to find "a needle in a haystack, [when in fact they are] searching for a needle that does not exist."

This compares to Nunally's construct explication process where it is assumed that the construct variable does not have a true score. Construct explication theory is that "It is more defensible to make no claims for the objective reality of a construct name e.g. anxiety, and instead think of a construct as being a useful way to label a particular set of observable variables. Then the name is valid only to the extent that it accurately communicates to other scientists the kinds of observable variables being measured." (Nunally, 1978; p.106). In developing measures of satisfaction and the environment, the theoretical start point in this study is that there is no attempt to absolutely measure satisfaction.

The second criticism of the MTMM matrix approach concerns the methodology of its execution, and how this creates problems in interpreting convergent and discriminant validity test results. Strictly speaking, the measures used in the matrix should be maximally different and independent. This creates two problems. First, the trait being measured will have been derived from theory and this will define the appropriate measures to use. Therefore, the independence criteria cannot really be met.

Second, the requirement for maximally different methods of measurement raises the same problem. For example, in most cases, the data gathering techniques available to the researcher are similar to some form of questionnaire involving common questionnaire methods.

The third issue is that measurement methods usually introduce bias into the measurement process (Tull and Hawkins, 1984). In the MTMM matrix it is very difficult to estimate the extent of these biases. In a review of validity tests in marketing related studies (some of which employed controls for methods variance) Peter Paul (1981) notes "the possibility remains that method variances can confound the interpretation of convergent (and discriminant) validity." (p.139). The problem is that shared method variances from what are supposed to be maximally different measures can increase the validity correlations in the MTMM matrix to the point where they meet Campbell and Fiske's (1959) criteria for convergent validity.

The last of Bagozzi's (1980) six criteria for demonstrating construct validity is that of nomological validity. Churchill (1979) and Peter Paul (1981) prescribe the use of theory to assess construct validity. Validity by an examination of the nomological criterion is seen as a prerequisite to the development of theory itself. Peter Paul (1981) points out "all that the empirical portion of construct validation ever demonstrates with current technology is that a portion of the scores (usually a portion of the variance of the scores) obtained from a measure performs as the construct is postulated to perform and that this portion of the scores (variance) has not yet been explained by other phenomena".

Theory therefore assumes importance in the demonstration of construct validity. If the construct does not behave in connection to related constructs as might be expected that the validity of measurement of the construct is thrown open to question. There is a problem however in incorporating this procedure into demonstrating validity. This stems from the fact that in evaluating a construct against the nomological criterion the researcher has to assume that the theory itself is true. Thus there is a circulatory flow of logic, since construct validity cannot be "disentangled from the theory that it attempts to develop or test." (Achrol, 1985; p.232).

Collectively the above issues lead to the rejection of the "fundamental" approach to examining constructs and assessing their validity. The approach used is that of construct explication (Nunally, 1978; Achrol, 1985; Achrol and Stern, 1988).

Under the construct explication approach a construct is seen as a device by which observable variables can be explored. An abstract word is simply made explicit in terms of observable variables. No attempt is made to prove the existence of an unobservable variable based on inference which, "really boils down to something rather homespun—namely, circumstantial evidence." (Nunally, 1978; p, 109).

Nunally's theoretical approach to the measurement of constructs is summarised as follows: "Strictly speaking scientists can never be sure that a construct has been measured or that a theory regarding a construct has been tested, even though it might be useful to speak as though this were the case. A construct is only a word and although the word may suggest explorations of the internal structure of an interesting set of variables, there is no way to prove that any combination of those variables actually measures the word. Theories consist of collections of words (statements about natural events) and though such theories may suggest interesting investigations of cross structures among sets of observables, the evidence obtained is not so much proof of the truth of the theories as it is proof of their usefulness as guides to empirical reality. Call it the "measurement" and "validation" of constructs if you like, but, as least as far as science takes us, there are only 1) words denoting constructs, 2) sets of variables specified for such constructs, 3) evidence concerning internal structures of such sets, 4) words concerning the relations among constructs (theories), 5) which suggests cross structures among different sets of observables, 6) evidence regarding such cross structures, and 7) beyond that nothing." (Nunally, 1978; p.109)

A construct is a device of the researcher derived from theory, the procedures for determining the usefulness of a construct cannot be disentwined from those for developing theories. Basically, constructs can be shown to be "more or less useful (depending on whether the theoretical explanations it jointly provides with other constructs are more or less useful) but cannot be more or less valid." (Achrol, 1985: p.258). For Achrol (1985), a proponent of construct explication, the best test for the meaning of a construct is the extent to which it makes sense in nomological evaluation. Building on this, if the construct measured does not behave as predicted it should still not to be rejected out of hand, and not be should it considered invalid.

8.3.4 Application of Construct Validity Theory and Methodology

The preceding discussion has set out the theoretical approach which will be used with regard to constructs. It is now possible to review the practical steps taken to execute the process of construct explication in this study. The output of this process is the measures developed for satisfaction and the environment in Chapter 5 and Chapter 7. The process follows the recommendations of Achrol and Stern (1988). The four steps were:

- a) The development of specific construct definitions. These included the specification of the domain of the construct through the use of an extensive qualitative interview research and a literature search.
- b) The determination of "content" validity for our measures. This was also achieved through the interview research, literature search and piloting of the questionnaire, to purge for confounding items.
- c) Examination of the quality of the measures by conducting an internal consistency analysis.
- d) Following the procedure of Lusch (1977), by including measures in the questionnaire to examine for convergent discriminant and nomological validity of the constructs rather than prove construct validity.

These steps approximate the first four of those recommended by Churchill (1979) in a paradigm for developing better measures in marketing. Churchill (1979;p, 73) points out that the paradigm indicates "whether one or more isolatable traits are being captured by the measures as well as the quality with which the traits are being assessed."

This is as rigorous an approach to examining the quality of the measures that could be reasonably expected in an exploratory study. The process of improving and validating measures is an "ever extending" process (Cronbach et al, 1971).

Measure improvement and validation should be seen as an iterative process. The focus in this study is to discover the internal and external structures of variables labelled, "franchisor satisfaction" and the "environment", using the best measures possible, which are derived from the construct explication approach.

In developing the measures, particular emphasis was placed upon the quality of the content in the measure. A question which needs to be addressed is to what extent are the variables used to develop the satisfaction measure truly "observable", and therefore concomitant to the execution of the construct explication? If the items are not much less observable than the construct label itself then there will undoubtedly be the inclusion of biases due to problems of interpretation for respondents.

In construct explication a construct is no more than a name used to embrace a number of explorable variables. The words which denote constructs "are no more exact than the extent to which 1) all possible related observables are specified and 2) all those who use the word agree on the specification." (Nunally, 1978; p.108).

Since this is an exploratory investigation, the study is deliberately broad in scope and this is reflected in the content of the satisfaction and environmental constructs. For example, the item of "conflict" in the satisfaction scale is not in itself an observable item, it is a process manifesting itself in various behaviours. In a franchise system an observable item of conflict would be a franchisee resorting to litigation against his franchisor, or refusing to implement a franchisor designed promotion. These however, are only two items of many that might be included to describe conflict, the same is true of other items in the satisfaction scale such as co-operation.

It can therefore be argued, that the measures do not include fully observable variables. However, the approach used to develop the measures is defensible for the following reasons.

In the first instance, the determination of what is and what is not observable is subjective. There are no objective criteria on what are and what are not observable variables in perceptual studies, or, recommendations on the permissible degree of abstraction that each item could reasonably stand without inducing too much bias. Consequently, the approach used should be based on pragmatic common sense. The measure and items should be relevant to the theory and to the setting in which the survey will take place. As for what are the right items were devised from the literature review, in-depth interviews and the piloting procedures of the questionnaire.

Second, the setting of the research reflects strategic issues in franchising from senior managers' perspectives in the sample organisations. Therefore, the use of more general items in the measurement scales is consistent with the research setting for two reasons. First, this study is conducted across different sectors of the industry, the meaning of items therefore needs to be general enough for respondents' from different sectors to

interpret them in the same way. This will reduce the possibility of bias being introduced into the measurement process. Second, the selected items are more strategic in character, these are consistent with the respondents work and role priorities. Making the items too specific would probably mean the respondents did not have the data to answer easily the questions asked in the questionnaire.

Two specific measures were used to assess convergent validity for the construct of franchisor satisfaction. First, a question about overall satisfaction and second, a 12 item scale. This step was not undertaken for the constructs of the environment. This is because previous empirical work supports the theoretical and methodological approach in the use of these dimensions. Achrol and Stern (1988; p, 47) state: "the general evidence is strong enough to lead us to assert that future research into channel environments is likely to find that diversity among consumers, dynamism, concentration, and capacity are key explanatory variables." .

This subsection on constructs has shown how construct explication has been applied in this study. Construct based studies should not seek to examine or prove the existence and measurement of unobservable variables.

Above the importance of recognising the character of the survey setting and sample respondents when selecting the measure items was noted. The next section discusses how the research setting and the characteristics of respondents influenced the approach to executing the survey.

8.4 Sample Design and Respondents Profile

The sample design is now described in terms of using the best practices in survey research and being consistent with construct explication. This requires the definition of the population of study, identification of the sample frame and description of the sampling procedures used in the survey. The section is concluded with a description of the administration procedures of the questionnaire.

8.4.1 *Defining the Population*

The definition of the population requires specification of the sample element, sample unit, the extent of the sample and time period of the survey (Tull & Hawkins, 1984). The mail survey was designed to collect perceptual data from individuals in franchise organisations. These individuals constitute the sample element of the study. In this approach the single key informant methodology is used. The reports of individuals are taken to represent the attitudes of their organisations.

8.4.1.1 *The Sample Element and Review of the Key Informant Methodology*

Managers in franchise operations were the sample element in this study. The key informant survey methodology has come under some criticism, most notably from Phillips (1980; 1981), because of its weakness in providing data of adequate convergent and discriminant qualities for research purposes. Because the key informant methodology has a central role in gathering data for the empirical analysis in this study it is appropriate to justify why it has been selected.

The key informant methodology requires the respondent to provide a meaningful description of the organisational experience (as opposed to that of the individual). The key question is whether a single informant can provide reports which are valid for the organisational experience?

Several studies in the marketing channels literature have used the key informant technique (Hunt and Nevin, 1974; El Ansary, 1975; Lusch, 1977; Etgar, 1977; Dwyer and Walsh, 1985; Michie and Sibley, 1985; Achrol 1985; Schul, 1987) to examine an array of channel and exchange phenomena, for example, the effects of intra channel conflict and aspects of power dependence relationships. Respondent answers to complex questions concerning social judgements were viewed as representing the organisational, rather than individual experience in these studies. The main criticism of the key informant approach is that it is unreasonable under such circumstances to use a single informant's report as a basis investigating an organisational experience.

Perhaps the most critical study of the single informant methodology is provided by Phillips (1980, 1981). The purpose of his investigation was to assess the reliability and validity of measures derived from the key informant methodology. He saw the key informant methodology problem in the following terms; "Collection of data from only a single informant per unit of analysis precludes a rigorous assessment of convergent and

discriminant validity of informant reports (Campbell & Fiske, 1959; Phillips, 1980). Further it prohibits a determination of the extent to which variation in measurements is due to 1) the concept of interest 2) systematic sources of error (Baggozi 1980; Joreskog 1974). Thus the degree to which informant reports are valid indicators of organisational characteristics they are intended to measure is an unresolved issue." (Phillips, 1981; p.396).

In a review of previous studies into marketing channels issues, Phillips questioned the basis for their conclusions because respondents were often being asked to report complicated judgements on sensitive or controversial matters in a mailed questionnaire. He viewed this as a procedure likely to induce contamination of the measurement process through a variety of intervening factors:

"If informant reports are viewed as selective commentary on organisational policies or leadership, over reporting or under reporting of certain phenomena may occur as a function of the informant's position, job satisfaction or other informant characteristics. Different informants may use different weights to different information. Factors related to the difficulty of observation may also account for the variation in informant reports, for example, the size of the organisation, the breadth of information, sources available to the informant, and length of time the informant has been in the organisation. To extent that these sources of distortion influence the informant's social judgements about organisational properties there will be a low degree of correspondence between informant reports and the organisational concepts they intend to represent." (Phillips, 1981; p.397)

Phillips used convergent and discriminant analysis to compare the quality and validity of reports on concepts from single and multiple informants. He found a significant variation in the convergence of reports and concludes: "The findings support the contention that the mono-method single informant approach to the measurement of organisational characteristics should be abandoned." (p.142).

Basically, the reasoning behind Phillips assertion is that the single informant methodology does not permit analysis of the convergent and discriminant validity of the measures, because variation in measurement due to the "methods" themselves cannot be established. Further, when causal relationships between constructs are examined in "substantive tests", single person responses are assumed to measure the concept perfectly, again "methods" factors intervene to introduce bias which is likely to affect the

parameter coefficients for the independent variables, and thereby, undermine the validity of research findings (Phillips, 1981). He proceeds to advocate the use of multiple informant methods i.e. to use different informants to measure different constructs; to use careful selection of the appropriate informant and to ask less demanding questions of the respondent.

Phillips study does not mark an end point to the use of the key informant methodology. In response to Phillip's view that reports provided by one organisation involved in a close business do not provide valid convergent data for joint relationships, John and Reve (1982) tested for reliability and validity of "structural and "sentiment" measures from key informants. Their analysis was similar to Phillips (1980; 1981) in that reports for multiple informants were tested for convergent and discriminant validity using structural equation modelling (Joreskog, 1974). In completion of their analysis John and Reve (1982; p.552) state, "The results indicate that key informants from different firms within channel dyad relationships provided reliable and valid data about the structural form of the relationship, but these same informants reports about the four sentiments variables do not show adequate convergent and discriminant validity."

They found that for sentiment variables, the lack of convergence in reports is explained by real differences in the perceptions of the respondents. Consequently, there is no reason why these variables should demonstrate convergence of reports, therefore "the reason for any lack of convergence is a conceptual one rather than any problem associated with the key informant technique per se" (John and Reve, 1982; p, 523).

There are two basic points which defend the single informant methodology adopted in this study. First, Achrol's (1985) position (supported here) is that the appropriate methodology for the survey is derived from relevant theory. With regard to franchisor satisfaction, this is conceptualised as a unique property of the franchisor, consequently there is no reason to assume an informant external to the franchisor's organisation (including franchisees) would provide relevant, or valid, reports on franchisor satisfaction. The environment's constructs are based upon enactment theory where external phenomena are perceived by the franchisor's organisation, the relevant perceptions are the franchisor's.

Second, we believe there are three methodological issues created by using maximally different informants (as would be the "methods" requirement for testing convergent validity). First, reports would be based upon different environments and consequently different enactment contexts. Using informants with a similar role produces superfluous measurement, since, "The more nearly equivalent the enactment contexts the

more admissible in theory are comparisons. However the trade off is that the more nearly equivalent the informants the more redundant is the comparison." (Achrol, 1985; p.243).

Second, the more practical problem with the use of the multiple informants approach is, what happens when the sample unit is very small? There can be a problem in finding a (if indeed there is) suitable second informant other than the Managing Director or Proprietor, clearly sales counter staff would not provide relevant responses on strategic issues. John and Reve (1982) indicate that in small firms the president or owner makes virtually all the decisions on the basis of his priorities and the information available to him.

It would of course be possible to use the multiple informant approach for large organisations. However, this study supports the view expressed by John and Reve (1982; p.519) in defence of single informant methodology that; "the larger and more professionally managed firms have a senior management group but the top manager is usually the key spokesman, especially with regard to external relationships."

Third, it is not certain that the multiple informant methodology would minimise bias since it is possible for collusion between respondents in completing the form. There may well be co-ordinated responses from informants to play down failure or over report successes, but there is no real control for this problem in the mail survey situation. An additional problem with this approach is that response rates from secondary informants were observed by Phillips (1981) as being very low.

What the above discussion boils down to is the fact that it is the choice of informant which is crucial. The emphasis of the researcher should be on maximising the degree to which informant reports are representative of organisational properties or experiences. The researcher should be concerned with selecting respondents who really are "key". Therefore, the research task is rigorous specification and targeting of who is a key informant for the purposes of the study. This approach is in accordance with construct explication, where there is a focus on definition and specification prior to survey. Below the process for how key informants were targeted is described.

8.4.1.2 Definition of the Sample Unit

Two main criteria were used for the selection of key informants:

- a) Informants were to be senior managers in franchise firms. Informants of senior position are recognised as providing more meaningful commentary (Phillips, 1981; John and Reve, 1982). The initial depth interviews conducted as part of this research supported this. It was noted that more senior managers were less inhibited and more candid with reports.
- b) To provide a meaningful commentary on the research constructs the survey needed to include managers with responsibility for making strategic and operational decisions on franchising, and who would be able to comment on the external situation. The decisions that they participate in making should affect the success or failure of the franchise. John and Reve (1982) state that top managers are those most able to comment on the organisations internal structures and external relations. Questionnaires were therefore targeted at General or Franchise managers in our survey.

Because the sample size was small, and there was an analytical need to optimise the response level, the franchise organisations (sample units) were contacted to find out the names and titles of the key informants, prior to the mailing the questionnaire. This was done by a telephone survey and the procedure was as follows. The names of managers of franchise companies were acquired from promotional material obtained by a pilot survey. The managers were contacted by telephone and asked for their support. Where this person was not available, a request was made to speak to the franchise manager (or the company's functional equivalent). Once the target person was contacted, they informed them of aims of the research, the research plan and the role and position of a suitable respondent. The contact was then invited to recommend a member of their company's staff who would be most suitable to ask for their co-operation. In several instances the contact suggested themselves, where others were recommended exactly the same procedure was repeated. It was not necessary to repeat the exercise for any one firm more than twice.

Unfortunately there were instances where a contact could not be established prior to mailing (n=8). Where this was the case the questionnaire was simply sent to the franchise manager.

The execution of the above procedure to select the single key informant was influenced by the John and Reve (1982; p, 522) study in which they concluded: "The results also provide encouraging evidence about the utility of the key informant approach itself. Our findings indicate that careful selection of the key informant in conjunction with the use of internally consistent multi item scales can provide reliable and valid data in a variety of channel settings."

There are three main advantages in this process. First, the questionnaire could be sent to a named, targeted individual who knew to expect the questionnaire. Second, the chances of the form never reaching the most suitable informant were reduced, since it was possible in most cases to avoid sending questionnaires to "the manager".¹²⁵

Third, the structure of the questionnaire could be arranged to ask questions specific to the key informant's level, and therefore avoid having to include questions to gauge for methods bias caused by responses from inappropriate informants. For example, Phillips (1981), used variables such as length of service, aspects of decision making responsibilities and probability of receiving corporate reward in the near future to assess an informant's suitability. This has the negative effect of increasing the length of the survey document and asking questions a respondent might think impertinent, both of which can adversely affect response rates.

In summary, the view that the use of the single key informant methodology should be abandoned is not accepted here. As Achrol (1985; p, 227) points out: "research results (using single informants) are generalisable beyond the actual empirical contexts to all similar theoretical contexts. We argue that the informant bias problem is often blown out of all proportion and that the cynicism currently prevalent in the discipline is exaggerated."

In any event, the use of the single informant may not represent the methodological ideal, but its use should not imply that the findings of a particular study are invalid or not useful. The point is, in construct explication, the construct measure has to demonstrate its worth in its usefulness rather than its validity. This review led to the rejection of Phillips (1981) assertion that the single informant technique should be abandoned. The view developed in this study is that the targeted use of mailed questionnaires will provide useful reports on the organisation because the measures are derived from theory.

¹²⁵ An associated point to this is that personal contact with the respondent was responsible for the very good final usable response rate of 66 percent.

8.4.2 *Sample Units Definition and Methodology*

A thorough definition of the relevant population is a component of the construct explication process (Achrol and Stern, 1988). The discussion in this sub-section defines the criteria for a sample unit and then describes the screening procedures for establishing the sample units. The sample unit is the franchise organisation which contains the key informant. It is essential that the specification ensures the relevance and comparability of sample units so that on the one hand the sample does not contain elements which introduce bias into the measurement process, and on the other hand, is consistent with the aim of studying franchises in the food industry.

8.4.2.1 *Criteria for Defining Sample Units*

In this subsection the criteria used to select the sample units are defined. Two broad criteria were selected to assess which companies should be classified as sample units. These were:

- a) Sectoral involvement of the company
- b) Nature of a company's franchise involvement

Evaluating companies against these criteria proved to be difficult due to the considerable differences in the pool of potentially relevant firms.

The characteristic of company sectoral involvement is defined in terms of food product involvement and functional level in the supply chain. First, a definition of food product involvement is established. To do this it is necessary to ask what is "food", and hence, what is a "food" company? As already stated, there is a considerable range of potentially relevant companies. Acknowledging this fact leads to the use of a broad definition of food product involvement. The 32 products specified under the "Main Food Groups" heading of the Family Expenditure Survey were taken to be the products that a company must be principally involved with for inclusion in the study.

The second aspect considered in defining sectoral involvement was functional level in the supply chain. This is a question of which "food" companies to include? The food distribution chain is generally accepted to include producers, manufacturers, distributors, wholesalers and retailers. Operators in each sector could be considered food companies. A decision had to be made as to whether to examine some combination or simply an individual "level" of the organisations mentioned above.

The approach adopted was based on the earlier discussion concerning the use of multiple informants. This study uses perceptual and attitudinal measures of the environment conceptualised under enactment theory. To ensure responses were about the same broad enactment context, it was decided that all the companies selected should be at the same level in the distribution chain. This means that generally, they face the same type of output, input, competitive and legal sectors.

It was decided to examine organisations at the retail level because the desk research indicated that the highest number of franchise companies was in the retail sector.

Achrol and Stern (1988) provided a succinct definition of a retailer for empirical analysis. "The term retailer is used in its broadest sense to describe the level of distribution marketing primarily to end users. End users include ultimate consumers and business users, the only distinction is that the buyer is not acting as an intermediary in the chain of distribution"

The above criteria were combined to define food retail companies. The definition allows for a population operating in a range of product, distribution and merchandising activities. The definition needed to include a franchising criteria for completeness.

The "franchising" criteria for the definition are specified below. It was decided that in the interest of maintaining uniformity across the sample units a franchise organisation had to operate with a "business format" structure.¹²⁶

The issue of whether to include firms which do not run company operated outlets was considered in selecting the sample units. The issue is whether a key informant in this type of franchise will have an accurate perception of what is happening in the retail environment, if the company does not operate its own retail units, i.e. is basically a forwardly integrated wholesaler operating through franchised retail outlets. The approach taken in this study is that no distinction is to be made between the different systems. The reasons for this are;

¹²⁶ See Chapter Two for a review of Business Format Franchising.

- a) A business format franchise involves a close and ongoing relationship between the two parties concerned. There is a high level of operational integration between the franchisor and the franchisee, more so than could be typically found in conventional retailer and wholesaler relationships. The franchisor exercises great control over the marketing activities and strategic direction of the franchised retail units. As a result, the attention to the retail "level" by the business format franchisor (who does not operate company run retail outlets) should be high enough to classify the franchisor's activities under the retail criteria.
- b) Using the framework outlined by Johnson and Scholes (1984) for the classification of strategic decisions by their level of importance, the franchisor can be seen to make two types of strategic decision. First, a competitive level strategic decision concerning the initiation and implementation of a franchise programme. Second, the franchisor will make operational strategic decisions about, for example, the number of retail units to franchise. By definition, a strategic decision will involve some audit or evaluation of the external environment. Given that the selected key informants will have involvement in, or exposure to the information required to make the types of decisions outlined above it is appropriate to include them in the sample.

The same argument is more or less applied to the number of franchised outlets that a company has opened. The population will include companies which have not yet opened franchised outlets, but are in the franchisee recruitment and training stages of a franchise programme and intend to open outlets. The company, however, must have its own company owned outlets established at the time of the survey. The defence of this step is based upon fact that the company will have made a corporate level decision to get involved in franchising and will be in the implementation stage of a franchise programme. Evaluation of the external environment and its implications for franchising will have been undertaken by key individuals at the time of survey.

The characteristics specified above were used to define the sample units in the population. Sample units will hence be described as Food Retail Franchising Companies (FRFCs). Below the screening procedures to determine the final sample are described.

8.4.2.2 Screening of the Sample Units

This subsection describes the procedures for determining how organisations were selected to be sample units. A perfect sample frame was not available for this study because there is no definitive list of franchising companies. Various sources were then used to compile a list of potential sample units.

A list of potential sample units was found by scanning the membership list of the British Franchise Association, published directories listing franchise companies, programmes from franchise exhibitions, food retail and franchise trade press and the business to business "classified" pages in newspapers.

Over a period of nine months prior to the mailing of the questionnaire these sources were constantly scanned to identify as many FRFCs as possible. This generated a list of 60 potentially relevant sample units (i.e. FRFCs). To ensure the relevance of these potentially relevant companies we used rigorous screening procedures.

The screening procedures involved an initial survey of each potentially relevant company. A request letter was sent to each companies asking for information regarding the sale of franchises to franchisees. Typically, this material contained details on the history and development of the company, the nature of its activities and franchise package. The package usually contains financial information for franchisees, including a projected Profit and Loss account that the franchisor believes a typical franchisee might return, a breakdown of the start-up costs to franchisees, and an outline of the support services the franchisor will provide.

Useful responses were received from 52 companies during the period. The material was analysed to screen for which companies were FRFCs under the population definition. This primary material also gave a feel for the nature of and diversity in the sample's activity, size and scale. This material also provided a useful input into the construction of the descriptive and classification questions in the questionnaire.

The screening process indicated 48 FRFCs by the time we were ready to mail out the questionnaire. The population number of FRFCs was small and it seemed appropriate that a 100 percent survey (a census) should be undertaken.

During the working week August 14-18 1989 a telephone survey was performed to confirm the sample elements in the population (this is discussed in section 8.4.1.1). Several exits from the list of FRFCs were noted, mainly due to withdrawal from franchising, liquidation of the firm, or take over. The liquidations were in the bulk food retail sector where "Pick n' Pack" and "Country Weigh" had both called in receivers.

8.4.2.3 The Extent and Time Period of the Population and Definition

This brief section describes the "boundaries" of the population. Specifically, geographical and time constraints, which form a final definition of the sample.

The geographic population included sample units with established operations in the United Kingdom. The time period for the survey was specified as all those sample units identified up to the 18 August 1989. The definition of the population is summarised in Table 8.2.

Table 8.2

The Population Definition for the Research of Food Retail Franchise Companies

Sample Element:	Key informants, i.e. Strategic decision makers on franchise matters, General Managers or Franchise Managers.
Sample Unit:	FRFCs as described in 8.4.2.
Geographic Extent:	FRFCs to be presently conducting (though not exclusively) operations in the UK.
Time Extent:	FRFCs are to have been in operation and identified up to 18th August 1989.

8.4.2.4 Final Sample Size

By combining the telephone survey results and those of the ongoing press scanning survey 45 FRFC's were identified. The sample approximated the population of the specified sample units. It was decided to survey the population because there is no sampling error.

From a statistical viewpoint the achievement of a 66 percent response rate, that is, 30 completed and returned questionnaires was essential for multi-variable statistical analysis.

8.4.3 *The Administration of the Questionnaire*

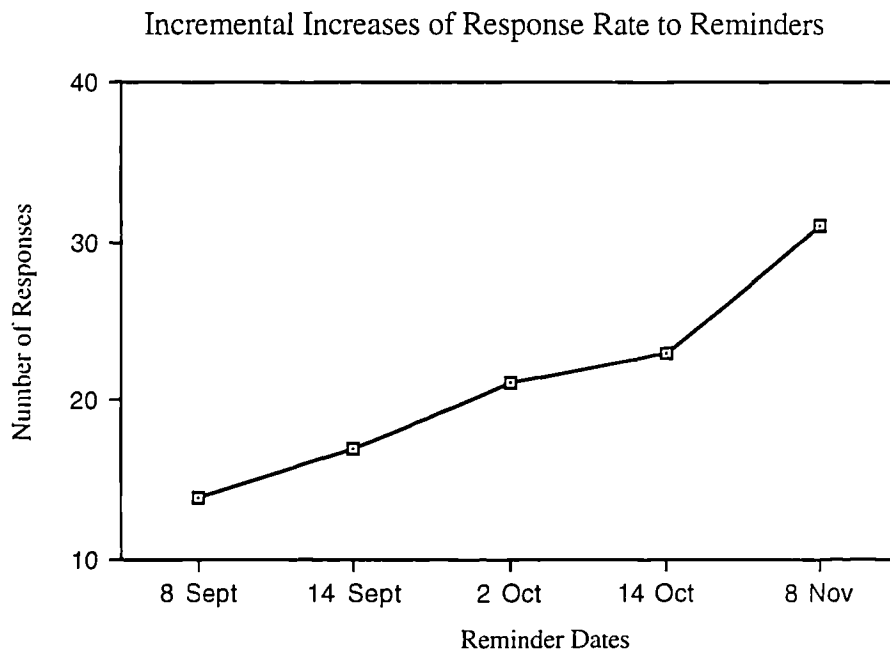
The final questionnaire was mailed on the 24 August 1989. This did in fact prove to be a bad time in the business year to conduct a survey because many staff were either going on holiday or had returned and in either case, their available time for completing the questionnaire was low. It was hoped that over 30 completed questionnaires could be obtained by the 8th September, however, it was not until 8th November that this target was achieved.

In order to increase the response rate several reminder letters and telephone reminders were made to those who had not responded. The effect of these prompts are shown in Figure 8.1. The initial completion and return date was 8th September, at this stage there were 14 returned questionnaires. The first reminders were made on the 14th September by telephone. This procedure was repeated on the dates indicated in Figure 8.1. Normally, two reminders are considered the optimum (Aaker and Day, 1986), three were used in this survey because informants had on several occasions promised to return questionnaires, but had forgotten. Of the three reminders, it is strange that the last should produce the largest incremental increase in the response rate. Researcher persistence was the main explanation for this.

The final response rate of 31 usable questionnaires was considered satisfactory. In percentage terms, the response rate of 66 percent compares very favourably to other surveys in marketing channels.

The key objectives of the sampling process were achieved: particularly the identification and acquisition of reports from key informants in FRFC's. An analysis of respondent job titles, indicated that responses were from senior managers or franchise experts in 94 percent of cases. The breakdown of respondents by role is shown in Table 8.3. It should be noted that nearly half of the respondents were at the director level. The balance of respondents could be categorised on the basis of information obtained during the depth interviews, as senior managers who fulfilled the criteria for a suitable key informant in this study.

Figure 8.1
Sample Response Rates



Some 14 companies did not return completed questionnaires. Several did respond however, and their reasons for not completing the survey were mainly centred on not releasing any company information or lack of time. For example "Perfect Pizza" indicated that given the recent take-over of their company by "Grand Metropolitan" from United Biscuits and they were too busy to co-operate. Eismann, the German company who are expanding their operations in the UK, replied they do not supply information as part of company policy. Others, such as Belina Belgian Chocolates sent a brochure for their company's franchise and returned the questionnaire uncompleted with the explanation that they did not have time to fill in questionnaires.

To check for non response bias in the sample each questionnaire had been coded to identify the company to whom it was sent. A comparison of respondent with non-respondent lists was made, it was not possible to detect any systematic bias in the characteristics of the non response group. The final sample was considered satisfactory in terms of its representativeness of the population and was judged to be unbiased.

Table 8.3
Key Informant Responsibility and Role

Respondents Job Title (General Category)	Percent of Respondents (Per Category)	Number
Managing Directors	19	6
Franchise Director or other Director	26	8
Franchise Manager	26	8
Commercial Executives / Consultant	23	7
No response	<u>6</u>	<u>2</u>
	<u>100</u>	<u>31</u>

8.5 Conclusion to Survey Design; Theory and Methodology

This chapter has discussed the reasons for selecting the mail survey technique and the factors that influenced the content and structure of the survey document. It was then necessary to define the theoretical basis for the survey in the context of construct explication and survey theory. Within this, careful consideration was given to the theoretical and methodological issues with measuring constructs via perceptual measures and key informant techniques. Finally a rigorous definition of the survey sample and the sample selection criteria was developed. This was in accordance with the construct explication approach.

The survey techniques adopted were considered to have achieved their aims of achieving a very high response rate for this type of survey and, obtaining reports from informants who can be considered by their organisational roles to be key spokesmen, able to provide a meaningful commentary on the organisational experience.

Chapter 9

Sample and Construct Analysis

9.1 Introduction

This chapter has two main objectives. First, to evaluate the survey and describe the sample in terms of its structure using descriptive statistics. Second, to examine the measurement validity of the satisfaction and environmental measures within the construct explication approach.

9.2 Sample Structure

Overall, the response rate of 66 percent was pleasing. This survey was close to a survey of the population of food franchising organisations. This section examines the responses to the questions in Section A and B of the questionnaire (See Appendix II). These questions examined the overall structure of the respondent organisations and were also used for construct validity analysis.

The key characteristic of the sample is that it includes a wide range of organisations, in terms of their size (Table 9.1) and sectoral involvement (Table 9.2). These are a desirable properties since the sample firms have a broad range of experiences which enhances the probability of isolating groups of franchisors according to their perceptions of the environment and its impact on their satisfaction.

9.2.1 Size of Respondent Organisations

To provide a perspective on the size and structure of the franchise firms in the food industry, comparisons were made with Power's (1987) industry survey results. Power's study was selected because it was the most recently available franchise industry survey available at the time of the mail out. This step acted as a control for judging measurement bias and ensuring that the results seemed sensible, i.e. franchisors had filled in the questionnaire correctly.

Questions A2 and B2 (See Appendix II) were used to measure the size of the respondent organisations. Firms with franchised outlets up and running in the sample had a range between 2 and 400 units (Power's 1987, "from 1 to well over 400", p.37). The range of company run outlets in operation was between three and 2,300.

The mean size of franchises, in terms of the number of franchisee's per system was 35% higher than Power's (1987) (Table 9.1). This may have been due to food franchise organisations increasing in size from 1987 to our survey in 1989. Power's noted that food sector franchises had more franchisees per system than the industry average of 39.

Table 9.1
Comparison of Sample Means for the Number of Franchisees per System;
Food sector versus Industry

	Own Study	Power's (1987) Study	Index versus Power's Study
Average number of Franchisees per System.	66	49	135

The above average number of franchised units in the food industry may be driven by the age profile of the sample, which is skewed towards older organisations (See Table 9.2). Close to half (48 percent) of firms had been in operation for more than 12 years. It seems a reasonable expectation that the longer established firms will be larger in size, since they will have had longer to grow. None of the organisations had been in operation less than two years.

This skew in the sample towards established firms may have had an impact on the results of how franchisors perceive franchising as a fast growth distribution strategy.¹²⁷

¹²⁷ Lillis et al (1976) observed that franchisors perceived a decline in the importance of the competitive advantages of franchising over the life cycle of franchise. They found a decline in the perceived importance competitive advantages of market penetration and low capital requirements for firms over eight years in operation. This may well affect franchisors' reports about satisfaction and the environment. For example, were the sample skewed towards very young franchised firms then measure scores concerning the growth advantages of franchising may be higher. The relationships between the environment and franchisor satisfaction in such cases may well be stronger than for older firms.

Table 9.2**Distribution of Years in Operation of the Sample Franchises**

Age of Organisation	Number Sample	Percent (%)
0 <2 Years	0	0
2 <7 Years	10	33
7 <12 Years	6	19
> 12 Years	15	48

9.2.2 Franchise Firms' Sectoral Involvement

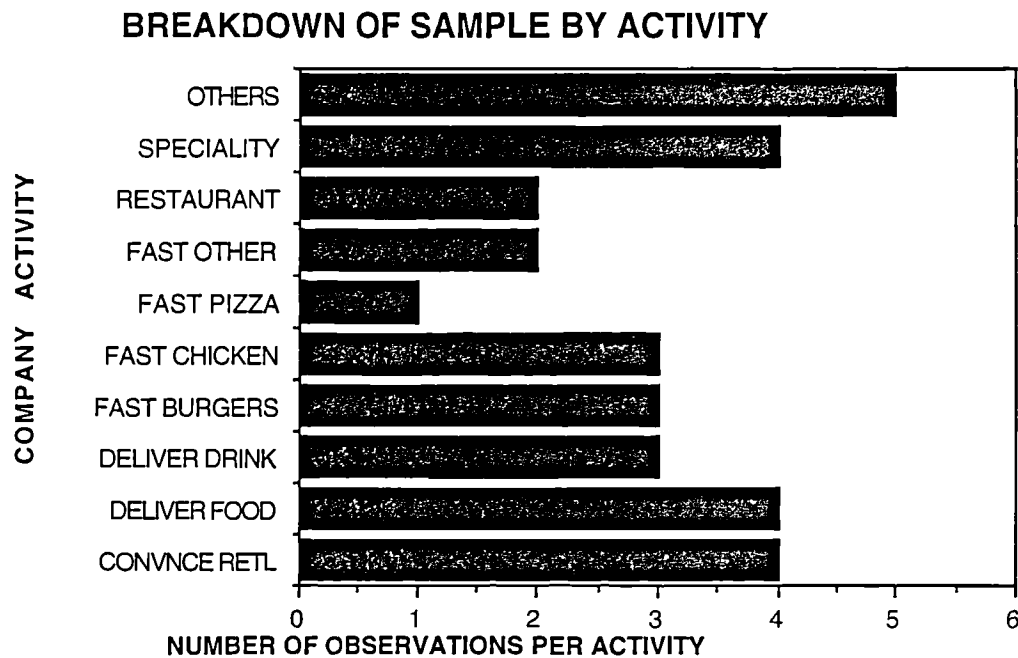
The sample shows a broad range of activity for respondent firms (See Figure 9.1). The breakdown of activity for the sample is in line with Power's (1987) study in the food industry i.e. our survey did not exclude any sectors. The sample also shows a good distribution of activity from fixed site retailing to mobile, delivery retailers. In total, 80 percent of the sample respondents were fixed site retailers.

Consistent with Power's study, the sample includes a small proportion of convenience food retailers (13%). This is a sector strongly associated with franchising in the USA.¹²⁸ Poor penetration in this key sector by franchising firms could limit the development of franchising in the UK food industry in the long term.

¹²⁸ e.g. Ozanne and Hunt (1971) chose the convenience retail sector as one of three used in their analysis of the effect of franchising on the US economy because of the high penetration of franchise firms.

Figure 9.1

Distribution of Sample Organisations by Sector Activity



A comparison of the breakdown of franchise sector involvement in our sample with that of Power's reveals that the responses from the different sectors were broadly similar (see Table 9.3).

Table 9.3

Percentage Comparison of Own versus Power's (1987) Survey by Respondent Activity

<u>Activity</u>	<u>Own</u>	<u>Power</u>
Fast Food	30	47
Delivered Food & Drink	22	23
Convenience Retail	13	17
<u>Speciality (Fixed Site)</u>	<u>35</u>	<u>23</u>
	100	100

The key point is that the sample is consistent with the Power's sample profile. Given the proximity of these results, it appears that the sample is a representative sample of franchising activity in the UK food industry.

9.2.3 *Franchisee Start-up costs and Outlet Turnover*

The diversity of franchise activity is mirrored by the range of franchisee set-up costs. The findings indicate high diversity, which suggests there is a broad span of investment opportunities for potential franchisees.

The franchisee start-up costs in the sample were £30,000 and lower than Power's (1987) industry average of £43,270. 30 percent of respondents in the study offered franchises with start up costs below £30,000.¹²⁹

The range in the start-up costs and turnover per outlet indicates that franchising is a form of distribution which has been applied to diverse enterprises. The sample firms were involved in small job franchises, in small-scale niche markets, speciality operations, on the one hand, and on the other, large scale fixed site enterprises.

The average turnover per outlet per year in the sample was £304,160 (Power, 1987; £517,000). However, the value of the mean figure is somewhat limited when looking at the range in outlet turnover, which was between £4,500 to £11 million pounds.

9.2.4 *Legal Status and Merger and Acquisition of Franchised Firms*

The legal status of respondent organisations is shown in Table 9.4. This shows that the majority of franchised firms are private limited companies. One third of respondent firms were quoted as public companies. There was only one owner-run enterprise in the sample.

Table 9.4.
Legal Status of Franchise Firms in the Sample

<u>Legal Status</u>	<u>N Firms</u>	<u>% Firms</u>
Private Ltd	17	55
Public Ltd	13	42
Owner Run	1	3
	31	100

¹²⁹ Some 60 percent of our respondents offered franchises with start up costs of less than £80,000. Power's (1987) also found that the food industry offered lower than average industry start up costs, particularly in fast food, mobile food, and the drink delivery sectors.

Franchised firms do not appear to have been excluded from the merger and acquisition activity which characterised an industry trend, towards increased concentration during the 1980's. One respondent firm, Olivers Coffee Shop and Bakery, provides a good example of the pace of this activity:

1984: Private Company to subsidiary to Ladbroke PLC
1987: Ladbroke sold Olivers to President Entertainments PLC
1987: President Acquired by Pleasurama PLC
1988: Pleasurama acquired by Mecca Leisure PLC
1989: Olivers "for sale"

Within two years, 1987 to 1989, Olivers and its franchisees had four different owners and was in the process of being sold again at the time of the survey. An example of the scale of changing ownership, even of major brands, was the sale of United Biscuits Restaurants (Wimpy) to Grand Metropolitan in 1989.¹³⁰

Some 58 percent of respondent firms were subsidiary enterprises of parent companies. Franchise firms do appear to have been successful acquirers, 42 percent of respondent organisations had acquired other companies. Only 16 percent of firms had been acquired and 32 percent had not been involved in mergers or acquisitions.

Joint venture activity does not appear to be a favoured strategy with franchisors. Only two respondent (7 percent) organisations had been involved in such initiatives.

9.2.5 Franchisee Failures

Nearly half the sample recorded franchisee failures (15 firms). The number of failures ranged from 1 to 54 outlets across the sample. The principal reason given by franchisors was that they had terminated the franchise contract with the franchisee because of non-payment of royalty fees. It is interesting to note that Power's (1987)

¹³⁰ In 1989 United Biscuits sold its UB Restaurants division to Grand Metropolitan for £180 million. UB Restaurants included Wimpy, Perfect Pizza and Pizza Land chains of restaurants with 381, 135 and 134 outlets, respectively. The Wimpy and Perfect Pizza operations were franchise operations.

The sale was undertaken to consolidate the business activities of United Biscuits into its manufacturing operations and reduce its borrowings. Source: United Biscuits letter to Share Holders on the sale of UB Restaurants, 25th August 1989.

survey found that the main franchisee complaint was that excessive franchisor royalty payments depressed their profitability. As the recession deepened in the early 1990's and franchisee operating profits were put under pressure, this gave rise to an increase in franchise failure rates which was noted in Chapter 3.2.

9.2.6 *Summary of Sample Structure*

Overall the sample structure had a good range in terms of its size and sectoral activity. The sample results reflected a higher scale of activity compared to Power's (1987) survey, in terms of the size of firms. This was judged to be due to the growth of respondent firms in the period since Power's survey. This result leads us to believe that the sample is representative of the population of franchise firms in the food industry. There was no reason to believe the sample included an unrepresentative skew in terms of the respondents versus non respondents.

9.3 Construct Validity and Measurement

This section concerns an evaluation of the perceptual measures used in Section C and D of the questionnaire with respect to satisfaction and the environment. The examination employs a statistical assessment of the perceptual measures using the construct explication approach which was reviewed in Chapter 8.3.

Specifically, the focus is on reviewing the internal consistency, convergent, discriminant and nomological attributes of the satisfaction and environmental measures. This follows the recommended procedure in determining validity (Nunally, 1978: Churchill 1979). It is necessary to assess the quality of the measures used, before proceeding to examine the results they have produced.

Content validity of the measures has already been established in Chapters 5, 6 and 8. Regarding content validity, the items in each construct represent the concepts, since they were derived from theory, and extensive desk and qualitative interview research (see Nunally, 1978).

9.3.1 Satisfaction Measurement

The invisible and "difficult to measure" (Lusch, 1977) sentiment of satisfaction was measured by two scales: First, by a single item overall satisfaction measure. The single item measure was used to check for convergent validity with the multi-item scale. Second, by a 12 item scale developed to capture the concept of franchisor satisfaction. The discussion now considers the validity of the 12 item measure in the context of construct explication.

9.3.1.1 Reliability of Satisfaction Measurement

The first step in validating the construct is to test for reliability. This is the extent to which the measure is "repeatable and that any random influence which tends to make measurements different from occasion to occasion is a source of measurement error" (Nunally, 1978: p.225). The principal estimate for reliability is the internal consistency of the measure. The most widely used measure of internal consistency is Cronbach's coefficient alpha.¹³¹ Nunally (1978) points out that coefficient alpha is a good estimate of reliability because the "major source of measurement error is because of the sampling content" and "the 'sampling' of situation factors accompanying the administration of items" (p.230). Further, that while alpha does not consider all sources of measurement error "it is surprising what little difference" these sources make. In summary, alpha provides a single measure of the extent to which the items share a common core i.e. the construct.

Coefficient alpha for the 12 point satisfaction scale was 0.756. Churchill (1979) points out that in preliminary research reliabilities of .50 to .60 are sufficient. Further, "for basic research, it can be argued that increasing reliabilites beyond 0.80 is often wasteful. At that level, correlations are attenuated by very little measurement error" (Nunally, 1978). Thus the satisfaction scale was judged to be an internally consistent and repeatable measure.

¹³¹ See Chapter 8.3. "Coefficient Alpha absolutely should be the first measure one calculates to assess the quality of the instrument. It is pregnant with meaning..... a low Coefficient Alpha indicates the sample of items performs poorly in capturing the construct...Conversely, a large Alpha indicates that the k item test correlates well." (Churchill, 1979: p. 68)

9.3.1.2 Convergent Validity of Satisfaction Measures

Convergent validity is a test for the extent to which one measure correlates with another, which is designed to measure the same construct. If there is convergence of measures, this provides re-assurance that the construct that the researcher is attempting to measure is captured by the measures.

The alternative measure of satisfaction in this study was a seven point, single item scale. This requires informants to indicate their overall satisfaction with involvement in franchising. This measure follows Lusch (1977) and Michie and Sibley (1985).

To check for convergent validity, the overall satisfaction measure was correlated with the multi-item satisfaction scale. To correlate the multi-item scale a simple satisfaction index was created.¹³² This correlation produced a Spearman correlation coefficient of 0.722 (.001 significance). This result compares very favourably with previous studies.¹³³ Given that the correlation coefficient is positive and statistically significant, convergent validity of the satisfaction measures is satisfactory.

9.3.1.3 Discriminant Validity of Satisfaction Measurement

Discriminant validity is an important component of the construct explication process. It examines the extent to which the construct under examination is shown not to be related to other constructs for which there is no theoretical expectation of a relationship.

According to Heeler and Ray (1972) discriminant validity is "absolutely necessary to pin down the real meaning of measures, since a measure may converge with measures of other variables in addition to the one of interest" (p.362). By conducting a discriminant analysis it is possible to assess the extent to which the construct was isolated from other constructs. To demonstrate discriminant validity we look for "predictably low correlations between the measure of interest and other measures that are supposedly not measuring the same variable or concept" (op cit; p.362).

¹³² Following Michie and Sibley (1985.) this was calculated as the sum of satisfaction scores for all items divided by the number of items for each case.

¹³³ For example Lusch's (1977) correlation coefficient was 0.63. Michie and Sibley's (1985) satisfaction measures produced a correlation coefficient of 0.43.

The satisfaction index was correlated with two measures from the questionnaire for which a correlation would be expected with satisfaction, these were; "Year opened first outlet" (question A3.b) and Company Sectoral "Activity" (question B1). The correlations were 0.1544 and 0.2635 and not significant. Because these are low correlation coefficients, we have found no association with satisfaction, it was judged that the discriminant properties for satisfaction measures were demonstrated.

9.3.1.4 Nomological Validity

In assessing nomological validity, the researcher asks the question, do the measures behave as expected (Churchill, 1979)? The approach in this study for the evaluation of construct validity is construct explication.¹³⁴

We examine nomological validity by considering how the satisfaction measure has performed an analysis. Overall, the 12 item satisfaction measure has yielded a strong Alpha coefficient in reliability analysis. Additionally it is strongly correlated with an explicit satisfaction rating question. This suggests that the items within the 12 item scales capture different aspects of the same concept i.e. franchisor satisfaction. On this basis there is no reason to believe that its measure delivered results which were inconsistent with expectations and theory.

9.3.1.5 Summary of Satisfaction Measures

From a construct explication point of view, the measurement of satisfaction through the 12 item scale produced strong validation results. The measure is reliable and behaves with convergent, discriminant and nomologically valid properties. The environmental measures are treated with a similar approach below.

¹³⁴ The researcher is not trying to prove that measurement of satisfaction has taken place in an absolute sense through this validation process, since in the "ultimate analysis, the 'measurement' and 'validation' of constructs can consist of nothing more than the determination of internal structures and cross structures"(Nunally, 1978; p.107).

9.3.2. Environmental Dimensions and Measurement Validity

The environment is captured using concepts of unobservable dimensions (Duncan 1972; Thompson 1967; Lawrence and Lorsch 1967; Pennings 1977; Achrol, Reve and Stern 1983; Achrol and Stern 1988). The primary benefit of this procedure is that of simplifying the study of the environment by "avoiding the case in which the number of possible relationships between phenomena is so large that the central issues are obscured by a mass of details" (Jurkovich 1974; p.380).

From theory and qualitative research five dimensions of the environment as relevant to food franchisors were developed and measured. These were complexity, instability, capacity, concentration and conflict. Each of these dimensions was measured using a multi-item, seven point rating scale.

9.3.2.1 Reliability and Environmental Dimensions

To assess the reliability of the environmental measures Cronbach's alpha coefficient was used. The results are shown in Table 9.5.

Table 9.5
Coefficient Alpha for Environmental Measures

<u>Environmental Measure</u>	<u>Alpha Coefficient</u>
Complexity	0.8506
Instability/Responsiveness	0.8648
Capacity/Opportunity	0.6278
Concentration	0.3175
<u>Conflict</u>	<u>0.7864</u>

Apart from the coefficient for concentration, each of the environmental measures demonstrates a coefficient above the 0.6 level, which Cronbach (1951) recommends as the necessary tolerance in exploratory research.

With regard to the dimension of concentration, it was noted in Chapter 6 that in measuring concentration only three items were selected. Qualitative research established that concentration was not abstract as a concept and therefore did not require a large

number of items to capture its domain. As the coefficient for reliability is based on "the average correlation among items (the internal consistency) and the number of items" (Nunally 1978: p.230), the researcher should expect to see a low coefficient for a three item scale, and this is shown to be the case.

Nunally (1978) points out that coefficients of .30 or .40 in a 40 item test would indicate problems in the measure itself. That is, the scale items have very little in common and do not capture the construct. This result does not invalidate the concentration dimension in the analysis, it is treated it as a measure which shows low internal consistency for the reason outlined above.¹³⁵ The other measures of the environment's dimensions demonstrate satisfactory reliability coefficients.

9.3.2.2 Discriminant Validity of Environmental Measures

In reviewing the discriminant properties of the environmental measures, the primary concern is with ensuring that the measures used captures separate dimensions of the perceived environment.

Factor analysis was employed to test for the discriminant properties of the independent variables in previous studies (Lusch, 1977; Michie and Sibley, 1985). In factor analysis the researcher examines whether items which are supposed to capture different dimensions load onto separate factors. If this occurs the researcher takes this as evidence of discriminant validity.

This study deals with more than the dichotomous construct of coercive and non-coercive power (Hunt and Nevin 1974; Lusch 1977). The model involves more complexity, the domain of the five environmental dimensions uses items derived from the four sectors of

¹³⁵ Given the limited abstraction necessary to capture Concentration as a concept the measure is satisfactory for our purposes of understanding inter relations between satisfaction and concentration.

the political economy environmental model.^{136 137} Therefore, it is highly likely there will be a sub-structure of inter-relationships between items which span different dimensions. A sole reliance on factor analysis to demonstrate discriminant validity in this instance may lead to a poor interpretation of the validity of the measures. The danger of solely relying on factor analysis to review discriminant validity is that it may lead to premature rejection of the measures used to capture the dimensions.

The solution to this problem is to use a combination of statistical and nomological analyse to understand whether are measures of the environmental dimensions are independent and behave in a nomological way.

To understand the extent to which the environmental items capture different dimensions a Spearman correlation analysis of all the environmental items was used to build a picture of how the items are associated. This technique develops understanding of whether correlations are generally stronger within dimensions or across environmental sectors. If the correlations are strongest within dimensions, this could provide evidence of discriminant validity.

An added benefit of examining individual correlations is that it is possible look at item relationships to establish whether they make conceptual and nomological sense versus the environmental model. That is, rather than taking factor analysis as proof or otherwise of the discriminant validity of environmental measures the researcher looks for meaning within the statistical relationships to develop a deeper understanding of franchisor reports and perceptions. This is done through two steps; first, a picture is built of the extent to which all items inter-related to represent the environmental dimensions. Second, the item to item relationships that span environmental dimensions

¹³⁶ These sectors are: Legal, Competitive, Input and Output (Achrol, Reve and Stern, 1983).

¹³⁷ This point clearly demonstrates the difficulty in decomposing the environment into mutually exclusive constructs. The environmental sectors provided the items which were used to develop the dimensions. We have therefore used similar items in different dimensions. For example, an item concerning suppliers [input sector] is used in the "difficulty" and "concentration" dimensions. We would expect item correlation across the dimensions.

These type of correlations would confound a factor analysis which was trying to demonstrate discriminant validity. Instead, we judge that a full item to item correlation analysis would allow us to observe the item inter relationships at a basic level and with this attempt to interpret the pattern and meaning of associations. We look at firstly, whether the item associations are strongest at the dimensional or environmental model's sector level. Secondly, whether the strength and valence of the item relationships makes nomological sense.

are examined to see if they behave in line with theory.¹³⁸ This process allows the determination, nomologically of whether the environment was measured as intended, i.e. as a set of dimensions built upon the theoretical framework of the political economy model.

9.3.2.2.1 Discriminant and Nomological Analysis of the Complexity ("Difficulty") Scale

In Table 9.6 the majority of item to item correlations are with other items in the same environmental complexity ("Difficulty") scale. This indicates that the items capture different aspects of the same dimension.

Within the difficulty scale there are 10 significant correlations with other difficulty items and only four correlations with items from other dimensions. Correlations with items in other dimensions pick up particular themes within sectors of the environmental model and behave as would be expected. This provides support for the robustness of the environmental model in this empirical investigation.

This robustness is demonstrated by the intuitive sense made from interpretation of these correlations. Firstly, the correlation D9-O3 (-0.4693) is a "sites" issue relating to the environmental input sector. This shows a negative relationship between "Obtaining planning permission" (D9) and "Locating suitable sites" (O3). Interpretation suggests that within the input sector, even when suitable sites are found, it does not follow that planning permission is obtained.

Secondly, the correlation D8-CF2 (0.5781) is a "supply", input sector correlation. This positively relates "locating suitable supplies" (D4) with "Concentration of suppliers" (CF2). This suggests that in concentrated supply sectors there will be large supply firms. Large supply firms would, it follows, be able to offer a range of input items to a satisfactory specification and at reasonable cost, due to economies of scale to

¹³⁸ Based on the Achrol, Reve and Stern (1983) environmental model.

franchisors.¹³⁹ The correlation D8-RS5 (-0.680) suggests that “locating suitable suppliers” is negatively associated to the “extent to which competitors withdraw”. That is, when firms are faced with supply problems the extent to which they are concerned with competitive activity is low.

Table 9.6
Complexity "Difficulty" Inter Item Correlations

Item to Item Correlations	Spearman Correlation Coefficient
<hr/>	
DIFFICULTY: (12 item scale)	
D1 TO D2	0.7537
D1 TO D3	0.6058
D3 TO D7	0.7404
D3 TO D8	0.6701
D5 TO D7	0.5617
D7 TO D8	0.6485
D7 TO D11	0.5592
D8 TO D11	0.6378
D8 TO D12	0.5890
D11 TO D12	0.7225
Significant difficulty item correlations with items in other environmental dimensions.	
D4 TO CF2	0.5781
D7 TO RS4	-0.7008
D8 TO RS5	-0.6820
D9 TO OP3	-0.5854

(See Chapter 10, Endnote 2 for item definitions).

The correlation between D7 and RS4 appears to be spurious and, does not influence the overall impression that the complexity scale includes items which generally correlate with other items from the same dimension.

¹³⁹ It would appear that concentration of suppliers is not associated with difficulty in locating suitable supplies since the correlation is positive.

9.3.2.2.2 *Discriminant and Nomological Analysis of the Instability ("Responsiveness") Scale*

For the instability scale there are five correlations with items from the same scale and only one with an item from another dimension (Table 9.7). This indicates that the instability items were picking up aspects of the domain of the same dimension.

Table 9.7
Instability ("Responsiveness") Inter Item Correlations

Item to Item Correlations	Spearman Correlation Coefficient
<hr/> RESPONSIVENESS (10 item scale)	
R1-R2	0.5534
R3-R6	0.6304
R7-R8	0.5899
R7-R10	0.6880
R9-R10	0.6760
Other significant RESPONSIVENESS item correlations:	
R3-C3	0.5945

(See Chapter 10 Endnote 2 for item definitions).

The only cross dimension correlation is R3-CF3 (0.4805) and is easily sustainable in the context of the environmental model. This is a "Price" issue located in the competitive environmental sector. This links "Changing price strategy of competitors" (R3) with "Intensity of competition" (CF3). This can be interpreted as changes in the pricing strategies of competitors increasing the perception of the intensity of competition for franchisors. This finding again supports the robustness of the political economy model of the environment, in that the model shows that environmental dimensions can capture issues across sectors of the environment, and in a way that would be expected.

9.3.2.2.3 Discriminant and Nomological Analysis of the Capacity ("Opportunity) Scale

There were two item to item capacity correlations and two correlations with items in other dimensions in this scale (Table 9.8).

Table 9.8
Capacity ("Resource") Inter-Item Correlations

Item to Item Correlations	Spearman Correlation Coefficient
O2-O4	0.4987
O4-O5	0.6405
Other item correlations	
O6-CF4	0.7578
O6-CF5	0.7508

(See Chapter 10 Endnote 2 for item definitions).

The correlations O6-CF4 (0.7578) and O6-CF5 (0.7508) are strongly linked to the BFA, an organisation located in the "Legal and Regulatory" environmental sector. Specifically, franchisors strongly and positively correlated the extent to which the BFA is important as a resource in "Promotion and Lobbying" (O6), with their level of agreement with BFA promotion activities (CF4) and attempts by the BFA to enhance the "Reputation of Franchising" (CF5).

9.3.2.2.4 Discriminant and Nomological Validity of Concentration and Conflict Scales

Both scales are discussed under the same heading due the limited number of correlations, and the inter relationship between variables in these dimensions. (Table 9.9).

Table 9.9**Concentration and Conflict Inter-Item Correlations**

Item to Item Correlations	Spearman Correlation Coefficient
<hr/>	
i) Concentration	
C1-CF3	0.5522
ii) Conflict	
CF1-CF2	0.8198
CF4-CF5	0.9835
CF4-06	0.7578
CF5-06	0.7508

(See Chapter 10 Endnote 2 for item definitions).

There were no inter-item correlations for the concentration dimension. This was not surprising since the items within the scale reflect very different environmental sectors in the political economy model. Specifically, the input sector, the competitive sector and a question on market entry costs.

We did however have a concentration item and conflict item correlation, this was C1 to CF3 (0.5522). This positively relates "Top 3 retailer market share" (C1) to "Intensity of Competition" (CF3). This relationship clearly links two items drawn from the competitive and output environmental sectors and further supports the credibility of the environmental model used.

There were two item to item correlations within the Conflict dimension (Table 9.9). The two correlations were with the capacity item 06 and were discussed in section 9.3.2.2.3. In our view the conflict dimension is captured since the correlations with items in other dimensions are easily interpreted in a context of conflict situations.

9.3.2.2.5 Conclusion to Discriminant and Nomological Validity

For each environmental dimension, it was observed that the majority of correlations were with other items from the same dimension. This indicates that the items combined to capture aspects of the same dimension.

Where there were item to item correlations outside the dimension, it is relatively easy to explain these in the context as the political economy environmental model which provided the theoretical substructure for the model. On this basis, the measures of the environmental dimensions have nomological validity i.e. they behave in a predictable and law like way, which is a key principle of the construct explication process.

9.4 Conclusion to Sample and Construct Analysis

This chapter set out to describe the structure of the sample and comment on the validity of the satisfaction and environmental dimension measures, using the construct explication approach. The analysis and discussion shows that the sample structure and measures used in the questionnaire have the necessary quality for the purpose of this research.

The measures used capture the constructs intended from a construct explication perspective. The measures have been subjected to considerable examination regarding their quality, and this has raised no serious concerns.

Chapter 10

Survey Results and Review of Franchisor Satisfaction and the Environment Constructs.

10.1 Introduction

The purpose of this chapter is to comment on franchisors' levels of satisfaction and their perceptions about the environment. There are two objectives; first, to understand and comment on the valence and degree of franchisor responses, before proceeding to analyse the associations and relationships between satisfaction and the environmental dimensions in Chapter 11.

Second, to determine whether the measures behave as the theory predicts. For satisfaction it was hypothesised that the construct was multi-dimensional and was composed of "relationship", "strategic" and "image" type items. Five constructs were used to describe the environment. Their measures were based on political economy theory, the aim is to review how the measures behaved in the context of the model.

The chapter is structured to look at satisfaction and then at each of the environmental constructs using two approaches; first, to consider the results at a disaggregated level, using descriptive statistics to describe franchisor reports for the measure items. This allows general comment upon satisfaction and key environmental influences as perceived by franchisors. Second, we use factor analysis is used to develop an understanding of the structure of the item relationships within the constructs.

This continues the construct explanation approach by seeking to understand the meaning of the constructs through an evaluation of their structures.

10.2 Satisfaction Results

Overall, franchisors report that they were "satisfied" with their organisation's involvement in franchising.¹⁴⁰ Franchisors scored the relationship type variables highest. Therefore, in the medium to long term we would expect franchisors to continue to use franchising as a strategy as long as they report satisfaction these variables.

10.2.1 *Descriptive Statistics of the Satisfaction Scale*

To determine which of the items in the satisfaction scale are perceived most important to "business success", franchisors were asked to score each of the twelve items with a rating score, from zero to ten. Each variable was item ranked by the average of franchisor scores to generate an industry ranking.

Table 10.1 indicates that four out of the top five scoring variables are concerned with relationship type items. This clearly shows franchisors judge relationship type variables as fundamentally important to the success of the franchise, and they rate them ahead of the strategic and image items. Of the four competitive advantages identified by Lillis et al (1976), only franchisee motivation ranks in the top half of the table. Bearing in mind, the skew of the sample towards longer established firms (Table 9.2), this result is consistent with their findings. That is, the perceived importance of the competitive advantages of franchising appear to be lower as the firm moves through the life cycle.

Franchisors prioritise items concerned with how the franchise operates vis-à-vis the franchisee, ahead of strategic competitive items.

The operators of franchise systems place less relative importance on the "image" items, i.e. of how customers and suppliers regard franchising. Relative to other items in the scale, franchisors do not perceive significant opportunities in promoting their organisations as franchised or in promoting the socially responsible aspects of franchising to their consumers and key external organisations.¹⁴¹

¹⁴⁰ There was a concern that franchisors would invalidly report their levels of satisfaction, i.e. they would overscore their satisfaction levels. While it can never be fully confirmed, the accuracy of franchisor reports appears to be supported by strong evidence suggesting that franchisors did score the "satisfaction" level they perceived. This is based on two factors: First, there is a broad range of scores across the satisfaction spectrum. Second, it was possible to specifically evaluate the satisfaction scores of two franchisors, whose franchises had been the subject of articles in the trade press highlighting internal conflict. The evaluation showed the particular franchisors were dissatisfied with certain franchising variables.

¹⁴¹ Background to this point is covered in Chapter 5.5.

Table 10.1

Descriptive Statistics for the "Importance Attached to Franchising Variables", ranked by Mean Scores

Rank Variable	Mean	Std Dev	Mode	Median	Range	Skew	Sum
1 Cooperatn	8.839	1.485	10	10	5-10	-1.009	274
2 Franmotiv	8.645	1.603	10	9	5-10	-0.879	268
3 Salestov	8.581	1.649	10	9	4-10	-1.082	266
4 Control	8.266	1.546	8	8	4-10	-0.848	255
5 Lowconf	7.677	2.508	10	8	2-10	-0.962	238
6 Grwthfra	6.387	2.486	5	6	0-10	-0.239	198
7 Grwthmkt	5.935	2.670	7	7	0-10	-0.735	184
8 Lowcap	5.419	2.419	5	5	0-10	-0.182	168
9 Mktpen	5.032	3.005	5	5	0-10	-0.009	156
10 Riskshar	4.645	2.939	0	5	0-10	0.079	144
11 Busawar	4.548	2.987	0	4	0-10	0.197	141
12 Custawar	3.877	3.421	0	3	0-10	0.761	120

Note: The variables are defined in Chapter 10 Endnote 1.

The "image" items scores are close to the intuitively neutral midpoint score of "four". Franchisors do not perceive negatives in being franchised. This result indicates that the growth of franchises in the UK may not be undermined by possible adverse perceptions about the image of franchising. In the past, franchising has been associated with dis-reputable pyramid selling (Stern and Stanworth 1988).

At the centre of this study is the question of whether franchisors report they are satisfied with the items they indicate as being important to the success of their business? To analyse this, a satisfaction scale (Question c.3, Appendix II) was devised which scored satisfaction against the 12 "importance" items on a seven point scale (Question c.2, Appendix II) anchored from "Very Highly Satisfied" to "Very Highly Dissatisfied". Then, the respondents "Importance" score for each item were multiplied, by the corresponding satisfaction item score. The new scores were then summed across respondents to give an industry average. This measure was defined as an importance weighted satisfaction score.

By comparing the rank of the weighted importance satisfaction scores in Table 10.2 with the importance scores in Table 10.1 it was possible to identify if items changed rank as a result of satisfaction levels. This would indicate whether any items had been rated as important but with low satisfaction scores i.e. that the franchisor was dissatisfied and perceived franchising to be failing to perform on an item. This process established if there are particular satisfaction issues with respect to individual items, which may affect franchising as the organisation's strategy in the long term.

The weighted importance satisfaction rankings shown in Table 10.2. indicate that the rankings for each item are consistent in both tables. Only the last two items change rank, these items are "customer" and "business community" image items, concerning the organisation being franchised. Given that the rankings are consistent, franchisors recorded satisfaction levels which were consistent with the importance of the items, i.e. that where a variable was rated as important by franchisors, they also recorded high levels of satisfaction for the item. This result on the application of instrumentalities to satisfaction seems consistent with Lusch (1977). It appears that the application of importance weights to items does not make much difference to their scores. This may be because there is a halo effect; respondents may automatically weight important items depending on the strength of sentiment.

Table 10.2

Descriptive Statistics of Satisfaction* Importance Variables, Ranked by Highest Mean¹⁴²

Rank	Variable	Importance	Mean	Std Dev	Mode	Median	Range	Skew	Sum
Ranking									
1	Satn4	[Cooperatn]	43.867	12.689	48	44	20-70	-0.054	1316
2	Satn3	[Franmotiv]	42.967	11.165	50	42.5	15-60	-0.301	1289
3	Satn1	[Salestov]	40.433	10.170	40	40	20-60	-0.106	1213
4	Satn5	[Control]	38.600	12.899	45	38	18-70	0.434	1158
5	Satn9	[Lowconf]	38.862	15.975	50	42	10-60	-0.518	1127
6	Satn2	[Grwthfra]	28.367	13.135	25	25	0-63	0.739	851
7	Satn7	[Grwthmkt]	27.300	12.529	20	29	0-50	-0.591	819
8	Satn6	[Lowcap]	26.000	13.570	30	25	0-60	0.471	780
9	Satn10	[Mktpen]	24.276	16.329	20	20	0-60	0.395	704
10	Satn8	[Riskshar]	22.514	15.447	30	20	0-54	0.370	653
11	Satn12	[Busawar]	22.467	16.502	20	20	0-60	0.644	674
12	Satn11	[Custawar]	19.600	19.953	20	13.5	0-63	1.110	588

10.2.2 Satisfaction Factors

Factor analysis was performed on the satisfaction scale to evaluate two questions; first, whether franchisor satisfaction was composed of the core elements hypothesised in Chapter 5, i.e. relationship, strategic and image. Second, whether there were any other results in the data which would build our understanding franchisor satisfaction. The specific satisfaction hypothesis was:

Ho: The construct of franchisor satisfaction is uni-dimensional

Hi: The construct of franchisor satisfaction includes three dimensions (strategic, behavioural and corporate image).

The factor analysis was conducted on the "satisfaction" measure (the 12 items of question C3). The results are reported showing only significant factor loadings. This approach makes use of the facility within the SPSS programme to only print significant

¹⁴² The scores for the Satisfaction and Environmental measures were recorded so that a score of 'one' represented a perceived low intensity of the phenomenon and a score of 'seven' indicated a high perceived intensity. This was done to improve the presentation of ranking tables, i.e. that the highest scores were listed at the top of the tables. This recording of the data does not affect the interpretation of the results.

loadings, and improves the clarity of the results. The principal components varimax rotation showed four clear factors which explain the variation in franchisor satisfaction (Table 10.3).

Table 10.3
Factor Analysis of the Satisfaction Scale

Factor Numbers	1	2	3	4	Communality
Franchise Control	0.80362				0.6559
Franchisee Motivation	0.74432				0.6967
Low Conflict	0.70913				0.6250
High Co-operation	0.69308				0.7541
Customer Awareness		0.81376			0.7038
Business Awareness		0.73954			0.6658
Risk Sharing		0.65967			0.5738
Sales Turnover			0.77804		0.6530
Market Share Growth			0.77470		0.7591
Franchised Outlet Growth			0.67718		0.7074
Low Capital Requirement				0.73158	0.6009
Penetration - Outlets				0.63654	0.5034
Eigen Values	3.39	1.81	1.48	1.19	
Percent Variance	28.3	15.2	12.4	9.9	
Cumulative Variance	28.3	43.5	55.9	65.8	

These four derived factors explain 65.8 percent of the variation in franchisor satisfaction. The measure captures two thirds of the variation in the construct of franchisor satisfaction. In comparison to other studies, this is a pleasing result.¹⁴³ Additionally, the commonalities are relatively strong and indicate that the derived factors are well represented by their item content. This leads us to reject H_0 under our satisfaction hypothesis that satisfaction is a unidimensional construct. Satisfaction is a multi dimensional construct, which is composed of at least four factors.

¹⁴³ For example, Michie and Sibley's (1985) factor analysis retained five factors from the power dimension which explained 57 percent of variance.

The first factor in the analysis links the key variables identified in Frazier's (1983) "Implementation" phase of inter organisational exchange. These items reflect how members of the franchise arrangement interact with each other. Respectively, they are conflict, co-operation, control and franchisee motivation.¹⁴⁴ This variable explains 28.3% of the variation in franchisor satisfaction and is easily the most important factor in this respect.

The second factor concerns Image and Sharing of Risk. While these items were ranked as the least important of the items in the satisfaction scale, they explain a 15.2 percent of the variation in franchisor satisfaction.

The third factor is identifiable as a market attractiveness factor and explains 12.4 percent of the variation in franchisor satisfaction. It contains C3.1 "High Levels of Sales Turnover", C3.2 "Growth in the number of franchised outlets" and C3.7 "Growth in market share".

Factor 4 is a "Cost of Expansion" factor which includes items concerning low entry barriers and low start up costs associated with franchising. This factor includes C3.10 "Penetration of Marginal/Distant locations through franchising" and C3.6 "Low Capital requirements for Expansion". Both factor 3 and factor 4 appear to provide support for the transaction cost benefit of franchising, relating to low cost expansion (Martin, 1988).

Because these factors are hierarchical, we do not attempt to join them together. In the literature review, it was concluded that satisfaction was a multi-dimensional construct. This factor analysis suggests that it is indeed multi - dimensional. In Table 5.5 it was proffered that satisfaction was composed of three dimensions, strategic, behavioural and

¹⁴⁴ Franchisee motivation was considered a competitive advantage of franchising by Lillis et Al (1976), due to the comparative productivity of franchisees versus salaried managers and a transaction cost rationale for franchising (Brickley and Dark, 1987). However, motivation can also be seen as a behavioural state which reflects the outcome of role satisfaction and goal compatibility (Frazier, 1983:p.69.) Handy (1985 p.181) takes this further: "motivation is more than satisfaction since motivation will mean productivity". This will be of vital importance to the franchisor, because his business will grow if the franchisee is highly motivated.

For the franchisor, franchisee motivation in the context of Handy's (1985) proposition relates to aspects of the relationship, whether:

- a) they like each other.
- b) they approve of the tasks set.
- c) they wish to continue to be associated with the franchise in terms of status.

In this context, the linking of "franchisee motivation" with other behavioural, rather than strategic variables in the factor analysis is theoretically easily explained.

image dimensions. This analysis indicates there are four dimensions to franchisor satisfaction which broadly reflect the hypothesised dimensions. The key difference is that the strategic variables appear to decompose into two factors which are concerned with market attractiveness and the costs of market penetration.

10.2.3 Satisfaction Summary

It has been empirically demonstrated that satisfaction is a multi-dimensional construct, which includes four dimensions, relationship, market attractiveness, cost of expansion, and image and risk. This leads us to reject H_0 under the satisfaction hypothesis. These results are consistent with the theory from which the measure of satisfaction was developed. This indicates that the measure includes the core factors of satisfaction. It seems that satisfaction is itself a primary product of the relationship dimension, and that the key issue is how well the franchise relationship works. Strategic items explain satisfaction but they are seen as less important to franchisor success.

At an intuitive level this makes sense. The franchisor will not develop his business through franchising if the relationship with franchisees is not working well, for two reasons. First, a poor relationship will be symptomatic of goal variance between the parties which is likely to produce conflict and reduce their effectiveness. Second, if the franchise is characterised by poor franchisor - franchisee relationships it will be difficult to recruit new franchisees for business growth, i.e. without a strong working relationship with franchisees, the franchisor cannot capitalise on the strategic competitive transaction cost or value chain advantages of franchising.

10.3 Environmental Construct Results

For the discussion of the complexity and instability environmental dimensions the same process is followed as that for satisfaction. For the opportunity, concentration and conflict dimensions, a factor analysis is not reported because it would not assist in interpreting the data. This is due to the small number of items in each scale.

Overall, franchisors appear to perceive the presence of the environmental constructs. Table 10.4 indicates the mean score for each dimension. This is calculated as the sum of the mean item scores, divided by the number of items in each scale. In interpreting

these scores it should be remembered that these are uni-dimensional scales which measure the intensity of the construct, not whether it is positive or negative, there is no neutral point. To illustrate this point, mean scores of one or two indicate low perceived intensity. Scores over three are interpreted as moving towards higher levels of intensity.

The results indicate that franchisors perceive their environment to be characterised by market concentration and a richness of resources, and relatively less characterised by complexity and conflict.

Table 10.4
Ranked Mean scores for Environmental Dimensions

Dimension	Mean Score	Valence & Interpretation
Capacity-Resources	4.65	rich environment
Concentration	4.39	concentrated sectors
Stability-Responsiveness	4.11	changing
Complexity-Difficulty	3.41	moderate complexity
Conflict	3.40	moderate to low conflict

The dimensions are now considered in more detail. To develop the review of the complexity and capacity dimensions factor analysis is used to establish whether the measures contain sub - dimensions which reflect the sectors of the political economy environmental model i.e. the theory from which they were developed.

10.3.1 Complexity "Difficulty" Scale Results

10.3.1.1 Descriptive Statistics of Complexity Scale

Table 10.5 ranks the items of the Complexity/Difficulty measure by their mean score. This measure includes items from each of the four sectors of the political economy model. The highest ranked item is that of obtaining planning permission for sites. This supports the point made in the McDonalds interview (see Chapter 4), that the problem was not so much of finding suitable sites, but rather, getting permission to convert the site.

The second to sixth ranked items relate to the output market of the franchise, i.e. the consumer. It appears that understanding consumer needs in terms of price, service, convenience, quality and speciality lines in today's food markets creates significant complexity for franchisors. This is because demand is not perceived to be stable over time, and determining consumer need is therefore difficult for franchisors.

Franchisors indicate that the legal and regulatory sector presents the least complexity out of the four environmental sectors. Items relating to franchise and food hygiene legislation are ranked very low in terms of complexity.

Looking at the range of mean scores in the rankings, three items have mean scores above a score of four (25 percent). This suggests these items are perceived at high levels of intensity. This compares to items in the legal sector with mean scores of less than three suggesting this part of the environment is perceived as much less complex for franchisors to deal with.

Table 10.5

Descriptive statistics for Complexity "Difficulty" measure, ranked by Mean

Rank	Variable	Mean	Std Dev	Mode	Median	Range	Skew	Sum
1	Dif 9	4.615	2.041	7	5	6	-0.348	120
2	Dif 5	4.034	1.322	4	4	5	0.231	117
3	Dif 2	4.107	1.589	5	4.5	6	-0.129	115
4	Dif 6	3.897	1.633	4	4	6	0.019	113
5	Dif 1	3.536	1.875	2	3	6	0.303	99
6	Dif 4	3.345	1.542	4	4	6	0.251	97
7	Dif 7	3.393	1.397	3	3	5	0.545	958
8	Dif 3	3.296	1.589	2	3	5	0.093	89
9	Dif 10	2.933	1.660	2	2	6	0.889	88
10	Dif 8	2.889	1.397	2	3	6	1.102	78
11	Dif 12	2.500	1.432	2	2	5	1.056	75
12	Dif 11	2.367	1.402	1	2	5	0.978	71

Note: These items are defined in chapter Endnote 2.

10.3.1.2 Complexity/ "Difficulty" Factor Analysis

Factor analysis derived four factors which explained 74.3 percent of the variation in the complexity "difficulty" scale. The results of the factor analysis are recorded in Table 10.6. The results from the factor analysis are encouraging. They provide further support for view that the four sectors of the political economy model can be used as a theoretical sub-structure to develop environmental measures.

These results support the environmental model by discriminating between the model's subsectors. The first factor is a "legal and supply" factor (Legal sector). The second factor relates to the instore environment and reflects the competitiveness of the franchise in terms of its instore pricing and convenience for consumers (Competitive Sector). The third factor is clearly a "Consumer demand" factor (Output Sector). The fourth factor concerns the input sector, specifically, sites and supply terms.

Table 10.6
Factor Analysis of the Complexity "Difficulty" Scale

Factor Numbers	1	2	3	4	Communality
Understanding Franchise Laws	0.94550				.8964
Legal operation of franchise	0.90991				.8375
Conforming to Food Legislation	0.74203				.6535
Negotiating Supply Terms	0.60113	0.39958		0.45939	.5232
Locating Suitable Supplies	0.53962	0.33145			.7772
Consumer Store Convenience		0.81375	0.32288		.6343
Customer Price Requirements		0.72834			.7555
Demand Speciality Foods			0.81195		.7858
Food Quality Requirements		0.48161	0.72371		.7972
Food Convenience Requirements		0.40825	0.64853	0.44818	.7858
Service Requirements Customers		0.57367	0.62973		.7593
Planning Permission Sites				0.83822	.7174
Eigen Values	4.64611	1.97673	1.21427	1.07930	
Percent Variance	38.7	16.5	10.1	9.0	
Cumulative Variance	38.7	55.2	65.3	74.3	

Within this analysis the commonalties are high relative to Dwyer and Welsh (1985). The commonalties show the amount of common variance in the items which compose the derived factors. The results of the analysis suggest that the factors are well represented by the item content. Because the derived factors reflect the theory, this further underlines the view that the political economy model provides a strong platform for model and measure development.

10.3.2. Stability "Responsiveness" Results

10.3.2.1 Descriptive Statistics of the Stability "Responsiveness" Scale

Franchisors rank "changing technology" and "regulations in the food industry" as key items reflecting change to which they must respond. It appears that the low score for legal complexity in the proceeding section and the high score for "regulations in the food industry" in this section needs some clarification. It can be argued that this can be explained because franchisors perceive that there is a high level of change in regulations. but, they do not find it difficult to understand or comply with the changes. Competitive items in the environment are not ranked in the top three items. This suggests that franchisors do not perceive competitive activities as particularly subject to change. This view is supported by the results of the capacity "opportunities" scale, which indicates that franchisors perceived their environment to be rich in capacity "opportunities".¹⁴⁵

Unlike the complexity scale, franchisors score most items above 4 (some 60 percent). This indicates that franchisors judge their environment to be characterised by instability and change to which they must respond. This is supported by comparing the range of mean scores. The range of mean scores for complexity was 2.367 to 4.615, for stability this was 3.700 to 4.933.

¹⁴⁵ See Section 10.5.1

Table 10.7

Descriptive Statistics for Stability "Responsiveness" Measure, Ranked by Mean

Rank	Variable	Mean	Std Dev	Mode	Median	Range	Skew	Sum
1	Res 8	4.933	1.552	6	5	5	-0.119	148
2	Res 10	4.933	1.660	4	5	6	-0.469	148
3	Res 6	4.552	1.617	5	5	6	-0.617	132
4	Res 4	4.400	1.694	4	4.5	6	-0.317	132
5	Res 5	4.400	1.831	4	4.5	6	-0.425	132
6	Res 9	4.400	1.850	4	4	6	-0.111	132
7	Res 1	4.000	1.948	4	4	6	-0.150	120
8	Res 7	4.000	1.558	3	4	6	0.182	116
9	Res 2	3.828	2.037	4	4	6	0.006	111
10	Res 3	3.700	1.803	5	4	6	-0.317	111

Note: See chapter Endnote 3 for definition of items.

10.2.2.2 Factor Analysis of the Stability "Responsiveness" Measure

The three factors derived from the analysis account for 73.8 percent of the variation in the stability dimension. This high percentage indicates the factors explain a high level of the reported variation. The interpretation of the factors further endorses the political economy theory approach. Here too, the commonalties in the analysis are high, indicating that the derived factors domain is well represented by the items.

The first factor reflects the impact of change in the legal sector and the secondary impact of changing technology [legal and regulatory sectors]. Factor two is concerned with consumer choice and market structure [output sector]. Factor three can be identified as a marketing competitiveness factor [competitive sector].

This result is consistent with the Achrol Reve and Stern (1983) and Achrol and Stern (1988), who assert that the main characteristic of change is the turnover of marketing forces in the form of technology, competitors and legislative activity.

Table 10.8**Factor Analysis of the Stability "Responsiveness" Measure**

Factor Numbers	1	2	3	Communality
Changing Technology Product Development	0.8384			.7502
Changing Food Industry Regs	0.7765			.6830
Changing Technology in Distribution	0.7744			.8062
Changing Regulations in Franchising	0.7222			.8293
Competitive withdrawal		0.7413		.5899
Changing Consumer Brand Loyalty	0.47963	0.6868		.7674
Competitive Market Entry		0.4971	0.5289	.7376
Changing Price Strategy Competitors		0.7175	0.4820	.8042
Change in Product Service Mix Competition			0.8767	.8375
Changing Promotion/Advertising Competition		0.4211	0.7648	.5697
Eigen Values	4.50	1.86	1.01	
Percent Variance	45.0	18.6	10.1	
Cumulative Variance	45.0	63.6	73.8	

10.3.3 Results for the Capacity/"Opportunity" Measure

The Capacity/"Opportunity" measure scores the highest mean of any of the environmental dimensions.¹⁴⁶ This indicates that franchisors generally perceived their environment as rich in resources. The ranked item scores are shown on Table 10.9. This indicates that franchisors perceived the biggest opportunities in the growth of retail sales, securing finance for franchisees and that the number of suitable franchisees is perceived as numerous. The mean scores for these items were the highest for any of the environmental items. Franchisors were optimistic about their markets and the richness of resources within them, at a time of economic growth.¹⁴⁷ Interestingly, franchisors perceived that the pool of potential franchisees and availability of capital to finance them as not being a capacity issue. Ultimately, this optimism did not extend into actual business growth in the recession of the early 1990's, as discussed in Chapter 3 and 12.

¹⁴⁶ See Table 10.1 for comparison to other dimensions.

¹⁴⁷ The national economy (GDP) grew three percent in 1989. Source CSO 1990.

There is further support in Table 10.9 for franchisors' perceptions of a "sites" problem. The efforts of the BFA to promote the franchise industry is a less important resource for franchisors. This result is consistent with franchisors attaching low importance to the perception of other organisations about franchising (Section 10.2.1).

Table 10.9
Descriptive Statistics of Capacity Measure, Ranked by Mean

Rank	Variable	Mean	Std Dev	Mode	Median	Range	Skew	Sum
1	Ops 1	6.161	0.820	7	6	6	-0.313	31
2	Ops 4	5.033	1.402	6	5	6	-1.029	30
3	Ops 2	4.677	1.620	4	4	6	-0.291	31
4	Ops 5	4.194	1.014	4	4	4	-0.210	31
5	Ops 3	4.000	1.722	4	4	6	0.217	30
6	Ops 6	3.871	1.648	4	4	6	-0.306	31

Note: See chapter Endnote 4 for definition of items.

10.3.4 Concentration Results

Franchisors indicate that the retail sector is more concentrated than the supply sector in their environment (Table 10.10).¹⁴⁸ Significantly, all items in this dimension have scores with a mean above four. This is the only dimension where this occurs. Entry costs also appear to be perceived as being high. These results support the interview research findings, that the food retail sector is generally perceived to be concentrated and expensive to get established in by franchisors.

¹⁴⁸ This is consistent with 56 percent of grocery sales being taken by the top 5 grocery retailers (IGD Review of Food Retailing 1988).

Table 10.10
Descriptive Statistics of Concentration, Ranked by Mean

Rank	Variable	Mean	Std Dev	Mode	Median	Range	Skew	Sum
1	Conc 1 Retailer	4.733	1.596	6	5	5	-0.457	30
2	Conc 2 Supplier	4.355	1.473	4	4	5	-0.063	31
3	Conc 3 Entry Cost	4.097	1.578	4	4	6	-0.115	30

Note: See Endnote 5 for definition of items.

10.3.5 Conflict Results

Franchisors scored their environment as moderate to low in conflict across the items. For perspective, five out of the six items had a mean conflict score of less than three (Table 10.11) and the construct had the lowest overall mean score of the environmental dimensions (Table 10.4).

It is interesting to note that franchisors perceived the level of conflict with suppliers to be very low in terms of frequency and intensity. This supports the earlier finding that the supply sector was not characterised by an imbalance of market power towards suppliers as a result of concentration. From theory, (Lusch, 1976; Lusch 1977; Schul, 1987; Felstead, 1993), we expect to see lower levels of satisfaction for franchisors faced with high levels of supplier power - we test for this in Chapter 11.

It is interesting that franchisors report very low levels of conflict with the BFA and regulatory authorities, this can be explained by the company age profile of this sample. Specifically, the sample is made up of mainly more established firms who are members of the BFA. However, smaller franchisors find the qualification terms for BFA membership too difficult to meet. Therefore they find it difficult to attract franchisees and financial support without the BFA's endorsement. The BFA recognised this issue and provided an associate membership category for smaller franchises in 1990.

Table 10.11**Descriptive Statistics of Conflict Measure, Ranked by Mean**

Rank	Variable	Mean	Std Dev	Mode	Median	Range	Skew	Sum
1	Conf 3	4.290	1.970	4	4	6	-0.210	31
2	Conf 4	3.900	1.989	5	4	6	-0.191	30
3	Conf 5	3.900	1.989	5	4	6	-0.191	30*
4	Conf 6	3.167	1.783	1	3	6	0.396	30
5	Conf 2	2.633	1.326	2	2	6	-0.210	30
6	Conf 1	2.833	1.533	2	2.5	6	0.792	30

Note: See Chapter Endnote 6 for item definitions.

10.3.6 Conclusion to Environmental Results

The factor analysis of the complexity and stability scales very clearly underscores the theoretical and methodological strength of the political economy environmental model. This derives from the fact that the characteristics of factors in each scale mirrors the sectors of the political economy model. In this respect the theory and the measures were shown to be consistent.

Using descriptive statistics, the valence and character of the environmental dimensions as perceived by franchisors were interpreted, these are summarised as follows:

- a) moderate degrees of complexity
- b) a higher degree of instability
- c) rich in resources.
- d) characterised by concentration in the retail sector.
- e) not particularly characterised by conflict.

10.4 Conclusion to Survey Results and Review of Franchisor Satisfaction and the Environment Constructs

This chapter has achieved its objectives of describing the intensity and valence of franchisor perceptions at a construct and item level, for satisfaction and the environment. From factor analysis we have shown that satisfaction is multi - dimensional, and is composed of four factors. The discussion of the descriptive statistics and factor analysis of the environmental dimensions confirms the utility of the political economy model.

Generally franchisors report satisfaction with franchising. While the results hold for a time of economic prosperity it cannot be assumed that they will hold for a time of economic recession. It is a fact, that this cross sectional survey can report results as they pertain to the prevailing economic conditions, and should not be extrapolated to different circumstances. A further study should look to measure franchisor satisfaction and environmental perceptions in a period of recession.

Bearing in mind the preceding point the focus now turn to look at the inter construct associations and relationships at a time of strong national economic performance in Chapter 11.

Chapter Endnotes.

1. A definition of the Satisfaction items which were abbreviated in Table 10.1 are as follows:

a) Strategic Items:

Franmotiv:	High levels of franchisee motivation
Grwthfran:	Growth in terms of franchised outlets opened
Salestov:	High level of sales turnover
Lowcap:	Low capital requirements for expansion
Grwthmkt:	Growth in terms of market share
Riskshar:	Sharing of risk between franchisor and franchisee

b) Behavioural Items:

Cooperatn:	High level of co-operation between franchisor and franchisee.
Lowconf:	Low level of conflict between franchisor and franchisee.
Control:	Tight control of the franchised operation by franchisor.

- c) Image Items:
- | | |
|-----------|--|
| Custawar: | Customer awareness of the company being franchised. |
| Busawar: | Awareness in the business community of the company being franchised. |
2. Definition of complexity items
- | | |
|--------|---|
| Dif 1 | Food "quality" requirements of customers |
| Dif 2 | Service requirements of customers |
| Dif 3 | Food convenience requirements of customers |
| Dif 4 | Demand for speciality foods |
| Dif 5 | Price requirements of customers |
| Dif 6 | Customers store convenience requirements |
| Dif 7 | Negotiating satisfactory supply terms |
| Dif 8 | Locating suitable supplies |
| Dif 9 | Obtaining planning permission for sites |
| Dif 10 | Conforming to food hygiene, storage and handling legislation |
| Dif 11 | Observing correct legal procedures for operating a franchise system |
| Dif 12 | Understanding legal requirements and laws relevant to franchisors |
3. Definition of stability items
- | | |
|--------|--|
| Res 1 | Changing promotion and advertising strategies of competitors |
| Res 2 | Change in product service mix strategies of competitors |
| Res 3 | Changing price strategies of competitors |
| Res 4 | The extent to which your market has attracted new competitors |
| Res 5 | The extent to which competitors withdraw or fail |
| Res 6 | Changing consumer brand / product loyalty |
| Res 7 | Changing technology in product development and improvement |
| Res 8 | Changing technology in stock control and distribution management |
| Res 9 | Changing regulations regarding franchising |
| Res 10 | Changing regulations in the franchise industry |

4. Definition of capacity items

- | | |
|-------|--|
| Ops 1 | Potential for sales growth is |
| Ops 2 | Number of potentially suitable franchisees is |
| Ops 3 | Available number of suitable sites or locations is |
| Ops 4 | Availability of finance for franchisees is |
| Ops 5 | Goodwill of government bodies to franchises is |
| Ops 6 | The importance of promotion and lobbying by the BFA is |

5. Definition of concentration items

- | | |
|--------|--|
| Conc 1 | The degree market share is concentrated in the hands of the top 3 retailers in your market sector is |
| Conc 2 | The degree of concentration of suppliers is |
| Conc 3 | The degree to which your market sector imposes high entry costs on new competitors is |

6. Definition of conflict items

- | | |
|--------|--|
| Conf 1 | Frequency of disagreements with suppliers is |
| Conf 2 | Intensity of disagreements with suppliers is |
| Conf 3 | Intensity of competition with competitors is |
| Conf 4 | Your company's agreement with the way the BFA promotes the franchise industry is |
| Conf 5 | Your company's agreement with the way the BFA attempts to enhance the reputation of franchising is |
| Conf 6 | The extent of difference in opinion between your company and the BFA and / or government agencies on how a franchise should be run is. |

Chapter 11

Franchisor Satisfaction and the Environment: Correlation and Discriminant Analysis Results

11.1 Introduction

This chapter has two objectives: first, to determine what associations exist between franchisor satisfaction and the environmental dimensions of dynamism, complexity, capacity, concentration and conflict. Second, to use multivariate analysis to determine any statistical relationships between satisfaction and the environment.

More specifically, correlation analysis is employed to establish the association between the hypothesised dependent and independent variables at a construct level. Discriminant analysis is used to examine whether environmental constructs and individual construct items can be used to predict franchisor's satisfaction or dissatisfaction

Before proceeding to test the hypotheses it is worth re-stating them in Table 11.1.

Table 11.1
Hypotheses to be Tested¹⁴⁹

H ₁	Satisfaction =	-ve <i>f</i>	Complexity
H ₂	Satisfaction =	+ve <i>f</i>	Stability
H ₃	Satisfaction =	+ve <i>f</i>	Capacity
H _{4a}	Satisfaction =	0 <i>f</i>	Concentration
H _{4b}	Satisfaction =	-ve <i>f</i>	Very High Concentration
H ₅	Satisfaction =	-ve <i>f</i>	Conflict

¹⁴⁹ The description of the constructs and rationale for these hypothesised relationships is fully discussed in Chapter 7.

11.2 Satisfaction and Environmental Constructs

This section reviews and discusses the associations measured between satisfaction and each of the environmental dimensions. Correlation analysis was chosen because it offers the opportunity to determine the sign and strength of the association between constructs. The analysis used Spearman's correlation coefficients.

To measure satisfaction franchisors who indicated that they were satisfied were isolated. This was done by grouping franchisors whose mean satisfaction score was greater than 4, i.e. they had scored satisfaction as "Satisfied", "Highly Satisfied" or "Very Highly Satisfied". This created a variable which was called SATSAT. By using this process it was possible to pick out the association between those who reported a state of satisfaction and their perceptions about environmental dimensions.

The environmental dimensions were allocated scores through a construct mean. This was the sum of the item scores, divided by the number of items. This was done for each respondent across each dimension. This approach measured the perceived valence of the construct for each key informant. The results of the Spearman's correlation analysis are shown in Figure 11.1. These are a series of independent correlation coefficients and not a linear relationship.

Figure 11.1

Spearman Correlation Coefficients for Satisfaction and Environmental Dimensions

	Complexity	Stability	Capacity	Concentration	Conflict
SATSAT=	-0.492	-0.053	+0.473	+0.001	+0.025
Significance	(0.003)	(0.392)	(0.004)	(0.497)	(0.447)

N=29

The key conclusion from Figure 11.1 is that there is clear empirical evidence of an association between channel member satisfaction and the environment, supporting Frazier's (1983) model.

11.2.1 Discussion of Correlation Results

Of the five environmental dimensions correlated with satisfaction, two demonstrate statistically significant coefficients at the five percent level. These were a negative association with complexity and a positive association with capacity. Stability, concentration and conflict recorded no statistically significant relationship with satisfaction. For clarity, the discussion of results is organised into significant and not significant sections.

11.2.2. Statistically Significant Results

11.2.2.1. Complexity

Complexity is negatively associated with satisfaction. This supports the first hypothesis H_1 , that: high degrees of complexity in dealing with the environment will be associated with lower levels of satisfaction - and vice versa. In creating this hypothesis it was asserted that complexity in itself would not present a problem to the franchisor if the specialisation and structure introduced by franchising (i.e. franchisee's responsibility for outlet maintenance and exploiting local markets etc.) efficiently monitored and coped with environmental complexity.

Cross checking whether franchisors generally perceived environmental complexity, it was found in Table 10.5 that the overall mean rating for perceived complexity in the franchisors environment was 3.41. This indicated that franchisors experienced relatively moderate levels of complexity.

To test whether this was particular to franchising, a future study would have to include firms which were operating a solely corporate strategy in the same market. This would confirm whether there were significant differences in perceptions of the environment which were a function of organisation strategy. Clearly this is beyond the scope of this exploratory study.

11.2.2.2 Capacity

The second statistically significant coefficient is environmental capacity (+0.473). This refers to the perceived richness or paucity of resources in the environment. This result supports hypothesis H₃ that: Environmental capacity will be associated with franchisor satisfaction.

This result indicates that franchisors were optimistic about obtaining resources necessary for their business. This was supported by results in Table 10.5, which scored capacity as the highest ranked environmental dimension. Therefore, it appears that franchising was seen as an appropriate strategy to obtain the resources necessary to achieve the franchisor's objectives.

It is significant to note that capacity is associated with satisfaction. Were it the case that capacity was negatively associated with franchisor satisfaction it can be judged that franchising was perceived to be an inappropriate strategy to obtain the expected competitive, transaction cost and value chain benefits within its operating environment, and that in the medium to long term, franchisors would adjust their strategy and structure to better obtain these benefits e.g. changing to a company owned structure.

11.2.3 Non-Significant Construct Correlations

Three of the hypothesised associations for satisfaction and environmental dimensions did not have any statistically significant correlation. Respectively these were stability, concentration and conflict. Each of these is now discussed in turn.

11.2.3.1 Instability

This was defined as "The degree of change in elements in the environment of food retail franchises". It was hypothesised that this dimension would have a negative relationship with franchisor satisfaction. This was on the basis that in a highly unstable environment, franchising would not be providing a structure for effectively coping with change and franchisors would be therefore dissatisfied.

The derived coefficient is -0.053 which indicates no association with satisfaction. In trying to understand this result an examination of whether franchisors perceived their environment to be characterised by change revealed the mean score for perceived change is 3.41 (Table 10.5), indicating relatively low to moderate levels of perceived change (compared to the scores for other dimensions) in the environment.

On this basis, if franchisors did not perceive their environments as being particularly characterised by change, then three reasons, either individually or combined, can explain the insignificant result. First, moderate levels of perceived change would not put stress on the franchise and affect levels of satisfaction. Therefore, change would not have a negative association with satisfaction, it would in fact have no association.

Second, if franchising as a structure functioned efficiently in handling the impact of change (e.g. as a decentralised structure it could respond quickly and flexibly to change), this would happen sublimely and it is possible that the franchisor would not be cognisant of the process. It could be that the hypothesised negative relationship would only occur when the franchisor had experiences of needing to implement change to the business, and was frustrated in doing so by particular aspects of franchising, e.g. significant non-compliance of franchisees. Third, in an environment perceived to be rich in capacity, as reported by franchisors in this survey. The pressure on the organisation to manage change in the competition for resources may not be acute. Franchisors may have to be less concerned about the need to manage change as a key part of franchise strategy performance in these circumstances.

In summary, this result suggests that franchising as a structure was appropriate for handling levels of environmental change experienced at the time of the survey. Clearly, the opportunity for the researcher is to test the hypothesis under different environmental conditions e.g. in recession.

11.2.3.2 Concentration

Concentration is defined as the "extent to which organisation in the input and output markets are few in number and the extent to which market entry is difficult". This definition included the two key elements of concentration; the extent to which resources are controlled by few players, and by cost barriers to entry. The hypotheses for concentration contained two propositions:

H_{4a} Satisfaction will have no association with Concentration.

H_{4b} Dissatisfaction will be negatively associated with high Concentration.

This hypothesis was based on the view that if franchising was performing effectively as a strategy, satisfaction would have no association with concentration, since the firm would be operating a strategy in a market where it could secure the benefits and resources it required.¹⁵⁰

The correlation coefficient for concentration is 0.001 indicating no association between this concentration and satisfaction, leading us to accept H_{4a}. The fact that franchisors perceive their environments to be concentrated (the mean perceived score for this construct was 4.59, the second highest ranked dimension in Table 10.5), implies that franchisors saw their environments as being concentrated, but this did not impact on performance and therefore franchisor satisfaction. Support for this point is provided by the franchisors' perceptions that their operating environments were characterised by high levels of capacity (Table 10.5).

11.2.3.3 Conflict

The desk research indicated that a key influence on channel member satisfaction was the level of conflict (Lusch, 1976 and 1977; Dwyer, 1980; Rosenbloom, 1983). Conflict has been shown empirically to have a negative relationship with satisfaction and the hypothesis reflected this:

H₅: "Environmental conflict will be negatively associated with franchisor satisfaction".

This reflects the extent to which the franchisor perceives disagreement with, organisations in the environment who control resources necessary for the franchises' performance.¹⁵¹

¹⁵⁰ Typical sectors are those characterised by diverging economies of scale and a minimum efficient scale (Caves and Murphy, 1976). For a full discussion see Chapter 6.

¹⁵¹ See Chapter 6 for full discussion.

It is a surprise that the correlation coefficient is 0.025 and statistically insignificant, leading us to reject H₅. Some insight into this result can be obtained by considering that in Table 10.5 franchisors score conflict as 3.4, the lowest ranking environmental construct. This indicates that franchisors perceived relatively (compared to other dimensions) low levels of conflict with key organisations.

The issue behind this spurious result may have been that our measure did not capture the concept of abnormal conflict (Achrol 1985). It may well be, that to establish a significant association between environmental conflict and satisfaction, a measure needs to capture conflict which is over and above the day to day management of issues with the external environment.

11.2.4 Conclusion to Correlation Analysis

The correlation analysis led us to accept three of the hypotheses these were:

H₁: High degrees of complexity in dealing with the environment will be associated with lower levels of satisfaction - and vice versa.

H₃: Environmental Capacity will be associated with franchisor satisfaction.

H_{4a}: Satisfaction will have no association with Concentration.

These results demonstrate that the environmental dimensions of complexity and capacity do have an association with franchisor satisfaction. This provides support for Frazier's (1983) model, that satisfaction, an outcome of the evaluation of performance, includes an appreciation of the environmental forces that affect performance. This takes our understanding of channel member satisfaction a stage further by demonstrating environmental associations with satisfaction. This builds on earlier studies which showed how the internal organisational factors (e.g. power) have a relationship with satisfaction (Hunt and Nevin, 1974; Lusch, 1977; Michie and Sibley, 1985). The second part of this chapter concerns whether the environment has a structural relationship with satisfaction, this is examined by undertaking a predictive analysis.

11.3 Predictive Analysis of Satisfaction and the Environment

11.3.1 Introduction

Attention now turns to the predictive element of the analysis, i.e. to understand if the environmental dimensions explain franchisor satisfaction.

To perform the analysis multivariate discriminant analysis is used. This is a technique which provides a powerful tool for explanation and prediction via the estimation of coefficients for categorical explanatory variables.¹⁵² The specific objective is to predict satisfied and dissatisfied group membership on the basis of the franchisors' scores for the environmental dimensions. Two analyses were conducted to estimate whether environmental phenomenon explain franchisor satisfaction group membership. This was done at the construct level (i.e. the explanatory variables were; complexity, stability, capacity, concentration. conflict) and, secondly, at a disaggregated level using the individual scale items as explanatory variables.

11.3.2 Construct Discriminant Analysis

In this analysis the objective is to explain franchisor satisfaction group membership on the basis of perceptions about environmental dimensions. This would provide quantitative evidence for a relationship between satisfaction and the environment and build on the correlation analysis results. As in the correlation analysis, the environmental dimensions are measured by the mean score of aggregated items. This approach measured the perceived valence of each dimension. for each key informant.

¹⁵² Discriminant Analysis explains and predicts group membership by measurement of explanatory variables. This is done by using a linear combination of explanatory, or discriminating variables to create a discriminant function which identifies separate groups.

For two groups, the maximum number of functions is the number of groups. This study considers two groups, satisfied and dissatisfied franchisors. the function is shown in Equation 10.1

Equation 10.1

$$_D = a_1x_1 + a_2x_2$$

$_a_1, a_2$ are the coefficients.

$_x_1, x_2$ are the explanatory variables.

To prescribe franchisor group membership two groups were created whose satisfaction scores were as follows:

Group 1 = Less than or Equal to 3.5.

Group 2 = Greater than 3.5.

The group division at 3.5 was chosen because it was the median score of the seven point semantic scale used in the satisfaction measure, and this fits with the discriminant analysis assumption of a priori probability of membership to either group of 0.5.

The hypotheses were standard for this type of analysis and were:

H₀: There is no significant information in the constructs to explain satisfaction group membership at 5% significance.

H₁: There is significant information in the constructs to explain satisfaction group membership at 5% significance.

The analysis produced statistically insignificant results at the five percent level. The results are shown in Table 11.2.¹⁵³ This led to the acceptance H₀: that environmental dimensions did not explain differences in franchisor satisfaction group membership.

Table 11.2

Key Discriminant Analysis Statistics for the Construct Function

Lambda	Chi Actual	df	Significance
0.7602	6.7167	5	0.2426

The discriminant function produced a Wilks Lambda of 0.7602 and Chi Square of 6.7167 which was not significant.

¹⁵³ The function's significance is determined by the Wilks Lambda. It is an inverse measure of the discriminatory power of the explanatory variables which has not been removed by the discriminant function. If there is a significant amount of information not explained by the function we accept H₁: Remaining information is significant.

The discriminant function coefficients are shown in Table 11.3 to illustrate the relative proximity of the standardised coefficients vis-à-vis each other.¹⁵⁴ The lack of relative difference between the coefficients raised the question of whether the important information for explaining group membership was in fact being extracted in the analysis.

The concern was that the discriminant analysis at the construct level did not produce statistically significant results because of the process for measuring the construct, i.e. that specific environmental influences on satisfaction, were being diluted by averaging the item scores. This view was supported when a discriminant analysis was applied to the same groups using the environmental scale items as explanatory variables.

Table 11.3
Discriminant Coefficients of Construct Discriminant Analysis

Variable	Standardised	Unstandardised
Complexity	1.0805	0.7282
Stability	-0.0096	-0.1290
Capacity	0.7227	0.1416
Concentration	-0.3063	-0.2886
Conflict	-0.2237	-0.0943

11.3.3 Discriminant Analysis of Scale Items

As a follow up to the construct level analysis, a similar discriminant analysis was conducted to determine whether single items in the environmental scales could explain franchisor satisfaction group membership. This would provide two benefits; first, to understand whether the conclusion for the failure of the construct level analysis was due to diluting the environmental influences by averaging item scores. Second, to determine whether there was any relationship between satisfaction and environmental phenomena, which could be reported in this study to provide a basis for further work.

¹⁵⁴ Standardised variables give the same results as if the data has a zero mean and unit variance.

Group satisfaction was determined in exactly the same way as the previous analysis, i.e. a mean franchisor satisfaction score of less than or equal to 3.5 represented dissatisfied franchisors and greater than 3.5 represented satisfied franchisors. The hypothesis tested was:

H_0 : There is no significant information in the "environmental items" to explain satisfaction group membership at 5% significance.

H_1 : There is significant information in the "environmental items" to explain satisfaction group membership at 5% significance.

The results of the analysis are shown in Table 11.4

Table 11.4

Key Discriminant Analysis Statistics for the Environmental Items Function

Lambda	Chi Actual	df	Significance
0.0402	28.918	18	0.0494

At the five percent significance level there is statistically significant evidence that environmental influences can predict franchisor group satisfaction. The key point of this result in the context of this research, the environment does have a relationship with the internal concept of satisfaction.

The discriminant items in the analysis are shown in Table 11.5. This indicates that the explanatory power of the analysis is driven by items from the complexity dimension. In the context earlier results, this is theoretically consistent, complexity was shown to have a high negative correlation with satisfaction (Figure 11.1)

Table 11.5
Ranked Discriminant Standardised Coefficients of Environmental Items

Variable Coefficients	Standardised	Construct Items
DIF2	-20.4810	Service requirements of consumers
DIF1	16.5983	Food quality requirements of consumers
DIF6	12.5058	Consumers store convenience requirements
DIF5	-8.9522	Price requirements of consumers
DIF4	8.5514	Demand for speciality foods
DIF3	-7.5603	Convenience requirements of consumers

To interpret these results, it is necessary to assess the relative importance of the items in discriminating between the satisfaction groups. This is achieved by ranking the items according to the magnitude of their standardised coefficients. Those with the highest coefficient are the most important items, this is shown above (Table 11.5). It shows, that the most important item for discriminating between groups is "Service requirements of consumers". This is followed by; "Quality requirements of consumers"; "Consumers store convenience requirements"; "Price requirements of consumers"; "Demand for speciality foods" and finally "Convenience requirements of consumers".

Interestingly, each of these items refers to the output sector of the franchise. Specifically, what consumers want in terms of price, service and quality. This strongly supports the approach used to develop the complexity measure in Chapter 7.4.1, and the review of Beardsworth and Kiel (1992) who assert that the increasing complexity of demand puts pressure on retailers to maintain consumer satisfaction.¹⁵⁵

It seems that franchisors who were dissatisfied, were differentiated by their performance in understanding and responding to their consumers needs.

To provide further support for these results, a t-test analysis was used as a further test to the discriminant analysis to classify franchisors according to satisfaction. The groups were; those with a score less than or equal to three were dissatisfied, i.e. to the dissatisfied side of the satisfaction measure's neutral point. Those with a score of

¹⁵⁵ See Chapter 7.4.1, Footnote 112.

greater than three were classed as satisfied. The results confirm the discriminant analysis which showed that there were complexity items related to franchisor satisfaction states. Additionally however, the t-test indicates that satisfied and dissatisfied franchisors were differentiated by their perceptions in two other areas. First, on their perceptions on the levels of finance for franchisees, which is a capacity issue. Second, on perceptions about the levels of government goodwill towards franchising. The results are shown in Table 11.6.

Table 11.6
Test Results for Satisfaction and Environmental Items

Item	Value	Freedom Tail	Probability
Customer food convenience requirements	2.31	24	.03
Customer speciality requirements	2.15	26	.04
Availability of finance for franchisees	-2.23	27	.03
Government goodwill to franchising	-2.02	28	.05

N=29

This analysis provides additional conformation that there were differences in perceptions of the environment between satisfied and dissatisfied franchisors at the item level. These results are discussed in the context of the predictive validity of the model, and operational issues for franchising in Chapter 12.

11.4 Conclusion to Franchisor Satisfaction and the Environment

There is clear evidence from the analysis that franchisor satisfaction is associated with the environment. The correlation analysis demonstrated that at a construct level, satisfaction is negatively associated with complexity and positively associated with capacity.

In trying to demonstrate a relationship between satisfaction and the environment, no significant discriminant variables were found at the environmental construct level. This was a function of the measurements diluting the influence of important items; rather than there being no relationship.

When a test for discriminating variables was conducted at an individual item level, quantitative evidence was found which showed that external influences can predict satisfaction group membership. At a theoretical level, this supports the view that the environment does have a structural relationship with satisfaction, a variable in the political economy model's internal political process. Additionally, it provides the first support for Frazier's (1983) assertion that the environment does affect part of the outcome stage of the organisational exchange process.

In the next chapter these results are considered in the light of subsequent trends in franchising and the environment, to assess the overall predictive validity of the model.

Chapter 12

Franchising in the 1990's and the Predictive Validity of the Model.

12.1 Introduction

This chapter is a qualitative and reflective in its approach and has three main objectives: The first is to review how franchising has developed in the UK in the 1990's in terms of its sales value and number of franchise operations, following the completion of the survey in this study. Where appropriate, the discussion considers the food industry which is the focal sector for this study. However, we generally focus our discussion on the franchise industry as a whole due to the consistent problem of accessing reliable data on food franchises across time. The central problems continue to be a paucity of data for food franchising firms.¹⁵⁶

The second objective is to comment on the predictive validity of the model developed in this study. The development of franchising in the 1990's is considered in the context of the statistical associations established in Chapter 11 i.e. That franchisor satisfaction is negatively associated with environmental complexity and positively associated with environmental capacity. Within the discussion there is a closer examination of the development of franchising with regard to the variables in the Discriminant analysis which were shown to quantitatively explain franchisor group satisfaction.¹⁵⁷

The third objective is to provide a broad based, anecdotal summary of the development of franchising in the 1990's using insights from a synthesis of information from the literature, industry articles and this study's results. In this section, three issues are proffered for why the development of franchising in the 1990's has been behind the expectations of the industry forecasts of the mid to late 1980's and early 1990's (Power, 1987; Jordans, 1994)

¹⁵⁶ Although a scan of industry directories would reveal the number of franchise firms operating when they were produced, the data they contain says little about the firms financial performance in terms of basic information such as turnover.

¹⁵⁷ See Table 10.5 and Table 10.6. The variables which discriminated franchisor satisfaction group membership were:

Service requirements for consumers.

Food quality requirements for consumers.

Consumers store convenience requirements.

Price requirements of consumers.

Demand for speciality foods.

Convenience requirements for consumers.

In addition, the variables which classified satisfied and dissatisfied franchisors in a t-test analysis were:

Availability of finance for franchisees.

Government good will to franchising.

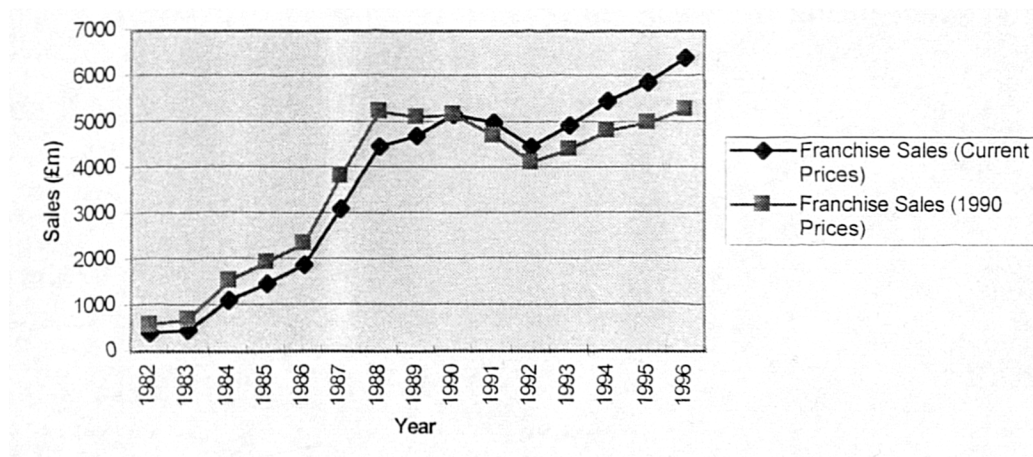
12.2 The Development of Franchising in the UK in the 1990's

The 1990's has seen the emergence of more studies of franchise activity in UK than in the 1980's. For example, Dnes, 1994; Hamid, 1989; Manaresi, 1993; Stanworth, 1995; Stanworth, Purdy and Mills, 1995, Fulop, 1996; these studies are based on point in time cross sectional surveys of franchisors and franchisees or are particular case studies. However, it is clear that the industry is still relatively under researched. The most systematic time series data available to comment on the development of, and trends within the franchise industry is still to be found in the annual surveys of franchise activity which are sponsored by the BFA and the NatWest Bank. These are based on telephone interview surveys of franchisors and franchisees.

A time series analysis of the UK franchise industry's current value sales data shows that although the industry has shown consistent development across the last decade, the development of franchising sales has been well behind the projections for the industry made in the late 1980's and early 1990's. For example, Jordans (1994) review of franchising projected sales to reach £12 billion by 1996. Figure 12.1 compares the trend in the franchise industry's sales in current and real and 1990 real prices.¹⁵⁸

Figure 12.1 Comparison of Franchise Industry Sales in Current versus Real values

(1990 Prices = 100).



¹⁵⁸ 1990 real prices are the value of published franchise industry sales deflated by the Retail Price Index. 1990 = 100. 1990 was selected as the base period for 2 reasons:

- Because it provides a reference point for franchising sales as the economy began to move into recession.
- Later we compare the performance of the franchise industry sales value with published environmental indicators which have base years set at 1990. This will ensure a consistent comparison of franchise performance in the macro context, rather than selecting a franchise specific base period.

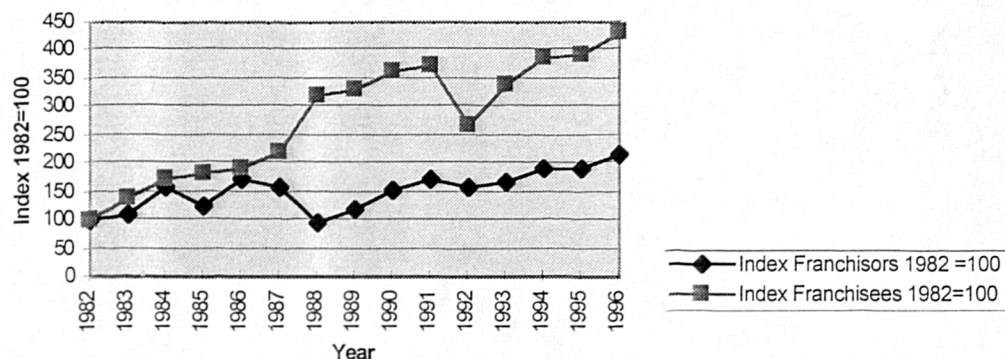
In current prices, the franchise industry's sales reached a pre recession high in 1990 at £5.20 billion. The industry then saw the value of current sales decline as the economy went into recession in the early 1990's. The value of retail sales in current prices recovered to exceed their 1990 level by six percent in 1994 at a value of £5.50 Billion. In current price terms, the value of sales in 1996 was £6.40 Billion, some 23 percent higher than 1990.

This encouraging picture of franchise sales recovery in the 1990's is not supported when looking at the value of real sales, with 1990 as the base year. In the period from 1982 to 1990, the real value of franchised sales (1990 prices) reached their highest level in 1988 at £5.25 billion. The value of real sales reached their low point in 1992 at £4.10 billion, a fall of 22% in real terms compared to 1988. By 1996, the real value of franchise sales (1990 prices) had reached £5.23 Billion. The 1996 figure is only a two percent increase on the real value of sales in 1990, and is only one percent higher than the level of 1988 real sales.

An analysis of the growth and development of the number of franchise systems and franchisees shows different trends in between the two. Figure 12.2 compares the rate of growth and decline for franchisors and franchisees from 1982 to 1996 by using an index for the number of franchisors and franchisees, where 1982 is the base year. Across the total period the number of franchisors has increased from 250 in 1982, to 541 in 1996, an increase of 116 percent. In the same period the number of franchisees has increased from 5,000 in 1982 to 21,500, an increase across the period of 330 percent. Simultaneously, the average number of franchisees per franchise system increased from 40 in 1982 to high of 113 per system in 1988, but declined across the 1990's and stands at 79 in 1996.

The decline in the average number of franchisees per system since 1988 is due to a faster increase in the number of franchisors compared to the number of franchisees entering the industry across the 1990s. From 1993 to 1996, the average year on year increase in the number of franchisors was 9.2 percent, while the year on year increase for franchisees was 8.2%.

**Figure 12.2 Index of Franchisor and Franchisee Numbers in the UK
(1982=100)**



Three trends are evident within the industry. First, that the number of franchisors has continued to rise, reaching a record in 1996, with 541 systems. This has partly accounted for an expansion in the number of franchisees. The other factor which will explain an increase in franchisees is the expansion of franchising in firms which have been involved in franchising from 1982 to 1996; either by increasing the number of their franchised outlets as incremental units to their system, or, converting existing company owned units to franchised units.

The number of franchisees has continued to expand across the total time period. Although, the number of franchisees shows a stronger down turn in the recession of the early 1990's than the number of franchisors. The number of franchisees fell by 28 percent between 1990 and 1992, compared to a fall of four percent for the number of franchisors. The next section moves onto consider the trends within the industry in the context of broader environmental trends and the model developed in this study.

12.3 The Predictive Capability of the Model

This section discusses two specific areas. First, the development broader environmental trends in the UK economy across the from 1982 to 1996. This time period is selected because it provides a review of the environment across the frame for which the data is available on franchising.

Second, the trends in UK franchising and the environment are reviewed in the context of the predictive capability of the model developed in this study. Within this section an examination of franchising in the food industry is used to support the discussion of

franchising and environmental complexity. The discussion focuses on trends that have emerged subsequent to the execution of the survey in this study in 1989.¹⁵⁹ This step provides a valuable basis for evaluating the value of the model in this research, for better understanding its contribution to political economy theory in marketing channels, and provides perspective for other researchers in the future on the value of the approach.

12.3.1 Broader Environmental Trends 1982 to 1996

To evaluate the economic climate across this period we look at two broad measures of economic activity; output and expenditure. These are Gross Domestic Product (GDP) and total consumer expenditure and expenditure on “other services”. GDP is the value of total economic activity measured by expenditure, this includes expenditure on stocks and work in progress, and fixed capital formation. We include GDP for two reasons: First, because franchisors can be large enterprises of forwardly integrated manufacturers, or wholesalers, or large retailers who could spend significant sums of capital on expansion. GDP includes the effect of expenditure by manufacturers and suppliers on stocks and fixed capital, giving an overall picture of the climate of economic activity. Franchisors and franchisees are suppliers of business to business services, for example delivery and haulage, cleaning, we therefore want include expenditure over and above total consumer expenditure to understand trends in the broader economy.

Consumer expenditure is personal expenditure on total goods and services. “Other goods and services” are included because it provides data on expenditure for market sectors where franchises have typically achieved higher penetration, for example, hairdressing and beauty care, catering, meals and accommodation, and costs of life assurance and pensions schemes.¹⁶⁰

¹⁵⁹ Although the discussion centres on the trends for the whole franchise industry, while the results from the empirical analysis were based on a survey of food franchising firms, this step is considered to be valid for achieving the section objective vis-à-vis’ a commenting on the predictive validity of the model for two reasons:

- a) The model is derived from theory which has general application.
- b) The discussion is broader than the food industry, it still concerns similar organisations i.e. business format franchises, which are the study unit in this research. Our desk research has not uncovered issues, such as legislation, which would require the separation of the food industry from a general discussion on business format franchising.

¹⁶⁰ All data is taken from the Annual Abstract of Statistics, The Stationary Office, London.

Figure 12.3 Trends in GDP, total consumer expenditure and expenditure on other goods and services from 1982 to 1996 at 1990 constant prices.

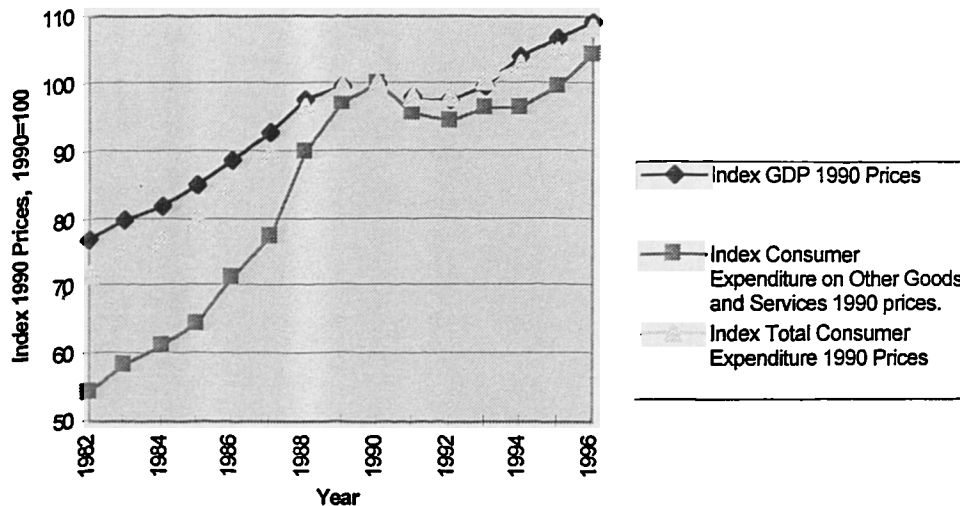


Figure 12.3 shows indexes for GDP, total consumer expenditure and expenditure on other goods and services from 1982 to 1996 at 1990 constant prices, with 1990 as the base year. It shows broadly similar trends across the three measures. GDP increased by 23 percent from 1982 up to 1990 and then contracted below 1990 levels for 1991, 1992 and 1993. By 1996, GDP was 8 percent higher than the 1990 level. Total consumer expenditure, a major component of GDP, unsurprisingly it follows a similar trend as GDP, but grew by 28 percent in the period 1982 to 1990. By 1996, total consumer expenditure was seven percent higher than 1990 levels.

There was a 45 percent increase in expenditure on other goods and services from 1982 to 1996. As a percent of GDP and total consumer expenditure, the expenditure on other goods and services increased 33 percent and 26 percent in the period 1982 to 1996 respectively. The results are shown in Table 12.1. However, expenditure on other goods and services was predictably more hard hit in the recession of the 1990's, falling by 6 percent in real terms from 1990 to 1993, and only recovering to 1990 levels in 1995. The recession affected expenditure on other goods and services more deeply and for a longer time period than total consumer expenditure.

Table 12.1 Expenditure on Other Goods and Services as a percentage of GDP and Consumer Expenditure from 1982 to 1996.

Expenditure on other goods and services	1982	1996	Percent Increase 1982 to 1996 (%)
% of GDP	9	12	33
% of total consumer expenditure	15	19	26

Table 12.1 indicates that there is an increasing proportion of total in the expenditure in the economy spent on goods and services which are associated with franchise markets (Caves and Murphy, 1976). In general terms, the pattern of consumer expenditure has been well documented as moving increasingly towards spending on services, which should favour the development of franchising. We now turn to consider how these trends in the economy are associated with trends in franchising.

12.3.2 UK Franchising and the Predictive Capability of the Model

In Chapter 11 we found a statistically significant positive association between franchisor satisfaction and environmental capacity and statistically negative association between franchisor satisfaction and environmental complexity. Satisfaction as a variable was shown to co-vary with performance.¹⁶¹ In this section the model's predictive ability is considered by comparing what happened to franchising in the UK, with trends in environmental capacity and complexity. For each of these variables we are forced to use proxy measures, because the variables in the model were cross sectional and perceptual. Franchisor satisfaction (and performance) is examined through the level of franchise sales and the number of franchise businesses in the UK. Broad measures of environmental capacity and complexity are used to represent the environment. For capacity, these are the level of GDP, total consumer expenditure and expenditure on other goods and services. These indicate the amount of resources in the macro environment. For complexity, we develop an analysis of expenditure on food products to examine how expenditure has become more differentiated.

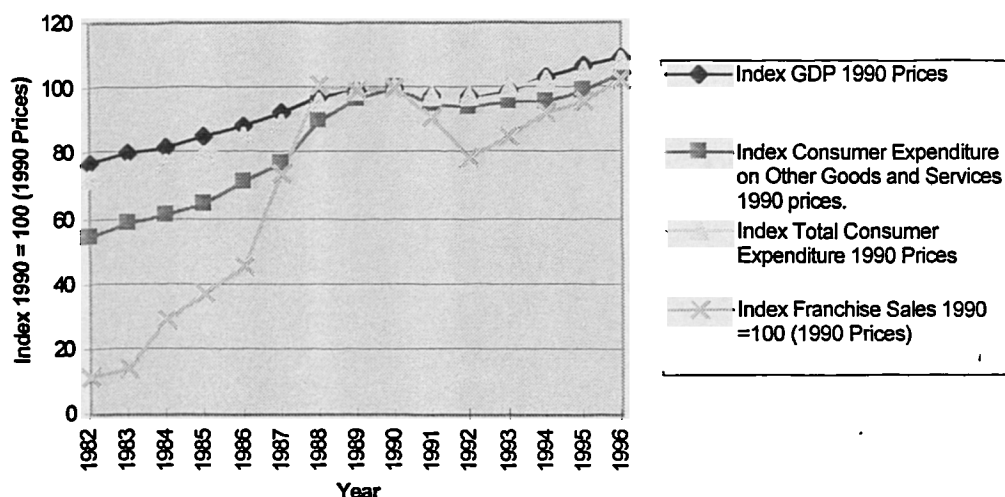
12.3.2.1 Franchising and Environmental Capacity

To comment on the predictability of the model, the discussion now examines franchise performance in the context of environmental capacity. In Figure 12.4 the index for franchise sales 1982-1996 is added to the indexes for GDP, total consumer expenditure and expenditure on other goods and services which appeared in Figure 12.3, all figures are in

¹⁶¹ See Chapter 5 for a full discussion of satisfaction and performance.

1990 real prices. The figure shows that the value of franchise sales grew rapidly up to 1990, ahead of the increases in all the other variables. In the recession of the early 1990's, franchise sales however contracted more than any of the other measures, suggesting that franchising sales are particularly susceptible to changes in environmental capacity. By 1996, franchise sales were catching up the growth in the environmental variables.

Figure 12.4 Trends in GDP, Total Consumer Expenditure, Expenditure on Other Goods and Services, and the Value of Franchise Sales from 1982 to 1996, at 1990 constant prices.



To examine the association between franchise sales and the environmental variables selected to represent environmental capacity we conducted a Spearman correlation analysis. The results of this are shown in Table 12.2. This shows a very strong association for the value of franchised sales with the level of each variable. The high coefficients indicate that franchising sales, and therefore performance and satisfaction, are strongly associated with the level of environmental capacity. This provides some general support for the association derived from the model in this study.

Table 12.2 Spearman Correlation Coefficients for Value of Franchise Sales and the Level of GDP, Total Consumer Expenditure and Expenditure on Other Goods and Services. Base Period 1982-1996

Correlation	Correlation Coefficient	Significance	Number
Franchise Sales and GDP (1990 Prices)	0.961795	0.05	N=15
Franchise Sales and Consumer Expenditure (1990 Prices)	0.949915	0.05	N=15
Franchise Sales and Other Goods and Services (1990 Prices)	0.967511	0.05	N=15

The highest coefficient of 0.967511 is for the correlation with the value of consumer expenditure on other goods and services. This supports the assertion made earlier that franchise activity is strongly associated with a move to a service economy. Expenditure on the types goods and services included in this variable are dependent on the level of disposable income and economic climate.

An examination of the number of franchised outlets and the environmental capacity measures also indicates a strong association between franchise growth and the amount of resources available in the operating environment. Table 12.3 indicates that there is a very high positive association between the number of franchisees in the UK and the level of total consumer expenditure and consumer expenditure on other goods and services. There is also a statistically significant positive association between the number of franchisors and the level of total consumer expenditure and consumer expenditure on other goods and services.

Table 12.3 Correlation Coefficients for the Number of Franchisors and Franchisees, and the Level of Total Consumer Expenditure and Consumer Expenditure on Other Goods and Services. Base period 1982-1996

Correlation	Correlation Coefficient	Significance	Number
Number of Franchisors and Total Consumer Expenditure	0.61531	.05	N=15
Number of Franchisees and Total Consumer Expenditure	0.96888	.05	N=15
Number of Franchisors and Consumer Expenditure on Other Goods and Services	0.740482	.05	N=15
Number of Franchisees and Consumer Expenditure on Other Goods and Services	0.944679	.05	N=15

The strength of the association for franchisees and expenditure is however higher than the strength of association for franchisors. Which suggests that the number of franchisees is much more sensitive to the level of expenditure in the economy. This may be on the basis of several factors which could be considered in future research:

- a) Franchisors decisions to franchise more outlets may be more sensitive to perceived or actual higher consumer spending.
- b) Franchisees may feel more confident about entering franchising in times of perceived or actual higher consumer spending.

More perspective on this is provided by comparing the association between the level of franchise sales and the number of franchisors and franchisees in the period 1982-1996. Table 12.4 shows that the correlation coefficient 0.938478, between the level of franchise sales and the number of franchisees. This is a much higher coefficient than that of 0.456596 between the number of franchisors and franchise sales. This provides some evidence that the spread of franchising is more associated with the recruitment of franchisees to the industry than increases in the number of franchisors.

Table 12.4 Correlation between the level of Franchise Sales and the number of Franchises and Franchisees

Correlation	Correlation Coefficient	Significance	Number
Franchise Sales and Number of Franchisors	0.456596	.05	N=15
Franchise Sales and Number of Franchisees	0.938478	.05	N=15

A conclusion from this observation is that for the dimension of environmental capacity in this study, that the number of potentially suitable franchisees is particularly important to the performance of the franchise industry's sales performance.

12.3.2.2 *Franchising and Environmental Complexity*

Capturing the concept of environmental complexity is more difficult at a general level than environmental capacity. This is because environmental capacity has more meaningful objective proxies: The level of GDP, consumer expenditure and consumer spending on other goods and service are real objective measures in the environment. There can be little theoretical dispute about their meaning, i.e. that they measure the value of economic activity; and that they easily fall into the domain of environmental capacity.

Defining a surrogate for complexity is more problematic. Environmental complexity is a more abstract dimension than capacity. In this study, the dimension was defined as "The degree of difficulty facing the franchisor in coping with the differentiation between elements of the population dealt with, including organisations, individuals and any social forces". In this, and other studies complexity has been measured using cross sectional perceptual data.¹⁶² This is because complexity is not in itself an objective variable, but a broad qualitative dimension of the environment, and part of perception. The literature unsurprisingly does not provide time series data on levels of perceived environmental complexity. Using the available time series data as a surrogate requires using objective variables, such as the number of competing firms, or number of suppliers and fragmentation of demand in the operating environment of franchisors. An examination of objective as opposed to perceptual measures involves using surrogates which will not

¹⁶² An example definition of Complexity is Aldrich's (1979, p.66): "The degree of similarity or differentiation between elements of the population dealt with, including organisations, individuals and any social forces affecting resources".

wholly capture the concept of perceived environmental complexity. Recognising this qualification, the discussion will consider franchising in the food industry, rather than a general industry review. This has two benefits: First it will reduce the generality caused by a review of environmental complexity using industry level objective measures, because the level of complexity will vary across different markets. Second, this will provide a perspective on complexity which is in the context of this study's research setting.

The surrogate used to examine franchisor satisfaction (and performance) in the food industry is the number of franchise firms in the food industry from 1988 to 1996.¹⁶³ The surrogate used to comment on environmental complexity is average weekly household expenditure on pre prepared food, hot take away food, and total meals eaten away from the home. These are variable which concern consumer demand i.e. the output sector of franchises in the political economy model of the environment. It is appropriate for the discussion to focus on complexity vis-à-vis consumer demand because the item level Discriminant analysis in Chapter 11 indicated that the variables which discriminated between satisfied and dissatisfied franchisors were demand led, see Table 11.5.

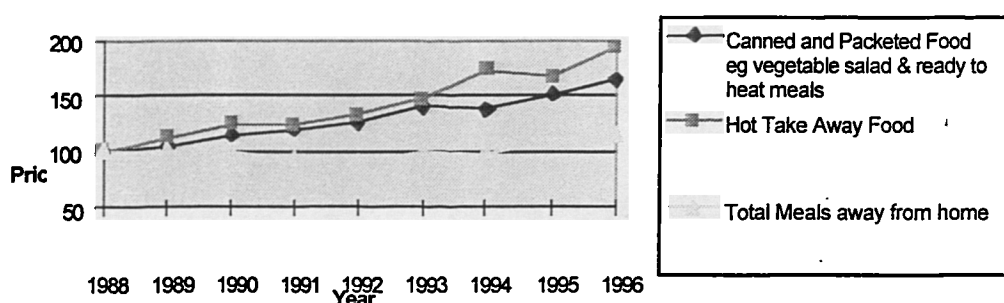
The key attributes of consumer demand which discriminated between the two franchisor groups were demand for service and speciality food. Reviewing expenditure on pre prepared food, take away food and total meals eaten away from the home is consistent with a review of demand for speciality and service in food retailing.¹⁶⁴ Further, these variables are within the domain of environmental complexity because trends in expenditure capture the rapidly changing consumer preferences for food (Beardsworth and Kiel, 1992). This approach to the concept of complexity is consistent with the questions we asked franchisors in the questionnaire. We asked franchisors to indicate the extent to which they had difficulty in meeting consumer requirements. Intuitively, more differentiated consumer spending will lead to a complex environment. Additional support for the trend towards increased speciality food is provided by Mintel (1996, p.95), who observe that the major multiple retailers are moving into supplying these significant markets, "as the major grocery multiples add to and improve their ranges, there is less room in the market for the specialist food retailer. The only food sector to have (its own specialist) multiples of a significant size is the bakery trade. Even so, multiple grocers account for more than 80 % of bakery sales volume".

¹⁶³ The number of firms recorded are those found in i) the United Kingdom Franchise Directory and ii) Franchise World Directory iii) the BFA's membership lists, across this time period. Where firms have not been recorded in each directory we have assumed that they have withdrawn from franchising. Our scanning of the trade journals indicates that this is a reasonable assumption.

¹⁶⁴ See Section 3.3.1 for a broader review of trends towards the service economy.

Figure 12.5 shows the trends in average weekly household expenditure on pre prepared food, take away food and meals eaten away from the home from 1988 to 1996, at real 1990 prices, where 1988 is the base year. Expenditure for hot take away food has increased consistently across the period, and is 95 percent higher in 1996 than 1988 in real terms.¹⁶⁵ Expenditure on pre prepared foods has similarly increased by 64 percent across the period. Expenditure on total meals away from home has shown a different trend, expenditure declined from 1990 by 10 percent to index 90 versus the base in 1992. By 1996, expenditure on total meals away from home had increased to a level which was 15 percent higher than in 1988. This suggests that this expenditure is more susceptible to downward fluctuations in periods of recession.

Figure 12.5 Trends in Average Weekly Household Expenditure on Pre Prepared Food, Take Away Food and Meals Eaten Away from the home from 1988 to 1996. 1988 = 100.



An analysis of trends does not indicate whether the environment has become more complex. An analysis of trends shows whether there is change across time. This dimension was not shown to have a statistically significant association with franchisor satisfaction in the model. To consider the concept of complexity we need to consider whether the structure of demand has changed, i.e. whether it has become more complex to attend because food preferences are becoming more diverse. This can be seen by examining the percent of total consumer expenditure that is accounted for by the variables we have used as proxies for demand for service and speciality products. Table 12.4 shows that the percentage of total household weekly expenditure on food accounted for by the three variables has increased by 68 percent in the period from 1988 to 1996.

¹⁶⁵ Source: Family Expenditure Survey.

Table 12.5 Percentage Change in Share of Average Weekly Expenditure on Food, for on Pre Prepared Food, Take Away Food and Meals Eaten Away from the home from 1988 to 1996.

Average Weekly Expenditure 1990 Prices	1988	1996	Percent change 1996 vs. 1988 (%)
Pre Prepared Food	0.4%	0.8%	100
Take Away Food	0.2%	0.5%	150
Meals Eaten Away	1.6%	2.4%	50
Total	2.2%	3.7%	68

In summary, it is possible to describe the markets for on pre prepared food, take away food and meals eaten away as having grown significantly in real terms from 1988 to 1996. The change in the size and importance of these markets as a percent of total consumer expenditure on food creates a more complex market place because the number and scale of consumer preferences, expressed in expenditure terms has increased.

Food industry franchisor numbers between 1988 and 1996 have increased from 29 to 73. The number by key sector is shown in Table 12.6.

Table 12.6 Number of Food Industry Franchisors by key sector 1988 to 1996

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Delivery	4	5	6	5	4	6	3	3	3
Catering	20	30	31	31	48	59	58	66	60
Food Retail	5	9	12	13	14	13	10	11	10
Total Food per Year	29	44	49	49	66	78	71	80	73

The sector which has shown the strongest overall improvement in numbers is catering, with an increase from 20 outlets to 60 by 1996. The number of delivery businesses has stayed flat. There has been a relatively small increase in the number of walk in retail franchisors across the period, from 5 to 10.

These figures do however hide a relatively high level of entry and exit from the industry. In the period from 1988 to 1996, there have been a total of 129 franchisors, the current 73 franchisors represents 62 percent of the franchise systems in the period. The number of firms surviving from 1988 to 1996 is: 3 in delivery (75 percent); 8 in catering (40 percent) and only 2 in retail (40 percent). The firms which have survived tend to be typically American, with established brands, such as Kentucky Fried Chicken, McDonalds, Dominoes, Snappy Tomato Pizza, Poppins, Baskin Robins. See Appendix VI.

The seemingly high entry and exit rate of franchisors into the food industry, and the already noted increasingly complex character of demand provides some descriptive evidence to support the model. That is, that franchisor satisfaction is negatively related to complexity in consumer demand. A future study could look at this issue in more detail to establish a statistical relationship.

Separately, business format franchising has not succeed in developing a strong presence in retail convenience stores, a key sector for franchising in the US (Hunt 1971. Franchising in the US Economy, US Government Publication, 1996). We note that one of the firms involved in franchising in 1988 are involved in franchising in 1996 in this sector. The withdrawal firms have either ceased trading, e.g. the Late Late Supershop, or have been taken over e.g. Circle C. There are only two franchisors in 1996 who are relatively small compared to their major non franchised competitors in grocery retailing. Although, the statistical analysis in the model showed no significant association between franchisor satisfaction and concentration, across time this may not be the case. The concentration of grocery sales into major multiples has continued since the time of the survey. In 1987, the share of grocery sales accounted for by the top 4 retailers was 44.1 percent. By 1996, the figure was 60.5 percent, an increase of 37 percent. The trend towards increased concentration by size of outlet is shown in Table 12.6. This shows that in the period from 1990 to 1995, single outlets and small multiples have lost 26 percent of their share of grocery sales to the large multiples.

Table 12.7 Percent of Grocery Sales by Outlet Size 1990 to 1995

Percent of Sales	1990	1991	1992	1995
Single Outlet	18.4	17.7	16.4	13.1
Small Multiple	7.6	6.9	6.7	6.2
Large Multiple	74.0	75.4	76.9	80.7

Source: Mintel 1996.

This concentration may be limiting resources and raising barriers to entry in this market which may now affect franchisor satisfaction. Evidence for this is provided by Mintel (1996,p,7) who observe that “Convenience retailing is extending to the major multiples which have increased their trading hours and, in some cases, are moving into small neighbourhood or high street locations....It is therefore more difficult for established convenience stores to charge a premium for their key benefits of longer hours and easily accessible locations”. A future study could consider this issue in more detail.

12.4 Anecdotal Summary of the Development of Franchising in the 1990's

It is clear that franchising did not achieve the strong growth forecasts that were made by industry observers in the mid to late 1980's and early 1990's (Power 1987; Jordans 1994). Three broad reasons are proffered below, with supporting data, for why the development of franchising has been behind these forecasts, particularly within the food industry. These reasons are;

- a) That the agency cost rationale for franchising is not a key motivator for organisations to adopt franchising in the UK compared to the US.
- b) There may be an image issue for the franchising industry in the UK in the early to mid 1990's.
- c) Government policy changes regarding the withdrawal of the small firms loan guarantee scheme reduced support for the retail and catering sectors. this could have reduced the for availability of finance for potential franchisees.

12.4.1 That the agency cost rationale for franchising is not a key motivator for organisations to adopt franchising in the UK compared to the US, particularly in food retailing

The agency cost rationale for franchising (Rubin, 1978; Brickley and Dark, 1987; Martin 1988; Brickley, Dark and Weisbach 1991; Dnes 1994) asserts that because of the nature of the markets franchising operates in, i.e. that production centres (outlets) are geographically dispersed, the costs of monitoring and management to maintain trademark quality are lower under franchising than company owned outlets.¹⁶⁶ For example, Brickley and Dark (1987) found empirical evidence in a study of US franchising to show that units are more likely to be franchised in rural or small urban areas where there are high levels of repeat custom. This was on the basis that geographic dispersion creates special monitoring problems, for example, manager shirking because supervisors are not on site, costs incurred while travelling to supervise distant locations and costs of more supervisors.

It was noted in Chapter 4 that the US market is more geographically dispersed than in the UK. The UK's higher concentration of population in urban areas and lower of spatial distances to outlet locations may reduce the extent to which franchising is adopted by UK according to this theory. This due to two factors: First, monitoring costs are lower when outlets are less dispersed. Second, because there is a higher level of non repeat custom in densely populated urban areas, and the UK's population is more concentrated into densely populated areas than the US, there is an incentive for the firm to operate their outlets in these locations as company run to deliver the highest possible quality of service and protection of the trademark. Within a survey of the trade journals three issues are identified which provide some support for the hypothesis agency cost issues may be acting as a brake on franchising development in the UK.

a) Some key US franchise brand owners have established joint venture's or sold master franchises in the UK rather than develop distribution systems through one off franchising to individual franchisees. There is evidence that some of the successful US franchise operations have chosen not to establish their operations in the UK using the business format structure. Instead they have sold master franchises or established joint ventures with UK firms, and have then decided to establish their business on a company run basis. Although not always successful, US franchisors have used this approach to secure two principal

¹⁶⁶ Jordans (1991, p. XIV) notes that franchising in the UK is "almost exclusively confined to any service which can offer convenience at reasonable cost;" and "Although fast food and instant print shops are often thought of as the most commonly franchised systems, the largest sector, measured in terms of sales, is business services, which account for 23% of the total franchising market". Total food and drink accounted for 17 percent of franchise sales in the UK in 1991, this is low compared to the US where fast food alone accounts for 36 percent of franchised sales.

benefits, which appear to have a higher business priority than agency costs issues: Master franchising or joint ventures avoids accepting all risks and launching with substantial capital investment (Campbell and Lafili, 1990)ⁱ.

Examples of master franchising in the UK to large scale master franchisees include PepsiCo, who introduced Pizza Hut and TGI Fridays into the UK through a joint venture with Whitbread. Whitbread have not sub-franchised any UK units. Other examples are; Dave and Busters restaurant and leisure centres who have sold a master franchise to Bass in 1995; Wendys, the American hamburger chain, re entered the UK in 1995 following an unsuccessful launch in the 1980's, and sold its first franchise in the UK to the Bass brewing group. There are some of the less successful examples of this strategy within the UK food industry, the Southland Corporation's 7 Eleven convenience store franchise in the UK has not seen any franchise development and it now looks probable that the fascia will actually disappear. In the UK, 7 Eleven has had several corporate owners, for example, Guinness from 1986 to 1987, Jardine Matheson and Southland from 1987. In 1997 7 Eleven became part of the Budgens group and many of the convenience stores were set to be converted to Budgens own fascia.¹⁶⁷ In the US 7 Eleven is the largest franchised convenience store chain.

There is some evidence that the strategy of American franchise firms to franchising through master franchising in the UK may have limited the penetration of US franchises. In a speech at the International Franchise Association's International Symposium in 1995, Stern (1995) gave several examples of American franchises which had been successful in the US but had failed with master franchises in the UK. He indicated two key reasons for failure;

- i) High priced franchised packages, structured with high start up costs and tie-ins. He cited one example where the initial fee was \$250,000, unit opening fees of \$5,000 and an agreement to open 200 units in 10 years. The ongoing royalty was only 1%, which meant that the master franchisee was paying most at the start of the franchise when expenditure is highest compared to sales. He asserted, "Even if the master franchisee's where with all is reasonable at the start, it can decline very rapidly with disastrous results for both parties - failure for the franchisee and a damaging withdrawal from the host country by the franchise".
- ii) Selection of inappropriate and inexperienced masterⁱⁱ franchisees and then failure by the franchisor to provide motivation and support.

¹⁶⁷ "Supermarketing" January 1998.

In his conclusions he recommended that US franchisors set the start up cost pricing and ongoing fees to master franchisees at a realistic level to improve the chances of long term success for both parties.

Separately, but related the issue of lower than expected development of franchising and agency theory, is a key example of a leading US franchise operating in the UK food industry with a different distribution strategy from that which it operates in the US is McDonalds. In the US, McDonalds franchises 75 percent of its outlets. In the UK, McDonalds franchises 25 percent of its outlets. In the depth interview with the franchise manager at McDonalds, a key reason cited for the different distribution strategy was that it was easier to manage a higher proportion of company outlets in the UK because it was a smaller country.¹⁶⁸ The strategy adopted in the UK reflects a strategy implemented in the US in the late 1960s and 1970's where it bought back outlets from franchisees in densely populated urban areas and ran them as company owned outlets (Felstead, 1993). If other US firms follow this strategy it can be expected that there will be a lower proportion of outlets franchised in the UK than in their operations in the US.

b) Second, there is evidence that some franchised businesses have not built the proportion of franchised operations to company run in the UK. Table 12.6 shows the proportion of company run outlets for 11 firms in food retailing and 6 firms in the business delivery sector in the 4 years from 1993 to 1996. The firms in each sector were randomly selected. The percentage of company owned outlets in the food retail sample has increased from 18.6 percent in 1993, to 34.1 percent in 1996. Across this period the total number of outlets in the sample showed a slight decrease, this was 1.2 percent, from 772 to 763 outlets.

¹⁶⁸ See Chapter 4.5

Table 12.8 Comparison of the Percentage of Franchised Outlets by Selected Company in Food Retail and Business Service Sectors

Company vs. Franchised	Comp any	Franc hised	Comp any	Franc hised	Com pany	Franc hised	Com pany	Franc hised
Food Retail	1993	1993	1994	1994	1995	1995	1996	1996
Alpine Soft Drinks	0	170	0	170	8	180	8	180
Baskin Robins	0	60	2	59	3	77	3	77
Burger King	87	113	87	113	95	250	95	250
Coffilta#	0	75	0	42	0	41	0	0
Dominoes Pizza	0	74	0	79	6	94	6	94
KFC	74	209	83	212	84	220	136	209
Perfect Pizza	4	156	16	214	21	198	21	198
Poppins	0	50	0	40	0	36	0	34
Snappy Tomato Pizza	5	20	5	18	5	15	5	15
Spud U Like	18	28	18	28	18	24	26	19
Circle C**	20	39	19	48	18	41	NA	NA
Total	121	651	141	681	152	669	194	569
<i>% CO vs. Franchised</i>		<i>18.6%</i>		<i>20.7%</i>		<i>22.7%</i>		<i>34.1%</i>
Business Services	1993	1993	1994	1994	1995	1995	1996	1996
ANC Holding	10	54	10	54	12	62	3	72
Business Post*	12	53	12	53	14	47	19	42
Captain Cargo	8	76	8	76	50	150	40	90
City Link	16	37	6	48	10	47	9	56
Interlink	21	17	2	118	2	118	2	118
Panic Ltd	0	90	0	128	0	128	1	128
Total	67	327	38	477	88	552	74	506
<i>% CO vs. Franchised</i>		<i>20.5%</i>		<i>8.0%</i>		<i>15.9%</i>		<i>14.6%</i>

* Changed to Fasttrack in 1995. The company plans to expand franchising to 80% of distribution outlets.

Coffilata went out of business in 1995.

** Purchased by Alldays

This compares to the business services sector where the percentage of company owned outlets has decreased from 20.5 percent in 1993 to 14.6 percent in 1996. The total number of units in the sample increased by 47.3 percent, from 394 units to 580 units.

The food retail industry has typically been associated with strong franchising development in the US. The fact that the development of franchised units in the food retail sample is significantly behind the business services sector in these samples, suggests that there maybe an environmental issue to explain this. One hypothesis to explain this within agency costs theory is that the monitoring costs rationale for franchising is different across markets in the UK leading to differential rates of franchise expansion. Firms in the food sector are typically fixed site retail franchises in urban locations where the monitoring costs will be low. This compares to the business services sector which are typically delivery and distribution franchises where monitoring costs would typically be higher.

c) Some leading firms have reduced the scale of their franchising activity or abandoned it altogether. Across the 1990's there have been examples leading franchising firms reducing the scale of their franchise involvement in the UK. From 1989 to 1993 Tie Rack reduced the number of its franchised shops to from 50 to 20 percent of the total outlets and planned to convert all its outlets to company run. Tie Rack changed its distribution strategy to increase the level of control over the running of its outlets, reduce its exposure to franchise debt and to drive its profitability (Jordans 1994). Coincident with changing its distribution strategy Tie Rack increased its profits 5 fold to £5.1 million and sales by 23 percent to £67 million in the 12 months to 31st January 1993.¹⁶⁹

In 1996 Pizza Express bought back its last 32 franchised outlets at a cost of £25m.ⁱⁱⁱ The purchase was funded by a share issue. The reason for the buy back of franchised outlets was explained by the Chairman of Pizza Express on the basis of two key reasons. These were to increase profitability and to increase the freedom of managing the chain. He stated. "The acquisition creates a more coherent group and will enhance earnings".

12.4.2 There has been an image issue for the franchising industry in the UK across the early to mid 1990's

Across the early to mid 1990's a key discussion topic in the industry has been how to effectively promote and protect of the image of franchising. The literature indicates this has centred around the two fundamental issues affecting the long term development of the industry;

¹⁶⁹ Sources: Tie Rack Annual Report 1993. Franchise World, May-June 1993, p. 4.

- a) How to attract new franchisees?
- b) What is the appropriate strategy for the BFA in promoting and protecting the industry?

Each of these points is now discussed.

12.4.2.1 How to attract new franchisees to the industry?

There is evidence that the development of the industry has been limited as a result of not attracting enough franchisees into the industry. There are three basic issues identified:

- i) The industry needs to increase the effectiveness of its promotional activity to gain a critical mass of interest from potential franchisees.
- ii) Prospective franchisees who have been exposed to the benefits of franchising have not decided to buy a franchise.
- iii) There are funding issues for franchisees.

At the BFA's 1995 annual conference, Brian Smart, the BFA's executive director, presented the scale of the challenge for franchisors in attracting franchisees on the basis of a set of conversion ratios. He asserted that to maintain the current growth rates, the industry would have to recruit 2,500 franchisees per year. He extrapolated a series of conversion ratios from franchise awareness by the public to the purchase of a franchise. Through this process he arrived at a figure of 25 million people needing to be aware of franchising to achieve a recruitment target of 2,500 franchisees. His point was not that half the UK population needed to be made aware of franchising, but rather that on the basis of current conversion ratios and recruitment practices, franchising would struggle to develop as strongly as the industry desired, and that the industry should engage on the recruitment issue.¹⁷⁰

¹⁷⁰ Smart's rough calculations were:

1. 2,500 franchises would be bought following 250,000 franchise enquiries, the current enquiry to purchase ratio is 100:1.
2. To secure 250,000 enquiries at a conversion ratio of interest to enquiry of 10:1 would mean that franchisors had to stimulate interest in 2.5 million people.
3. To generate the interest of 2.5 million people would mean that 25 million people need to be made aware of franchising, assuming a conversion ratio of 10:1 for awareness to interest.

Source: Franchise World (1995).

Support for the recruitment issue was provided by Stanworth, Purdy and Mills (1995) and Fulop (1996). Stanworth et al surveyed attendees at franchise exhibitions and looked at why potential franchisees have not converted their interest into actual purchases.^{iv} Following a survey of potential franchisees i.e. those who had attended franchise exhibitions, Stanworth et al established that the key reasons for not taking a franchise were:

- a) Perceived high levels of control by the franchisor.
- b) High levels of perceived risk with franchises.
- c) The provision of higher security through employment.
- d) Lack of Bank support.
- e) Lack of family support.
- f) A lack of response from the franchisor.

Of the seven specific factors, three of these are arguably issues to do with negative perceptions about buying a franchise. These are; perceptions of high levels of control, perceived high risk and a lack of franchisor response. With regard to the first two, it is clear that franchising is not getting its message across to the public, even at franchise exhibitions^v. That is, that franchising offers clear benefits compared to more traditional economic alternatives i.e. Franchising provides the potential for more economic freedom than employment; franchising provides a less risky route into self employment than establishing an independent small business. This point was highlighted by Fulop (1996). This issue of needing effective marketing to attract franchisees was highlighted by Ayling (1988),^{vi} who asserted that franchisors were in fact marketing on two fronts: Firstly, they were marketing products and services in their operating markets. Secondly, the franchisors are marketing their own business opportunity and franchisors are in fact in competition with each other for the best franchisees at any particular time. The findings of Stanworth, Purdy and Mills (1995) and Fulop (1996) suggests that franchisors and the BFA should engage on how to develop a third marketing front, which is marketing against other forms of economic activity to maximise the pool of potential high quality franchisees.

Fulop (1996) also identified that the environmental capacity issue of capital for franchisees was affecting levels of franchisee recruitment. In a survey of franchisors and franchisees, Fulop found that the depression in the housing market reduced the number of people who would have bought quality franchises by raising capital through second mortgages. This had been a major source of funding franchise purchases in the 1980's and early 1990's.

To improve recruitment, the BFA and franchisors need to look at their strategies for attracting and converting potential interest and enquiries into actual franchisee purchases. Within this, it appears that any review should look at two areas of marketing to potential

franchisees. First, the mechanics for promoting the industry, there is currently a heavy reliance on exhibitions. Secondly, the content of promotional materials and activities should be reviewed to ensure that those who enquire about franchising are not confused about its benefits.

12.4.2.2 The appropriate strategy for the BFA in promoting and protecting the industry

The role of the BFA in promoting and protecting the franchise industry in the UK has come under some criticism in the trade press from journalists and professional services in the early to mid 1990's. A review of the trade journals indicates there are two themes which may have negatively affected perceptions and the interest of potential franchisees in the industry during the early and mid 1990's;

- a) the BFA 's level of inclusiveness. The BFA has had limited representation of franchisors. Up until 1997 it did not have any formal structure for allowing franchisees to participate in discussions on the direction of the industry.
- b) the BFA's leadership in the protection of the industry's standards and image.

Each of these themes is now discussed.

12.4.2.2.1 BFA as an inclusive organisation

With regard to the criticism that the BFA is not representative of franchisors, an examination of its membership compared to the total number of franchisors reported operating in the UK suggests that its coverage is limited. Table 12.6 shows the BFA's membership numbers in the "Full" membership category and total reported number franchisors from 1988 to 1996. This shows that the proportion of total franchisors who are full members of the BFA declined from 34 percent in 1988 to 12 percent in 1996.

Table 12.9 Comparison of BFA Membership and Total Number of Franchisors

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Number of Franchises	244	295	379	432	396	414	474	474	541
BFA Full Members	83	89	87	88	80	76	NA	72	65
BFA % of Franchises	34	30	23	20	20	18	NA	15	12

This decline in the level of representation of the industry undermines the BFA because it does not represent the majority of franchisors, and the activities of unethical franchisors are beyond its policing and self-regulatory powers.

The BFA is a trade association for franchisors. Up until 1997 it did not have structures to represent franchisees. This has been seen as a weakness by industry observers and its President, Sir Bernard Ingham, because it was a position which did not allow the BFA to present itself as speaking for the industry as a whole.¹⁷¹ For perspective, in 1995, there were 474 franchisors and over 19,700 franchisees involved in franchising in the UK. In 1997 the BFA responded to pressure within the industry to establish a structure to represent franchisees and created the National Franchisee Forum. The forum operates through a postal consultation process, with quarterly feedback and information contained in a newsletter. The forum is administered by one full time manager at the BFA (Link Magazine, 1997). The forum operates through a postal consultation process with feedback and information contained in a newsletter. The forum is administered by a full time manager at the BFA (BFA Link Magazine, 1997). The BFA's 1997 initiative followed a survey of UK franchisees, which was sponsored by the BFA in 1995, this found strong support amongst respondents for contact with the BFA. The key results were that: 69 percent of

¹⁷¹ The under representation of the BFA was recognised by Ingham in a speech to the BFA's annual conference in 1995. Within this he commented that "The BFA does not represent the whole industry, only the better minority of it.....Looked at in purely PR terms - what I would otherwise define as common sense - we do not yet have a product in the BFA which we can whole heartedly sell. He went on to say "we have to use franchisees to clean up the industry and to strengthen the BFA". Within this speech he outlined his strategy for strengthening the BFA. This had three main elements:

- a) Mount a strong campaign to position the BFA as the ethical and truly representative trade association for franchising in the UK.
- b) Create structures to represent franchisees, as well as franchisors.
- c) Marginalise non members by recommending to prospective franchisees and other organisations involved in franchising, e.g. banks, solicitors etc. that they avoid contact with non members.

those surveyed said direct contact with the BFA was relevant; 70 percent thought it was relevant that they should be involved in the co-ordination of the development of the industry; this supported by 23 percent indicating that PR for the whole industry was relevant to their business.¹⁷²

In a review article, Bernard Ingham was quoted as saying “We have to nail once and for all the idea that this is mere tokenism - that what we are doing is, setting up a franchisee forum which is, as it were, there because it looks good”^{vii}

While the BFA has now expanded its representation to include franchisees, it is possible that its failure to do this earlier meant that there has been an ongoing debate in the industry and press about the issue which may have deterred some potential franchisees, who feared that they may be outside the mainstream of franchising debates. Some evidence for this assertion is in the fact that of existing franchisees, 70 percent did think that contact with the BFA was relevant to their business. It therefore seems reasonable to assume that a large proportion of those thinking about entering the industry may have a similar point of view.

12.4.2.2.2 The BFA and Standard Disclosure

The fact that the BFA is not representative of all franchisors in the franchise industry in part explains part of its challenge in developing and maintaining the image and standards of the industry. Although the BFA requires its members to disclose business performance information to prospective franchisees, it is not able to control the practice of non members regarding their disclosure practices. This means that the industry is vulnerable to unscrupulous franchisors, or business opportunists, using the reputation and equity of franchising as a means to promote and sell their own business propositions. One of the key issues within the mainstream part of industry is how to drive out the “cowboys”?^{viii}

A review of the trade press indicates that there is much discussion and in fact frustration within the industry on how to make progress against this question. In particular, there is evidence that the BFA as come under criticism for a lack of leadership in helping to make progress.

The debate within the industry has centred on the question of standard disclosure. Across the mid 1990's an increasingly vocal lobby group has called for the BFA to quickly establish a standard disclosure document for its members. Within this debate the BFA has been criticised for its slow pace in moving the issue forward amongst its members. Mark

¹⁷² Results of this survey were reported in Franchise World, July - August, 1995, p. 5.

Abell, a leading lawyer and author in franchising, has lead the standard disclosure lobby in the UK. He has been quoted in high profile trade articles which show deep frustration on the issue. Two examples illustrate this point “The suggestion by the BFA that it will consider the need for disclosure for another year seems to me, therefore, to be totally out of touch with the majority view of the meeting.....The BFA should not fiddle while Rome begins to burn...If it will not take a proactive lead on standard disclosure, then it may be that others must do it instead.”¹⁷³¹⁷⁴ In a separate article, Abell was quoted as saying standard disclosure is “ the only way to rescue the BFA from what is nothing less than total and utter moral bankruptcy”.¹⁷⁵

Separately, a group of solicitors firms to set up the Franchise Information Exchange. This reflects concerns felt by some legal professionals that franchising has seen some franchisor abuses, this led them to act to help prospective franchisees and reduce their exposure to helping unethical franchisors complete legal contracts with franchisees. Each of the firms were BFA affiliated members. A press article indicated that they would share information with each other and prospective franchisees, on whether existing franchisees were happy with their franchisor and whether there was legal action being taken by existing franchisees against their franchisor.¹⁷⁶

The issue centres on a view held by some within the industry that the BFA and franchising is being used by some unethical franchisors who are non members, as leverage when selling to franchisees. The standard disclosure lobby’s concern is that the BFA’s current position

¹⁷³ Mark Abell’s comments appeared in *Franchise World*, following the outcome of a consultative meeting between the BFA and the standard disclosure lobby, where the BFA had made the decided to postpone a decision on standard disclosure for a year. The BFA planned to make a decision on the issue at its executive board level in the spring of 1998 following discussions at its regional meetings during the year (*Franchise World*, January-February 1997, p.5). This delay followed the passing of a resolution at the BFA’s annual conference in July 1996 in which those eligible to vote, voted in favour of the BFA making it mandatory for its member to issue a standard disclosure document. At this meeting Abell provocatively described the BFA’s position in the context of its current member requirements as morally bankrupt if full and accurate written disclosure of all information regarding the franchise is not being disclosed by its members (*Franchise World*, July - August 1996, p. 7).

¹⁷⁴ The reason for the BFA’s delay was that it was sensitive to a lack of consensus amongst its members on the content of a standard disclosure document, particularly on the details of earnings claims for franchisees. It was also about whether standard disclosure was the best approach for raising overall standards when there was not clear evidence that abuses were being committed by its members. From a legal perspective, there is concern that the imposition of a standard disclosure document would only increase its members legal cost and that the existence of a standard document could increase the potential for a legislative control because it would be easy to incorporate it into legislation, simply because it exists.

¹⁷⁵ *Franchise World* “Disclosure Lobby Draws First Blood”, July-August 1996, p.5.

¹⁷⁶ *Franchise World*, July - August 1996, p. 21.

will lead to the whole industry being characterised by the poor practice of some non members on disclosures made to franchisees. This could result in a perception that the industry's standards were being lowered and this could, in the long term, lead to onerous government regulation.

The BFA has responded to this lobby, and the issue of its under representation of franchisors i.e. franchisors who remain non members of the association while extracting the publicity benefits of the BFA's work in promoting franchising in two ways. First, it appointed an accreditation manager in 1997 whose role is to review the performance standards of members and develop training services for members. Second, it has begun to develop a tougher view of non members and more vigorously encourage them to join the BFA. At a speech at the National Franchise Exhibition in 1995, Bernard Ingham, President of the BFA, stated "The time may not be far away...before the BFA will not just politely decline to vouch for franchisors outside its membership...It will positively state it cannot and will not vouch for them...We will seek to raise standards and ethics in franchising, and to eliminate the cowboys...So I appeal to the majority of franchisors who still stand outside the association for whatever reason to come inside. Stop freeloading."¹⁷⁷

Recommending the optimal approach for the BFA to take on this issue is beyond the scope of this section. Within the context of the purpose of this section, it is however clear that there has been deep and high profile division within the industry as to what is the right strategy on standard disclosure is. This division could serve to create the impression that there is a problem in the industry and that the industry is not yet resolved on how best to manage it. This could have reduced the appeal of franchising as a distribution strategy for prospective franchisors, or as a new business for prospective franchisees. It may in part may explain the consistently lower than hoped for expansion of franchising among its proponents.

12.4.3 Regulatory Support for Franchising

The regulatory sector has continued its laissez faire support for franchising in the 1990's. Although its policy of excluding certain sectors from the Small Firms Loan Guarantee Scheme is seen within the industry as a factor which has depressed sales of franchises to franchisees. The addition of catering, business to business retailing and car valeting to a list of sectors excluded from the Small Firms Loan Guarantee in 1996 was seen by the industry as a factor which would reduce the availability of finance for franchisees, and intensify the recruitment problems of the mid 1990's highlighted above. This change to the qualification

¹⁷⁷ Source: Franchise World, November- December 1995, p. 25.

for the Small Firms Loan Guarantee Scheme followed the exclusion of retailing, hairdressing, taxi and motor service sectors in 1993. The effect of the exclusion of retail business was captured in an article in *Franchise World* (May-June, 1996, p 5), “Many franchisees have in the past only been able to get into business by arranging finance through LGS. Sales of retail franchises fell three years ago when its sector was excluded. Circle C the convenience store franchise, often had to rely on the scheme to finance its new franchisees and was particularly hard hit”.

Separately, the government has helped franchisors by reducing administration. From 1996, they did not have to register their franchise agreement under the Restrictive Trade Practices Act (see section 3.4.2.1.1) subject to being a business with a UK turnover of £20 million per year and the agreement complying with the EC 4087/88 block exemption (see section 3.4.1).

Planning restrictions, which were identified as an issue in the depth interview research reported earlier, has continued to be seen as a bottleneck to the development of franchising in the food industry in the 1990's. Withers (1995), points out that although the recession freed up a number of retail premises, planning consents and their conditions can be a barrier to growth in markets where franchise systems typically operate. This is particularly the case for franchisors requiring Class A3 premises for use as restaurants. This is because they may not be able to find many suitable premises, and converting lower classifications is problematic as a result of resistance from adjoining owners due to “smells, litter and traffic problems. In addition, local retailers may object to the loss of further retail premises, which would diminish the overall attraction of their street to potential shoppers”.^{178ix}

12.5 Conclusion to Chapter

This chapter had three main objectives. First to perform a basic review of franchising with regard to the food industry. Second to comment on the predictive validity of the model in this research in the light of trends subsequent to the survey execution. Third, to provide a summary of factors which have influenced the development of franchising since across the early and mid 1990's.

The franchise industry has made steady progress in developing its presence in the UK in the 1990's. Although this development is behind the forecasts made for the industry in the late 1980's and early 1990's. Franchising development was hit in the recession of the early

¹⁷⁸ See Town and Country Planning (Use Classes) Order 1987.

1990s, since 1994 the industry has recovered sales value to 1990 levels. In 1996 the number of franchise systems and franchisees reached a record level and the industry is expected to continue growth in 1997.

Through a qualitative review of trends in the macro environment and the food industry, evidence has been found which supports the predictive capability of the model used in this study. That is, that franchisor satisfaction is positively associated with environmental capacity and negatively associated with complexity. This provides supports for the model developed in this study as contributing to political economy theory (Achrol, Reeve and Stern, 1983; Achrol and Stern 1988)

A review of the literature indicates that there is evidence that the development of franchising has been frustrated by three issues; agency costs; recruitment and image problems; and regulatory sector problems.

In the next chapter, the key conclusions from this research are made along with recommendations for further study.

Chapter 13

Conclusions to the Research and Recommendations for Future Study

13.1 Introduction

This chapter has two objectives. The first objective is to summarise the results of the study in relation to the principal two aims of the study which were;

- a) to comment on the prospects for franchising development in the UK food industry. This was an important aim because business format franchising is an emerging distribution format with the potential to develop a major presence in the UK. The extent to which it achieves its potential is a function of its strategic fit within a rapidly changing trading environment.
- b) to provide greater specification on marketing channels theory in the following areas. The utilisation of marketing channels theory was based on the need to find a theoretical basis for the study because the theory franchising is ill defined (Felstead, 1993). Additionally, there was no accessible data to develop a model to examine franchising at the time of the primary research. The marketing channels theory successfully uses cross sectional data derived from questionnaires to develop theory. The marketing channels theory relates closely to franchising issues and was therefore seen as a suitable basis for this study. With regard to the greater specification of marketing channels there were four subsidiary aims.¹⁷⁹ These were as follows;
 - i) to provide greater specification of channel member i.e. franchisor satisfaction.
 - ii) to examine whether the sentiment of organisational satisfaction has an association, or relationship with the external phenomena in the environment.
 - iii) to comment on the robustness of the political economy model as an approach to empirical testing of the environment and internal organisational constructs (Stern and Reve, 1980; Achrol, Reve and Stern, 1983; Achrol and Stern, 1988).
 - iv) to review the predictive validity of the model developed for the primary research in this study, in the light of ensuing trends and developments in franchising and the macro and food industry environment.

¹⁷⁹ See Chapter 1 for a detailed specification of study aims.

The second objective of this chapter is to make recommendations for future research. Within this, three areas are considered. Broadly, the results of the study are used to comment and make recommendations for future research on managerial issues in franchising, improved theoretical specification and refining future methodology.

Overall, within each of these aims this study has had a measure of success. The key factors which made this possible were; a focused approach for looking at franchising in the content of marketing channels theory, and using this, in conjunction with qualitative interview data, to create an effective measurement instrument i.e. the mailed questionnaire. To clarify this point further, the methodological steps taken to achieve the study aims are recounted below, before the discussion moves on to summarise the results and make recommendations.

13.2 Review of the Study Process

A key step in the study process was a broad and detailed review of the literature to build an understanding of franchising as a distribution system and its penetration in the UK. This was combined with a simultaneous review of the food industry and the key dynamics which characterised it as a trading environment. These combined reviews provided a context to develop a model to consider the scope for franchising development.

The review process highlighted the practical research issue that very few empirical studies had been conducted to examine franchising, or other organisations and the environment. In a sense, there was no “off the peg” model to examine franchising and the environment. Consequently, the research focus was to identify a surrogate theory. The marketing channels literature (including the political economy theory) provided the best available theory to develop and test relevant hypotheses and also contribute to theoretical specification.

This review led to an examination of the concept of channel member satisfaction and the environment. The basis for this was that satisfaction is a guide to organisational performance and in the long run, performance will determine whether an organisational structure such as franchising will survive. The basic model is built on two foundations derived from the literature review; first, that satisfaction has a covariance with performance. Second, that performance is affected by the environment. Testing these concepts linked franchisor satisfaction and franchise performance with attributes of the environment.

To develop and improve understanding of the issues confronting franchisors an extensive series of qualitative in-depth interviews were conducted with industry experts in the UK and the US. This increased the comprehension franchising issues in three key ways. First, it

was possible to identify the marketing and operational practices of franchisors to a level beyond that which was available in the desk research. Second, the in-depth interviews highlighted the core issues perceived by franchisors in their own language. Third, it was possible to obtain insights into the environmental issues which affect food retailers through fieldwork observation. Examples of this are; the issue of obtaining suitable sites and planning permission, or the development of instant consumer services based on technology improvements. These insights helped to generate a user friendly questionnaire which achieved a 66 percent response rate.

The questionnaire was carefully constructed using marketing research measurement theory. The decision to use perceptual measures and the key informant methodology was taken after careful consideration of their utility for developing the necessary quality of data. Careful and rigorous piloting of the questionnaire ensured that measurement error was at a minimum. The approach was vindicated by the fact that 45 percent of respondents were company directors, able to provide reports of their organisation's experience.

The measurement and measure validation processes were based on the construct explication approach advanced by Nunnally (1978). This proved to be a practical and common sense approach for developing and testing the constructs used in this study. This was discussed in some detail in Chapter 8.

Through an in-depth review of the theory, testable hypotheses were developed to provide empirical insights into franchising and the food industry environment. As a result of the hypotheses being based on marketing channels theory, it was possible to simultaneously test issues in this particular theory. The results of this study make a contribution to marketing channels theory.

The discussion now turns to consider the results of this study in more detail. Two areas are considered. First, the results and their implications for the for the development of franchising in the food industry in particular. Second, how the results have contributed to the development of marketing channels theory.

13.3 Discussion of Results on Franchising as an Operational Strategy and its potential for long term development

This discussion concentrates on interpreting franchisors reports on satisfaction and the environment. Initially, the focus is on interpreting franchisors reports and satisfaction.

13.3.1 Discussion of Satisfaction Scores

Franchisors scored the items which were classed as behavioural as the most important to the organisations success. The items were co-operation, control and low levels of conflict. These items were rated as more important than those which were called strategic, are derived from strategic management and transaction cost theory, and the image based items derived from the concept of social responsibility (Bowen, 1953). The highest ranked strategic item was franchisee motivation, which is consistent with Lillis et al, (1976) and transaction cost theory, for example, Martin (1988). This item was followed in rank by the strategic advantages of growth in market share, and the number of outlets. The market attractiveness item of high levels of sales turnover also scored highly. As was noted in Chapter 9, a possible explanation for these ranking results was that franchisors believed that they had to have the norms of the relationship with the franchisee established in the key the items of co-operation, control and low conflict, before the franchise system is able to extract the strategic advantages which are associated with it.

The image based items which represented the dimension of franchise image and social responsibility (the concept where franchisors believed that franchising brought more to the community than corporate chains) scored the lowest of the items. This is not so surprising, in a hierarchy of organisational needs, it should be expected that franchisors will place more importance on items which are key to achieving goals and objectives related to commercial success, rather than those concerning third party welfare. However, the results indicate that these items have some importance to franchisors. The rating scores for the image items were 4.5 for “awareness of your company being a franchised operation in the business community”, and 3.9 for “Customer awareness of your company being a franchised operation”. These scores were well above zero, which franchisors were asked to score if they thought the variable was irrelevant to their company’s success. This suggests that while franchisors have higher priorities, image and a feeling of social responsibility through franchising does have some importance, this was consistent with the findings of the in-depth interview research.

When the satisfaction weights were applied to the instrumentalities, none of the items changed rank, except for the last two which were the image based items. This suggests that there was a consistent view from franchisors i.e. they were satisfied with their company's performance on important franchising variables. In this respect, it can be concluded that the franchise firms were satisfied with franchising as a strategy for securing their commercial goals and objectives. This point is supported by an examination of the average satisfaction scores. This showed that 90 percent of franchisors reported their satisfaction levels to be above the median score of 3.5.

From the theory used in this study, it can be expected that franchisors will only change their strategy if they are dissatisfied with franchising's performance in delivering the business results which are consistent with their goals and objectives i.e. where the actual rewards from the strategy are below the rewards the organisation believed it deserved (Frazier, 1983). On the basis of this result, it can be expected that in a time of economic prosperity, franchising is an effective strategy for achieving goals and objectives.

13.2.2 *Discussion of Environmental Scores*

Franchisors rated the strength of environmental dimensions on a scale of one to seven. The mean of dimension scores are ranked by perceived intensity in Table 13.1.

Table 13.1 Franchisor Perception Ratings on Environmental Constructs

Dimension	Mean Scores	Valence and Interpretation
Capacity - Resources	4.65	Rich environment
Concentration	4.39	Concentrated sector
Stability - Responsiveness	4.11	Changing
Complexity - Difficulty	3.41	Moderate complexity
Conflict	3.40	Moderate conflict

This indicates that franchisors perceived their environment as rich in resources, characterised by concentration and change, with relatively normal levels of conflict. Given that 90 percent of franchisors reported that they were satisfied with franchising performance,

it can be concluded that franchising as a distribution system has a strong fit with the environment. It can therefore be expected to continue as a distribution strategy in the short to medium term, and while the environment is characterised by the dimensions above.

However, some caution is necessary in this conclusion for two principal reasons. First the study is not comparative with other distribution formats, and second it is not based on a time series analysis. With regard to a comparative analysis, in 1988 and 1989, GDP increased at the high levels of 11.3 and 9.4 percent, respectively.¹⁸⁰ Under these circumstances, higher levels of organisational satisfaction may have been seen for corporate owned chains. Indeed there was evidence across this period that firms were withdrawing from franchising for reasons such as lack of control. For example, Sock Shop, and COOP Late Late Supershop, Circle K and Holland and Barret. A future study should include a control to estimate different levels across organisational types.

This analysis of franchisor satisfaction and the environment was cross sectional, rather than time series. As a result it did not statistically analyse the association and relationship between satisfaction and the environment across different economic conditions i.e. through periods of growth and recession. The review in Chapter 12 suggests that franchising activity is susceptible to economic downturns. In these circumstances it can be expected that franchisor satisfaction with franchising would be lower, as a result of higher levels of conflict with franchisees for example. Under these circumstances, they may perceive franchising to be a less appropriate as a strategy to achieve their goals and objectives. In Chapter 12, it was noted that in the recession of the early 1990's; the number of franchisors and franchisees declined, and the level of franchising real sales decreased by a greater amount than general economic indicators. A study which examined franchising through economic growth and recession would assist in developing thinking on the long term prospects for franchising in the UK food industry.

The analysis in Chapter 11 indicated that franchisor satisfaction could be predicted by on the basis of a relationship with environmental items. This was confirmed through a discriminant and t-test analysis. The demonstration of this relationship allowed the identification of operational issues which result from environmental phenomena. These are discussed below.

Starting with the complexity dimension, it appears that less satisfied franchisors find it difficult to interpret and meet their consumers' requirements in terms of demand for convenience and speciality food. As noted earlier, the nature of demand within the food

¹⁸⁰ Source: Central Statistical Office; Economic Trends.

industry is changing and is becoming increasingly complex. Franchisors who are unable to interpret the nature of consumer demand successfully are unlikely to survive. To improve levels of performance and satisfaction these franchisors should consider carefully how they can design their internal systems to provide better understanding of their consumers. Franchisors should consider how the role of the franchisee can be developed to help provide consumer insights. One of the key advantages of franchising is having highly motivated owner operators at the consumer interface in many cases franchisees have been able to turn poor performing company run outlets into successful franchised ones as a result of better meeting consumer needs (Felstead, 1993). Franchisors could leverage this resource to make better sense of the complex environment. Emphasis should then focus on how to tailor their range of goods, services, instore design, marketing and promotion practices to meet their target consumers' needs. The rise of franchisee associations (Fulop, 1996) could provide an ideal forum to discuss this type of issue.

Within the capacity dimension, there were two separate items which differentiated satisfied and dissatisfied franchisors. The first concerns the availability of finance for franchisees. In our depth interviews we found that the smaller franchisors, e.g. Mackenzie Fish and Game and Freezavan, had indicated some difficulty in securing finance for franchisees. Franchisors who had indicated dissatisfaction were from franchises with less than ten outlets. This appears to be an industry problem in that, despite the fact that franchising requires a relatively lower level of risk or loan capital, franchisors with smaller systems have found it difficult to secure finance support for potential franchisees. There is evidence from Fulop (1996) that this problem has continued on into the 1990's: Although the main banks have dedicated franchise departments, their influence on branch lending decisions has not always led to sympathetic handling of franchisee loan applications.

The withdrawal of the small firms loan guarantee scheme in 1993 to sectors where franchising had achieved strong market presence (retailing, hairdressing and motor vehicle repair), and later in 1995 to catering and business to business retailing can only have exacerbated this capacity issue. For example, Franchise World (May - June 1993; p.11) cited one of the more successful franchises in food retailing, as having relied on this scheme as a principal source of funding for franchisees. "The scheme has been a popular method of funding franchisees for the past ten years. At Circle C, for example, two-thirds of franchisees were able to get into business by resorting to the scheme." Given the importance of this scheme to financing franchisees in these sectors, it can be expected that the penetration of franchised outlets and systems in the food retail sector will not be as strong as would have been the case.

The second issue in the capacity dimension was that of government goodwill towards franchising. This supports findings from the depth interviews which suggests that smaller franchisors do not believe the government supports the industry as strongly as it should. Again, some support for this can be seen in a discussion and review article by Mendelsohn (1994) who stated; "The government has a big part to play but is totally and utterly apathetic. We had to fight them to extend the £40 a week Enterprise allowance to franchising. We now find that the government will not pay a percentage of the consultants' fees for BS5750 registration for franchisees because they have a fixation about the fact that franchisors have such rooted systems and such a rigid approach that they cannot qualify for it." (Franchise World, May -June 1994; p,46). This supports our point in Chapter 3 and Chapter 12, i.e. the government's approach to franchising is one of passive support, where the legislative sector has created legal space for franchising development, but does not provide active support for it through financial incentives.

These issues points to a potential longer term environmental capacity issue with regard to the regulatory sector. Franchising has not developed as strongly as the predictions of the early and mid and late 1980's indicated that it would. This has caused some frustration and disappointment within the industry as Mendelshon (Op cit) went on to point out "The government in this country has done nothing for franchising. If we could persuade one tenth of one percent of all small business in this country to adopt franchising ...we would probably be talking about something like 2,000 new franchisors. Given 5-10 years growth by these franchisors, we would have a market which was six times larger than at present".

The findings of this study have identified that small scale franchisors perceived an environmental capacity issue. Smaller franchisors have indicated dissatisfaction at the extent to which finance for franchisees is available and simultaneously indicated dissatisfaction at the level of government goodwill and support for the industry. Combining this with the views expressed by Mendelsohn, there is evidence that the potential for franchising growth will be limited because industry growth will be dependent on new franchise firms. Even though there was an expansion in the number of franchisors in the mid 1990's, in 1996 there were 514 systems this is still well behind industry forecasts in the late 1980's (Power 1987) and early 1990's (Jordans 1991).

The issue for smaller scale franchisors is not that there is a capacity issue with regard to finance being available for investment. The issue is more concerned with convincing finance and government institutions that they should support smaller franchises. To do this we believe that the BFA has a role in demonstrating the hard economic benefits of franchising in the economy. This would undoubtedly require support for research which evaluated questions such as 'To what extent do franchise businesses generate incremental

economic activity? To move forward on this issue franchisors should be pushing and supporting the BFA to take the initiative. For example, Felstead (1993) found in a survey of franchisees that “franchising encouraged between 38 and 68 percent of franchisees into business who might not otherwise have considered this option”.

In summary, 90 percent of franchisors indicated that they were satisfied with the overall operation of their franchise in the primary research. The environment was discussed relation to satisfaction, operational issues were identified which could impact on the development of franchising, particularly meeting consumer demand and securing finance for franchisees. At an industry level, the nature of demand is creating a complex operating environment which was shown to be associated with dissatisfaction; though this may not exclusively apply to franchisors. The environment was shown to be perceived as having capacity for development and this was positively associated with franchisor satisfaction. We now turn to consider our results from a theoretical perspective and assess their contribution to moving marketing channels theory forward.

13.4 Discussion of Results Contributing to Marketing Channels Theory

This section considers the four research aims identified in Chapter 1, which were focused on increasing the specification of marketing channels theory. Briefly, the specific aims were;

- i) to provide greater specification of channel member satisfaction.
- ii) to examine whether satisfaction has an association, or relationship with the external phenomena in the environment.
- iii) to comment on the robustness of the political economy model for testing the environment and internal organisational constructs (Stern and Reve, 1980; Achrol, Reve and Stern, 1983; Achrol and Stern, 1988).
- iv) to review the predictive validity of the model developed for the primary research in this study.

13.4.1 Satisfaction and Marketing Channels Theory

The first aim was to investigate whether franchisor satisfaction was a multi-dimensional construct which included within its domain strategic, behavioural and corporate image based items. The specific hypothesis identified in Chapter 5 was:

Ho: The construct of satisfaction is uni-dimensional.

H1: The construct of satisfaction includes three dimensions (strategic, behavioural and corporate image).

Using the construct explication approach to develop the theoretical perspective, the satisfaction measure was shown to be robust as it was defined in this study. The measure yielded a high coefficient alpha and demonstrated the properties of convergent, discriminant and nomological validity. Factor analysis indicated that franchisor satisfaction was composed of four dimensions. This was one more than the three hypothesised on the basis of the literature and desk research. The results are shown in Table 13.2.

Table 13.2 Satisfaction Construct: Hypotheses and Results

Hypothesised Dimension	Factor Analysis Dimension from Analysis
1 Strategic and Financial	1 Market attractiveness
2 Behavioural	2 Cost of expansion
3 Corporate Image	3 Behavioural
	4 Image and risk

This analysis showed that the dimensions listed in Table 5.4 were broadly similar to the factors which were derived from the confirmatory factor analysis. This supported the H1 that satisfaction is a multi-dimensional construct. Therefore, to develop the construct of satisfaction adequately, it is recommended that the researcher considers using sub-dimensions to build the concept in future analysis. Franchisors rated the behavioural items the highest in the measurement scale for being the most important to business success. Additionally, the relationship factor was the most important in the factor analysis, explaining 28.5 percent of the variation in franchisor satisfaction. This suggests that when examining a construct which is a sentiment, such as satisfaction, key items in this domain are behaviours, such as co-operation and control.

13.4.2 Satisfaction and the Environment; an Association and Relationship?

The second aim in contributing to theory was to establish a statistically significant association and relationship between satisfaction and the environment. This was a key aim for three reasons: First, satisfaction was used as an indicator of performance to provide a basis for commenting on the prospects for franchising development. By confirming a

relationship, there would be statistical support for the approach used. Second, establishing an association and relationship would contribute to theory by confirming one aspect of Frazier's (1983) model of organisational interaction i.e. that the outcomes of exchange (including satisfaction) are affected by the external environment. Third, the approach would broaden the theoretical debate about the impact of the environment on the organisation i.e. it would provide some support for the discussion in the literature review in Chapter 6 which indicated that the centrality of uncertainty as the organisational variable affected by the environment was overstated.

Environmental impact was examined across five hypotheses which tested for specific associations and relationships with franchisor satisfaction. These are shown below in Table 13.3.

Table 13.3 Environmental Dimension Hypotheses

Environmental Dimension	Hypothesis
Complexity	H1: High degrees of environmental complexity will be negatively associated and related to satisfaction.
Instability	H2: Satisfaction will be associated and related to perceived stability in the environment.
Concentration	H3: Environmental Capacity will be positively associated and related to franchisor satisfaction.
Concentration	H4a: Satisfaction will have no association and relationship with the level of concentration. H4b: Satisfaction will be negatively associated and related to high perceived concentration.
Conflict	H5: Increasing degrees of environmental conflict will be associated and related to low levels of franchisor satisfaction.

The results of the analysis indicate that there is evidence of a statistically significant association and relationship between satisfaction and the environment.

The Spearman correlation analysis showed that there was a statistical association between franchisor satisfaction and the environmental dimensions of complexity and capacity, this is shown in Figure 13.1. As a result, hypothesis H1 and H3 were supported in respect of an association.

Figure 13.1 Statistically Significant Associations between Franchisor Satisfaction and the Environment

Franchisor Satisfaction = -ve Association with Complexity; +ve Association with Capacity.

Hypothesis H4a, regarding concentration also received some anecdotal support. Although the environment was perceived to be relatively concentrated (Table 10.4) it did not demonstrate an association with satisfaction i.e. where concentration is not perceived to impact on the organisation obtaining the resources it needs for survival it will have no association with satisfaction and performance. Under these circumstances, concentration is a characteristic of the environment but it does not need to be attended to under enactment theory.

The attempt to establish a relationship between satisfaction and the environment via discriminant analysis was disappointing at the construct level. The discriminant functions did not show any structural relationship with satisfaction group membership. This led us to accept H_0 , the null hypothesis for the test, and conclude that there was no significant information in the constructs to explain satisfaction group membership at five percent significance.

When the discriminant analysis was applied to the individual items that composed the environmental constructs, evidence was found that attributes of the environment could predict satisfaction group membership i.e. there is evidence of a relationship between satisfaction and the environment. In this analysis six items yielded standardised coefficients which were significant at the five percent significance level (Table 11.5). This led us to accept H_1 in the test and conclude that there was significant information in the “environmental items” to explain satisfaction group membership.

Given that all the items were from the complexity dimension, there is evidence to assert that this analysis has provided statistically significant evidence of a structural relationship between satisfaction and the environmental dimension of complexity. Under the hypothesis listed in Table 13.3, there is some support for H_1 i.e. high degrees of environmental complexity will be negatively related to satisfaction. Additionally, the t-test results in Table 11.6 indicate that franchisor satisfaction levels are differentiated by the environmental capacity items of “Availability of finance for franchisees” and “Government goodwill to franchising”.

These results have three significant implications for the specification of theory. First, they provide support for the use of satisfaction as a surrogate of performance. Second, they show empirical evidence for the hypothesis that satisfaction is related to the external environment. This supports Frazier's (1983) model which indicated that the environment impacts on the outcome of exchange. Additionally, these results suggest that the environment impacts on the internal polity of the political economy model (see Chapter 5). This is a new contribution to this model. Third, at a more general level, this study provides some indication that environmental impact on the organisation goes beyond the concept of uncertainty, and that satisfaction, an attribute of the internal political processes of the political economy model, is subject to a relationship with external phenomena.

13.4.3 *Robustness of the Political Economy Model*

The third aim was to assess the robustness of the political economy environmental model (Achrol, Reve and Stern, 1983) as a theoretical platform for our model and measure development. This section provides a report based on the behaviour of the measures used in the analysis, that the model is in fact robust. To develop hypotheses and measures for the five environmental constructs, existing theory and models were used (Frazier 1983; Achrol, Reve and Stern, 1983). Most parts of these models were unconfirmed by empirical research. A priority in this research was to review whether the measures of the environment behaved in a nomological fashion. This would provide evidence that the political economy model was a sound basis for model and measure development in future research.

It was established that all the measures for the environmental dimensions produced reliability coefficients which were satisfactory for exploratory research.¹⁸¹ From a discriminatory and nomological perspective, the items in the environmental dimension scales correlated most strongly with other items in the same scale. This indicated that the items were within the domain of the same dimension rather than representing a random series of individual item measures.

Where there were item correlations across environmental dimensions, these were easily explained in the context of the environmental model itself. For example, The Responsiveness correlation R3-CF3 (0.4805) is a "Price" variable which shows an association between "Changing price strategy of Competitors" (R3) and "Intensity of

¹⁸¹ Except for the concentration dimension where from a technical point of view we would not expect a high coefficient Alpha because there were three very dissimilar items in the scale.

competition" (CF3). This was interpreted in the context of the political economy model as a competitive issue for franchisors. This shows that the model works in a complementary way with the environmental dimensions used in this study. The political economy model provided an effective sub-structure to develop measures for the environmental dimensions.

Further support for the model being a consistent sub-structure for measure development was provided by the confirmatory factor analysis of the complexity and stability dimensions. This showed that the derived factors were consistent with the environmental sectors of the political economy model.

In summary, the environmental dimension measures behaved in a way that would have been expected. Further evidence for this was provided by looking at the dimension scores. For example, franchisors scored their environments as concentrated. This result was entirely consistent with the desk research. The implication of this review is that the political economy environment model can provide a practical approach to developing a testable model and measures in marketing channels research.

13.4.4 *Predictive Capability of the Model*

This issue was discussed in some detail in Chapter 12. Therefore, the discussion of this aim is limited here to the a short summary. The review in Chapter 12 indicated that there was qualitative support for the model illustrated in Figure 13.1. In the discussion on capacity, the total franchise industry performance was taken as a surrogate for franchisor satisfaction . As noted earlier, satisfaction and performance co-vary, and there is evidence in this study that this approach does yield statistically significant results. The discussion on complexity examined trends in food franchising and the food industry more closely.

The review in Chapter 12, found evidence indicating that franchise performance (and therefore franchisor satisfaction) is associated with environmental capacity. The correlation analysis in Table 12.2 indicates that franchise sales performance is strongly and positively associated with broader environmental measures of capacity. The Spearman correlation coefficients for the value of franchise sales and the level of GDP, total consumer expenditure and expenditure on other goods and services were 0.961795, 0.949915 and 0.967511, respectively and are significant at the five percent level.

The discussion of the predictive validity of the complexity dimension and franchise performance was more descriptive due to problems in gathering complexity data over time. However, the discussion was able to demonstrate that the food industry environment had become more complex, with a clear trend towards increasing speciality and convenience retailing. These complexity items were shown to differentiate food industry franchisors according to their levels of satisfaction in the primary research (Table 11.6). Coincident with a trend towards increasing complexity, there was a seemingly high entry and exit rate of franchisors into the food industry (see section 12.3.2.2). This observation provides some qualitative support for the model's relationship i.e. franchisor satisfaction (and performance) is negatively related to complexity in consumer demand. A future study could look at this issue in more detail to establish a statistical relationship.

In summary, this study has made a contribution to marketing channels research by establishing new information in three areas. First, improved clarity on the content of franchisor satisfaction. Second, the establishment of an association and relationship between satisfaction and the environment, the model has been shown to have some predictive validity in the context of recent industry trends. Third, to provide further support for the political economy model as an approach for model and measure development.

13.5 Recommendations for Future Research

This study empirically investigated three areas: the domain of franchisor satisfaction; whether there is an association and relationship between franchisor satisfaction and the environment; and, whether the political economy environmental model is a sound theoretical platform for developing a model and measures. From this research it is possible to make recommendations in three key areas. The first concerns managerial recommendations for those in the industry. The second concerns recommendations for further specification of marketing channels theory, particularly in relation to the environment. The third provides advice on methodological approaches which may be of use in future research. These are discussed these below.

13.5.1 Managerial Approaches and Recommendations

This study of franchisor satisfaction is the first to look at channel member satisfaction where the sample unit i.e. the franchisor, holds the balance of power in the dependence relationship. Previous studies have focused on franchisee satisfaction as a function of franchisor power (Hunt and Nevin, 1974; Lusch, 1977; Hamid, 1989; Manaresi 1993). The results indicate that the domain of satisfaction is multi-dimensional reflect behavioural.

strategic and image issues. This moves the understanding of satisfaction forward. The most important variable in explaining the variation in franchisor satisfaction is franchisee co-operation, other important variables are low levels of conflict and high levels of “own” control. This indicates that franchisees who are actively seeking to maximise the effectiveness of their relationship with their franchisor should tailor their behaviour and communication styles to reflect these variables. i.e. model their interaction with the franchisor to maximise cooperative behaviour in the pursuit of mutual goals and objectives.

A real benefit from conducting this research is that it gives objective insights into the attitudes and priorities of franchisors. The establishment of what is important to the franchisor will give franchisees a guide to what the franchisor perceives to be a blue print for productive interaction.

A second benefit of this research is that it highlights environmental dimensions which are associated with franchisor satisfaction and therefore operating performance. Franchisor satisfaction was negatively associated with environments which are characterised with complexity and is positively associated with capacity. This suggests that franchisors who are evaluating entering a specific market should evaluate it in the context of these two dimensions as a start point. The potential franchisor should undertake a strategic audit of the market and if there are lower levels of complexity and higher levels of capacity, then, it is a suitable market for franchising. Conversely, operating environments which are complex and lean in resources should not be entered by franchisors.

Franchisors currently operating should review their internal systems for understanding their consumers. One of the opportunities for franchisors is to utilise the expertise, knowledge and energy of franchisees in a systematic way to achieve better consumer understanding. This price could on the one hand reduce transaction costs associated with surveying this type of information by an alternative route, such as a consultancy or market research agency. While on the other hand it maximises the franchisors value chain by reducing any costs of research, and it provides a potentially improved service to customers by better differentiation.

It was found that some smaller franchise systems reported dissatisfaction. This was associated with the perception of low government financial support, and difficulty in obtaining finance for franchisee's. Given that the expansion of franchising will depend on new systems entering the industry, and that the rate of new entrants appears to be disappointing (Mendelsohn, 1994), a priority for the franchising industry association is to seek improve government support. It is necessary to improve access to financial support for franchisees i.e. particularly loan and venture capital for franchisees seeking to join smaller

franchises. This could be achieved by research which develops case studies on the industry's success models, which show that franchise business expansion has created incremental economic activity.

Finally, an industry investigation into better understanding of two potential environmental constraints on franchising would be beneficial. First, the trend towards concentration undermines the agency cost rationale for franchising, because there will be fewer local markets and locations where the agency cost benefit will apply.¹⁸² Second, it is unclear whether there is an image issue for franchising in the UK. Bill Cherkasky, the President of the IFA thought that franchising was a distribution system mainly suited to the United States. Research such as that by Stanworth et al (1995) indicates that potential franchisees are put off taking up a franchise as a result of perceived high levels of franchisor control. This research indicates that franchisors see control as a key variable to business success. An issue for the industry is whether it can attract those who could be described as entrepreneurial. A study which looked at this question in more detail would make an important contribution to better understanding the potential of franchising in this country.

13.5.2 *Theoretical Specification*

Theoretically, this study contributes to the specification of the theory of channel member satisfaction and the environment. Regarding satisfaction, we have demonstrated that satisfaction is multi-dimensional and that the important dimensions are behavioural, strategic and image based in character. The satisfaction measure performed well in empirical construct explication procedures, suggesting that it was strong in representing the construct as it was defined. A measure of franchisor satisfaction should include these dimensions in future research.

Satisfaction was also shown to have associations with the environmental dimensions of complexity and capacity which underline its importance as a variable in marketing channels research. This research suggests that satisfaction is an evaluative sentiment of a broad range of phenomena, not simply a product of internal political structure variables such as use "power" relationships in organisations.

¹⁸² See Brickley and Dark (1987); Martin (1988).

In terms of developing Frazier's (1983) model, satisfaction can now be specified in more detail. Franchisor satisfaction is a state or feeling which reflects perceptions about the level of rewards obtained from franchising. The state or feeling results from an evaluation, this includes factors which this study has shown to be associated and related to variables which are, external to the organisation.

With regard to the political economy model, there is evidence from this study which has shown that satisfaction, a sentiment of the model's internal political process, has an association with the environment. This reflects the overall importance of satisfaction as a variable in the organisation. Satisfaction is a key outcome variable and should be recognised in future modelling and testing which focuses on understanding channel member decision making, since levels of satisfaction will have consequences for future decisions on organisations' relationships and strategies (Frazier, 1983).

In the multivariate analysis evidence was obtained to show that satisfaction has a structural relationship with the environment. However, the results were at the item, as opposed to dimension level. The key reason for the weakness of the construct analysis was that the dimension measures limited item influences to the point when they were not strong enough to yield statistically significant results. This insight indicates that the researcher should develop more specific dimensions, perhaps only capturing one sector of the environment e.g. complexity of consumer demand. For perspective, the complexity construct in this study was composed of items from all four sectors of the political economy model. This was exploratory research with the aim of understanding potential associations between a broad range of environmental dimensions and satisfaction. It appears that in the approach used here there was a trade off between capturing general associations and establishing empirically strong relationships.

It was surprising that the analysis did not provide a statistically significant negative relationship between satisfaction and conflict. The reason for this appears to be that the measure did not adequately capture the concept of "abnormal" conflict (Achrol 1985) and a future study should look at this issue in more detail.

13.5.3 *Methodological Specification*

The approach was concerned with looking at franchising and its development potential in the food industry. To provide a deeper perspective, future research should be undertaken to compare simultaneously franchising with corporate owned systems. This would provide a cross sectional comparison of different distribution strategies facing the same environmental circumstances. Clearly, this would be a study which would focus less on exploratory

understanding of franchising, as attempted here, and more on a comparison of key perceptual or objective performance measures. Hamid (1989) and Manaresi (1993) have developed cross-country companions of franchising. A study of different systems within the same country should be of manageable scale.

The development of the measures for this study was based on theory and qualitative research. The construct explication procedures used to understand the validity of the satisfaction and environmental measures indicated that they were reliable and behaved in a law-like way. This was particularly the case for the environmental measures. That is, in a confirmatory factor analysis, they decomposed into the four sectors of the political economy environmental model. This, underlines the strength of this theory as a basis for developing measures and it is recommended that future studies evaluate this as a basis for their approach.

The emphasis on qualitative interview research was a key benefit. It provided a real contribution to the development of the study. First it helped to clarify the everyday priorities and issues facing franchisors. This helped make the wording and content of the questionnaire more appropriate and more user friendly for respondents. Going out and talking to people in the industry (as well as conducting literature reviews) helped make the study more relevant to the theoretical concepts which were used.

Second, theory development should be based on the valuable information and insights of managers, because theory should reflect the data, issues and processes that managers use to make their decisions. This will ensure that research conclusions and their contribution to theory, represents the setting which they are supposed to comment on. Further, securing the input of practitioners should generate greater interest in the study from the industry. This is because the support of key firms provides data which will be of interest to a range of observers, analysts, competitors and those considering entering the industry.

13.6 Summary Conclusions to the Research and Recommendations for Future Study

The study was intended to foster understanding of the scale of franchising and comment on the prospects for franchising development in the food industry using marketing channels theory. Hypotheses were derived from marketing channels theory to provide greater specification of theory on the following;

- a) The construct of channel member satisfaction.
- b) Whether the sentiment of organisational satisfaction interacts with external phenomena.
- c) The robustness of the political economy environmental model as a theoretical and methodological approach to empirical testing.

The tested hypotheses were partly supported in the analysis. The model developed was shown to be predictive in the light of recent franchising and food industry trends, However, further research does need to be undertaken to extend the conclusions of this exploratory study. In particular it would be beneficial to explore the relationship between satisfaction and the environment in a simultaneous study of both franchise and corporate systems.

Appendix I

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Appendix II

University of Newcastle upon Tyne

Department of Agricultural Economics and Food Marketing

The Department of Agricultural Economics and Food Marketing, is collaborating with the Institute of Grocery Distribution, to research franchising in UK food retail sector.

The focus is on franchisors. No contact is to be made with franchisees.

Your cooperation will ensure the success of the project and would be greatly appreciated.

If you would like me to send you a complimentary "results" document please tick this box. Please post the completed questionnaire back to me by September 8th 1989.

The information you provide will be treated as strictly confidential.

Please describe your job title: (please print clearly)

A. BACKGROUND INFORMATION ON YOUR COMPANY.

A1. Please indicate how many years your company has been in operation.(tick one box)

Less than 2 years ☐1

From 2 years to less than 7 years ☐2

From 7 years to less than 12 years ☐3

12 years or more ☐4

A2. Record the number of outlets in your company that are:

a) Franchised..... b)Company operated

A3a) In which year did you open your first "company" operated outlet?

Year

b) In which year did your first "franchised" outlet commence trading?

Year

(If your company has not yet opened a franchised outlet but intends to do so in the near future please place a tick in this box) ☐

A4. Record the number of outlets your company expects to open in 1990:

a) Franchised..... b) Company run.....

c) If you don't know the numbers please tick this box ☐

A5. Indicate below the legal status of your company: (tick one box)

Single Owner ☐ 1

Partnership ☐ 2

Private Ltd Company ☐ 3

Public Ltd Company ☐ 4

Other ☐ 5 Please specify:.....

A6. Is your company a subsidiary enterprise of a larger corporation?

Yes ☐ 1 No ☐ 2

A7. Has your company has been involved in a merger or acquisition since 1977?

Yes ☐ 1 No ☐ 2

If "yes" please indicate whether your present company was:

Acquired ☐ 1

Merged i.e. Joint Venture. ☐ 2

The Acquirer ☐ 3

B. DETAILS ABOUT YOUR FRANCHISE COMPANY.

B1. Please indicate the main activity of your company. (Tick one box)

- | | |
|-------------------------------------|-----------------------------|
| Convenience Food Store Retailing | <input type="checkbox"/> 1 |
| Delivery Service for Food Products | <input type="checkbox"/> 2 |
| Delivery Service for Drink Products | <input type="checkbox"/> 3 |
| Fast Food -Burgers | <input type="checkbox"/> 4 |
| -Chicken | <input type="checkbox"/> 5 |
| -Pizza | <input type="checkbox"/> 6 |
| -Other | <input type="checkbox"/> 7 |
| Full Line Restaurant | <input type="checkbox"/> 8 |
| Speciality Food and Drink Retailing | <input type="checkbox"/> 9 |
| Other (Please Specify)..... | <input type="checkbox"/> 10 |

B2a). Please indicate the latest total annual sales turnover figure (including VAT) for your company (the figure should combine turnover for all your franchised as well as company run outlets). (Tick one box)

- | | |
|--------------------------------------|----------------------------|
| Less than £500,000 | <input type="checkbox"/> 1 |
| £500,000 to less than £1 million | <input type="checkbox"/> 2 |
| £1 million to less than £15 million | <input type="checkbox"/> 3 |
| £15 million to less than £50 million | <input type="checkbox"/> 4 |
| £50 million or more | <input type="checkbox"/> 5 |

B3. Please indicate the average total initial start up cost of a franchise with your company, to a franchisee. (Tick one box)

- | | |
|--------------------------------|----------------------------|
| under £25,000 | <input type="checkbox"/> 1 |
| £25,000 to less than £50,000 | <input type="checkbox"/> 2 |
| £50,000 to less than £80,000 | <input type="checkbox"/> 3 |
| £80,000 to less than £150,000 | <input type="checkbox"/> 4 |
| £150,000 to less than £500,000 | <input type="checkbox"/> 5 |
| £500,000 or more | <input type="checkbox"/> 6 |

B4. What is the average sales turnover (including VAT) per year for a single outlet in your company? (i.e. For franchised and company run.)

£

B5a) Have any of your franchised outlets ceased to trade in the past 3 years? (Whether as a result of voluntary withdrawals by franchisees, financial failure of the outlet, termination of franchisee's contract, etc.)

yes ☐ 1

no ☐ 2

(If you have answered "yes" to part B5.a) please record responses to parts b) and c) of this question. If you have answered "no", skip to Section C.)

b) please write the approximate number of franchised outlets ceasing to trade:

number.....

c) Please record the most common reason(s) for cessation of trading:

1).....

2).....

C. Franchising and Business Objectives

C1. Please indicate on the scale below the overall level of satisfaction that your company (ie as the franchisor) feels about its involvement in franchising.

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

C2. Below is a list of 12 of aspects that could be important to a franchising company. In Column.1 record a score out of 10 that reflects the importance you think each aspect has to your company's successful operation.(please record a score for each aspect)

You should give 10 points to aspects that you consider critical to your company's success.

You may give a score of "0" if you consider an aspect to be totally irrelevant to your company's success.

Aspect	Column.1
1. High levels of Sales Turnover	_____
2. Growth in terms of number of Franchised outlets opened	_____
3. High levels of franchisee motivation	_____
4. High level of Cooperation between franchisor and franchisee	_____
5. Tight control of the franchised operation by the franchisor	_____
6. Low capital requirements for expansion by the franchisor	_____
7. Growth in terms of market share	_____
8. Sharing of risk between franchisor and franchisee	_____
9. Low levels of Conflict between franchisor and franchisee	_____
10. Market penetration of marginal/distant locations through franchising	_____
11. Customer awareness of your company being a "franchised" operation	_____
12. Awareness of your company being a "franchised" operation in the in the business community	_____

C3 Below we list the same aspects as in question C2. This time please indicate the degree to which you are satisfied with your company's level of achievement in these aspects.(Tick one box per aspect)

(For example, if you think high market share is very important to your company's success and your company is realising high market share, then you would tick one of the satisfied boxes. If you think high market share is important and your company is not realising high market share, then you would tick one of the dissatisfied boxes.)

1. High levels of Sales Turnover

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Growth in terms of number of Franchised outlets opened

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. High levels of franchisee motivation

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. High level of Cooperation between franchisor and franchisee

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. Tight control of the franchised operation by the franchisor

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Low capital requirements for expansion by the franchisor

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7. Growth in terms of market share

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Sharing of risk between franchisor and franchisee

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Low levels of Conflict between franchisor and franchisee

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. Market penetration of marginal/distant locations through franchising

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Customer awareness of your company being a "franchised" operation

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. Awareness of your company being a "franchised" operation in the in the business community

Very highly satisfied	Highly satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Highly dissatisfied	Very highly dissatisfied
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

D. Franchising and the Market

D1. Please indicate the degree of difficulty which you (the franchisor) believe is involved in meeting the requirements below. (Tick one box per item)

	Very High degree of "Difficulty"	Very low degree of "Difficulty"
	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
Food "quality" requirements of customers	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
"Service" requirements of customers (Fast service, delivery service, credit etc)	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
Food "convenience" requirements of customers (prepared, pre-packed, pre-portioned)	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
Demand for "speciality" foods eg (Low fat, additive free, organic etc)	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	

Very High degree of "Difficulty"	Very low degree of "Difficulty"
Price requirements of customers	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7
Consumers "store convenience"	
requirements eg (location, opening hours etc)	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7
Negotiating satisfactory supply terms	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7
Locating suitable supplies	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7
Obtaining planning permission for sites	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7
Conforming to food hygiene, storage and and handling legislation	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7
Observing correct legal procedures for operating a franchise system	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7
Understanding legal requirements and laws relevant to franchisors	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7

D2. Please indicate the extent to which your company must respond to the aspects below. (Tick one box per item)

	Very High responsiveness	Very Low responsiveness
	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
Changing promotion and advertising strategies of competitors	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
Change in product/service mix strategies of competitors	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
Changing price strategy of competitors	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
The extent to which your market has attracted new competitors	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
The extent to which competitors withdraw or fail	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	
Changing consumer brand/product loyalty	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7	

Changing technology in stock control and

distribution management

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

Changing technology in product development and

improvement

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

Changing regulations regarding franchising

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

Changing regulations in the food industry

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

D3 Resources and Opportunities. Please indicate the extent to which the aspects listed below present real opportunities to your company
(tick one box per item)

Very High

Very Low

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

Potential for growth in sales is

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

Number of potentially suitable franchisees is

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

Available number of suitable sites or locations

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

Availability of finance for franchisees is

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

Goodwill of government bodies to the franchise

industry can be said to be

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

The importance of promotion and lobbying efforts

by the BFA is

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

D4 Please indicate the extent of Concentration in your market

(tick one box per item)

Very High

Very Low

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

The degree Market Share is concentrated in the hands

of the top 3 retailers in your market sector is

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

The degree of concentration of suppliers is

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

The degree to which your market sector imposes

high entry costs on new competitors is

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7

	Very High							Very Low
	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 6	<input type="checkbox"/> 7	
Frequency of disagreements with suppliers about prices and/or orders is	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 6	<input type="checkbox"/> 7	
Intensity of disagreements with suppliers about prices and/or orders is	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 6	<input type="checkbox"/> 7	
The intensity of competition with competitors is	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 6	<input type="checkbox"/> 7	
Your company's agreement with the way the BFA promotes the franchise industry is	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 6	<input type="checkbox"/> 7	
Your company's agreement with the way the BFA attempts to enhance the reputation of franchising is	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 6	<input type="checkbox"/> 7	
The extent of difference in opinion between your company and the BFA and/or government agencies on how a franchise company should operate is	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 6	<input type="checkbox"/> 7	

I will forward the results as soon as possible, target date is December 20, 1989.

Appendix III

BRITISH FRANCHISE ASSOCIATION

FULL MEMBERS LIST

Franchisors are required to submit a completed application form, including disclosure document, franchise agreement, prospectus, accounts, etc; and provide proof of a correctly constituted pilot scheme successfully operated for at least one year, financed and managed by the applicant company. In addition, evidence of successful franchising over a subsequent two year period with at least four franchisees is required.

Alldays Alldays House Chestnut Avenue Chandlers Ford Southampton SO53 3HJ	Mr D Cheyne 01703 645000	Convenience stores
Amtrak Express Parcels Ltd Company House Tower Hill Bristol BS2 0EQ	Mr R Baines 01179 272002	Overnight parcels, collection & delivery
Apollo Window Blinds Ltd Cold Heseldon Industrial Estate Seaham County Durham SR7 8ST	Ms K Wilson 0191 513 0061	Manufacturers & retailers of window blinds to the domestic & commercial markets
Autela Components Ltd Regal House Birmingham Road Stratford upon Avon Warwickshire CV37 0BN	Mr R Taylor 01789 414545	Automotive part suppliers
Budget Rent-a-Car International Inc 41 Marlowes Hemel Hempstead Hertfordshire HP1 1LD	Mr B Glover 01442 276105	National & international self-drive car, van & truck rental services
Card Connection Park House South Street Farnham Surrey GU9 7QQ	Mr S Hulme 01252 733177	Greeting card publisher distributing through network of franchisees
Chem Dry UK Midlands & London Unit 4 Mercian Park Felspar Road, Amington Ind Estate Tamworth Staffs B77 4DP	Mr R Grey 01827 55644	Carpet, upholstery & curtain cleaning service to domestic & commercial customers
Chem Dry Northern & Southern Ltd Colonial House Swinemoor Lane Beverley East Riding of Yorkshire HU17 0LJ	Mr M Hutchinson 01482 872770	Carpet, upholstery & curtain cleaning service to domestic & commercial customers
Chemical Express Ninian Way Tame Valley Ind Estate Tamworth Staffordshire B77 5DZ	Mr L J Gray 01827 251431	Sell & distribute industrial hygiene, cleaning & maintenance chemicals via mobile showrooms

Francesco Group Woodings Yard Bailey Street Stafford ST17 4BG	Mr F Dellicompagni 01785 47175	Ladies & gentlemens hairdressing
Greenalls Inn Partnership Greenalls Avenue PO Box No 2 Warrington Cheshire WA4 6RH	Mr B King 01925 651234	Public House retailing
Gun-Point Ltd Thavies Inn House 3-4 Holborn Circus London EC1N 2PL	Mr H Chamberlain 0161 877 1231	A mechanised re-pointing service for all brick & stone properties
Hertz (UK) Ltd Radnor House 1272 London Road Norbury London SW16 4XW	Ms J Dicks 0181 679 1777	Vehicle rental
Holiday Inns (UK) Ltd 21 Chalton Heights Chalton Bedfordshire LU4 9UF	Mr P Bell 01525 876025	Hotels
Humana International Group plc Humana House 11 Eton High Street Eton Berkshire SL4 6AT	Mr D Bugie 01753 842842	Executive recruitment
Interlink Express Parcels Ltd Brunswick Court Brunswick Square Bristol BS2 8PE	Mr A P Gent 0117 944 0000	Overnight parcels collection & delivery
In-Toto Ltd Wakefield Road Gildersome Leeds LS27 7JZ	Mr D Watts 0113 2524131 Ext 226	Retailing of kitchens & bathroom furniture, appliances & ancillary
Kall-Kwik Printing (UK) Ltd Kall-Kwik House 106 Pembroke Road Ruislip Middlesex HA4 8NW	Mr M Gerstenhaber 01895 872000	Quick printing centre offering comprehensive design, printing, finishing & photocopying service
Kentucky Fried Chicken 32 Goldsworth Road Woking Surrey GU21 1JT	Mr J Hoker 01483 717154	Fast food restaurant
Legal & General Estate Agency 1A Austhorpe Road Crossgates Leeds LS15 8QR	Mr R Ellison 0113 2640471	Residential Estate Agency, Life & Pensions Insurance

Perfect Pizza Units 5 & 6 The Forum Hanworth Lane Chertsey Surrey KT16 9JX	Mr M Clayton 01932 568000	Restaurants & take away units
Pirtek (UK) plc 35 Acton Park Estate The Vale Acton London W3 7QE	Mr P Brennan 0181 749 8444	Hydraulic & industrial hoses & assemblies from depots & mobiles
Pitman Training Limited Flockton House Audby Lane Wetherby West Yorkshire LS22 7FD	Mr J O'Brien 01937 580177	Secretarial & word processing training centres
Post Office Counters Ltd Agency Development Centre 20-23 Greville Street London EC1N 8SS	Mr D Evans 0171 400 4823	Retail & Post Office Products
Practical Car & Van Rental 21/23 Little Broom Street Camp Hill Birmingham B12 0EU	Mr B Agnew 0121 772 8599	Vehicle rental
Prontaprint Ltd Coniscliffe House Coniscliffe Road Darlington DL3 7EX	Mr C Gillham 01325 483333	Fast print centres incorporating artwork & design, commercial copying & business communications services
Rainbow International Carpet Dyeing & Cleaning Company Spectrum House Lower Oakham Way Oakham Business Park Mansfield Nottinghamshire NG18 5BY	Mr M Lusty 01623 422488	The supply of maintenance services for soft furnishings and disaster restoration
Recognition Express Ltd Sketchley Business Group PO Box 7 Rugby Road Hinckley Leicestershire LE10 2NE8	Mr T A Howorth 01455 238133	Manufacture & sale of personalised name badges, interior & exterior signage vehicle livery, trophies & awards
Saks Hair (Holdings) Ltd/ Command Performance 2 Peel Court St Cuthberts Way Darlington Co Durham DL1 1GB	Mr D Cheesebrough 01325 380333	Ladies & gentlemens hairdressing
Safeclean International 152 Milton Park Abingdon Oxon OX14 4SD	Mr M Graham 01235 833009	Hand cleaning of carpets & upholstery, curtain cleaning on site

Travail Employment Group Ltd 24 Southgate Street Gloucester GL1 2DP	Ms P Zwar 01452 307645	Business employment agency
Unigate Dairies Ltd 14/40 Victoria Road Aldershot Hampshire GU1 1TH	Mr H Allum 01252 24522	Distribution of milk & dairy products & soft drinks
Vendo plc 215 East Lane Wembley Middlesex HA0 3NG	Mr I J Calhoun 0181 908 1234	Commercial vehicle power washing
Wimpy International Ltd 2 The Listons Liston Road Marlow Buckinghamshire SL7 1FD	Mr M Woolfenden 01628 891655	Family hamburger restaurant

BRITISH FRANCHISE ASSOCIATION

AFFILIATE LISTING

SOLICITORS

Addleshaw Booth & Co Dennis House Marsden Street Manchester M2 1JD	Mr G Lindrup	0161 832 5994
Beveridge Ross & Prevezer 10-11 New Street London EC2M 4TP	Mr R Levitt Mr J Cohen Solicitor & Trade Mark Attorney	0171 626 1533
Biggart Baillie & Gifford Dalmore House 310 St Vincent Street Glasgow G2 5QR	Mr C Miller	0141 228 8000
Brodies 15 Atholl Crescent Edinburgh EH3 8HA	Mr J C A Voge	0131 228 3777
Burstows 8 Ifield Road Crawley West Sussex RH11 7YY	Mrs C Armitage	01293 534734
Church Adams Tatham & Co Chatham Court Lesbourne Road Reigate Surrey RH2 7FN	Mr B J Haynes	01737 240111
Church Adams Tatham & Co Fulwood House Fulwood Place London WC1V 6HR	Mr R Brown	0171 242 0841
Colemans Elisabeth House 16 St Peter's Square Manchester M2 3DF	Mrs P Cowie	0161 236 5623
Colemans Tameway Tower Bridge Street Walsall West Midlands WS1 1JZ	Mrs P Cowie	01922 431100
Cornish & Co Lex House 1/7 Hainault Street Ilford Essex IG1 4EL	Mr H M Sykes	0181 478 3300

Mundays Crown House Church Road Claygate Esher Surrey KT10 OLP	Mr M Ishani BFA Legal Committee	01372 467272
Nina Moran Watson New Garden House 78 Hatton Garden London EC1N 8JA	Nina Moran Watson	0171 831 7393
North & Co Henrietta House 17-18 Henrietta Street London WC2E 8QX	Mr M P Ommannay	0171 240 5797
Owen White Senate House 62-70 Bath Road Slough Berkshire SL1 3SR	Mr A Bates Legal Advisor to the British Franchise Association BFA Legal Committee	01753 536846 Fax:01753 691360
Paisner & Co Bouverie House 154 Fleet Street London EC4A 2DQ	Mr J S Schwarz	0171 353 0299
Paul K Nolan & Co 135 Upper Lisburn Road Belfast BT10 0LH	Mr P Nolan	01232 301933
Peters & Peters 2 Harewood Place Hanover Square London W1R 9HB	Mr R Cannon BFA Legal Committee	0171 629 7991
Pinsent Curtis 3 Colmore Circus Birmingham B4 6BH	Mr J Pratt BFA Legal Committee	0121 200 1050
Pinsent Curtis 41 Park Square Leeds LS1 2NS	Mr J Chambers	0113 244 5000
R C Moorhouse & Co 16/17 East Parade Leeds LS1 2BR	Mr H D McKillop	0113 244 3121
Shadbolt & Co Chatham Court Lesbourne Reigate Surrey RH2 7LD	Mr A Trotter	01737 226277
Sherwin Oliver New Hampshire Court St Pauls Road Portsmouth PO5 4JT	Mr G Sturgess	01705 832200

INSURANCE BROKERS

Tolsen Messenger Ltd 148 King Street London W6 0QU	Mr T J Fletcher	0181 741 8361
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Wilde & Co P O Box 112 Pollet House Lower Pollet St Peter Port Guernsey GY1 4EA	Mr C Scott	01481 726446
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EXHIBITION ORGANISERS

Blenheim Events T/A Miller Freeman Blenheim House 630 Chiswick High Road London W4 5BG	Mr S Thomas	0181 742 2828
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CDFEX 78 Carlton Place Glasgow G5 9TH	Mr J Sellyn	0141 429 5900
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CII 105 Lancaster Road London W11 1QF	Mr M J Stride	0171 727 7380
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MEDIA & COMMUNICATIONS

Business Franchise Magazine c/o Blenheim Events Blenheim House 630 Chiswick High Road London W4 5BG	Mrs L Lister	01925 724326
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Franchise World James House 37 Nottingham Road London SW17 7EA	Mr R Riding	0181 767 1371
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Streetwise Business Magazine Lincoln House 661 High Road London N12 0DZ	Ms D Baillieu	0181 445 7161
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The Express "Business Plus" Ludgate House 245 Blackfriars Road London SE1 9UX	Ms M Nugent	0171 928 8000
	Official Newspaper to the British Franchise Association	

The Franchise Magazine Castle House Castle Meadow Norwich NR2 1PJ	Dr D R Chaplin	01603 620301
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Franchise Development Services Castle House Castle Meadow Norwich NR2 1PJ	Mr D A Mayers	01603 620301
Franchise Development Services (Southern) Maple Grove Bradfield Reading Berks RG7 6DH	Mr G Patterson	01734 745115
Franchise Development Services (Midlands) 4200 Waterside Centre Solihull Parkway Birmingham Business Park Birmingham B37 7YN	Mr I Martin	0121 717 4717
Franchise Development Services (London) 10 Greenaway Gardens London NW3 7DJ	Mr L H Levi	0171 794 6356
Franchise & Marketing Management Ltd (FMM) 46/48 Thornhill Road Streetly Sutton Coldfield West Midlands B74 3EH	Mr M Matthews	0121 353 0031/2
FMM Consultants International 83 Victoria Road Horley Surrey RH6 7QH	Mr P Stanton	01293 820200
The Franchise Company 70 Brunswick Street Stockton Cleveland TS181DW	Miss J Waites	01642 603434
The Franchise Training Centre 212 Piccadilly London W1V 9LD	Mr B Duckett	0171 917 2837
Peter Williams 40 Newquay Close Nuneaton Warwickshire CV11 6FH	Mr P Williams	01203 329260

FRANCHISE MANUAL PUBLISHING CONSULTANCY

Manual Writers International 49 Bradmore Park Road London W6 0DT	Mrs P Hopkinson	07000 315750
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British Franchise Association (BFA), Thames View, Newtown Road, Henley-on-Thames, Oxon RG9 1HG
Tel: - 01491 578049/50

1 October 1997

PROVISIONAL LISTING

Provisional Listing is available for those companies developing their franchise concept and who are taking accredited professional advice on its structure.

Alliance Preservation Northgate House St Mary's Place Newcastle upon Tyne NE1 7PN	Mr C Nichols 0191 222 1229	Building Preservation Services
Alphabet Zoo Bury Old Road Whitefield Manchester M45 6AE	Mr P Fahey 0161 747 0304	Indoor children's adventure playground
Apache P O Box 736 St Helier Jersey Channel Islands JE4 8ZR	Mr I Barnes 01534 607944	Area pocket guides
Applewoods Paper House 14 Wellbeck Street London W1M 7PF	Mr F McTighe 0171 630 6448	Retailer of hair, skin & beauty products
Autosheen Ltd 21/25 Sanders Road Finedon Road Estate Wellingborough Northamptonshire NN8 4NL	Mr M Willis 01933 272347	Automotive mobile valeting
Barrett & Coe Weavers House Mounter Gate Norwich NR1 1PY	Mr J Cordeaux 01603 620433	Photographic
Bounders Unit 6 Barnwell Business Park Barnwell Drive Cambridge CB5 8UX	Mr E Bliss 01223 518866	Retailing of filled rolls, baguettes etc, cakes and beverages
Candy Cottage 399A Harrogate Road Bradford Yks BD2 3TF	Mr B Cheatham 01274 626556	Confectionery, manufacture & distribution
Card Essential Ltd Kaygee House 21/24 Rothersthorpe Crescent Northampton NN4 8JD	Mr P McGunnigle 01604 709499	Greetings cards
Card Line Greetings Ltd Units 4-5 Hale Trading Estate Lower Church Lane Tipton West Midlands DY4 7PQ	Mr M Crapper 0121 522 4407	Distribution of greetings cards

Filtafry Kent House Churchfield Road Walton on Thames Surrey KT12 2TU	Mr J Sayers 01932 232327	Specialised service for the filter purification of cooking oils in restaurants & catering establishments
Fix A Chip Kielder House Columbia Washington Tyne & Wear NE38 7LN	Mr B Stapley 0191 417 0577	Job format mobile minor vehicle repairs
Floor Coverings Int High Quality House Sandbeck Way Wetherby LS22 7DN	Mr M Eccleston 01987 588456	Mobile floor covering
Formative Fun Ltd 33 South Street Bridport Dorset DT6 3NY	Mrs J P Warren 01297 489365	The marketing of educational toys, games & books in an advisory capacity
Freedom Maintenance Ltd Freedom House Bradford Road Tingley Wakefield	Mr W S Rigby 01924 887766	Building repair & maintenance
Getifix (UK) Ltd Victoria Ind Estate 14 Victoria Way Burgess Hill West Sussex RH15 9NF	Mr M Garrard 01444 244144	Building refurbishment
Greencare Ltd The Old Saw Mill Sharpness Glos GL13 9UN	Mr M Macleod 01453 511366	The collection of printer consumables & the sale of recycled & branded laser printer consumables
Hire Intelligence 35 Maida Vale London W9 1TP	Mr R Horton 0171 286 3860	Short term rental of personal computers
J B Drivers 2 The Courtyard Holding Street Rainham Kent ME8 7HE	Mr T Beckett 01634 262666	Employment agency specialising in driving sector
Lynx Courier Services 1 St George's Street Bermuda Industrial Estate Nuneaton Warwickshire CV10 7JS	Mr D Whitaker 01203 386651	Courier services
Nationwide Auto Service Finelist Group plc Regal House Birmingham Road Stratford upon Avon Warks CV37 0BN	Mr R B Taylor 01789 414545 Ext 461	Independent Garage Services Franchise

Starlog 31 Peascoed Street Windsor Berks SL4 1EA	Mr A Farrar 01753 833299	Retailing products based on licensed characters from sci-fi, fantasy & cartoon productions
Swisher Premier House Hinton Road Bournemouth BH1 2EF	Mr J S Keen 01202 299277/316262	Commercial hygiene
TaxAssist Direct Ltd TaxAssist House 58 Thorpe Road Norwich NR1 1RY	Mrs L Charleton 01693 611811	Accounting Services
Temples Suite 1 12 Bank Street Norwich NR2 4SE	Mr D L Temple 01603 661170	Property Management
The Handwash 751-755 Ashton Old Road Openshaw Manchester M11 2HB	Mr N White 0161 231 0900	Hand car wash
Ties We Are Suay House 37-39 Lord Street Leigh Lancs WN7 1BY	Mr R Jackson 01942 260707	Retail outlets of ties
Traditional Hardware Co Parsonage Way Industrial Estate Chippenham Wilts SN15 5PN	Mr W Rees 01249 656433	Retailing of DIY, electrical fittings, & brass door furniture from a market stall or mobile unit
Trophy 11-12 Market Place Faringdon Oxon SN7 7HP	Mr C Maidens 01367 243434	Pet food sales
Unique Fobs Suay House 37-39 Lord Street Leigh Lancs WN7 1BY	Mr S Taylor 01942 680668	Retail outlets for key rings
Urban Planters 202 Pasture Lane Bradford West Yorkshire BD7 2SE	Mr D Marrison 01274 579331	Supply (on sale & rental) of indoor plants, with maintenance service
Viewpoint Corporation Ltd Avon Court Alveston Stratford upon Avon Warwickshire CV37 7AP	Mr P J Chatburn 01789 295858	Specialists in sale, installation and maintenance of CCTV systems

BRITISH FRANCHISE ASSOCIATION

ASSOCIATE MEMBERS LIST

Franchisors are required to submit a completed application form, including disclosure document, franchise agreement, prospectus, accounts etc and provide proof of a correctly constituted pilot scheme successfully operated for at least one year, financed and managed by the applicant company (as for Full Membership) but with evidence of successful franchising for a period of one year with at least one franchisee.

Blazes Fireplace Centres 18 East Street Horsham W Sussex RH12 1HH	Mr J Wormull 01403 269597	Fireplace & fire retailers offering a comprehensive service including installation
Cash Generator 113 Bradshawgate Bolton BL1 1QD	Mr B Lewis 01204 371 871	Retailer of new & second hand products, cash provider & cheque changer
Cico Chimney Linings Ltd Westleton Saxmundham Suffolk IP17 3BS	Mr R J Hadfield 01728 648608	The re-lining of domestic & industrial chimneys
Choices Video Plus The Home Entertainment Corporation plc 19-24 Manesty Road Orton, Southgate Peterborough PE2 6UP	Mr J M Sealey 01733 233464	Video hire & sale
Crimecure Franchise House Adam Court Newark Road Peterborough PE1 5PP	Mrs J Mitman 01733 758700	Intruder alarms, fire alarms, access control & closed circuit TV installations
Drain Doctor Ltd Franchise House Adam Court Newark Road Peterborough PE1 5PP	Mr F S Mitman 01733 753939	Plumbing
Drinkmaster Ltd Plymouth Road Liskeard Cornwall PL14 3PG	Mr S Garner 01579 342082	Manufacturer & distributor of flavour sealed beverage capsules & dispensing equipment
Dublcheck Padeswood Hall Padeswood Mold Clwyd CH7 4JF	Mr D Stewart 01244 550150	Commercial Cleaning Services

Jani-King No 4 The Courtyard 80 The High Street Staines Middx TW18 4DR	Mr P Howorth 01784 464040	Contract cleaning
Krogab The Sidings Station Yard Goostrey Cheshire CW4 8PJ	Mr S Edwards 01477 544144	Coffee, fruit juice & thick shake systems, service & products to hotels, restaurants & catering business
Master Brew Beverages House 7 Ember Centre Hersham Trading Estate Hersham Surrey KT12 3PT	Mr F Vanvilborg 01932 253787	Supplying ground coffees & a complete beverage range to offices & caterers
Mercury Express UK Ltd 2nd Floor Suite 54 Hamilton Square Birkenhead Wirral L41 5AS	Mr R Glynn 0151 6661852	Sameday freight & haulage
Merryweathers Larwood House Whitecross Guiseley LS20 8LZ	Mr R Richardson 01943 879531	Fish & chip restaurant and take-away
Mobile Phone Centres Ltd 80 Baxter Close Southend on Sea Essex SS2 6HZ	Mr T Stone 01702 226666	Retailers of mobile telephones & associated products
Mr Vendo (GB) Ltd Frederick House Gors Road Towyn Abergele Clwyd LL22 9LS	Mr P A Smith 01745 356400	Provision of healthcare vending machines in pubs, leisure centres, hotels. etc
Nippers Mansers Nizels Lane Hildenborough Kent TN11 8NX	Mrs J Cassel 01732 838333	Retail nursery goods & toys
O'Briens Irish Sandwich Bars 23 Whitelands Felpham Bognor Regis West Sussex PO27 8JC	Mr J Gooderham 01243 823109	Sandwich Café
Oscar Pet Foods Bannister Hall Mill Higher Walton Preston Lancashire PR5 4DB	Mr M Dancy 01772 626789	Pet Food Home Delivery

Sample Franchise Agreement

By Mark Abell

Partner leading the Franchise and Licensing Department
at Field Fisher Waterhouse

This sample agreement is for illustrative purposes
only and must not be used by any party seeking to franchise
their business without taking the author's prior advice.

THIS AGREEMENT is made day of
199 between
the registered office of which is

.....
(hereinafter called "the Franchisor") of the first part and
of

.....
(hereinafter called "the Franchisee") of the second part

WHEREAS:-

A. The Franchisor has spent time money and effort in
obtaining and developing knowledge of and expertise
("the Know-How") in

.....
hereinafter called "The Services".

B. The Franchisor wishes to expand the Provision of
the Services, and is willing to grant to the Franchisee the
rights set out herein.

C. The Franchisee desires the right during the con-
tinuance of this Agreement to provide the Services from
the premises specified in Schedule One hereto ("the Pre-
mises") under the Marks (detailed in Schedule Two), as
directed in the operation manual ("the Manual").

D. The business of providing and marketing the Ser-
vices is hereafter called "the Business".

E. The equipment from time to time required by the
Franchisee for use in the Business is hereafter called
"the Equipment".

NOW IT IS AGREED AS FOLLOWS:-

1. Rights Granted

The Franchisor grants to the Franchisee during the
period of this Agreement and subject to the terms and
conditions hereof the rights to carry on the Business in
accordance with this Agreement from the Premises, to
utilise the Know-How and to use the Marks.

2. Term

Subject as herein appears this Agreement shall be for a
period of years, commencing the day of
..... 199

3. Renewal

If the Franchisee gives written notice of his desire to
renew the Agreement, then provided that at the time
such notice is given this Agreement is valid and subsist-
ing and the Franchisee shall not be in breach of his obli-
gations under this Agreement, the Franchisor and the
Franchisee will enter into a new standard Agreement in
such form as is currently being offered to new Fran-
chisees at that time, to operate from the date of the
expiry of this Agreement.

4. Franchisor's obligations

The Franchisor shall:-

- (a) Assist the Franchisee to establish and efficiently
operate the Business from the Premises and to provide
him with a Manual, the copyright in which shall at all
times remain the property of the Franchisor;
- (b) Train the Franchisee and the Franchisee's staff in
the correct operation of the Business at the cost specified
in Schedule Three.
- (c) Train the Franchisee and the Franchisee's new and
existing staff in the Services. The cost of this training
shall be as detailed in Schedule Three.
- (d) Give the Franchisee such reasonable continuing
assistance and advice as the Franchisor considers neces-
sary for the efficient running of the Business.
- (e) Ensure that the Manual shall be kept up to date with
any alterations and/or improvements in or to the opera-
tion of the Business.

5. Franchisee's obligations concerning the marks

- (1) The Franchisor authorises the Franchisee to use the
Marks solely for the purpose of promoting the Business
and any usage will be in accordance with the reasonable
directions of the Franchisor;
- (2) The Franchisee undertakes not to do anything to
prejudice or damage the goodwill in the Marks or the
reputation of the Franchisor, but may challenge the
Franchisor's intellectual property rights;
- (3) If the Franchisee becomes aware of any infringe-
ment of the Marks by any other party trading with
Marks similar or identical to the Marks, the Franchisee
shall immediately notify the Franchisor thereof in writ-
ing;
- (4) The Franchisee shall use only the Marks in connec-
tion with the Services;

Certified Accountant to prepare annual accounts for the business and the Franchisee shall supply the Franchisor:-

(a) within thirty days after the end of each financial year with an audited certificate as to the Franchisee's gross turnover during such period calculated in accordance with this Agreement;

(b) within ninety days after the end of each financial year with a certified copy of the audited profit and loss accounts and balance sheet of the Franchisee's Business and such other accounting and financial information relating to it as may reasonably be required by the Franchisor;

(c) The Franchisee shall provide to the Franchisor any certificates etc. set out in (a) and (b) above which shall be prepared after the termination of this Agreement but which shall relate to any financial period of the Franchisee which falls in whole or in part within the period of this Agreement.

11. Audit

(1) The Franchisor or its Auditor or authorised representative shall be entitled to inspect and audit the books of account and all supporting documentation of the Franchisee relating to the Franchisee's Business at any time in respect of the whole or any part of the period of this Agreement and within six months after the receipt by the Franchisor of the audited accounts for the year or other period of this Agreement up to the termination or surrender of this Agreement or sale or transmission of the Franchisee's Business to a new Franchisee by the Franchisor giving written notice to the Franchisee such inspection or audit to be during reasonable business hours;

(2) If the audit (or any other periodic inspection not being a full audit) shows that the accounting of the Franchisee as to the calculation of the payments due under this agreement; and/or any other financial matter is incorrect, the Franchisee undertakes promptly to rectify the defect in the amount accounted for and/or the accounting system defect as the case may be.

12. The sale of the business

(1) The Franchisee may not assign or delegate his Franchise or any other right or obligation under this Agreement, but may sell his Business with the prior written consent of the Franchisor and subject to the conditions listed in (2) below, the Franchisor undertakes to grant to a purchaser of the Franchisee's Business who is acceptable to the Franchisor, an Agreement for the period of not less than years commencing on the date of the sale of the said Business such Agreement to be in the form of the standard Agreement offered by the Franchisor to its Franchisee's current at that time;

(2) The conditions required to obtain the written consent of the Franchisor to the sale of the Franchisee's Business shall be:-

(a) any proposed purchaser shall meet the Franchisor's standards in all respects;

(b) the Franchisee shall pay to the Franchisor the sum of 20% of the sale price if the Franchisor has introduced the purchaser, and 5% otherwise (except that where the Franchisor exercises these options under Sub-Clause (3) below to purchase the business, no such payment shall be due to the Franchisor);

(c) the Franchisee must not be in breach of any obliga-

tions to the Franchisor under the terms of this Agreement;

(d) the sale must be completed in time to enable the Franchisor to enter into a replacement Franchise Agreement with the purchaser before the expiry of this Agreement.

3.(a) the Franchisee shall submit to the Franchisor a copy of the proposed purchaser's written offer (the Purchase Offer) to purchase the said Business from the Franchisee together with a financial statement of affairs and a business history of the proposed purchaser and any further information which the Franchisor may reasonably require;

(b) upon receipt of the Purchase Offer accompanied by such items the Franchisor shall have in addition to its other rights hereunder, an option to purchase the said Business for the same amount and on the same terms as those set out in the purchase offer such option to be exercised by notice in writing given to the Franchisee within twenty-eight days after the receipt by the Franchisor of the purchase offer during which period the terms of the Purchase Offer can not be altered;

(c) if the Franchisor does not exercise such option and consents to the proposed purchase a condition thereof is that the proposed purchaser shall deposit twenty-five percent of the purchase price with the Franchisor and that upon completion of the sale the purchaser shall pay the balance of the purchase price to the Franchisor's solicitor (as agent for the Franchisee) subject to a lien for any monies owed to the Franchisor by the Franchisee, and the Franchisor shall deduct from the said purchase price the amount of any unpaid obligations of the Franchisee to the Franchisor together with the amount due in accordance with this agreement and shall remit any outstanding balance of the purchase price to the Franchisee within thirty days after the date of the receipt of the final amount of the purchase price by the Franchisor;

(d) if the sale of the business proceeds under (c) above, it is a condition of the consent of the Franchisor that the terms of the offer notice are the terms of the sale and if the sale price or any other significant term of the offer notice is changed the amended terms shall constitute a new offer notice which shall be submitted to the Franchisor to be processed under this sub-clause in place of the original offer notice.

(4) This Agreement is only granted to the Franchisee on the condition (which is of the essence of this Agreement) that it is granted to him as an individual person and if the Franchisee intends to change the structure of his trading style to a partnership or to a Limited Company or in any other manner it is agreed that any such intended change shall be deemed to be an assignment of this Agreement which shall require the prior written consent of the Franchisor under this Clause;

(5) The Franchisor shall be entitled to assign the benefit of this Agreement to any other party at anytime and shall inform the Franchisee thereof in writing within a reasonable time thereafter.

13. The death of the franchisee

In the event of the Franchisee dying during the period of this Agreement and if a replacement Franchisee nominated in writing by the personal representative of the Franchisee and who is acceptable to the Franchisor as set out in Clause 12 above enters into a written undertaking with the Franchisor within twenty-eight days

(a) the parties confirm that the whole of their negotiations and intentions have been included herein within the context of and expressing clearly the requirements of the parties.

(b) there are no warranties representations or other matters relied upon by the Franchisee causing his signature hereto which have not been satisfied herein;

(c) this Agreement shall not be modified in any way except by a written instrument signed by both parties hereto.

18. Waiver

The failure of the Franchisor to exercise any power given to it hereunder or to insist upon strict compliance by the Franchisee with any obligation hereunder and no custom or practice of the parties shall constitute any waiver of any of the Franchisor's rights under this Agreement. Waiver by the Franchisor of any particular default by the Franchisee shall not affect or impair the Franchisor's rights in respect of any subsequent default of any kind by the Franchisee nor shall any delay by or omission of the Franchisor to exercise any rights arising from any default of the Franchisee affect or impair the Franchisor's rights in respect of the said default or any default of any kind.

19. Severability

If any item or provision contained in this Agreement or any part thereof (in this Clause called the "offending provision") shall be declared or become unenforceable invalid or illegal for any reason whatsoever including but not detracting from the generality of the foregoing a decision by the competent domestic or European courts an Act of Parliament, European Economic Community legislation or any statutory or other bye-laws or regulations or any other requirements having the force of law the other terms and provisions of this Agreement shall remain in full force and effect as if this Agreement had been executed without the offending provision appearing herein. In the event that the exclusion of any offending provisions shall in the opinion of the Franchisor adversely affect either the Franchisor's right to receive payment of fees or remuneration by whatever means payable to the Franchisor or the Franchisor's Marks and Known-How methods of the business then the Franchisor shall have the right to terminate this Agreement on thirty days notice in writing to the Franchisee.

20. Warranties

The Franchisee shall make no statements representations or claims and shall give no warranties to any customer or potential customers in respect of the Business save such as may have been specifically authorised by the Franchisor with authority to be given either in writing or in the Manual in force at the relevant time. The Franchisee hereby undertakes with the Franchisor to keep it fully and effectively indemnified against all claims demands losses expenses and costs which the Franchisor may incur as a result of any breach by the Franchisee of this provision or of any other provision contained in this Agreement.

21. Improvements

(1) The Franchisee shall use all reasonable endeavours to conceive and develop new and improved methods of carrying out the Services and improvements in the apparatus operating procedure and other additions or

modifications to the Services (hereinafter referred to as "Improvements"). The Franchisee agrees to disclose fully any Improvements to the Franchisor and the Franchisor shall determine the feasibility and desirability of incorporating them into the relevant Services. Any non-patentable Improvement approved by the Franchisor may be used by the Franchisor and all Franchisees of the Franchisor without any obligation to the Franchisee for royalties or otherwise;

(2) The Franchisee shall give the Franchisor the right of first refusal at a fair price (to be fixed by an appropriate independent arbitrator in the event of disagreement) of all rights in any Improvement which is capable of being patented.

22. Force majeure

This Agreement shall be suspended during the period and to the extent of such period that the Franchisor reasonably believes any party to this agreement is prevented or hindered from complying with its obligations under any part of it, by any cause beyond its reasonable control including but not restricted to strikes, war, civil disorder, and natural disasters.

If such a period of suspension exceeds 180 days, then the Franchisor shall upon giving written notice to the Franchisee, be able to require that:-

(1) all money due to the Franchisor shall be paid immediately, and

(2) the Franchisee shall immediately cease trading, until further notice from the Franchisor.

23. Arbitration

If any dispute shall arise between the parties hereto concerning the construction interpretation or application of any of the provisions of this Agreement whether during the continuance of this Agreement or after the termination thereof by whatever cause such dispute shall be referred to the arbitration of a single arbitrator to be appointed by the President for the time being of the Law Society of England, provided always that this Clause shall have no application to terms of this Agreement concerning restrictions against competition and non-disclosure, and the parties hereto agree to be bound by the terms of such arbitration and to bear the costs of such arbitration in equal shares.

24. Definition

Masculine includes the feminine and the singular the plural and vice versa and obligations undertaken by more than a single person including a company or firm are joint and separate obligations.

25. Notices

Any notice required to be given for the purposes of this Agreement shall be given by sending the same by prepaid First Class post, facsimile, cable or telex to, or by delivering the same by hand at, the relevant address shown in this Agreement or such other address as shall have been notified (in accordance with this Clause) by the party concerned as being its address for the purposes of this Clause. Any notice so sent by post shall be deemed to have been served two days after posting and in proving this service it shall be sufficient proof that the Notice was properly addressed and stamped and put into the post. Any notice sent by cable or telex or facsimile shall be deemed to have been served on the next day following the date of despatch thereof which is a business day.