A Multivariate Analysis of Conflict in the Franchisee-Franchisor Relationship

by

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ABSTRACT

Microeconomic and Relational Exchange theories provide guidance within a Transaction-cost Economics theoretical framework for analysis of conflict in franchising The literature is reviewed in support of a definition of franchising as an inter-organisational form.

Conflict is operationalised using a four item scaled construct of satisfaction. Six hundred twenty-one franchisee respondents from nine different franchises were clustered on the conflict construct scale with a three-cluster solution emerging. Factor analysis is also used to condense and describe data as well as reveal latent variables. Franchisees are categorised as "satisfied," "ambivalent" or "angry" with approximately a third of the cases represented in each cluster.

SPSS CHAID (Chi-square Automatic Interaction Detector) is used as the primary statistical application to develop nineteen models which represent varying perspectives of independent variable correlation with the dependent conflict variable. Correlations among independent variables are also depicted in the tree diagram output. These models are statistically tested to show both descriptive and predictive value. Principal areas of analysis include franchisee goals, perceived exit costs, and franchisor provided services.

Exit costs are analysed with strong support for psychic barriers to exit and little support for the traditionally accepted franchise specific assets being viewed as irretrievable investments by the franchisee. However, the more specific the asset to the franchise relationship, the greater the positive correlation with franchisee satisfaction. Also, franchisees exhibit great difficulty in quantifying the value of the trade mark.

Results of the study reveal cooperation as a prerequisite of satisfaction in the franchisee-franchisor relationship. Coordination of transactions between the parties to the franchise contract (license agreement) is particularly important, especially regarding a host of marketing functions in the alliance. Transaction-cost's theory of bounded rationality is empirically modelled. A clear and definable tolerance zone of acceptable franchisor performance is illustrated.

"The three guiding principles of my life are integrity, intensity, and intimacy. Integrity is 'doing the right thing' when no one is looking. Intensity is focusing your energy to accomplish a goal. It is the third principle that is the most important...and the most misunderstood. Intimacy means love; not closeness or liking, but love. It is a passion for life that is all encompassing. Give me a hundred franchisees who believe in these principles and we can conquer any market."

Taken from a speech to a Babson College entrepreneurship class, November 1994 by

W.J. Hindman
founder, WJ Hindman and Associates
founder, Jiffy Lube International, Inc.
founder, Youth Services International, Inc.
former head football coach, Western Maryland College
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To the two best women in the world,

Carol and Katy,

and

the best man I know,

Stephen III

CHAPTER I

IMPORTANCE AND DEFINITION OF FRANCHISING

1.1 INTRODUCTION

This thesis provides a multi-theoretic framework for analyzing franchising. From that foundation we build a research proposal which defines the issues, states the propositions, and outlines a research methodology. Our conclusions are directed to both academics and practitioners.

The historically and theoretically supported definition of franchising we have developed clearly illustrates the importance of the relationship between the franchisee and franchisor. This research centers on the manifestation of conflict in that relationship. Because the franchise body of literature is still emerging from other literatures we have extracted our propositions from a number of these divergent sources of academic work. This broad literature search, which includes neo-classical economics, transaction-cost economics, relational exchange theory, and conflict theory helped us identify the issues and operationalise the analysis.

1.2 THE IMPORTANCE OF FRANCHISING

The importance of franchising is evident in the magnitude of its use as an organizational form. Five hundred sixty-two thousand franchised outlets had sales of over $750 billion in the U.S.A., accounting for one third of all retail sales in 1994 ("Franchising in the Economy" 1994). The International Franchise Association believes that sales generated through franchising will rise to $1 trillion by the year 2000. The number of business format franchisors has grown from 909 in 1972 to almost 3,200 in 1994. In the same period individual outlets grew from 189,640 to 562,000 (Franchising in the Economy, 1994), with over twenty-three thousand franchised outlets added in the U.S. in 1994 (Entrepreneur Magazine, January 1995). Indeed, franchising has experienced real growth (inflation adjusted) in every year since the US Commerce Department began keeping statistics in 1972.

In 1994, The British Franchise Association commissioned National Westminster Bank to conduct a survey of franchising in the United Kingdom. That survey revealed 23,200 franchised outlets with sales of over 6.0 billion pounds which were forecasted to rise to over 10 billion pounds in 1996 (1994 NatWest/BFA Franchise Survey). The International Franchise Association estimates there are approximately 90,000 franchised outlets outside of the United States and the United Kingdom (IFA interview with Terrien Barnes, Director of Research, January 1994). Stern and El-Ansary (1988) estimate that 10% of all retail sales in Europe are through franchised outlets.

Eighty-seven percent of the outlets within the franchise system in the United States are operated by franchisee companies with the remaining thirteen percent operated by the franchisor (Franchising in the Economy, 1994). Types of businesses generally included in business format franchising are restaurants, food and non-food retailing, personal and professional services (Justis, 1986).

1.3 DEFINITIONS OF FRANCHISING

1.3.1 THE INTER-ORGANIZATIONAL FORM AND DISTRIBUTION OF PRODUCTIVE BENEFITS

Miller and Grossman (1986) described franchising as an organizational form structured by a long-term contract, whereby the owner, producer, or distributor (*franchisor*) of a service or trade marked product grants the non-exclusive rights to a distributor (*franchisee*) for the local distribution of the product or service. In return the franchisee pays an up front fee and on-going royalties and agrees to conform to quality standards (Justis and Judd, 1986). In a later study, Achrol and Etzel (1992, p.2) describe a franchise as *"...an incentive distribution system for organising* **individual firms** *pursuing their own rewards"* (emphasis added). Taking this latter perspective of franchisor and franchisee firms being independently liable organisations, we prefer to describe the phenomenon as an ***inter-organisational form***. This is consistent with Stern and El-Ansary's (1988) definition of a marketing channel of distribution as sets of interdependent organisations in the process of making a product

or service available for use or consumption. Channel structure refers to the nature of the firms involved in the channel, the nature and extent of their inter-related roles, and the allocation of the channel's productive value (Stern and El-Ansary, 1988).

A key aspect of franchising is the central role of the trade mark (Caves and Murphy, 1976). In this inter-organisational structure, the franchisee cloaks himself in the identity of the trade mark but operates as a separate legal entity, described as independently liable (Eaton and Joseph, 1988). Therefore franchising is the establishment of a relationship between independent firms who share an intangible asset, customer goodwill, embodied in the trademark. The intangible asset is enhanced or diminished by the delivery of the product or service to the consumer. The value of the asset is derived by capitalizing the stream of earnings it will generate. The capitalization value is the basis for the franchise fee and royalty payment. The up front fee, generally termed a franchise fee, is usually paid at the time the license agreement is executed. A royalty is a scheduled payment made on a monthly or weekly basis, calculated as a percentage of the total revenue generated by the franchisee firm. There is considerable variation in the magnitude of both types of fees (Sen, 1991) but all are the apportionment of the value of the benefits derived from the shared intangible asset, the trademark (Caves and Murphy, 1976; Michaels, 1993).

1.3.2 Historical Development and Evolution of Franchising

1.3.2.1 Product Franchising

Two distinct types of franchising have developed and are described by Dicke (1990). Product franchising was created by the makers of complex durable goods who found existing wholesalers either unable or unwilling to market their products. These manufacturers built their own distribution systems and franchises were created as alternatives to the high cost of company-owned outlets. Thus, product franchising is characterized by franchised dealers who concentrate on a company's product line and to some extent identify their business with that company (U.S. Department of Commerce 1988). Product franchises include gas stations, car dealership, and soft-drink bottlers.

1.3.2.2 Business Format Franchising

The focus of this research is business format franchising. Business format franchising grew out of the concept of distribution channel development and control. It

was formalized in the late 1950's by entrepreneurs who believed that the outlet itself could be a product. Initially the motivation was to enhance efficiency through minimizing cost (franchised outlet versus company owned outlets) and later as a method of expanding revenue by prescribing detailed operational practices to protect, and ultimately enhance, the trade mark. Thus, franchising was used to create bilateral gains for channel members through vertical integration (Williamson, 1991).

With the development of the modern economy and the evolution of contract law, the franchisor was able to extract economies of scale from channel development which gave the franchisees competitive advantages over completely independent business ownership. National and regional advertising and product purchasing are important examples of these economies of scale in building the trade name and trademark value which are sold to the franchisee on a limited, non-exclusive basis. The main difference between business format franchising and other market channels is that the downstream channel members play a significant part in the quality control of the final product or service (Craven and Kluglanski, 1970).

Business format franchising accompanies the trademark and distribution rights with information on the production processes and delivery system. Inherent in this is the assumption that the information exchange will ensure the maintenance of the trademark value (Caves and Murphy, 1976). The value is then enhanced through the development and exploitation of economies of scale. Business format franchising usually includes a marketing plan, documented and enforced procedures, process assistance, and business development and innovation (Achrol and Etzel, 1991). It is an entire way of doing business and is a more complex relationship than product franchising because the method by which the asset is to be shared is stipulated in the franchise contract, often called the license agreement (Dant, Wortzel, and Subramanian, 1992). For example, the McDonald's franchisee must staff and market per the contractually agreed upon methods whereas the product franchisee, say the Pepsi bottling franchise, centers on the soft drink formula and the packaging of the product.

This complex channel system raises the question of coordination and control over the marketing functions (Simpson, 1991). Each franchisee, as a downstream channel member, impacts the value of the intangible asset as the trademark becomes manifest in

the delivery of the product to the consumer. Thus, the performance of each outlet has *pro rata* impact on the total income stream. Direct cost and benefits of individual performance are associated with both the formal and informal governance structures of the franchise relationship which ultimately affect the trade mark value (Jensen and Meckling, 1976). Clearly, the relationship must necessarily be dynamic because no long term contract can cover all contingencies (Boyle, 1991). There is an interdependent effect of actions taken by the parties either bilaterally or independently (Carney and Gedajlovic, 1991). This is due to the continuing interaction between the franchisee and the franchisor involving general business discussion, feedback on marketing, and operations process adjustments. The level of interaction varies by franchise system but often exceeds the strictly interpreted contractual requirement (Dwyer, Schurr and Oh, 1987; Kaufman and Stern, 1988; Jakki and Nevin, 1990).

1.3.2.3 Franchising and Standardized Value Apportionment

As noted, the franchise fee is paid and royalties stipulated in the license agreement which is executed in advance of the actual franchisee firm commencement of operation (Austin, 1989). A franchisor will have only one royalty rate at any point in time (LaFontaine, 1992). Thus, two independent businesses agree in advance on the probable outcome of a somewhat unknown series of events well into the future and memorialize it in a contract. Because franchisors seldom negotiate their standard form of license agreement (LaFontaine, 1988; Stanworth, 1985), the economic apportionment of value is used over a number of such relationships. That is, all franchisees in a system typically pay the same franchise fee and royalty to the franchisor regardless of the particular input mix of the franchisee like site location, local market potential, and entrepreneurial capacity of the franchisee. This provides the business researcher the opportunity to study the relational issues in franchising, controlling for the share contract within any given franchise organization.

1.3.2.4 The Franchise Definition and a Literature Review Blueprint

From the literature we have defined franchising as an inter-organizational form which creates a contractual alliance between two firms to generate and allocate a productive benefit. This definition points to a literature review to analyze franchising as follows:

1. The theoretical foundation for the allocation of the productive benefits in franchising. We chose neo-classical economics.
2. The theoretical basis for governing the long term relationship between franchisee and franchisor inherent in franchising. We chose transaction -cost economics.
3. A theoretical measure of the strength and stability of the franchisee-franchisor relationship. We chose exchange theory.
4. Because our research focuses on issues of conflict in franchising we also review channel conflict literature.

1.4 AN OUTLINE OF THE THESIS

CHAPTER II: LITERATURE REVIEW AND THEORETICAL FRAMEWORK

In this chapter we set a foundation for analysing the franchisee-franchisor relationship.

The Neo-classical economic perspectives are used to set forth the micro economic structures of the typical franchisee firm and typical franchisor firm. Cost and revenue functions and the subsequent profit maximising behaviour are reviewed.

Transaction-cost economics is used to characterise the governance of the relationship between the franchisee and franchisor. Transaction-cost analysis requires attention to the role of shared assets. In franchising this directs us to the trade mark.

Relational exchange theory allows us to measure the satisfaction of the franchisee in the relationship. This allows us to probe the issues which drive satisfaction (or dissatisfaction).

Finally, the conflict literature bridges the previous three theoretical tools by placing them in the context of a generalisable conflict paradigm.

CHAPTER III: THE RESEARCH QUESTION AND PROPOSITIONS

The theoretical foundation built in Chapter II presents a platform for the research question and three propositions. This chapter presents the research question and propositions and discusses the way in which those questions and their component parts are operationalised.

CHAPTER IV: RESEARCH DESIGN AND METHODOLOGY

The research instrument used was a mail questionnaire sent to 2,912 franchisees. The questionnaire was segmented into five parts; each designed to reflect the requirements of the theoretical foundation and subsequent research questions. In this chapter we review sampling methodology and support the validity and reliability of the instrument and of each operationalisation. Further, we discuss the pilot study used to test the questionnaire.

CHAPTER V: UNIVARIATE ANALYSIS OF THE DATA

2,912 franchisees from nine franchise systems were mailed questionnaires. 621 franchisees responded. In this chapter we describe the data with specific attention to characteristics of the franchisee, franchisee firm, and franchisee conflict variables. Also, the pattern of responses to the survey is described.

The intention of the chapter is to begin inspection and investigation of the data to enlighten and reveal information to answer the research question and propositions. Goals, franchisor provided services and perceived exit costs are factor analysed with discussion of components.

CHAPTER VI: MULTIVARIATE ANALYSIS OF THE DATA

Multivariate analysis of the data is accomplished in a series of statistical applications. Included in our statistical regimen is cluster analysis, CHAID (chi-square automatic interaction detector) analysis, Wilcoxon matched pairs test, Kruskal-Wallis one-way analysis of variance, and chi-square goodness of fit. In this chapter the research question, regarding the measurement of conflict in franchising, is answered and nineteen CHAID models are displayed, culminating in addressing the propositions.

CHAPTER VII: CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

The aim of this thesis, to provide guidance for improvement of the franchisee-franchisor relationship, is brought to fruition in this chapter. Here we discuss both the academic conclusions and the implications of those findings for the practitioner. Through a discussion of our findings and an outline of that which will further this research agenda we make recommendations to promulgate a better franchise environment. Conclusions and implications are extracted for franchising in both the United States and internationally.

A discussion of the limitations of the research is an important aspect of outlining the research agenda for the future.

CHAPTER II

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 THE FRANCHISE DEFINITION AND THE LITERATURE REVIEW

A theoretical framework from which to analyze franchising was developed from a review of the literature. Theories used in the development of the research question and data collection instrument are neo-classical microeconomics, transaction-cost economics, exchange theory (including Mcneil, 1976, 1980 and Parson 1959), and channel conflict literature. A multi-theoretic approach is taken to define the existence and history of franchising, formulate the research propositions, and construct the research instrument. Adhering to the belief that franchising is an inter-organisational form, we use the literature review to examine both the franchisee and franchisor firms.

2.2 NEO-CLASSICAL MICROECONOMICS

Traditional microeconomic theory links the central franchise theme of intangible asset sharing to a theoretical framework inasmuch as the reduction in cost or the increase in revenues results from a division of tasks between independent firms (Williamson, 1975). As Caves and Murphy (1976) note, "The logical motivation for two independent enterprises to divide activities are the advantages of cost reduction or revenue enhancement." We endeavor to illustrate the structures of the two firms with a specific analysis of their differences. In doing so, we establish the theoretical basis for conflict between the franchisor and franchisee.

2.2.1 COST AND REVENUE FUNCTIONS OF THE FRANCHISEE AND FRANCHISOR FIRMS

Microeconomic theory assumes that both the franchisor and the franchisee are attempting to maximize profit (Coase, 1952; Hayek, 1945). The channel literature which addresses microeconomic considerations has concluded that the franchisee's hypothetical demand or average revenue (AR) function is downward sloping and to the right (McGuire and Staelin, 1983; Mittelstaedt and Stassen, 1990). This reflects product and location differentiation which gives the franchisee the ability to vary price from their competitors in the marketplace. The coefficient of elasticity is different at every point along the AR line and decreases as price decreases. The only AR function which would not exhibit this

property is one which has a constant elasticity to price over its entire range (Mansfield, 1990).

The role of the franchisee in the franchising relationship is delivery of units of product or service to the consumer. Each unit of good or service carries a cost. To deliver the unit some overhead is usually in place. Therefore, in the depiction of cost the franchisee exhibits both fixed and variable costs (see figure 2.2). Thus there is a positive marginal cost to sales for the franchisee firm (Brickley and Dark, 1987).

Franchisor revenue is principally generated through franchise fees, royalties, and the sale of goods and services to the franchisees (Sen, 1991). Since a franchisor must put in place much of its overhead to service even a single franchisee, initial fees are not directly related to output levels; they are neither a marginal cost or a marginal revenue to the franchisor (Ozanne and Hunt, 1971). Royalties arise from on-going operations and are theoretically central to output levels. However, franchisors are loath to change the terms of their license agreement among franchisees (Stanworth and Hough, 1984; see also Lafontaine, 1988). This is especially true in the establishment of the royalty percentage. Hence, the percentage of total revenue applied to royalties is generally fixed across the system.

The sale of goods and services to the franchisee is clearly marginal both as to cost and revenue. However, research has shown these sales to be inconsequential to altering the basic cost or revenue function (Mittelstaedt and Stassen, 1990). Therefore the franchisor's average revenue curve will substantively be the sum of the franchisee's average revenue curves, already shown as downward sloping and to the right (Mittelstaedt and Stassen, 1990). The elasticity of the AR curve will be the same at each price as the AR of the system's average franchisee. The microeconomic perspective closely aligns the revenue related economic structures of the franchisee and franchisor (Mittelstaedt and Stassen, 1990).

Examining the franchisor's theoretical cost structure next, the assumption is that the franchisor's cost is entirely fixed. This assumption is in line with the franchisor overhead placement requirement previously stated. This assumption must be relaxed to reflect the "tiered" placement of overhead and the marginal nature of product and service sales to franchisees. Tiered placement of overhead occurs as a result of "staged" growth.

The first tier of overhead is put in place as required to meet contractual obligations for a prescribed number of stores. Pressure, *vis à vis* task failure or relational, builds and a second layer of overhead is placed to relieve the pressure and secure support obligations for a second tier of outlets. This tiering process continues until development ebbs as the markets become saturated or exogenous forces cause a slowing of growth. The tiered overhead effect aside for the moment, the franchisor has no cost directly attributable to the sale of each unit of good or service made by the franchisee. Therefore, the franchisor has no marginal cost.

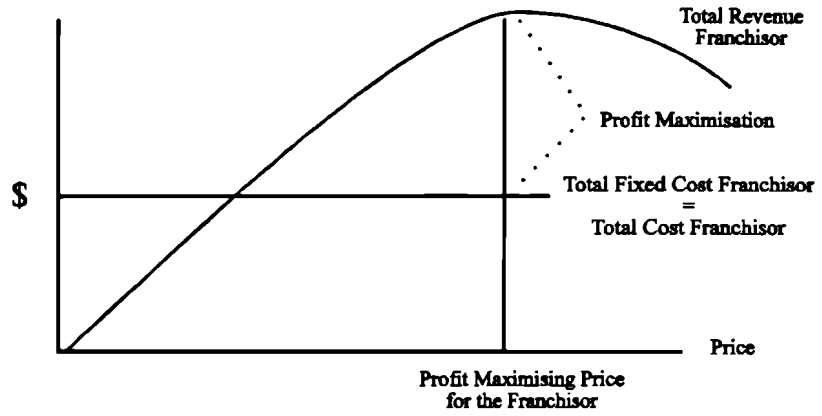


Figure 2.1 Franchisor Demand and Cost Functions

2.2.2 PRICING BEHAVIOUR OF THE FRANCHISEE AND FRANCHISOR

With the franchisee having the previously explained downward sloping and to the right demand curve, a reduction in product price yields an increase in the quantity of goods sold. The franchisor incurs no cost for the production of the units which make up these sales, including the increase. A firm with no marginal cost maximizes its profit with the product price at which demand is exactly unit elastic and thus total revenue is maximized. This is an important theoretical indicator of different behavioural motivations between franchisee and franchisor. With marginal cost equal to zero, the franchisor is motivated to increase sales to a non-optimal profit level for the franchisee. Because the franchise structure encourages centralized economies of scale in marketing, especially advertising and promotion, marketing is a likely tool for the franchisor to use as a product

price adjusting mechanism. That is, because the franchisor is motivated to increase total revenue, which can effectively be accomplished through a price reduction. While the franchisee sets the unit price at the local level, a system-wide price reduction can be implemented through centralised promotions, such as discount coupons. Thus, the marketing mix, including pricing, is controlled by the franchisor. Also, because the density of outlet development will affect the gross level of system sales, this is another likely area for conflict between the franchisee and franchisor. The franchisor is motivated to develop more outlets to increase system sales and the franchisee is motivated to under-invest to maximise single outlet profitability. Simply stated, the franchisee is afraid that another store in the general market in which they operate may take profitable business away from the first outlet. However, the combined sales of the two outlets will likely be greater than just the single outlet and therefore the franchisor increases their revenue.

For the franchisee, each unit of good or service sold has an associated cost. Increased sales create marginal revenue and marginal cost. With positive marginal cost the franchisee's profit is maximized at a price elasticity greater than 1.0. As previously discussed, and displayed in figure 2.1, the franchisor's optimum price is set at an elasticity of exactly 1.0, the point at which the total revenue curve is the greatest distance from total cost (which is the same as fixed cost). This divergence in optimal pricing strategy means the franchisee's profit maximizing price will be higher than the price which will maximize the franchisor's profit. Remember, the franchisor's revenue is principally generated from a fixed percentage of franchisee total revenue. Therefore the franchisor's pricing strategy is, *de facto*, the franchisee's pricing strategy.

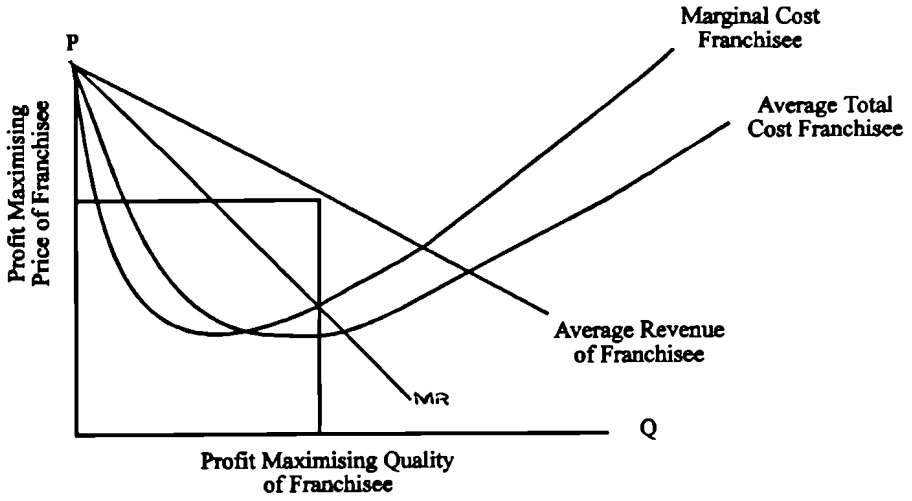


Figure 2.2 Demand Function of the Average Franchisee

Under the marginal cost scenario described above, total cost equals fixed cost for the franchisor. The total cost curve is parallel to the X axis. The franchisee's total cost equals variable plus fixed cost. The franchisee total cost curve is upward sloping and to the right. For both entities profit equals total revenue less total cost. Also, the profit maximizing price for both entities is the point at which marginal revenue equals marginal cost. For the franchisor MC=0. MR=0 where total revenue is maximized. Stated differently, the franchisor will desire to drive revenue higher with lower pricing until revenue is maximized. When a lower price no longer generates a sufficient increase in quantity to make up for the per unit reduction in price, price will be stabilized. With each unit increase in quantity of sales a marginal cost is incurred for the franchisee. With the same pricing equation of MR=MC the franchisee will be willing to lower price until it equals marginal cost. Franchisee MC>0 while franchisor MC=0 and therefore franchisee price > franchisor price. This is the first indication that there is a potential for conflict in the differences in microeconomic structures of the franchisee and franchisor firm and that the potential conflict may manifest in the marketing functions as driven by profit maximising behaviour.

Economists add some qualifications to the framework. To the extent that sales increase in one outlet (as a result of a price decrease) is the result of the cannibalization of

sales from another outlet in the same franchise system, then the revenue maximizing effect to the franchisor is reduced (Rubin, 1976). Geographic dispersion of outlets in individual franchise systems impacts cannibalisation. Territorial issues, especially the extent of exclusive territory rights for franchisees are a key issue (American Franchise Association National Convention 1994). Equally, new outlet development impacts the density of outlets in a franchise system affects total system sales and the extent of cannibalisation. Also, the comparison being made is between the franchisor and the "average" franchisee. Clearly most franchisees will fall outside the average. For example, in a retail environment labor is a significant contributor to total cost (Matthewson and Winter, 1985). Efficiency in scheduling moves a greater portion of labor from fixed to variable expense. The theoretical optimum is to schedule employees only at the exact time a customer requires service. This enhances franchisee profitability but also widens the gap in profit maximizing price strategy with the franchisor.

2.2.3 The Effects of Product Sales From the Franchisor to the Franchisee and Sales Cannibalization

The effect of product sales from the franchisor to the franchisee is somewhat unexplored. However, there is some evidence that the magnitude of this type of transaction is between 0 and 16% (Mittelstaedt and Stassen, 1990). This does not seem to be a strong enough influence to narrow the gap in optimal pricing to a trivial level. Caves and Murphy (1976) describe the mandatory requirement to purchase inputs from the franchisor as having the same microeconomic structural effect as the royalty. Revenue to the franchisor *vis à vis* product sales is directly linked to unit sales and remains unaffected by end user pricing, promotion, or store development. Unless the franchisor voluntarily agrees to participate in the promotion via discounting product to the franchisee, product sales have the same effect on the profit maximizing behavioural variance between franchisee and franchisor as do royalties. Theoretically this variance is exacerbated if the franchisor is not the producer and simply negotiates a supply contract for the franchisees with a mark up for the franchisor.

2.2.4 SUMMARY OF THE IMPACT OF NEO-CLASSICAL ECONOMICS ON THE ANALYSIS OF THE FRANCHISEE-FRANCHISOR RELATIONSHIP

Economic theory points to the role of pricing within and between firms. Hayek (1945) proposes that the price system is an extraordinarily efficient mechanism for communicating information and inducing change. He asserts that adaptation is the central objective of economic organizations and focuses on the marketplace, with pricing as the key element. In the ideal marketplace supply and demand is brought into equilibrium through the actions of autonomous individual participants, the consumer and the producer. Both parties respond to price changes so as to maximize their individual utility and profit (Williamson, 1991). This reinforces the theoretical basis for our research to focus on actions which the franchisor can take to impact franchisee pricing of the product or service. We have identified these as activities involving the franchisor provided services of promotion and store development.

2.2.5 CONCLUSION REGARDING THE NEO-CLASSICAL ECONOMIC PERSPECTIVE

Because of the proliferation of franchising it appears evident that if the problems of divergent optimal pricing exist they are out-weighed by the advantages in the relationship. However, do the differences in profit maximizing behaviour sub-optimize the relationship (increased bureaucracy, litigation, hard bargaining, opportunity cost) and are there ameliorating actions that could reduce the structural problem? The neo-classical economic perspective, and specifically the micro economic structure of the firm, lends strong theoretical support for the existence of divergent behavioural patterns between franchisee and franchisor firms related to pricing, marketing, and new store development. Thus, we clearly see the potential for conflict in the relationship.

2.3 TRANSACTION-COST ECONOMICS

The theory of the firm focuses on the market issues of supply and demand and the interactive nature of the two in determining profit maximizing pricing (Coase, 1952). Transaction-cost economics places the principal burden of analysis on comparisons of transaction costs which, broadly, are the "costs of running the economic system" (Arrow, 1969, p.48). Transaction-cost economics also embraces the assumption that the parties involved in the relationship are motivated by economic self-interest and will engage in

opportunistic behaviour to maximize their own position (Bergen, Dutta, and Walker, 1992). Whereas the firm is the basis for analysis in microeconomic theory, the transaction is the basic unit of analysis in transaction-cost economics (Williamson, 1975). Transaction-cost's focus has led to an examination of the basic dimensions on which the transactions differ and the implications of those differences for designing appropriate governance structures. Central to the dimensional boundaries in TCA is asset specificity (Williamson, 1985). This appears uniquely to link TCA with the central theme in franchising, the sharing of an intangible asset, the trademark, and the particular issues of governance that arise from that sharing. TCA is concerned with developing the most appropriate safeguards that best protect the transactions against the hazards of opportunism (Simpson, 1991). The formal safeguard employed in franchising is the license agreement which delineates the specific nature of common ownership and the behaviour between the parties in support of that asset. "As economics expands beyond its central core of price theory, and its central concern with quantities of commodities and money, we observe in it... a shift from a highly quantitative analysis, in which equilibrium at the margin plays a central role, to a much more qualitative institutional analysis, in which discrete structural alternatives are compared" (Simon, 1978, p.6-7). Transaction-cost economics moves beyond the marginal analysis involving efficient allocation of resources to what Williamson (1991) describes as "discrete structural alternatives."

2.3.1 Transaction-cost Economics and Contract Law

Williamson (1991, p.270) outlines the factors which support the importance of expanding analysis beyond economic theory and to transaction-cost analysis:

1.) Firms are not merely extensions of markets but employ different means.

2.) Discrete contract law differences provide crucial support for and serve to define each generic form of governance, and

3.) Marginal analysis is typically concerned with second-order refinements to the neglect of first-order economizing.

"I maintain that hierarchy is not merely a contractual act but is also a contractual instrument, a continuation of market relations by other means" (Williamson 1991, p.271).

Williamson's iterations of transaction-cost economics have evolved from a focus on the specific transaction to the development of a spectrum of governance which depends

on the nature of the transaction (Williamson 1975, 1979, 1985, 1991). He finally advances the hypothesis that this spectrum contains three generic forms of organizational governance; market and hierarchy at opposite ends and the hybrid organisation in the middle. Each form of governance is supported by a different form of contract law.

2.3.1.1 WILLIAMSON'S "MARKET" ORGANISATIONAL GOVERNANCE AND CONTRACT LAW

Classical contract law is described by Mcneil (1974, p.738) as "sharp in by clear agreement; sharp out by clear performance." The market form of organizational governance is supported by classical contract law (Williamson, 1991). Individual buyers and sellers are not dependent upon each other except in the completion of a distinct transaction. If further interaction is to occur, it is because of a separate contract predicated on the promulgation of individual self-interest. Typically the renewal of contracts is predicated on the supplier meeting the market price at the expiration of a short term contract. Or, each party can go their separate way without cost to each other. If conflict or disagreement occurs, hard bargaining is ruled by a set of laws where more formal terms supersede less formal ones (written over oral agreements, for example) (Mcneil, 1974).

There are a number of factors in the franchise relationship which indicate it is not best characterized by the market and classical contract forms of governance. The franchise relationship is long term and the parties to the agreement have interdependency. In discrete market interaction the asset focus is the individually traded item. Assets such as a single purpose building and secret recipes are franchise asset specific, however, the principal specific asset in franchising is the shared trademark.

2.3.1.2 WILLIAMSON'S "HIERARCHY" GOVERNANCE AND CONTRACT FOREBEARANCE

Williamson's (1991) spectrum of generic governance modes includes the market at one end, the hybrid in the center, and the internal organization at the polar opposite from the market. In describing the firm as a nexus of contracts there is the suggestion that the firm resembles the market in respect to contracts (Jensen and Meckling, 1976; Fama 1980). However, Williamson distinguishes the firm by its hierarchial versus bilateral structure. This hierarchy must adapt through fiat because of the absence of standing in the courts (Eaton, 1988). Denied access to the formal judicial system the firm must resolve

differences internally. This makes intuitive sense. Consider the potential for inertia if a subordinate could routinely use the courts to challenge the actions of superiors. "Hierarchy is its own court of ultimate appeal" (Williamson, 1991, p. 274). It is upon this distinction, access to the courts, that Williamson forms his belief that to judge the firm akin to the market is a limited perspective. The use of fiat is tempered by the organizational self-interest motive although the market is more high-powered in aligning actions and incentives (Williamson, 1985). The employee who cooperates in a hierarchy is perceived as cooperative. The buyer in the market is principally motivated to economize and is less likely to link cooperative behaviour with future return. Otherwise stated, a division of a firm can claim responsibility for gains and deny responsibility for losses. Also, the internal organization can creatively account for profit through the use of inventory pricing and expense allocation. Williamson (1985) argues that the court's reasoning not to give access to the internal dispute is sound. The efficacy of the firm would be threatened if the courts adjudicated internal disputes.

2.3.1.3 Williamson's "Hybrid" Organisational Governance and Neo-classical Contract Law

Relief from the strict enforcement of a contract lies in the concept of the "excuse doctrine," which apply to contracts in which the parties to the transaction maintain autonomy but are interdependent (Williamson, 1991). The neo-classical contract supports the hybrid form of governance in Williamson's spectrum. This modification of classical contract law stands on the ground that it facilitates continuity and promotes more efficient adaptation where adaptation is a core reason for promulgation of the contract and maintenance of the relationship (Hadfield, 1990). The neo-classical contract anticipates disturbances for which realignment may be required, provides for trivial or inconsequential disturbances, expressly designates a range of adjustments for disturbances, calls for a high level of information exchange to substantiate disturbances, and provides for voluntary arbitration should bilateral agreement fail (Mcneil, 1974; Williamson, 1975, 1985). Non-trivial disturbance is defined as one in which the cost of realignment is greater then the benefit derived from such an adjustment (Pondy, 1967). However, when a disturbance reaches the level where the gains of strict adherence exceed the discounted value of continuing the relationship then arbitration can be expected to give way to litigation

(Mcneil, 1974). Therefore the neo-classical contract is not completely adaptive nor is the hybrid form of governance.

2.3.2 TRANSACTION-COST'S GOVERNANCE SPECTRUM: IMPLICATIONS FOR FRANCHISING

The franchise license agreement seems to embody much of the neo-classical rationale. It is born out of economic self-interest, memorializes a desire to have a continuing, long term relationship, and anticipates disturbances specifically in the division of tasks which gives the franchisor the discretion to implement change across the system for all franchisees. This authority generally rests in the license agreement clause, among others, allowing the franchisor to make alterations to the operations manual.

It is clear that franchising is a hybrid organisational form (Williamson, 1979). Therefore, the excuse doctrine in contract law applies. This further supports the notion that the franchisee and the franchisor are separate. Transaction-cost analysis provides a clear understanding of the interdependency of the franchisee and franchisor within a necessarily dynamic contractual relationship.

2.3.3 INCENTIVES AND SPECIFIC CONTROL INSTRUMENTS

The key difference in the governance structures of market, hybrid, and hierarchy is in the application of contract law. Other crucial differences lie in the use of incentives and specific control instruments (Williamson, 1991).

In economic theory the adaptation mechanism is pricing. The reaction of price to supply and demand in the market elicits spontaneous cooperation between the buyer and the seller (Hayek, 1945). The ability to unilaterally adapt versus adaptation in a coordinated fashion establishes the market at one end of Williamson's spectrum. The other end of the spectrum is described by Barnard (1938, p.4) in his discussion of the organization's role as an adaptive force in reacting to exogenous disturbances as "that kind of cooperation among men that is conscious, deliberate, purposeful." As dependencies proliferate and the need for coordinated adaptation increases, governance moves from the market at one end to the hybrid in the middle and the hierarchy at the other end.

As discussed earlier, franchising is a hybrid and thus is used to describe the incentive problems faced by the hybrid. The long term nature of the franchise contract self-explains the need for adjustments in reaction to unexpected occurrences. Although it

may be abundantly evident to both the franchisor and the franchisee that realignment is advantageous, the allocation of the adjusted outcomes is unknown. The self-interest motive predictably manifests. Potentially, hard bargaining can be expensive *vis à vis* opportunity cost during the bargaining period. If opportunistic behaviour occurs, the relationship can be threatened by the very activity necessary to ensure its survival, adaptation. Williamson (1991) concludes that fiat has adaptive advantages over autonomy for transactions of a bilaterally (or multilaterally) dependent nature because of the cost and risk stated above. However, we are also left to conclude that in franchising the mechanisms for coordination can be institutionalized through the careful use of process, a control instrument contractually granted to the franchisors (John, 1991; Frazier and Rody, 1991; Rosenberg and Stern, 1971; Lusch, 1976; Dant and Schul, 1992). The satisfaction of the franchisee with the process is integral to conflict in the relationship (Frazier, Gill and Kale, 1989).

Williamson (1991) also argues that the incentive problems faced in the hybrid mode will exacerbate in hierarchy. Internal organizations reduce incentive intensity. The focused incentive for personal gain in the market is diffused in the hybrid and further diffused in the hierarchy. Simply stated, dependencies are fertile ground for shifting responsibility. Franchising as a hybrid attempts to maximize the incentives inherent in the market environment while at the same time governing the relationship of independent firms in a hierarchial mode and thus leveraging the resources. This can be best described by using Williamson's "Organizational Effectiveness Grid." This matrix vividly illustrates the required interdependency of the franchisee and franchisor in the hybrid model.

2.3.4 TRANSACTION-COST ECONOMICS AND ORGANISATIONAL EFFECTIVENESS

There are four areas and three levels of organizational effectiveness which can be used to identify the mode of governance structure. The grid below (Williamson, 1991) is used to depict the spectrum:

Table 2.1 Organizational Effectiveness Grid & Governance Structure

Mode of Governance	Unilateral Adaptation	Coordinated Adaptation	Incentives	Administrative Control
Market	high	low	high	low
Hybrid	medium	medium	medium	medium
Hierarchy	low	high	low	high

Transaction-cost Economics categorizes the franchise organization as a "hybrid." This helps us understand the difficulty both franchisee and franchisor firms have in unilateral adaptation to market conditions and in implementing administrative controls. Both adaptation and administrative control must be shared and agreed upon. It also explains that "incentives" are less than these experienced by the "stand alone" entrepreneur because return is shared between franchisee and franchisor. This "grid" helps us more clearly see that the franchise relationship is inter-organisational. The dynamics of the relationship are reduced to four levels, all of which require "medium" or shared responsibility between the parties. Coordination at all four levels of the spectrum creates opportunity for conflict because the implications of negotiated change to the goals of each the franchisee or franchisor are not immediately known (Williamson, 1991). Also, the continuing nature of coordination and adaptation builds satisfaction or dissatisfaction over a series of events (Mcneil, 1975).

TCA has established the requirement in franchising for coordination and adaptation to occur interdependently, and the central theme in franchising is maintenance and enhancement of the trade mark, the asset most specific to the franchise relationship. Therefore, franchise interdependency centers on the trade mark. However, the nature of interdependency requires a fuller discussion.

2.3.4.1 POWER-DEPENDENCE, INFLUENCE STRATEGIES AND INTERDEPENDENCE

The power-dependence model adheres to the belief that the contractual relationship in franchising places the franchisee in a dependent position (Dant, Wortzel and Subramian, 1992). The franchisor will then influence the franchisee to behave in a manner

which advances the objectives of the franchisor. There are seven basic influence strategies (Frazier and Rody, 1991):

1. Information exchange
2. Discussion of business strategy
3. Requests
4. Recommendations
5. Promises
6. Threats
7. Legalistic pleas

The first four strategies are non-coercive and the last three are coercive. Non-coercive strategies place the emphasis on open, interactive information exchange. The franchisor assumes the "pie" can be made larger by cooperative behaviour and therefore is willing to risk a more fluent relationship. Often a charismatic leader can best use non-coercive strategies.

2.3.4.2 Reciprocal Action Theory

The use of any one or all of these influence strategies will invite a response, generally known as "reciprocal action"(Lusch, 1976). Because the license agreement is usually a long term arrangement and cannot cover all contingencies, the need for the franchisor to develop and apply influence strategies is central to their system coordinating role. Several studies (Frazier and Rody, 1991; Frazier and Summers, 1986; Beier and Stern, 1969) have found that the use of coercive influence strategies will likely result in reciprocal coercive behaviour. Because the license agreement is often weighted in favor of the franchisor there might be a greater propensity for the coercive options. Later discussion in this thesis of the license agreement can be used as a guideline in assessing the weight of power in the relationship and the likelihood for coercive behaviour.

2.3.4.3 Reciprocal Interdependence

The complexity of franchising is clearly apparent when one discovers that the principal/agent roles are not exclusive to the franchisor/franchisee respectively. That is, the roles of principal and agent are occupied by both the franchisor and the franchisee at different times and in different circumstances in the relationship. Both the franchisor and franchisee are party to a contract (license agreement) which enumerates specific

obligations and implies others (Norton, 1988). Additionally, case law has supported an increasing level of equality for the franchisee through access to, and redress from, the courts (Joseph and Eaton, 1988). Clearly both parties have a responsibility to support the trademark and an incentive to enhance its value and an expectation of the other party to the agreement to do likewise. The degree to which these roles are played is particular to the individual franchise system, its contractual network, the relationship between the parties, and the respective power-dependence relationship at any given time. However, because the franchisor usually perceives itself in the principle role, one of two over-riding strategies is used. First, the franchisor can invest in monitoring systems and write a license agreement which bases franchisee reward on information about his or her behaviour. The second option is an outcome based contract. Rewards to the franchisee are based on the realized outcomes such as total revenue. Some franchisors attempt to design their license agreement to incorporate both frameworks (Bergen et al., 1992).

2.3.5 Transaction-cost Economics and Asset Specificity

The critical differences in organizational form and governance mode are centered on the frequency, uncertainty, and degree of asset specificity in supplying a good or service in a transaction (Williamson, 1979). Asset specificity is defined as "the degree to which an asset can be redeployed to alternative uses and by alternative users without sacrifice of productive value" and are distinguished in six ways:

1. Site-specificity
2. Physical asset specificity
3. Human asset specificity
4. Brand name capital
5. General assets dedicated to a specific customer
6. Temporal specificity: site specificity which requires on-site human assets.

Clearly, the franchise company stakes its future on the shared development of brand name capital. Continued investment in reputational and brand name asset is critical to competitive advantage and success (Klein and Leffer, 1981; Shapiro, 1983). This may also be crucial for debt acquisition. Intangible, firm specific assets can form a basis of security for the lender (Balakrishnan and Fox, 1992). Temporal and site specificity, in varying degrees, is also integral to the franchise organizational form (Mundstock, 1991).

Human and physical asset specificity may be important to franchise success and dedicated assets generally are not as important because business format franchising is usually retail based and few assets are dedicated to specific customers. MacDonalds does not dedicate any assets to a particular customer while a Postal Instant Press copy franchise might have a high speed copier exclusively dedicated to a government contract.

This discussion leads to the theoretical rationale for how required adaptation and interdependency, centered on the trade mark (which embodies the business format), creates the opportunity for conflict.

2.3.6 Transaction-cost Analysis and Opportunism

Williamson's theory of transaction-cost analysis helps bridge contract and organizational theory to explain why different structures emerge, such as franchising. Simply stated, transactions cost is the "cost of running the system" (Arrow, 1969). A franchise relationship may induce actions related to self-interest and potentially opposed to the best interest of the franchisor or the franchise system as a whole. Williamson (1975) calls this "opportunism" or "self-interest with guile." Withholding promised information would fall within the definition while hard bargaining would not. Clearly, opportunistic behaviour sub-optimises system efficiency. That does not mean that the franchisor always bears the full impact of the efficiency loss. Opportunity costs, especially as they relate to the deterioration of the trade mark, may disproportionately affect the franchisees in a system. Likewise, the franchisor may behave in a manner which deteriorates the trade mark or adversely affects any individual franchisee in some way. Examples of this behaviour would be using outlet monitoring personnel for new store development or in support of company owned operations.

2.3.7 Theoretical Impact of Transaction-cost Economics on the Franchisee-Franchisor Relationship

The franchise relationship shares a key asset (the trademark), requires coordinated behaviour to adapt to disturbance, and the franchisor has certain rights of fiat, specifically license agreement clauses which call for certain marketing initiatives, process refinements, and termination rights. Yet, the existence of a formal contract in franchising and the abundance of litigation (Bergen, Dutta, and Walker, 1992) refutes any belief that the franchisor/franchisee relationship can be enveloped in a single hierarchial organization.

The lack of an express tolerance zone, the rigidity of the fee structure, and absence of an arbitration clause, all common in franchising, lends theoretical support to the potential for conflict in this hybrid governance structure. The "cost of the conflictual transaction" is assessed by the franchisee and franchisor against the value of maintaining the relationship. Because the relationship is by definition related to building the business format, trade mark, the cost-value assessment revolves around the perceived value of the trade mark.

2.4 EXCHANGE THEORY

2.4.1 MCNEIL'S RELATIONAL EXCHANGE

To assess the attitude of parties to a transaction Kaufman and Stern (1988) used Relational exchange theory. Both Transaction-cost economics and Exchange Theory fall under the exchange literature umbrella, which focuses on the transactions between entities. Kaufman and Stern found it most appropriate when operationalising conflict in the exchange.

Ian R. Mcneil (1974, 1978, 1980, 1985,) is the principle proponent of Relational Exchange Theory. This theory suggests that the norms that govern commercial exchange behaviour in discrete transactions are markedly different from those in relational exchange. When parties to commercial exchange become involved in a conflict episode, it might be expected that the types of norms which govern their relationship will affect their characterization of each other's conflict behaviour. Franchise partners (franchisor and franchisees) cooperate to create surplus and are in conflict over the division of that surplus, as is common among all exchange partners (Boulding 1962). Patrick Kaufman and Louis Stern (1988) propose a model of conflict in commercial exchange relationships. This model focuses on how the prevailing exchange norms of solidarity, role integrity, and mutuality impact a party's perception of unfair treatment and how causal attributions mediate effects. The perception of unfairness is then linked to the level of hostility that is retained after a conflict episode. In Kaufman and Stern's model the norm of solidarity and its interaction with the causal attribution measure is found to be significantly related to retained hostility.

According to Mcneil (1974), types of commercial exchange form a continuum from purely discrete transactions (that is, a once only transaction exemplified by a tourist's

purchase of a souvenir in a location far from home) to relational exchange, long term, continuous, and complex relationships in which the individual transactions are of relatively low importance compared to the relationship itself. Kaufman and Stern specifically note franchising as the prototype relational exchange. What distinguishes discrete and relational exchange is the way general contracting norms are manifested in the parties' relationship. Three of the most important general contracting norms are solidarity, role integrity, and mutuality. Mcneil argues that all three norms are present in all transactions from the discrete to the relational exchange. It is the strength and persistence of each norm which dictates the exchanges positioning on the relational exchange spectrum.

2.4.1.1 SOLIDARITY

The common contracting norm of solidarity is the norm that holds exchanges together (Mcneil, 1980). The focus of the discrete norm of solidarity is the completion of the individual transaction, and is supported by contract law. The focus of the relational norm of solidarity is on the preservation of the unique and continuing relationship in which the various commercial transactions take place. In exchange relations the norm is generally internalized by the parties who view this particular exchange relationship as important in and of itself. The extent to which the solidarity norm reflects this reorientation from the individual transaction to the relationship is one indication of how far a particular commercial relationship is along the exchange relationship continuum.

We have noted in our discussion of transaction-cost economics that coordinated adaptation is required in the franchise organization. This interdependence is central to the long term enhancement of the trade mark value. However, neo-classical economic theory outlined the potential sources of conflict. Transaction-cost analysis presents a theoretical dynamic which requires interim adjustments to the relationship which can stress governance structures. The solidarity norm helps us understand the rationale which contributes to maintaining the relationship.

2.4.1.1.1 SOLIDARITY AND PERCEPTIONS OF UNFAIRNESS

Disputes that threaten the exchange process occur in both discrete transactions and relational exchange. Kaufman and Stern (1988) state that acts which threaten the exchange relationship are often difficult to identify. The relational norm of solidarity is established and evolves on a *quid pro quo* basis. Each channel member observes the

actions of the other, establishes a general pattern of behaviour, and decides whether it is supportive or destructive of the relationship. Responses to a party's behaviour are influenced by the receiving party's perception of fairness in the first party's actions (Axlerod, 1984). Each party upholds the norm preserving the relationship as long as the other is apparently willing to take actions which cause the relationship to endure. Over a period of time (which is subjectively selected) the perceived pattern of behaviour creates a reputation. Those actions which are difficult to interpret as either supportive or harmful will be partially determined by reputation.

In exchange relationships with a high relational norm of solidarity, the parties are likely to develop a strong reputation for trust. In seeking to maintain perceptual consistency, a party may discount observed behaviour interpreted as inconsistent with those feelings. All else equal, when faced with manifest conflict behaviour, a party acting under a relational norm of solidarity can be expected to interpret ambiguous behaviour as fair. The same expectation cannot be made in the discrete transaction.

2.4.1.2 ROLE INTEGRITY

The parties to commercial transactions and exchange relationships enact roles that reflect their promises and expectations. Mcneil has argued role integrity, the maintenance of roles, is an important contracting norm. In discrete transactions the roles are unidimensional. The exchange is highly focused and the roles reflect a single-mindedness in the transaction. On the other hand, in relational exchange the parties enact roles that not only govern the particular transaction but cover a multitude of issues not directly related to any particular transaction. The continuum from discrete transaction to relational exchange is characterized by the change from simple unidimensional to highly complex roles.

Complexity is theoretically inherent in franchising (Kaufman and Stern, 1988). The interdependence required to maintain the trade mark in the long term (Frazier and Rody, 1991) induces a multitude of complex roles for both the franchisee and the franchisor. However, if there is undue rigidity or strict enforcement of the license agreement the roles become more unidimensional and the exchange less relational. This would indicate an organization with diminished prospects for continuance. Virtually all franchise license agreements have contractually obligated or implied services to the

franchisees. These services are often the focus of the relationship and serve as a measure of the state of tolerance within the relationship.

2.4.1.2.1 Role Integrity And Perceptions Of Unfairness

As role integrity becomes more relational, the roles enacted by the parties become more complex. The heightened complexity of the exchange relationship implies greater interdependence between the parties and therefore increases the probability of latent conflict (Pondy, 1967, 1985; Kaufman and Stern, 1988). The multiple connections between the parties also increase the number of uncontrollable precipitating factors that could conceivably bring about a manifest conflict event (Boyle and Dwyer, 1990).

Of course not all such conflict is serious but over time the parties will develop a method for resolving conflict, move toward a discrete transaction relationship or seek to end the relationship (Mcneil, 1978). If the parties are in a highly relational form of exchange we can expect them to cope, de-emphasize or deny conflict events. Because the potential for conflict being precipitated by uncontrollable circumstances is high, intentionally produced conflict can be particularly disturbing to the perceiving party. In a highly relational exchange this behaviour will be seen as a breach of the role integrity norm and the perception of unfairness may exceed the intent (Mcneil, 1985).

2.4.1.3 Mutuality

Franchising is an inter-organizational form that distributes the productive benefits of a commercial relationship. Mcneil suggests that the norm of mutuality, while not requiring an "equal" distribution of the exchange surplus, requires an "even" distribution. In the context of franchising "even" is defined as a distribution to channel members that assures adequate returns to each (Rubin, 1976).

If we assume an ongoing, recurring exchange relationship with a series of individual transactions, two very different approaches to the "even" division of surplus are possible. The parties may view each transaction as a distinct, discrete event. Division of the surplus would be conducted on a transaction by transaction basis. These are discrete transactions. On the other hand, the individual transactions might be viewed as nothing more than the periodic enactments of the overall exchange relationship. That is, during each transaction the parties could be conceived of as drawing against some long-term, open account. This is relational exchange. The discrete norm of mutuality is

characterized by the parties focus on the returns received from each individual transaction. The relational norm of mutuality is characterized by focus on the continuous, undifferentiated returns from the ongoing exchange relationship.

2.4.1.3.1 MUTUALITY AND PERCEPTIONS OF UNFAIRNESS

The relational norm of mutuality focuses the attention of the parties on the benefits they derive from the ongoing relationship as a whole. The performance of each individual transaction is not as closely specified or monitored as they are in discrete transactions. This permits the parties to the relational exchange to put conflict behaviour relative to a particular transaction in the context of the whole relationship. In discrete transacting, isolated incidents of uncooperative or combative behaviour become more salient because each transaction is being specified, monitored, and completed individually. A party in a discrete transaction cannot expect losses suffered at the hands of the other party to be washed away by future gains.

Wilful, opportunistic conflict behaviour is not easily distinguished from uncooperative behaviour constrained by circumstances beyond the actor's control (Dant and Schul, 1992). The long term monitoring horizon, characteristic of the relational norm of mutuality, creates the flexibility necessary for an exchange relationship to withstand harmful or destructive outside forces (Mcneil, 1978). However, it may also allow wilful destructive behaviour to go unchecked for longer periods. When identified such behaviour may occasion strong feelings of betrayal (Kaufman and Stern, 1988).

2.4.1.4 PERCEIVED UNFAIRNESS AND HOSTILITY

In a study of international conflict, Lockhart (1978) found the type of tactics employed by parties during a dispute were significantly related to subsequent wars and alliances. Similarly, in commercial disputes a party's characterization of his or her opponent's conflict behaviour will affect the level of hostility retained toward the opponent after the conflict event is terminated (Kaufman and Stern, 1988).

As previously defined, franchising involves a long term relationship between franchisee and franchisor. Thus, the manner in which either franchisee or franchisor characterises the behaviour of the other party affects the level of satisfaction.



2.5 CONFLICT LITERATURE

2.5.1 INTRODUCTION

We have described how neo-classical economic theory, transaction-cost economics, and relational exchange theory all indicate the potential for conflict in the franchisee-franchisor relationship. However, conflict comes in many forms.

2.5.2 A GENERAL MODEL OF CONFLICT

In 1967 Louis R. Pondy wrote a seminal work on conflict in commercial organizations. He presented a model of conflict as a temporary outbreak in an otherwise smooth flow of a stable and cooperative set of relationships that make up an organization. Conflict was treated as a series of episodes, each including the five described as follows, in order: latency, perception, felt, manifestation, and aftermath. The process of conflict, sometimes with different labels, has been consistently supported in the literature (Barnard and Simon, 1965; Pondy, 1967, 1992; Price, 1991; Morrill and Thomas, 1992). **Latent conflict** is characterized by competition for scarce resources and a driving desire for autonomy. The degree of latent conflict is described by the divergence of sub-unit goals (Pondy and Huff, 1985). **Perceived conflict** deals with the misconceptions by parties related to sub-unit goal divergence when in reality little divergence of goals exist. **Felt conflict** is the personalization of conflict. Tension is created by inconsistency between organizational demands and individual growth. The personality of the individual involved is important regarding how and when felt conflict will manifest. **Manifest conflict** is the behaviour that results when one or more forms of conflict exist. Aggression, apathy, and a rigid adherence to the rule are common forms of manifest conflict. Manifest conflict only exists if the parties perceive the behaviour as conflictual. **Conflict aftermath** is the condition of the relationship following the perceived conflictual behaviour. If the conflict is genuinely resolved, that is, both parties believe it is resolved, then the relationship tends to a higher level of cooperation. If the conflict is suppressed then the relationship tends toward deterioration.

Pondy (1967,1992) emphasizes that conflict can be either functional or dysfunctional. Conflict between interest groups is described as "bargaining conflict," characterized by competition for scarce resources. In a superior-subordinate relationship

conflict is bureaucratic. This occurs along the lateral hierarchy in an organization and is related to the dissemination of tasks and the monitoring of activity. Conflict in horizontal relationships is described as systems conflict and involves parties common to a functional task. This implies that the inter-organisational form can be described as systems conflict and provides direction for this study to examine the functional tasks common to the franchisee and franchisor.

Since 1967 conflict literature has evolved dramatically. Pondy and Huff (1985) saw this 1967 model as flawed. Indeed, the assumption of a stable, cooperative organizational environment upon which Pondy built his model is the issue in question. An occasional temporary event in an otherwise cooperative environment is a flawed finding. Pondy (1992) himself questioned this assumption and suggested the exact opposite may be true. He put forth a "pure conflict system model." This model is based on the principle of continual, often managed, conflict. Exhortations of organizational harmony are simply a strategy employed to control a conflictual organizational environment and an attempt to control the outcomes of conflict.

The current literature on conflict clearly follows Pondy's new perspective of conflict as a persistent organizational reality (Brett, Goldberg, and Ury, 1990; Morrill and Thomas, 1992; Witteman, 1992). Brett, Goldberg and Ury (1990) studied conflict as a phenomenon which affects both inter and intra-organizational relationships. Retha Price (1991) specifically investigated channel conflict. She concluded that management style in conflict resolution had an effect on the optimal organizational form. Because conflict resolution entailed interpersonal skills and inter-organizational negotiation, both formal and informal channel structure were important. Price's (1991) thinking is expanded by Morrill and Thomas (1992) who studied organizational management styles. Relational strengths in an organization, especially personal and informal relational characteristics, greatly impact organizational design.

The general model of conflict can then be linked to with theoretical perspectives and organisational forms (Pondy, 1992). This gives insights into the *specific* issues that should be investigated in the franchisee-franchisor relationship.

2.5.3 CONFLICT AND NEO-CLASSICAL ECONOMICS

Conflict literature is integrated with neo-classical economics through the work of Nicholas Sarentis (1991). He found that inter-organizational conflict arises from the adjustment of wages and the accumulation of assets. Basic to the concept of a franchise organizational form is the allocation of the productive benefits of the relationship between the franchisor and the franchisee ("wages"). Key to the long term success of the franchise is the enhancement of the asset base through the development of the trademark ("asset accumulation"). There is clear structural conflict in the relationship between the franchisee firm and the franchisor firm. Hence we are given support for the direction of our investigation as is articulated in the propositions found in Chapter III. However, it is important to contextualise the dynamic nature of the conflict (Pondy, 1992). For that purpose we investigate channel conflict.

2.5.4 CHANNEL CONFLICT

Magrath and Hardy (1989) developed a strategic paradigm for predicting manufacturer-reseller conflict. They found that conflict in this distribution channel stems from key goal variables such as differences in marketing (including, target customer and product lines), the specific design of the channel, and interpersonal relations. Levels of conflict were associated with the specificity of channel relations and the corresponding monitoring activities. If the parties to the channel relationship understand mutual expectations, responsibilities, and commitments and these issues were monitored, conflict levels would be expected to be lower.

2.5.5 ACHROL AND ETZEL'S USE OF PARSON'S FUNCTIONAL IMPERATIVE AS DESCRIPTIVE OF THE FRANCHISEE GOAL STRUCTURE AND LINKAGE TO CONFLICT

Having looked at conflict in a general model, in conjunction with theory, and in the channel literature, we now focus directly on franchising. The literature supplies a useful tool. Achrol and Etzel (1990) found that the franchisor and franchisee firms pursue a number of goals as individual firms that sometime conflict with the other channel member. Achrol and Etzel (1990) draw from work done by Grossman (1969) regarding Parson's (1959) work on functional imperatives. We, in turn are using a portion of Achrol and Etzel's construct as they directly applied it to the franchise relationship. Parson's four

functional imperatives are described as a rational system model, the open system model, the behavioural model, and the internal process model. This integration is used in studies outside of franchising and found to be appropriate (Seashore 1983; Scott 1977). The internal process model focuses on the flow of materials, energy, and information (Scott, 1977) within the organization. The model reflects Parson's pattern maintenance imperative, and represents an extension of rational system principles of scientific management (Achrol and Etzel, 1990). The franchise system is a complex inter-organizational amalgamation of parts designed to maintain interdependent activities and centered on communication, control and coordination. Key concepts in the internal process model are formal structure, planning coordinating, and information systems, with the emphasis on policy making and control mechanisms (Swinth, 1974). The behavioural system model focuses on the patterns of belief, interaction and socialization that arise within organizational structures. It emphasizes the common needs and expectations of its members, personalized leadership and informal open communications. The franchise system, by the nature of the interdependence of the upstream and downstream members, attempts to induce channel members to continue their participation, satisfy their individual goals and aspirations and negotiate the dynamics of the relationship over time to ensure survival (Boyle and Dwyer, 1990).

For this study we accept Achrol and Etzel's integration of the behavioural system and the internal process models of exchange theory as descriptive of franchisee goal structures.

2.6 INTEGRATION OF NEO-CLASSICAL ECONOMICS, TRANSACTION-COST ECONOMICS, EXCHANGE AND CONFLICT THEORIES

By using micro economic structural analysis we have established the clear potential for conflict. This conflict is based in differences in profit maximising behaviour. Yet, franchising as an inter-organisational form continues to expand and flourish. Governance in this hybrid organisational form, appears to manage conflict.

Williamson's (1975, 1981, 1985, 1992) Transaction-cost Analysis provides us with a theoretical framework to analyse the way in which franchisee and franchisor firms govern their relationship in both a formal, and arguably more important, informal manner. Having established the potential for conflict and created a framework to understand the

relationship between the parties in franchising, relational exchange theory gives a perspective of the current status of the relationship and a way to operationalise conflict as a level of satisfaction.

Because we are interested in the manifestation of potential conflict as franchisee dissatisfaction we must define and understand what we mean by conflict. To accomplish that, we investigate conflict theory, particularly channel conflict.

Having done that we now have a clear path to investigate conflict in the relationship. This results in a research question and three propositions from our theoretical foundation.

CHAPTER III

THE RESEARCH QUESTION AND PROPOSITIONS

3.1 INTRODUCTION

Chapter II established the potential for conflict in the franchise relationship through differences in micro-economic structures between the franchisor firm and the franchisee firm. Also established is the requirement for congruence in relational goals if stability is to be maintained in long term commercial relationships, including franchising, founded in relational exchange theory. The governance of the relationship, both in a formal and informal manner was established through transaction-cost economics. Issues of governance center on the nature of the transaction between the parties. In franchising it is clear that the maintenance and enhancement of the trade mark is the focus of the transaction between the franchisee and franchisor. The formal governance instrument in franchising is the license agreement. Therefore, it follows that the informal governance structure is defined by the set of activities between the parties that support the commercial development of the trade mark (Williamson, 1990).

In this chapter we define the research question and three propositions which are consistent with our theoretical approach and set the stage for future research. Using the previously established theoretical framework, the research question seeks to measure the attitude of the franchisee toward the franchisor with a view toward measuring the level of satisfaction with the transactional boundaries of the relationship. To do this, conflict must be operationalised. This operationalisation of conflict is established by measuring satisfaction, as established by a relational exchange construct taken from the literature (Stern and Kaufman, 1988).

Three propositions follow the research question: **Proposition (A)** probes the role of franchisee goals for the relationship with the franchisor in franchisee satisfaction. **Proposition (B)** examines franchisor obligated services, key to governance in franchising. **Proposition (C)** links both direct and indirect trade mark valuation with franchisee satisfaction.

3.2 THE POTENTIAL FOR CONFLICT AND ITS MANIFESTATION AS DISSATISFACTION

The Research Question

To what extent does the potential for conflict in the franchisee-franchisor relationship manifest as franchisee dissatisfaction?

There is ample theoretical justification to assume the existence of conflict in the franchise relationship. However, conflict can be a positive force in a commercial relationship. Zonober (1990) lists seven potentially positive results of conflict in all commercial relationships: stimulating problem solving, causing parties to the inter-organisational relationship to unite around an issue, uncovering and defining problems, creating new learning opportunities, forcing the prioritising of opportunities, preventing escalation of unaddressed conflict, and increasing mutual understanding. The conflict literature is also clear that the positive aspects of conflict dissipate when that conflict manifests as dissatisfaction in the relationship (Schul, 1987). Dissatisfaction manifests for any number of reasons (Gaski, 1984). It is the evolution of conflict, through its five stages described in Chapter II, which can lead to the deterioration of the relationship if the parties to the relationship are dissatisfied with the resolutions (Pondy, 1992). This is consistent with transaction-cost economics which says that the relationship will be maintained as long as the value of the transaction exceeds the costs of completing the transaction (Williamson, 1990). In franchising that is interpreted as the value of the business format, as embodied in the trade mark, versus the activities necessary to promulgate the interdependent relationship. Therefore, we ask if the inherent conflict between the parties to the license agreement manifests in dissatisfaction? Specifically, are franchisees dissatisfied and if so, to what extent?

Schul (1985) believes that methodological weaknesses may explain inconsistencies in previous work on intrachannel conflict (Brown, 1980; Gaski, 1984; Hunt, et al., 1985; Ruekert and Churchill 1984). Defining franchising as an organisation established to conduct channel functions may be at the root of the methodological problems. Instead, this research defines franchising as an inter-organisational form which may have channel implications and thus requires a methodology which defines the franchisee as a distinct entity and not as a part of the franchisor organisation. Defining the relationship differently

may address some of the differences in methodological perspectives. The intrachannel perspective pre-supposes a channel leader role in the franchisee-franchisor relationship (Brown and Day, 1981), a role filled by the franchisor. Lusch (1976) supports the notion of economic and social power imbalance in favor of the franchisor because of the nature of the contractual arrangement. Our research does not impose this prerequisite while also not specifically excluding it as an antecedent to dissatisfaction and therefore does not necessarily accept the franchisor as the channel leader, or, that the relationship exists within a single organisational structure.

3.2.1 THE CONFLICT VARIABLE CONSTRUCT

We have taken the conflict construct variable from the relational exchange literature. Kaufman and Stern (1988) studied conflict in long term wholesaler-retailer relationships. They used the relational exchange theory framework which states that commercial transactions occur along a spectrum from discrete individual transactions to transactions which occur in the context of a long term relationship which is perceived as valuable in and of itself and should be maintained. In franchising, the alliance between franchisee and franchisor is established and maintained to promote the trade mark because the trade mark embodies commercial value for both parties to the license agreement. If the franchisee perceives the relationship as inadequate and therefore the value of the trademark as not having long term potential to fulfil their return requirements, then the franchisee, or any party to a transaction, will have a short term view of the relationship (Kaufman and Stern, 1988; Pondy and Huff, 1985).

Venkatramen and Grant (1986) stress the need to move towards multi-item measures in order to provide a higher level of discriminatory power and lower levels of measurement error. Kaufman and Stern (1988) used four questions as follows:

1. *If I were the supplier I would act in the same way as the supplier does now.*
2. *Our organisation feels the same way about the supplier before and after any dispute.*
3. *If it were up to me I would use an alternate supplier.*
4. *Our organisation has retained anger toward the supplier because of past disputes.*

These questions capture the theoretical framework of this thesis. They were modified to reflect a franchising relationship in place of the wholesaler-retailer relationship. Therefore, we state, from the perspective of the franchisee:

1. ***If I were the franchisor I would act in the same way as the franchisor does now.***

The common contracting norm of solidarity is the norm that holds exchanges together (Mcneil, 1980). The focus of the discrete norm of solidarity is the completion of the individual transaction, and is supported by contract law. The focus of the relational norm of solidarity is on the preservation of the unique and continuing relationship in which the various commercial transactions take place. This is particularly important in studying the franchise relationship. In exchange relations, which *should* characterise the franchise relationship, the norm is generally internalized by the parties who view this particular exchange relationship as important in and of itself. The extent to which the solidarity norm reflects this reorientation from the individual transaction to the relationship is one indication of how far a particular franchise relationship is along the exchange relationship continuum. In that franchising is defined as a long term relationship, the view of each transaction in the context of the larger relationship is important to continuing the relationship. This interdependence is central to the long term enhancement of the trade mark value as well as in the fulfillment of the franchise contract (license agreement). Thus, the solidarity norm helps us understand the rationale which contributes to maintaining the relationship.

2. ***Our organisation feels the same way about the franchisor before and after any dispute.***

The parties to commercial transactions and exchange relationships enact roles that reflect their promises and expectations. Mcneil (1980) has argued role integrity, the maintenance of roles, is an important contracting norm. In discrete transactions the roles are unidimensional. The exchange is highly focused and the roles reflect a single-mindedness in the transaction. On the other hand, in relational exchange the parties enact roles that not only govern the particular transaction but cover a multitude of issues not directly related to any particular transaction. The continuum from discrete transaction to relational exchange is characterized by the change from simple unidimensional to highly complex roles.

Complexity is theoretically inherent in franchising (Kaufman and Stern, 1988; Michaels, 1992). The interdependence required to maintain the trade mark in the long term induces a multitude of complex roles for both the franchisee and the franchisor (Frazier and Rody, 1991). However, if there is undue rigidity or strict enforcement of the license agreement the roles become more unidimensional and the exchange less relational. This would indicate an organization with diminished prospects for continuance. Importantly, if the franchisee understands the actions of the franchisor, even if disagreeing with the results, relational rigidity is reduced and the prospect for continuance enhanced (Achrol and Etzel, 1990).

3. If it was up to me we would not be a part of the franchise system any longer.

Franchising is an organizational form that distributes the productive benefits of a commercial relationship. Mcneil (1974) suggests that the norm of mutuality, while not requiring an "equal" distribution of the exchange surplus, requires an "even" distribution. In the context of franchising "even" is defined as a distribution to channel members that assures adequate returns to each.

If we assume an ongoing, recurring exchange relationship with a series of individual transactions, two very different approaches to the "even" division of surplus are possible. The parties may view each transaction as a distinct, discrete event. Division of the surplus would be conducted on a transaction by transaction basis. These are discrete transactions. On the other hand, the individual transactions might be viewed as nothing more than the periodic enactments of the overall exchange relationship. That is, during each transaction the parties could be conceived of as drawing against some long-term, open account. This is relational exchange. The discrete norm of mutuality is characterized by the parties focus on the returns received from each individual transaction. The relational norm of mutuality is characterized by focus on the continuous, undifferentiated returns from the ongoing exchange relationship.

The distinction in franchising is important. Any given franchisor is loath to vary either the franchise fee or the royalty payment (Stanworth, 1985; LaFontaine, 1990). Over the life of the contract the economic environment may from time to time favor one party over the other (franchisee versus franchisor or franchisor versus franchisee) (Rubin, 1976). Mcneil's "drawing on account" characterisation is apt here. The environment will

likely change in the long run and both parties to the agreement know this. The returns will average to an adequate rate over the term of the agreement. Of course, this view can only be taken if there is the perception of fairness in dealing and a prospect for long term continuation of the relationship.

4. Our organisation has retained anger toward the franchisor because of past disputes.

Disputes that threaten the exchange process occur in both discrete transactions and relational exchange. Kaufman and Stern (1988) state that acts which threaten the exchange relationship are often difficult to identify and are destructive to the relationship. Responses to a party's behaviour are influenced by the receiving party's perception of fairness in the first party's actions (Axlerod, 1984). Each party upholds the norm preserving the relationship as long as the other is apparently willing to take actions which cause the relationship to endure. Over a period of time (which is subjectively selected) the perceived pattern of behaviour creates a reputation. Those actions, which are difficult to interpret as either supportive or harmful, will be partially determined by reputation.

In exchange relationships with a high relational norm of solidarity, the parties are likely to develop a strong reputation for trust. In seeking to maintain perceptual consistency, a party may discount observed behaviour interpreted as inconsistent with those feelings. All else equal, when faced with manifest conflict behaviour, a party acting under a relational norm of solidarity can be expected to interpret ambiguous behaviour as fair. The same expectation cannot be made in the discrete transaction.

As the role of integrity becomes more relational, the roles enacted by the parties become more complex. The heightened complexity of the exchange relationship implies greater interdependence between the parties and therefore increases the probability of latent conflict (Pondy, 1967; Kaufman and Stern, 1988). The multiple connections between the parties also increase the number of uncontrollable precipitating factors that could conceivably bring about a manifest conflict event (Boyle and Dwyer, 1990).

Of course not all such conflict is serious but over time the parties will develop a method for resolving conflict, move toward a discrete transaction relationship or seek to end the relationship (Mcneil, 1978). If the parties are in a highly relational form of exchange we can expect them to cope, de-emphasize or deny conflict events. Because the

potential for conflict being precipitated by uncontrollable circumstances is high, intentionally produced conflict can be particularly disturbing to the perceiving party. In a highly relational exchange this behaviour will be seen as a breach of the role integrity norm and the perception of unfairness may exceed the intent (Mcneil, 1985).

The relational norm of mutuality focuses the attention of the parties on the benefits they derive from the ongoing relationship as a whole. The performance of each individual transaction is not as closely specified or monitored as they are in discrete transactions. This permits the parties to the relational exchange to put conflict behaviour relative to a particular transaction in the context of the whole relationship. In discrete transacting isolated incidents of uncooperative or combative behaviour become more salient because each transaction is being specified, monitored, and completed individually. A party in a discrete transaction cannot expect losses suffered at the hands of the other party to be washed away by future gains.

Wilful, opportunistic conflict behaviour is not easily distinguished from uncooperative behaviour constrained by circumstances beyond the actor's control (Dant and Schul, 1992). The long term monitoring horizon, characteristic of the relational norm of mutuality, creates the flexibility necessary for an exchange relationship to withstand harmful or destructive outside forces (Mcneil, 1978). However, it may also allow wilful destructive behaviour to go unchecked for longer periods. When identified, such behaviour may occasion strong feelings of betrayal (Kaufman and Stern, 1988).

3.3 THE PERCEIVED CONTRACT

Proposition A

There is a relationship between the extent of franchisee satisfaction and their perception of the goals particular to their relationship with the franchisor.

3.3.1 FRANCHISEE GOALS FOR THEIR RELATIONSHIP WITH THE FRANCHISOR

"To a large extent effectiveness can be judged only in relation to an organisation's goals" (Achrol and Etzel, 1990, p. 4). Etzioni (1964) and Thompson and McEwan (1958) were equally strident in their belief that organizational effectiveness was measured in terms of goal achievement. This dissertation clearly takes the position that franchising is an interorganisational form. The individual organizations, franchisee and franchisor, ally for

the purpose of producing a benefit which they believe would not be attainable, in total or in scope, if not for the alliance (Rubin, 1978). This presumes a set of common goals (March and Simon, 1958; Cummings, 1977). The interdependence of the two organizations coordinates the tasks of the interorganisational members for the purpose of achieving mutual benefit (Stern and El-Ansary, 1988). This is consistent with Barnard's (1938) definition of organizations as incentive distributing systems. Understanding the goals of the franchisee for their relationship allows us greater understanding of conflict in the relationship. Achrol and Etzel (1990) state that " ... the way is open to categorizing the kinds of goals and rewards individual firms pursue through franchise organizations, and from there to understanding... the sources and types of organizational conflict" (p.6).

Achrol and Etzel (1990) used four franchisee goals for their relationship with the franchisor. Their theoretical underpinning for these goals comes from Parson's (1959) *functional imperatives*. Parson's functional imperatives have been used by Kumar, Stern and Achrol (1991), and Quinn and Rohrbaugh (1983) for goal definition in marketing channels, integrating organizational and channel literature. A successful organization must achieve four functional imperatives: goal attainment, integration, adaptation, and pattern maintenance (Parson, 1959). These four functional imperatives have been empirically tested and integrated into the literature *vis à vis* a rational system model, open system model, behavioural system model, and internal process model (Kumar, Stern and Achrol, 1991; Quinn and Rohrbaugh, 1983).

The four franchisee goals are operationalised in statements which the franchisee respondent is asked to score as to relative importance (1-5 Likert scale) among the four goals. These statements reflect the theoretical position reflected by Parson's (1959) goal attainment models.

1) *At this point in time, developing a more cooperative relationship with your franchisor is relatively...*

The rational system model reflects Parsons' goal attainment imperative. This view is one of the firm as a rational decision making organization. (March and Simon, 1958). Decisions are made based on profit maximizing behaviour (Scott, 1987).

2) *Compared with other goals, given current business conditions, improving communications and information sharing between franchisee and franchisor is...*

The open system model relates to Parsons' adaptation imperative. An organization must adapt to its environment. Flexibility is required to respond to changing market and organizational demands. The principal concepts in an open system model concern response to strategic external factors. Exploitation of these external factors can occur if the organization is open to its environment.

3) *Relative to other goals, at this point in time, better coordinated franchisee-franchisor quality assurance is...*

The internal process model reflects Parsons' pattern maintenance imperative. For an organization must to maximize its position it must communicate, control, and coordinate with other organizations with which it has interdependencies. An organization will maximize relationships, in part, based on its capacity to perform these communications and coordination functions. (Swinth, 1974).

4) *Weighted against other goals, strengthening the mutual commitment between your franchisor and you is...*

The behavioural system model relates to Parsons' integration imperative. The organization must integrate the needs of the individual organizational members and those of the organization itself (March and Simon, 1958; Perrow, 1961). The key components of the behavioural system model are commitment, cohesion, and morale among organizational members (Seashore, 1983).

Achrol and Etzel (1990) argue that the long term goals of the franchisee must necessarily include the franchisor. Specifically, mutual goals would include *cooperation, communication, coordination,* and *commitment.* The dynamic perception of conflict between the franchisee and franchisor by either party invariably includes goal congruency (Schul, 1987). Therefore, if the franchisee's goals for the relationship are not being met there is a heightened probability that conflict will become manifest as dissatisfaction (Schul, 1987). Our theoretical (Williamson, 1985) and definitional (Dicke, 1990) perspective of franchising relies on the principal goal of trade mark maintenance and enhancement. From our literature review, we see that both Relational Exchange (Mcneil, 1985; Kaufman and Stern, 1989) and Transaction-cost Economics (Williamson, 1979,1985) employ a spectrum on which commercial interactions are measured regarding

the nature and degree of the personal, long term expectation of the relationship to continue.

3.4 FRANCHISOR PROVIDED SERVICES AS A SOURCE OF CONFLICT IN THE FRANCHISEE-FRANCHISOR RELATIONSHIP

Proposition B

Franchisee satisfaction with the services provided by the franchisor is the principal measure of contractual performance. Contractual performance is an antecedent of conflict in the franchisee-franchisor relationship.

3.4.1 BEHAVIOURAL TOLERANCE

There are few empirical studies which examine franchisor provided services. These studies suggest that the quality of franchisor contractually provided services are important to determining the effectiveness of the individual franchise interorganisation (Goodard and Peterson, 1988; Lambert and Lewis, 1988; Achrol and Etzel, 1992). It is clear that franchisees do not perceive or utilise franchisor provided services in equal proportions (Saubert, 1988). However, no study measures the franchisee's perspective of both the importance *and adequacy* of the franchisor provided services. Williamson (1985) argues that strict adherence to a contractual arrangement precludes flexibility in a long term relationship and therefore de-stabilises the relationship. This advances the argument that there are boundaries surrounding the interorganisational transactions which incorporate flexible interpretation of the implicit or explicit contractually required franchisor provided services.

Setting the transaction specific boundaries of the relationship indicates a behavioural zone of tolerance. That is, if the franchisee perceives the adequacy of the service from the franchisor to be equal to or better than the level perceived of importance, then the behaviour is seen to fulfil the contract, maintaining or enhancing the trade mark. Conversely, if the adequacy of delivery of the service is perceived to be below the perceived importance of the service then the behaviour may be outside of the tolerance zone and create dissatisfaction. Based on the importance of maintaining and enhancing the trade mark, this is a crucial area for conflict. But, at what level of importance and performance does the franchisee perceive contractual fulfillment by the franchisor?

3.4.2 FRANCHISOR PROVIDED SERVICES

In the franchising interorganisational form the services from the franchisor require interdependency between the franchisee and franchisor (Frazier, 1983; Stern and El-Ansary, 1988). Achrol and Etzel (1990) developed a series of sixteen questions which reflect the stated or implied contractually obligated services of the franchisor to the franchisee. Achrol and Etzel (1990) describe these services as the principal points of interaction between the franchisee and franchisor. Franchisor provided services are the application of internal franchisor resources to fulfillment of the explicit contract and to support of the goals of the relationship (Achrol and Etzel, 1990). This study adds two questions which more fully explore advertising and development responsibilities. The first relates to local advertising cooperatives as listed below and the second which addresses the development of new stores. Our search of the economics literature indicates that local advertising, specifically as it relates to discounting, is a price adjustment mechanism and therefore a potential area for conflict. Also, new store development addresses the issue of maximising total system sales versus individual store profitability. The franchisor is motivated to maximise total system sales in an effort to maximise royalty receipts (Mittelstaedt and Stassen, 1990). The franchisee has a tendency to under-invest to protect the maximum amount of geographic territory for an individual outlet (Rubin 1976).

The perception of contract fulfillment is contingent on not only the ranked importance of a service from the franchisor but also the adequacy with which that service is delivered . Thus the transactional boundaries of the relationship can be clearly established, *from the perspective of the franchisee,* if contractual obligations are rated by both importance and adequacy. This provides for important theoretical consistency. Both transaction-cost analysis and relational exchange theory rely on a spectrum of transactional involvement between parties.

3.5 TRADE MARK VALUATION

Proposition C

Perceived costs associated with leaving the franchise relationship reflect the perceived value of the trade mark, which correlates with conflict in the franchisee-franchisor relationship.

3.5.1 INTRODUCTION

As we have discussed, the franchise relationship is based on the belief that the alliance will generate efficiencies which result in increased value to the participants. The franchisor and franchisee share a common trade mark, which is the embodiment of the value of franchise relationship. Generally accepted accounting practices define trade mark value in two ways. The balance sheet accounts for the value of the trade mark as an intangible long term asset. This is established as a matter of accounting convention. A second method of defining trade market value is to estimate the price the market would pay for a franchisee firm, above the value of the tangible assets. This is not listed in the financial statements of the company but can be realised in the sale of the company. A number of valuation models are available but ultimately market value is determined by the actions of a buyer and seller agreeing on a price. For what price would a franchisee sell the firm and would that price exceed the value of the tangible assets? Therefore, we must understand if the franchisee knows the quantifiable ways in which the trade mark is valued in order to understand if they believe there is value in the trade mark as opposed to other, tangible assets. However, the trade mark value can be manifested in ways that are not directly apparent to the trade mark beneficiary (Mundstock, 1990). In the case of this study, the franchisee has contractual rights to the trade mark for local distribution and therefore reaps the benefits of the trade mark. We therefore look to operationalise the measure of trade mark value in other ways.

3.5.2 PERCEPTION OF EXIT/SWITCHING COSTS AS AN ESTIMATE OF TRADE MARK VALUE

The literature regarding the antecedents and effects of exiting a channel relationship clearly point to dissatisfaction as the principle motivation to exit a channel relationship *when structural alternatives are available* (Dwyer, Schurr, and Oh, 1987; Duck, 1982; Ping and Dwyer, 1988; Pichins, 1987; Diener and Grayser, 1978; Ping, 1990;

Baxter, 1986; Mcneil, 1980; Johnson, 1982). This body of knowledge argues that satisfaction and structural alternatives to the present relational arrangement are major determinants of a firm's propensity to maintain the current relationship. Probing the attitudes of a channel player regarding the costs of exiting a current relationship ultimately establishes an assessment of the channel member's evaluation of the value of the relationship (Dwyer, Schurr and Oh, 1987; Johnson, 1982). In the case of franchising, the franchisee is tied to a franchise system *vis à vis* the license agreement and thus maintains the business format. This is consistent with Mcneil's (1983) discussion of relational exchange. Important to exit/switching costs is their association with the distribution of the productive benefits of the relationship in franchising. A relational exchange equates preservation of the relationship with the fair distribution of the productive benefits generated by the relationship (Mcneil, 1980; Kaufman and Stern, 1988). Fairness, however, is subjectively assessed by a franchisee. If fairness is perceived to be absent in the distribution, then the franchisee will assess alternatives to the current relationship. That assessment ultimately values the trade mark as the trade mark embodies the brand value which produces the productive benefits (Mundstock, 1991).

The decision to exit the relationship, if taken, carries with it both direct and indirect costs (Ping and Dwyer, 1988). Understanding these costs is essential to making a sound decision about the viability of continuing the relationship (Barney, 1991). Previous research has shown that dissatisfaction may manifest in a conflictual situation when the cost of remaining in the relationship exceeds the perceived cost of exit (Stern and Kaufman, 1988; Ping, 1991; Pondy, 1967,1992). Exit cost variables were taken from the literature as defined by Ping (1991) and altered to reflect the franchise environment. This was accomplished by substituting the franchisor for the wholesaler and the franchisee for the retailer.

3.6 SUMMARY

The central theme of franchising is an alliance between two firms for the development of economies of scale for the enhancement of a common trade mark. In chapter II we describe the theoretical underpinnings of conflict in that relationship. In

chapter III we use that theoretical framework to ask a research question and state three propositions.

This research focuses on conflict in the franchisee-franchisor relationship with a research question that asks what antecedents of conflict exist in the franchisee-franchisor relationship from the perspective of the franchisee. We describe the development and operationalisation of the key component of the research focus, the conflict construct variable, as taken from the literature (Kaufman and Stern, 1988) and modified to reflect a franchise interorganisational form. Having established a measure of conflict, we turn to three propositions which explore the theoretical underpinnings of conflict in franchising.

CHAPTER IV

RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

The topic of franchisee-franchisor relations has been studied before. Our aim is to focus directly on conflict, as related to goals, governance and trade mark value. Not only are we interested in the antecedents of conflict but also to explain them in a series of models. The research question and propositions are, therefore, exploratory in nature, essentially asking what is the relationship among variables. By doing that we simultaneously involve hypotheses concerning an expectation of a relationship among variables (Spector, 1981). We fulfil our obligation to further research in the franchisee-franchisor relationship by laying "...the foundations for perhaps more scientific work aimed at testing hypothesis" (Bennett, 1988, p.139).

This chapter deals with the research and questionnaire design following the overall research objective of exploring the franchisee-franchiser relationship. "Research design is the plan and structure of investigation so conceived as to obtain answers to research questions" (Kerlinger, 1986, p279). The design has three basic functions: 1) to provide answers to our research question in an objective manner, 2.) to support or reject each of our three propositions, and 3.) to control variance by maximising the variance of the variables, control extraneous systematic variance of "less powerful" variables, and minimise the error or random variance including errors of measurement (Kerlinger, 1986). Yin (1989) describes this simply as avoiding the situation in which the evidence does not address the research question. In the previous chapter we discussed the research question, propositions, and our choice and rationale for choosing them. Here we first discuss the basic research designs evolving around two general groups: quantitative and qualitative. Various methods of data collection are discussed before proceeding to development of the variables, questionnaire and sampling framework.

4.2 RESEARCH STRATEGIES

The nature of this research is non-experimental, defined by Kerlinger (1986) as: "systematic empirical inquiry in which the scientist does not have direct control of independent variables because their manifestations have already occurred or because they are inherently not manipulative. Inferences about relations among variables are made, without direct intervention, from concomitant variation of independent and dependent variables" p.348).

In non-experimental research, the dependent variable is observed, and one or several independent variables are also observed, either before, after, or concomitant to the observation of the dependent variable (Kerlinger, 1986).

Experimental studies are considered to be more powerful than nonexperimental designs in uncovering causal relationships among variables and are more frequently conclusive because they involve principles of control, randomisation, and comparison (Spector, 1981). Spector (1981) notes, however, that although there is no assignment of subjects in a nonexperimental study, many of the other principles of research design still apply. Control over levels of certain variables can be exerted, without involving active manipulation of conditions. Control can be exercised in the selection of certain cases to include in the observational study. Cases can be chosen to meet certain specified criteria, such as selecting organisations of a certain size, geographic region, or industry. Further control can be achieved by selecting only certain values of control variables and observing the variables of interest (Spector, 1981).

Within a nonexperimental research design a distinction is often made between two basic approaches: the qualitative and quantitative research design. The distinction between these two has actually been reduced in recent years because of sophisticated computer software and statistical analysis. Yin (1989) argues that data reduction techniques render the contrast between quantitative and qualitative evidence indistinguishable among various research strategies. However, differences in quantitative and qualitative research design are still important to discuss.

4.2.1 QUANTITATIVE RESEARCH DESIGN

Measurement plays an important role in a quantitative research design. This includes methods such as survey research, longitudinal, and time series analysis and

uncontrolled experimentation. However, some survey questions do rely on qualitative, and not quantitative evidence (Yin, 1989). These methods allow the researcher to argue that something is related to something else. Seldom do they allow a causal relationship to be established.

One group designs are all considered nonexperimental since they do not involve assignment of subjects to conditions, rather a single group of subjects is observed (Spector, 1981). Among such studies are **correlation designs**, which are purely observational since the research does not intervene in any way or expose the subjects to a manipulation. Rather measurements are taken on a group, and relationships are determined among the measures.

Cross sectional design, in which all measurements are taken at one point in time, is the simplest of the correlation designs (Spector, 1981). The design is especially attractive in field studies where control over subjects is difficult to acquire. When the nature of the research requires the establishment of relationships between two or more variables, the cross sectional approach is useful.

Hawthorne effects and instrument reactivity are potential serious problems in the correlation design (Spector, 1981). The major shortcoming of the cross sectional design however is that it only establishes relationships. One way to improve the ability of the cross sectional design to yield causal data is to take some measurement at a later point in time, but with only a single measurement on each variable (Spector, 1981). Such designs fall somewhere between cross sectional and longitudinal. The full longitudinal design is a variation of the correlation study which involves two or more measurements of variables in a study on the same group of subjects. This approach is more powerful than the cross-sectional as it is possible to observe over time if certain values of a variable at one point (e.g., conflict) are associated with certain values of another variable (e.g., a franchisor provided service) at a different point. Although this could be applied to the present study, time constraints prevent it. Additionally, Spector (1981) points out that since there is no control over outside events in a longitudinal design and therefore many subsequent (to the first measure) events may provide alternative explanations for the results, the support for causality is weak.

4.2.2 QUALITATIVE RESEARCH DESIGN

Ethnography, case studies, in-depth interviews, and participant observation have traditionally been described as qualitative research designs (Reichardt and Cook, 1979). "Closeness" to the subject, in our study the franchisee, and consequent understanding of the operating conditions, is the major advantage of this type of research design. Hambrick (1980) notes two major disadvantages of the qualitative research design. There is a lack of generalisability of the results and a lack of measures which will therefore not allow reliable comparison or replicability by other researchers. Thus the lack the utility when attempting to reach the rigorous conclusions or determine the precise relationship between variables.

4.2.3 DISCUSSION

Of particular concern in studies using one procedure for collecting data is common method variance, which is the component of the correlation due to bias common to the method of data collection (most commonly mail questionnaires or interviews). Subject response tendencies and bias when responding to requests for self-reporting may account for false relationships that are found, as subjects may report attitudes and behaviours in a manner that is more consistent than they are in reality. This tendency towards consistency may enhance correlation coefficients. Several modes of data collection, to assure non-interaction of measures, have been frequently recommended (Spector, 1981; Jick, 1983; Romano, 1989).

A mix of qualitative and quantitative research in a single design is possible and even recommended when seeking insights into how small businesses, such as franchisee firms, interact with the environment.

Our research focuses on specific interaction of the franchisee with the franchisor and seeks causality of variables in the relationship with conflict between the parities. The most commonly used method of data collection with these objectives is a data base survey. Mail surveys are the most extensive data base method (Hornaday and Churchill, 1987; Rothwell, 1988).

With the advantages of survey research, wide scope and accuracy within sampling error, there are inevitable disadvantages as survey information does not penetrate very deeply below the surface. The scope of information sought is usually emphasised at the

expense of depth. That is, there are trade-offs between the qualitative and quantitative approaches, a trade off between breadth and depth (Romano, 1989). "Data base surveys attain generalisability and statistical significance but sacrifice the knowledge of interacting forces within each observation." (Sandberg, 1986).

This research adopted a quantitative approach. It is our objective to produce generalisable findings using standardised measures. Also, it is important to note that the author spent thirteen years in a franchise system, first as a franchisor then as a franchisee. This extensive "field work" provides contextual advantages in the design of the research methodology. Because the extent of research in franchising is limited, quantitative methods will allow further research through communication of comparability of findings among researchers.

4.3 METHOD OF DATA COLLECTION

Questionnaires can be used in three different ways for the collection of data; telephone interviews, mail, and face to face interviews (Dillman, 1978). The major advantages and disadvantages of each are discussed in the following.

4.3.1 PERSONAL INTERVIEW

Kerlinger (1986) argues for personal interview as the best principal method of gathering data. This methodology can be used in order to enhance generalisability of findings while retaining some of the desirable characteristics of case studies. They are argued to be more likely to provide a representative sample than mail questionnaires where non-response rate can be very high (Dillman, 1978). A structured personal interview approach can further yield more reliable data (Smeltzer et al, 1988). The researcher may probe for clearer, more comprehensive explanations in a face to face interview than is possible in a mail questionnaire (Dillman, 1978). Also, the presence of the interviewer may convince the respondent to answer questions which might otherwise be left blank (Lehman, 1979).

Personal interviews are more costly, time consuming, and so require a smaller sample size (Sudman, 1976). More important, however, is the problem of interviewer influence and bias. In particular, Lehman (1979) states that since the interviewer is often

required to interpret the response and assign it to a predesigned category, there is a serious potential problem of errors in interpretation.

4.3.2 TELEPHONE SURVEYS

Kerlinger (1986) believes that telephone surveys have little to recommend beyond speed and low cost. Non-response, a lack of cooperation, and reluctance to answer more than simple, superficial questions are among the problems (Kerlinger, 1986). The result is difficulty in obtaining detailed information (Kerlinger, 1986).

4.3.3 MAIL QUESTIONNAIRE

The major strength of the mail survey is its ability to survey widely dispersed populations simultaneously at relatively low cost without the attendant problems of interviewer bias or the possible distortion of time lag (Jobber, 1990). Kanuk and Berenson (1975) also argue that mail surveys tend to be more valid than telephone or personal interviews because they enable respondents to check information by verifying their records or consulting with other people. Also, they permit leisurely and thoughtful reply. Other advantages of the respondent completing the questionnaire without the presence of the interviewer is that interviewer bias is eliminated, and the respondent is more willing to answer certain questions when not face to face with an interviewer. Relative or promised anonymity encourages respondents to more freely divulge information, especially relating to socially or personally embarrassing information (Dillman, 1978).

Jobber (1990) warns that these benefits may be lost if the respondent answers in a hurried, ill-considered manner. Further, there is no control over who answers the questionnaire as it may be delegated to a subordinate or a group rather than the intended individual (Jobber, 1990). Attendant problems include response and nonresponse bias (Kanuk and Berenson, 1975).

Alpar and Spitzer (1989) reviewed over 50 studies involving mail questionnaires to entrepreneurs and found response rates varied widely, from 3% to 80%. When the questionnaire was not accompanied by a personal endorsement from someone who knew the respondent, response rates ranged from 8% to 26%. Lack of time, interest, and perceived gain from participating are frequently cited reasons for low response rates (Robinson and Pearce, 1986).

4.3.3.1 DISCUSSION

This study employs a mail questionnaire for data collection. Before proceeding to implementation strategy, it is important to review the major sources of sampling error.

There are two major sources of error in a survey (Sudman, 1976). The sampling error, which depends on the sample size and design, is argued to be the lowest for a mail survey since the sample size is usually larger than in other designs. Sampling error is generally the smallest of the two components of error. Sample biases, which are a function of how well the study design is executed, are smallest for face to face interviews and largest for mail questionnaires. Factors found to correlate with greater response are higher education, greater facility in writing, greater interest in the topic being studied, loyalty to the study's sponsor, and being female (Kanuk and Berenson, 1975).

Phone and face to face methods avoid biases of mail procedure but are subject to biases of their own. For some kinds of threatening information, the less personal mail method appears to be superior to interviews (Sudman, 1976). As our study specifically focuses on conflict in the relationship with the franchisor, there may be an implied threatening environment. The franchisee may be less threatened by an impersonal method of data collection such as the mail questionnaire.

4.4 MAIL SURVEY STRATEGY

Empirical studies designed to improve validity and reliability of mail surveys can be divided into two categories: those designed to increase response rate and those designed to reduce biases caused by nonresponse or special interest response (Kanuk and Berenson, 1975). Some method for dealing with these disadvantages of mail surveys will be discussed.

Dillman's (1978) Total Design Method (TDM) for maximising response rate pays attention to all the factors which affect both the quantity and quantity of response. By paying considerable attention to detail, the approach has been capable of consistently producing high response rates (Cragg, 1990). Consequently, much of the implementation strategies of this study rely on Dillman's (1978) recommendations.

4.4.1 TECHNIQUES FOR INCREASING RESPONSE RATES

When sampling size is fairly small, a prior telephone call, providing an opportunity to explain and raise interest in the study (Hodgkinson, 1990) and asking for cooperation, is feasible and argued to accelerate the daily rate of return and increase the final response rate (Jobber, 1990). This study, anticipating a mailing in excess of 2000 pieces, did not make introductory calls.

Follow-up letters, usually one or two, is a technique which seem to be consistently effective in increasing response rate (Kanuk and Berenson, 1975; Dillman, 1978; Cragg, 1990). However, too many reminders might harm the relationship between the research and the organisation(s) (Cragg, 1990). This study mailed one post card reminder to participants who had not responded within 10 days of the mailing.

The inclusion of a stamped return envelop is generally accepted practice in mail surveys (Kanuk and Berenson, 1975; Dillman, 1978). The use of stamped addressed envelopes rather than business reply envelopes is further argued to increase response (Sudman, 1976; Jobber, 1990). However, Kanuk and Berenson (1975) found inconsistent results both in the class of mailing and the type of postage used. Dillman (1978) recommends first class post on all mailings. This study mailed all questionnaires via first class post, using a stamped, addressed return envelope.

Dillman advises that both the envelope and the cover letter contain the name and address of the intended recipient. While Cragg (1990) argues that self-adhesive labels are

practical, Dillman (1978) recommends avoiding them. In this study, names and address of the respondents were printed directly on the envelopes and cover letters, while self-adhesive labels were used on the return envelopes.

Also included among concurrent techniques are such variables as degree of anonymity promised or implied, the promise or inclusion of rewards, and the use of deadline dates (Kanuck and Berenson, 1975). Offering anonymity, or at least confidentiality in the cover letter has generally been assumed to encourage a high level of voluntary and valid response. Kanuk and Berenson (1975), however, found little evidence to support these assumptions although none of the studies they reviewed involved franchisees. Some evidence supports the notion that deadline dates encourage earlier reply but without increasing the response rate (Kanuk and Berenson, 1975). Rewards, including monetary inducements, are best used in consumer surveys (Alpar and Spitzar, 1989).

The cover letter used in this study promised confidentiality and a copy of summarised results at the completion of the study. No rewards of any kind were offered and it was clearly stated that the purpose of the survey was academic research.

4.4.2 Questionnaire Design

The advantages of high response rates could be offset by poor quality answers if respondents omit questions, do not follow instructions, or simply give wrong answers (Alpar and Spitzar, 1989). This section discusses the design of the questionnaire (Appendix A.1) with the two main objectives of increasing response rate and improving response quality.

Alpar and Spitzar (1989) examined item response rate and response quality in a survey of 438 new, technologically oriented entrepreneurs. They found areas of similarity and differences between entrepreneurs and the general population. The probability of item omission increased most when the question was non-personal. With this exception, quality of entrepreneurs' responses to certain types of questions in a mail survey was found to be much like the general population.

4.4.2.1 Question Ordering

The absence of an interviewer creates a need to determine the question order on the basis of motivational considerations (Dillman, 1978). Dillman lists several principles

for question ordering which are generally followed in this study. First, questions are to be ordered along a descending gradient of importance; those which the respondent is likely to see as useful come first. Second, questions that are similar in content were grouped together, and within content areas were grouped by type of question. The third ordering principle involves taking advantage of cognitive ties that respondents are likely to make among groups of questions and thereby build a flow of continuity throughout the questionnaire. The final principle is that the questions in any topic area that are most likely to be objectionable to respondents, which in this study were proved to be financial questions, should be positioned after the less objectionable questions.

Dillman suggests that demographic questions be placed at the end of the questionnaire. This advice was not followed. The more recent study by Alpar and Spitzar (1989) concluded that the probability of item omission in a survey of entrepreneurs increased most when the questions were non-personal.

4.4.2.2 FORMULATING THE PAGES

The key to page formulation in a mail survey is producing an end result which is aesthetically pleasing and motivating, preserves the structure of precisely worded questions and keeps respondents from skipping individual items or whole sections (Dillman, 1978). These principles have been generally adhered to in the questionnaire design for this study. Response categories were arranged so that answers were registered in a vertical line except for the financial questions (1 of 8 pages). Each category of question was titled. Directions for how to answer questions followed the title and preceded each section of questions at the top of the page. The same number is always used for the same answer (e.g., No=1, Yes=2). Open-ended questions were limited, as such questions may result in non-response (Jobber, 1990).

4.4.2.3 QUESTIONNAIRE LAYOUT

The questionnaire totalled 8 pages with no questions on the front or back covers and with questions laid out spaciously. A4 white paper in the United Kingdom and 8.5 X 11 white paper in the United States was used to achieve the principal objective of appearing visible and professional (Kanuk and Berenson, 1975).

4.4.3 THE STRUCTURE OF THE QUESTIONNAIRE AND ITS RELATIONSHIP TO THE RESEARCH QUESTION AND PROPOSITIONS

The questionnaire (see Appendix A.1) contains seven distinct sections:

Section I: THE FRANCHISEE FIRM lists nine questions relating to characteristics of the franchisee and the franchisee firm.

Section II: THE FRANCHISEE-FRANCHISOR RELATIONSHIP lists the four relational goals taken from the literature (Achrol and Etzel, 1992).

Section III: FRANCHISOR PROVIDED SERVICES lists Achrol and Etzel's (1992) sixteen franchisor provided services and two services added by this study. Franchisee respondents are asked to score these services (1-5 Likert scale) in terms of both importance and adequacy.

Section IV: THE FRANCHISEES VIEW OF THE CONTINUING RELATIONSHIP WITH THE FRANCHISOR lists thirteen statements which are taken from the literature (Stern and Kaufman, 1988) and reflect Parson's Organisational Imperatives. The four variable which constitute the conflict construct are embedded in this section.

Section V: INVESTMENT IN THE FRANCHISE consists of sixteen questions which reflect perceived exit costs (Ping, 1990).

Section VI: FINANCIAL INFORMATION consists of seven questions which capture financial information which the economics literature indicates may correlate to conflict because of differences in the production functions.

Section VII: OPTIONAL COMMENTS space is provided to allows respondents to voice an individualised opinion (Dillman, 1978) and to add richness to the understanding of the franchisee-franchisor relationship.

4.5 PILOT STUDY

A pilot study was conducted to test a questionnaire format that leads to a quantifiable information with a high level of construct and content validity. Pretesting the questionnaire is especially important for mail surveys since there are no interviewers to

report defects and inadequacies (Dillman, 1978). A pilot study was conducted for this purpose. Data analysed in this chapter regards the pilot.

Dillman (1978) suggests that the questionnaire be submitted to the scrutiny of three types of people. The first groups are colleagues who understand the study's purpose and are able to evaluate the questionnaire in terms of whether it will accomplish the study objectives. The eight page questionnaire was designed over a period of six months. It was reviewed by a number of Ph.D students and lecturers at Imperial College and faculty members of Babson College in the United States. I received valuable feedback from leading academics in the fields of economics, strategy, sociology, entrepreneurship, and management.

The second group among Dillman's (1978) evaluators consists of potential "users" of the data, such as policy makers. These people have substantial knowledge of the survey topic. National Westminster Bank's head of franchise lending, a senior commercial lending officer from a major US bank, two leading franchise attorneys (one from the UK and one from the US), and a managing director of a UK franchisor firm, and a board director of a US franchisor firm gave detailed, valuable, input.

The third group from which pretest information was sought were drawn from the population to be surveyed, franchisees. These people should represent a cross section of the potential respondents. Franchisees were chosen from both former colleagues in franchising, from a random selection of London area franchisees and from the membership of the American Franchisee Association. Thirteen franchisees were interviewed. Interviews lasted from 30 to 60 minutes.

An office and home janitorial franchise agreed to supply a list of their franchisees for participation in the pilot study. The firm is a wholly owned subsidiary of a US company and was established in the UK in 1974. There 177 franchisees operating 304 territories (the name used by this company for the more commonly used term "outlet").

Questionnaires were sent with a cover letter and a self-addressed, stamped return envelop. Cover letters were directed to the franchisee by name. All mailings were sent first class. The franchisees were advised in the cover letter that if they participated in the study and included their return address with the questionnaire, they would receive a copy

of the study results. They were also advised that their individual responses would be kept strictly confidential. All cover letters were signed by me using a black ballpoint pen.

Of the 177 questionnaires sent out, 52 were returned for a response rate of 29%. All the respondent questionnaires were deliverable and useable. Of the 52 respondents, 36 (68%) included their name and address for a copy of the results.

Sudman (1976) argues that a pilot test of 20-50 cases usually is sufficient to discover the major flaws in a questionnaire. Therefore, the pilot for this study cleared Sudman's (1976) response n. Only one major issue emerged from the pilot. Two questions relating to trademark valuation were not answered by a significant number (54%) of respondents. 13 respondents were reached by telephone to discuss the unanswered questions. 12 of the 13 understood the questions but simply did not know the answer. Therefore, a check-off labelled "unknown" was added for each of these two questions. Less significantly, many of the telephone respondents mentioned that the questionnaire used the term "outlets" when it was common in their system to use the term "territories." The cultural differences in language between the United Kingdom and United States were reviewed to assure neutral language and therefore an ability to implement the main study in the United States. No other changes were made to the questionnaire except changing the pound sterling to the dollar sign, where appropriate.

4.6 IMPLEMENTING THE MAIL SURVEY

The pilot study was conducted in the United Kingdom. Because of the availability of dual mailing lists in the United States (from participating franchise systems and from the governmentally mandated Uniform Franchise Offering Circular) it was decided to conduct the main study in the United States.

Selection of franchise systems to participate in the study was done by speaking to the American Franchisee Association (AFA) at their national conference. The AFA is an organisational primarily consisting of franchise systems franchisee associations, such as the Jiffy Lube Association of Franchisees and the Supercuts Franchisee Association. The AFA membership represents about 15,000 franchisees. Six companies agreed to participate. Two additional companies were referred by participants and agreed to be a part of the study. Including the pilot study company, a total of nine franchise inter-

organisational forms participated in this study. The procedure followed in the pilot study was used in implementing the mail survey. Mailing lists were checked against United States Federal Trade Commission required "Uniform Franchise Offering Circular" for accuracy to improve list quality.

Questionnaires were sent out to 2912 franchisees by company in intervals of two weeks. A post card reminder was sent out ten days following the initial mailing. The number of undeliverable surveys was 96 of the 2,912 mailed, or, 3.3%.

4.6.1 QUESTIONNAIRE RETURNS

Table 4.1 Data Collection Summary by Firm

Firm	#1	#2	#3	#4	#5	#6	#7	#8	#9	Total
Number Mailed	177	79	94	397	153	434	123	229	1226	2912
Bad Address	0	0	4	3	1	49	2	35	2	96
net # mailed	177	79	90	394	152	385	121	194	1224	2816
# responses	52	39	42	85	41	64	25	28	245	621
response rate	29%	49%	46%	22%	27%	17%	21%	14%	20%	22%

4.6.1.1 NON-RESPONSE BIAS

The potential problems inherent in a mail survey make the tabulation and analysis of non-respondents a critical activity in order to avoid non response bias (Keats and Bracker, 1988). Response can be examined by looking at differences between early and late waves (Kanuk and Berenson, 1975). A Chi-square analysis was performed to see whether there was a relationship between firms fitting sample criteria and early (1st mailing) versus late respondents (those responding to the post card reminder and later mailings). No such differences were found (χ^2=.1572, D.f.=1, p=.778). There was no response bias within or among companies Similarities between early and late responders can be interpreted as suggesting the absence of response bias, under the assumption that

those firms that responded to the reminder would not have responded had the reminder not been sent (Kanuk and Berenson, 1975; Covin and Covin 1990).

4.6.1.2 INDUSTRY EFFECT

The potential for an individual industry affecting the results is mitigated by the representation of nine different industries in the study: #1=construction, #2=automotive repair, #3=hearing aids, #4=business services, #5=fashion accessories, 6=electronics, #7=home security, #8=automotive service, #9=janitorial.

4.7 ASSESSMENT OF INSTRUMENT VALIDITY

Clearly, the value of our research in terms of both furthering research in franchising and in furthering practitioner effectiveness, depends greatly on the measurement of the criterion, specifically the dependent variable. That is, how do we measure "conflict"? Carmines and Zeller (1979) state that "In short, those employing criterion validation procedures should provide independent evidence of the extent to which the measurement of the criterion is valid (p.19)."

4.7.1 RELIABILITY AND VALIDITY

Any instrument which attempts to quantify physical or mental traits must meet the criteria of reliability and validity. Reliability is defined as the consistency or stability of a measurement instrument, while validity refers to the degree to which the instrument measures what it claims to. Reliability is a necessary but not sufficient condition for validity.

Reliability poses an objective of consistency, both external and internal. External consistency refers to the instrument's ability to measure the same trait consistently upon repeated measurements. Internal consistency refers to the ability of each subpart of the measure to act consistently in its contribution to the measure.

The construct "conflict" has been operationally defined as the respondent's level of agreement with four survey statements, each thought to reveal a facet or component of the construct. A Likert scale of agreement with each item was constructed so as to order the degree of a respondent's "conflict" from low to high. The central and (theoretically) defining variable in the construct is the level of anger (Q15angr), retained as a result of past disputes. If all the items are in fact indicators of "conflict" then, taken together, their

'measure' constitutes a scale. If related items are to be used as a scale to measure a common entity, then each item must act consistently in its contribution to the measure. This assumption must be tested. Reliability testing is used to assess the "internal consistency" of such a scale.

Since a measure is reliable to the extent that it is free of random variation, some form of inter-item correlation analysis is usually performed, the coefficient used as an indicator of reliability. Reliability coefficients range in value from 0, when the measure is completely unreliable, to 1.0, when it is perfectly reliable, indicating the consistency with which each item contributes to the measure.

4.7.2 TESTING RELIABILITY: CRONBACH'S ALPHA

One of the most commonly used reliability coefficients is Cronbach's alpha (α). Alpha may be said to estimate the correlation between scores (item responses) on two halves of a test for any randomly chosen halves. The computation of alpha for the conflict construct is based on the average correlation of (standardized) items within a scale and resulted in the following for pilot study data:

Reliability Coefficients, 4 items

Alpha=.7946 Standardized item alpha=.8051

4.7.2.1 INTERPRETATION OF SPSS ALPHA RELIABILITY OUTPUT.

An examination of the statistical output from SPSS Reliability Analysis aids in characterizing the scale and judging its reliability.

Table 4.2 Alpha Item-total Statistics

Variable	Scale mean if item deleted	Scale Var if item deleted	Corrected item-total correlation	Squared multiple correlation	Alpha if item deleted
Q15ANGR	7.8824	9.0705	0.5735	0.4630	0.7612
Q15NOZE	8.4076	9.1287	0.7986	0.6454	0.6635
Q15SAME	7.3137	8.8092	0 6622	0 5079	0.7141
Q15SAME2	6 8037	10.0608	0.4391	0 3914	0 8266
Alpha=.7946	**Standardized item alpha=.8051**				

For each item, the first column shows what the average score for the scale would be if the item were excluded from the scale. The next column shows the scale variance if the item were excluded. These values can be compared with those in the Statistics for Scale table (APPENDIX B).

The *Corrected Item-Total Correlation* is the Pearson correlation coefficient between the score on the item and the sum of scores on the remaining items in the scale. These coefficients reveal that Q15ANGR has the strongest relationship with other scale items and Q15SAME has the weakest relationship with other items on the scale.

The *Squared Multiple Correlation* column gives the resulting R^2 from a regression of the item on all other items in the scale. Accordingly, its interpretation is straightforward. For example 44% of the variance in the responses to their level of retained anger can be explained by the other items acting as independent variables.

Finally, The *Alpha if Item Deleted* column reveals the relative strength of each item's contribution to scale reliability. In the pilot, the Alpha coefficient of 0.75 would decrease to 0.63 if Q15ANGR were deleted. As this is the greatest decrease among the items, it reveals Q15ANGR to be the strongest contributor to scale reliability. Conversely, the increase in Alpha to a value of 0.76 with the exclusion of Q15SAME shows it to be the weakest contributor. This is as we had expected.

The Standardized Item Alpha is the Alpha that would be obtained if all the item variances were standardized. The small difference between this value and Alpha for unstandardized variances suggests that the items have comparable variances. Hotelling's T^2 tests the hypothesis that all item means are equal (Rejected at $p<0.001$).

We concluded that Cronbach's alpha coefficient is sufficiently high to place confidence in the reliability of our conflict scale (Nunnally, 1967).

4.7.3 Testing the Validity of the Proposed Scale (Using Pilot Stdy Data)

Establishing the reliability of a measure does not address the fitness (validity) of the measure for its intended purpose, only that whatever it measures, it does so consistently. Validity refers to the degree to which the measure represents the trait of interest In abstract terms it refers to the truth of the measurement. Many kinds of validity are recognized. Terms used to describe them include internal, external, construct,

face, concurrent, content, convergent, discriminant, and criterion related. Our task is to assess the validity of the measure of the operationalised construct. Accordingly, since there is no external standard by which we can validate our measure, we are constrained to assess the measure in terms of itself. That is, if related items are to be used to construct a single scale, then we must test the assumption that each item is a measure of the same entity. Factor analysis has been selected to test this assumption. That the entity being measured is "conflict" remains an assumption.

Factor analysis refers to any of several methods designed to reduce a large number of variables to a smaller number of variables, or "factors", by finding patterns among the variations in the values of a number of variables. A cluster of highly intercorrelated variables is a factor. One commonly used method of factor extraction (principal component analysis) proceeds by forming a linear combination of variables which accounts for the largest amount of variation in a sample, then a second combination which accounts for the next largest amount of variation, but which is not correlated with the first, and so on. The resulting variable groups, factors, are then "rotated" or mathematically adjusted to maximize their "loading" on, or correlation with, their respective factors. In varimax rotation the factors (and their component variables) remain uncorrelated (orthogonal).

A matrix of polychoric[1] correlation coefficients was generated by SPSS program PRELIS. The matrix was then submitted to SPSS program FACTOR for analysis.

[1] see discussion Appendix III.

4.7.3.1 INTERPRETATION OF FACTOR OUTPUT

Table 4.3 Factor Analysis of the Conflict Construct

Variable	Loadings	Factor	Eigenvalue	% Var
Retained anger	0.83368	1	2.55208	63 8%
Would not stay as franchisee	0.80246			
Feelings unchanged by disputes	0 75326			
Would act same as franchisor	0.61783			

The Initial Statistics table (Appendix III) shows the results of Principal Components Analysis factor extraction. The four factors are ordered by their Eigenvalues which are the factor variances. Communality is the amount of (standardized) item variance which must be accounted for. The total amount of variance for the items is 4.0, of which the first factor accounts for 2.55. Therefore the percent of total variance accounted for by the first factor is 2.55/4.0*100 or 63.8% (Pct of Var column). The second and subsequent factors contribute little additional information since each is no better than a single variable with unit variance. This is the rationale for the selection of a minimum Eigenvalue of 1.0 for inclusion in the analysis.

The Factor Matrix shows the loading of each variable on the (single) extracted factor. Since factor analysis of the data has failed to separate the variables into more than one factor, confidence in the "single entity" concept is supported. An item's loading value is interpreted as the correlation coefficient between the item and the factor. As before, the relative importance of each variable to the scale is reflected in the size of these correlations and again it is clear that Q15ANGR predominates in the interpretation of the "conflict" construct but all components contribute to the single factor. (For a discussion of the choice of an appropriate correlation matrix see Appendix III).

4.7.4 SUMMARY OF THE INSTRUMENT VALIDITY

The conflict construct's validity was achieved in the literature (Achrol and Etzel, 1992). However, we chose to repeat the examination of the construct with our data.

Highly similar results were achieved. To this point, analysis has revealed that "conflict" measures a single entity. In effect, a scale of "conflict," characterized by respondent anger, has been created by the item responses. The next goal is to place each case (respondent) on the scale, ultimately to study the role of other variables in creating conflict.

4.8 THE SAMPLE

There is nothing in the literature that describes the typical franchisee in terms of demographic profile. Therefore, it is impossible to compare this data against the entire franchisee population. However, we can test how well the sample population represents the franchise companies who participated in the study, comparing demographic information in our data set with that of the franchise companies. Discussion of the sample profile is contained in Chapter 5.

4.8.1 GENERALISABILITY OF THE DATA: HYPOTHESIS TESTING FOR THE MEAN OF A POPULATION

In order to confidently generalize the findings of this study to the population from which we have drawn our sample, we will measure the reliability of our point estimate of the population mean by determining a confidence interval for this parameter.

The population means for selected descriptive variables, by company, are taken from the Uniform Franchise Offering Circular (UFOC) of the franchisor, and Entrepreneur Magazine (January 1994).

We will test the hypothesis that the sample has been drawn from a population with the stated variable means. For example, the mean value for the year the license agreement was signed for company 1 is 1987.9, while our sample mean is 1988.2. The test of the hypothesis that the mean value for the population represented by our sample is 1987.9 is stated as follows:

H_o: $\mu = 87.9$ (null)

H_a: $\mu \neq 87.9$ (alternative)

Table 4.4 Hypothesis Test Outcomes: *Year License Agreement Signed*

Company	Population Statistics	Sample Statistics	|Z or t|	Decision
1	μ = 1987.9 n = 177	$\bar{x}$ = 1988.2 s = 3.25 n =52	|Z| = 0.789	Fail to Reject H_o
2	μ = 1986.0 n = 79	$\bar{x}$ = 1984.8 s = 5.87 n = 39	|Z| = 1.780	Fail to Reject H_o
3	μ = 1986.9 n = 94	$\bar{x}$ = 1987.6 s = 3.88 n = 42	|Z| = 1.560	Fail to Reject H_o
4	μ = 1989.0 n = 397	$\bar{x}$ = 1989.2 s = 2.79 n = 85	|Z| = 0.744	Fail to Reject H_o
5	μ = 1987.0 n = 153	$\bar{x}$ = 1986.2 s = 3.69 n = 41	|Z| = 1.620	Fail to Reject H_o
6	μ = 1982.5 n = 434	$\bar{x}$ = 1983.7 s = 6.28 n = 64	|Z| = 1.650	Fail to Reject H_o
7	μ = 1984.4 n = 123	$\bar{x}$ = 1983.9 s = 3.79 n = 25	|t| = 0.736	Fail to Reject H_o
8	μ = 1988 5 n = 229	$\bar{x}$ = 1989.2 s = 1.88 n = 28	|t| = 2.100	Reject H_o
9	μ = 1987.0 n = 1226	$\bar{x}$ = 1987.4 s = 6.26 n = 245	|Z| = 1.120	Fail to Reject H_o

Table 4.5 Hypothesis Test Outcomes: *Number of Outlets*

Company	Population Statistics	Sample Statistics	|Z or t|	Decision
1	$\mu = 1.11$ $n = 177$	$\bar{x} = 1.10$ $s = 0.31$ $n = 39$	$\|Z\| = 0.276$	Fail to Reject H_o
2	$\mu = 1.13$ $n = 79$	$\bar{x} = 1.18$ $s = 0.39$ $n = 65$	$\|Z\| = 1.12$	Fail to Reject H_o
3	$\mu = 4.00$ $n = 94$	$\bar{x} = 4.45$ $s = 4.44$ $n = 29$	$\|t\| = 0.878$	Fail to Reject H_o
4	$\mu = 1.0$ $n = 397$	$\bar{x} = 1.0$ $s = 0.00$ $n = 43$	$\|Z\| =$ ***	Fail to Reject H
5	$\mu = 1.5$ $n = 153$	$\bar{x} = 1.47$ $s = 0.99$ $n = 89$	$\|Z\| = 0.226$	Fail to Reject H_o
6	$\mu = 1.15$ $n = 434$	$\bar{x} = 1.11$ $s = 0.46$ $n = 237$	$\|Z\| = 0.753$	Fail to Reject H_o
7	$\mu = 5.0$ $n = 123$	$\bar{x} = 5.7$ $s = 5.72$ $n = 41$	$\|Z\| = 0\ 683$	Fail to Reject H_o
8	$\mu = 1.5$ $n = 229$	$\bar{x} = 1.5$ $s = 0.95$ $n = 26$	$\|t\| = 0.0$	Fail to Reject H_o

Company	Population Statistics	Sample Statistics	|Z or t|	Decision
9	$\mu = 1.5$ $n = 1226$	$\times = 1.4$ $s = 0.66$ $n = 52$	$\|Z\| = 2.65$	Reject H_o

Table 4.6 Hypothesis Test Outcomes: *Revenue*

Company	Population Statistics	Sample Statistics	|Z or t|	Decision
1	$\mu = 2.20$ $n = 177$	$\bar{x} = 2.13$ $s = 1.88$ $n = 52$	$\|Z\| = 0.319$	Fail to Reject H_o
2	$\mu = 5.77$ $n = 79$	$\bar{x} = 5.83$ $s = 2.06$ $n = 39$	$\|Z\| = 0.254$	Fail to Reject H_o
3	$\mu = 5.40$ $n = 94$	$\bar{x} = 5.26.6$ $s = 2.40$ $n = 42$	$\|Z\| = 0.506$	Fail to Reject H_o
4	$\mu = 2.11$ $n = 397$	$\bar{x} = 2.02$ $s = 0.81$ $n = 85$	$\|Z\| = 1.15$	Fail to Reject H_o
5	$\mu = 6.05$ $n = 153$	$\bar{x} = 6.33$ $s = 3.39$ $n = 41$	$\|Z\| = 0.616$	Fail to Reject H_o
6	$\mu = 4.00$ $n = 434$	$\times = 4.04$ $s = 2.0$ $n = 232$	$\|Z\| = 0.173$	Fail to Reject H_o
7	$\mu = 7.0$ $n = 123$	$\bar{x} = 7.30$ $s = 3.18$ $n = 37$	$\|Z\| = 0.526$	Fail to Reject H_o

Company	Population Statistics	Sample Statistics	|Z or t|	Decision
8	$\mu = 5.00$ $n = 229$	$x = 4.80$ $s = 1.03$ $n = 23$	$\|t\| = 1.09$	Fail to Reject H_o
9	$\mu = 3.0$ $n = 1226$	$\bar{x} = 2.84$ $s = 2.85$ $n = 52$	$\|Z\| = 0.982$	Fail to Reject H_o

Twenty-five of the twenty-seven hypotheses are accepted. In seven of the nine companies, the z-test and t-test of means for each sample and population from which it was taken reveals that the samples have a likelihood of coming from a population having the same distribution as the sample. That is, the sample of respondents reflects the characteristics of the "average" franchisee of each franchisor. In two of the companies, a comparison of two of three sample statistics fail to reject the null hypothesis and a confidence level of .05. At a confidence level of .10, twenty-eight of the twenty-nine means tests fail to reject the null hypothesis. Although this gives us less confidence in the generalisability of the sample to the population than the previously discussed seven companies, the two rejected hypotheses may be attributed to random occurrence. In any case, the preponderance of evidence in all companies gives us confidence in the generalisability of the findings.

The range of franchisee characteristics provides some justification for the belief that the result can be generalisable to the entire sampled populations of franchisees. Adding to the generalisablity of the study is that 15.15% of the respondents had previously owned a different franchise, thus offering a broader perspective.

Having gained confidence that we have obtained a representative sample we look to the issue of key respondent. The level of analysis in this study is the franchisee, who is therefore the key respondent. It is essential that we are assured the mail survey respondent is the owner of the franchise. As discussed in section 5.2.1, 99.2% of the respondents can be clearly identified as the franchisee. There is a likelihood that some or

all of the remaining .8% are also franchisees. Therefore, we proceed with the belief that the sample is representative of the franchisees attitudes in the population studied.

4.9 STATISTICAL APPLICATIONS

4.9.1 CLUSTER ANALYSIS: FINDING A PATTERN AMONG ITEM RESPONSES

As we have developed a scale of conflict in franchising, it is necessary to locate each franchisee respondent on that scale. Cluster analysis is used to place each case relative to a centroid, or measurement center, calculated from all contributing conflict construct variables. A new variable, which we label "conflict," is created with each franchisee classified as a member of a cluster group.

4.9.2 FACTOR ANALYSIS

There are four tasks factor analysis can accomplish, 1) To identify the latent tendencies not easily recognised in a larger set of variables, 2) Data reduction with the minimum loss of information, 3) To identify the appropriate variables for regression, discriminant analysis, and correlation, 4) Create a new set of variables to partially or completely replace to original variables (Hair, Anderson, Tatham and Grablowsky, 1979).

Our principal use of factor analysis is to identify latent tendencies and to identify appropriate variables for CHAID analysis.

Factor rotations, where applicable, are achieved with varimax method.

4.9.3 CHI-SQUARE AUTOMATIC INTERACTION DETECTOR (CHAID) ANALYSIS

CHAID Analysis performs segmentation modelling and is useful in any situation in which the goal is to divide a population into segments that differ with respect to a designated criterion (Norušis, 1989). In this study that criterion is the dependent conflict construct variable. CHAID divides a population into two or more distinct groups based on categories of the "best" predictor of the dependent variable. It then splits each of these groups into smaller subgroups based on other predictor variables. This splitting process continues until no further statistically significant predictors can be found. The segments that are derived by CHAID analysis are mutually exclusive and exhaustive. The segments do not overlap and each case is contained in only one segment. These segmentation results are displayed in the form of a tree diagram whose branches, or nodes, correspond

to the groups. As these subgroups split further into additional subgroups, the tree adds more nodes.

The dependent variable in CHAID analysis can be dichotomous or polytomous. A dichotomous variable has two categories which distinguish between cases that have some trait and cases that do not have that trait. In this study the dependent conflict variable is polytomous, having a number of categories on the conflict scale as described by the cluster analysis. If a dependent variable has a missing category it will not be used in the analysis. In this study n=621 and only 613 cases are used in the CHAID analysis due to 8 with missing values.

CHAID merges categories of a predictor variable that are not different in a statistically significant manner. This merging procedure ensures that the cases in the same segment are homogeneous with respect to the segmentation criterion (conflict construct). Cases in different segments are heterogeneous with respect to the conflict construct.

Because the dependent variable in this study is nominal, and not ordinal, the segmentation criterion is based on the probability distribution of the conflict construct.

Each predictor, or independent variable, is classified as "monotonic," "free," or "floating." Categories of a monotonic predictor variable can be combined only if they are adjacent to each other. Ordinal predictors, such as revenue, are treated as monotonic. Float variables are treated as monotonic except that the final category, which, in this study, represents missing values, is allowed to combine with any other category. Nominal variables are treated as free, allowed to combine "freely," whether or not the categories are adjacent.

At each segmentation stage in the CHAID analysis a new node is created based on the predictor variable having the lowest probability value, or p value. This study uses a significance level of .05 probability value or less. The p value represents the probability that the observed sample relationship between the independent predictor variable and the dependent conflict construct variable would occur if the two variables were statistically unrelated. For example, a p value of .01 means that the observed relationship between the predictor and the dependent variable would occur only 1% of the time if the variables were independent.

CHAID analyses all variables input to the model and lists those which have a *p*-value of .05 or less. The models are then built using one independent variable at a time as the primary correlation with the dependent variable. Additional "level" of models can be built by designating an independent variable which has been analysed as having a *p*-value of .05 or less. For each level of model building all the variables with a *p*-value of .05 or less remain in the model to detect correlation among independent variables. The correlations among independent variables are the additional nodes in the tree diagram discussed above.

4.9.4 WILCOXON MATCHED PAIRS TEST

We extend Achrol and Etzel's (1990) analysis of franchisor contractually obligated services to the franchisee by adding a 1-5 Likert scale of adequacy to the 1-5 Likert scale of importance. To ascertain statistically significant differences between importance and adequacy for each item we employ the Wilcoxon Matched Pairs test. Wilcoxon Matched Pairs tests the hypothesis that two samples have the same distribution.

4.10 SUMMARY

Considerable space in this chapter was dedicated to the research design which investigates conflict in franchising from the perspective of the franchisee, integrating theory, research question, propositions, methodology, and statistical application. This study's quantitative approach is supported by sophisticated SPSS software, specifically, cluster analysis, factor analysis, the CHAID application and Wilcoxon matched pairs.

Because CHAID is a relatively new application this chapter deals with the statistical underpinnings of CHAID and its appropriate use in describing and modelling franchisee-franchisor conflict. Further, the detailed development of the mail survey and pilot study led to a substantial *n*, a reasonable response rate. Validation of the survey instrument was achieved in the pilot study according to the requirements as related by Dillman (1978).

Therefore, a strong theoretical foundation, a well-grounded methodology, a solid pilot study, and a sophisticated statistical application, allow the main study to be launched with considerable confidence.

CHAPTER V

UNIVARIATE ANALYSIS OF THE DATA

5.1 INTRODUCTION

The purpose of this chapter is to unfold the story of conflict in the franchisee-franchisor relationship through data analysis and discussion. The data describes the franchisee, franchisee firm, and the financial profile of the franchisee firm. Our aim is to articulate the relevance of the data descriptions to the research question and propositions. Further, the data is subjected to statistical applications which again validate the operationalisation of conflict in our dependent variable and allows us to then answer the research question and the three propositions.

Franchisee satisfaction is assessed through the analysis of the conflict construct, as it is constituted in the main study, as a result of franchisee response to the four survey statements which constitute the construct. The main study data relating to these four statements is analysed at the individual variable level and then subjected to the same correlation and factor analysis that was performed on the pilot data and is tested with Kruskall-Wallis one-way analysis of variance. Further, the 621 cases in the study are clustered on the conflict construct to establish likely levels of satisfaction.

Following the assessment of franchisee satisfaction, which answers the research question, the three propositions are addressed in univariate analysis.

The rationale for the franchisee-franchisor alliance presumes the importance of goals and goal congruency by the parties, which supports analysis of franchisee goals and prompts Proposition A. The theoretical underpinnings of this thesis require an analysis of the principal transactions between alliance partners (franchisee-franchisor) which support the goals of the relationship partners. In this study, those transactions are identified as franchisor provided services and analysed as a consequence of Proposition B. The final proposition, C, addresses the culmination of the transactions between the parties, which should, theoretically, be maintenance and enhancement of the trade mark value. These three propositions regarding the perceived contract, franchisor provided services, and trade mark valuation, are addressed by franchisee independent variables in the designated perspectives which correlate among themselves and, ultimately, to franchisee satisfaction (the dependent conflict variable construct) and modelled. The nature of the independent

variables is theoretically supported as outlined in Chapter IV. Each model is supported by ancillary statistical applications and analysis. A final model of the antecedents of franchise conflict is presented utilising CHAID (SPSS Chi-square Automatic Interaction Detector) analysis. These models are at the heart of the generalisability of the study.

5.2 DESCRIPTION OF THE FRANCHISEE AND FRANCHISEE FIRM

In this section franchisee responses to the questionnaire are analysed by individual variable and/or by theoretically segmented sections of individual variables. Our aim is to begin to understand the data in its most basic form to aid in answering the research question, address the propositions, and bring clarity and reference to the conclusions and recommendations.

5.2.1 THE FRANCHISEE

The nature of this study regards the perspective of the franchisee. Therefore, it is essential that we are confident that the respondent is the franchisee. Eighty-six percent of the respondents answered that they were "franchisee", "licensee", or "owner." Thirteen percent answered in terms that indicated more than one person owned the franchise, such as "co-owner" or "partner." The remaining eight tenths-of one percent, or five respondents, referred to themselves in managerial terms, such as Director, President, or Chief Executive Officer. These results, and the fact that we used specialised mailing lists which were personally addressed to the franchisee, give us confidence that at least 99.2% of the respondents are franchisees and that there is a likelihood all respondents are franchisees.

Overall, the respondents to this survey operate a total of 936 outlets. While 77% of the respondents own only one outlet, the range of ownership is as high as 30 outlets. Clearly, this is important because there is the potential for varying perspective based on size (Brickley and Dark, 1985). Also, the single outlet operator is typically the manager of the outlet while the multiple outlet franchisee obviously cannot manage each of the outlets, again setting the possibility of having a different perspective (Brickley and Dark, 1985).

Table 5.1 Number of Outlets Owned

No. Outlets	No. Cases	Percent
1	481	77.6
2	66	10.6
3	30	4.8
4	13	2.1
>=5	30	4.8
total	620	100

It is interesting to note the backgrounds of the franchisee respondents. Thirty-two percent had previous management experience prior to purchasing their franchise. Fifty-nine percent had non-management, sales, and technical positions. Ten percent of the respondents did not list a prior job.

5.2.2 THE FRANCHISEE FIRM

Table 5.2 Franchisee Firm Characteristics

Description	Mean	Std Dev	Min	Max	N
Number of Outlets per firm	1.66	2.23	1.0	30.0	616
Year Contract Signed	1985.6	5.53	1960	1993	619
Number of new outlets planned	1.96	2.77	1.0	30	147

The average franchisee firm in our study signed their contract toward the middle of 1985. Inception of the sampled franchisee firms ranged from 1960 to 1993. This is important because the length of time in a franchisee system has shown to impact levels of litigation in franchising, one form of manifest conflict (Spinelli and Bygrave, 1992). This

also validates the long term perspective offered by the results of this study, adding justification to the inter-organisational definition. That is, the franchisees included in this study are in a long term alliance for the purpose of enhancing the productive benefits. Additionally, we have the opportunity to cross-check that the respondent is the franchisee, accomplished by comparing the age of the license agreement with the amount of time the respondent has been involved with franchising. The result is that the mean franchisee respondent has 2.4 months more franchising experience than the mean life of the license agreement. That 2.4 months is attributable to the 15% of the respondents who have previously owned a franchise. Previous franchise experience is coded and included in the data base of independent variables but proved not to correlate with conflict in any of the models. Therefore, the perspective offered by franchisees in this study are primarily a result of their current franchise relationship.

No study can capture all the internal and exogenous forces which might affect the experiment (Yin, 1984). Moreover, with nine individual companies participating in the study, the individual characteristics and anomalies particular to the individual franchise are eligible to influence franchisee conflict cluster membership. Accordingly, the franchise system related issues not captured in the independent variables in this study are contained in the variable which designates the franchisee's specific franchise company affiliation.

Fifty-one percent of franchisees plan to buy existing outlets already in their franchise system and/or build new outlets. Almost thirty-five percent of franchisee respondents (n=215) plan to buy existing outlets. Twenty-four percent plan to develop new outlets. This would intuitively indicate a positive perspective of the future by at least half of the respondents. However, neo-classical economic theory would indicate the possibility of other underlying motivations for growth, such as the amelioration of cannibalised sales revenue from competing outlets within the same franchise system or greater control of localised advertising expenditures (Mittelstaedt and Stassen, 1990).

As franchising is an inter-organisational form often used to expand a business concept, franchisee attitudes toward growth are important. Clearly, some franchisees in this study are growth oriented and some are not. Our sample therefore affords us the ability to investigate the theoretical position posited by microeconomic theory that new store development is a source of conflict in franchising.

5.2.3 THE FRANCHISEE FIRM FINANCIAL PROFILE

Microeconomic theory regarding the production function of the franchisee firm and the transaction-cost perspective regarding the "cost of running the business" (Arrow, 1969, p.9) requires a profile of the finance of the franchisee firm. The economic perspective establishes the potential for structural conflict in the relationship based on cost functions and profit maximising behaviour. Transaction-cost prescribes the governance which most effectively ameliorates the conflictual behaviour resultant from self-interest motivation.

Table 5.3 Mean Values of Franchisee Firm Financial Information

Variable	Mean	Minimum	Maximum	Std Dev	N
Annual revenue	$622,500	$25,000	$7,500,000	$193,750	604
Annual fixed expense	$106,000	$5,000	$750,000	$27,000	574
Variable cost per $ of sales	32.16%	5.00%	68.00%	24.16%	526
Promotional expense per $ of sales	8.48%	0.50%	33.00%	11.72%	571
Profit margin per $ of sales	26.34%	0.50%	39.00%	11.21%	574

The combined sales of the franchisee firms participating in this study are $386,000,000[2] with a significant percentage of the revenue by most allocated to promotional expense. This would indicate some sense of the requirement to build trade name value, or at least the overall importance of marketing. Of course, industry effects may account for some of the variance. However, considering that there are nine franchises in nine different industries represented in this study, industry effects also afford

[2] Pounds Sterling are converted to US dollars at 1:1.55

us a broad range of financial parameters, thus providing data unbiased by a preponderance of a particular economic condition which might affect an individual franchise type.

Also, franchisee firms report a high profit margin. In a simple break-even analysis it appears the firms are, on average, profitable.

Break-even Sales = Fixed Cost/Contribution Margin

For the average franchisee in this study:

Break-even Sales = $402,430 and average level of profit = $58,000

Of course, this data is for the "average" franchisee which may not exactly describe any of the respondent firms. However, it does provide a bench mark of standard performance against which satisfaction may or may not be affected. This is analysed in Chapter 6.

5.3 CHARACTERISTICS OF FRANCHISEE CONFLICT VARIABLES

The research question deals with conflict in the franchisee-franchisor relationship. In this section we describe the four survey statements which are used to measure conflict. Franchisees scored the statements on a 1-5 Likert scale of agreement.

Table 5.4 Conflict Variable Descriptives

	Category					Statistic	
Conflict Statement	1	2	3	4	5	Mean	N
Our organisation has retained anger toward the franchisor because of past disputes	236	106	113	89	73	2.44	617
If it was up to me we would not be a part of the franchise system any longer	292	102	83	62	81	2.26	620

	Category					Statistic	
Conflict Statement	1	2	3	4	5	Mean	N
Our organisation feels the same way about the franchisor before and after any dispute (reverse coded for conflict construct)	102	170	177	107	59	2.76	615
If I were the franchisor I would act as the franchisor does now (reverse coded for conflict construct)	61	88	104	157	209	3.59	619

While the mean scores indicate an attitude leaning to a positive perspective on conflict in the relationship, there is a broad range of scoring. Certainly, this data establishes a spectrum of conflict. There is little retained anger in 55% of the franchisees (score=1 or 2) and a majority, 65%, of franchisees would clearly choose to stay in the franchise if they were given the option to exit (score=1 or 2). There is a smaller but significant number of franchisees who are angry and *appear* to be at the level of conflict which manifests as a desire to terminate the relationship. However, we cannot ascertain, at this level of analysis, if the angry respondents are the same franchisees as those who wish to leave. Indeed, there remains a large number of franchisees who do not clearly fit any obvious description of conflict in their attitude toward the franchisor. Greater clarity can be gained by testing if these variables are measuring the same phenomenon and provide a reliable scale on which to measure conflict.

5.3.1 Correlation and Reliability Analysis of the Conflict Construct

The polychoric correlation matrix was used in both Reliability and Factor analysis for the pilot study. A polychoric correlation matrix was also applied to the main study for Reliability and Factor analysis, with similar and supportive results. Reliability as measured by Cronbach's (standardised item) Alpha is .7458 (Table 5.5), Principal component analysis, as in the pilot study, reveals one factor (Table 5.6).

Table 5.5 Alpha Item-total Statistics

Variable	Scale mean if item deleted	Scale Var if item deleted	Corrected item-total correlation	Squared multiple correlation	Alpha if item deleted
Retained anger	8.6085	9.2545	0.6465	0.4399	0.6310
Would not stay as franchisee	8.7961	9.3865	0.5969	0 4085	0.6614
Feelings unchanged by disputes	8.2936	12.0374	0.4034	0.1734	0.7611
Would act same as franchisor	7.4633	10.3687	0.5410	0.2946	0.6938
Alpha= .7497	Standardized item alpha= .7458				

As in the pilot study, retained anger is the strongest, and feelings about the franchisor being unchanged is the weakest contributor to scale reliability. The small difference between the standardised and unstandardized alpha suggests that the variance between the items is similar.

Table 5.6 Factor Analysis of the Conflict Construct

Variable	Loadings	Factor	Eigenvalue	% Var
Retained anger	0.69502	1	2.28807	57.2%
Would not stay as franchisee	0.64394			
Feelings unchanged by disputes	0.38171			
Would act same as franchisor	0.56740			

The four survey statements form a single factor and therefore a construct on which franchisee-franchisor conflict can be measured. With retained anger having the greatest loading on the extracted factor, we feel justified in labelling the factor as a conflict construct. This is especially true when considering that a desire to leave the franchise also loads highly on the factor. When anger reaches some level of dissatisfaction, the franchisee will choose to leave the relationship. Also, the theoretical position that conflict can be positive is supported by the representation in the factor loadings by the statements that feelings are unchanged by disputes and the franchisee would act as the franchisor does.

We now have similar reliability and factor analysis results in our pilot and main study which are comparable to the literature. Therefore, this study proceeds with confidence that the conflict construct is a valid and reliable scaled measure of franchisee satisfaction. This provides the foundation for addressing the research question in the multivariate analysis chapter by placing the cases on the scale.

5.4 THE FRANCHISEES GOALS FOR THE RELATIONSHIP WITH THE FRANCHISOR: CURRENT AND FUTURE

Proposition A is concerned with the extent of franchisee satisfaction and their perception of the goals particular to their relationship with the franchisor.

The long term perspective of parties to an exchange relationship can be operationalised by establishing a pattern of goals which reflect how the participant views both the present and the future requirements of the relationship (Mcneil, 1975; Stern and Kaufman, 1988; Achrol and Etzel, 1990). The statements of relative goals for the future relationship with the franchisor are taken from the literature (Achrol and Etzel, 1990) The statements which reflect the goals of franchisees for the on-going relationship with the franchisor are taken from relational exchange literature and reflect the three models of relational exchange (Stern and Kaufman, 1988).

5.4.1 ANALYSIS OF GOALS FOR THE FUTURE OF THE RELATIONSHIP

Franchisees were asked to score their agreement (1-5 Likert scale) with the goal statements listed in table 5.7, relative to each other.

Table 5.7 Relative Goals for the Future Relationship With the Franchisor*

	Category					Statistics	
Goal Statement	1	2	3	4	5	Mean	N
A More Cooperative Relationship	42	40	144	161	233	3.81	620
Improving Communication and Information Sharing	27	33	100	197	263	4.00	620
Improving Coordinated Quality Assurance	18	34	153	202	213	3.91	620
Strengthening Mutual Commitment	26	32	118	216	227	3.94	619

*1=not important, 5=most important

Because all the goal statements are a positive affirmation of a productive alliance, the mean scoring of the 1-5 Likert scale of franchisee goals for the future of the relationship reveals a narrow range which is well above the neutral '3'. More than 60% score greater than 3 on each of the four scales. Franchisees see the entire range of relational goals as important. Between 16% and 25% are indifferent and a significant minority of between 8% and 13% view these goals as unimportant. Even though they were asked to score these goals on a relative basis, the mean scores indicate little prioritisation. Therefore, it would seem that all relational goals are important to most franchisees. If a goal is important then achievement or lack of achievement of that goal should affect satisfaction (Schul, 1987). This suggests that attainment of goals would correlate to the conflict construct. Cooperation has the greatest spread of scoring and all goals score the entire range of the scale. This provides a broad basis for conflict correlation analysis in Chapter 6. Also, we ask if this is just one construct?

Table 5.8 Factor Analysis of Goals Variables for the Future Relationship with the Franchisor (one factor extracted)

Variable Description	Loadings	Factor	Eigenvalue	Pct Var
A more cooperative relationship	0.74	1.00	2.34051	58.5
Improving communications/info	0.81			
Improving coordinated quality assurance	0.80			
Strengthening quality assurance	0.68			

With all variables loading, and therefore contributing, one factor emerges from Factor Analysis, representing almost 59% of the total variance in the factor (Table 5.8). More cooperation, improving communication, improving coordinated quality assurance and strengthening quality assurance all have significant explanatory influence. The literature is rich in establishing the importance of cooperation in organisations and contains numerous references to coordination as a companion concept. It is less encompassing in reviewing cooperation in inter-organisational forms. Yet, in this study of franchisee perspectives, there is a clear acknowledgement of the need for a cooperative relationship with the franchisor. Our inference is that more perceived cooperation will diminish conflict in the relationship.

5.4.2 Goals for the Continuing Relationship with the Franchisor

Kaufman and Stern (1988) established a series of statements which they used to measure the extent of relational exchange between manufacturer and wholesaler. These goals may be distinct from the future goal described above because they reflect an attitude about the current status of the relationship versus a desirable status of the relationship for the future. These statements are developed to encompass the three traits as described by Mcneil's (1975) relational exchange perspective. We analyse the variables individually and in the groups which reflect the relational exchange trait they are developed to reflect.

5.4.3 Relational Exchange Theory Driven Goals

In assessing the franchisees' goals for the continuing relationship with the franchisor we first examine if the data supports the theoretical position that franchising is a

relational exchange. Kaufman and Stern (1988) specifically reference franchising as an example of the prototypical relational exchange, establishing the statements as an appropriate operationalisation of franchise goals.

We first examine the raw scores of the relational exchange measures on the 1-5 Likert scale of agreement, divided in the three models headed Solidarity, Mutuality, and Role Integrity.

Table 5.9 Franchisee's Goals for the Continuing Relationship*

Variable Description	1	2	3	4	5	Mean	Std Dev	N
Solidarity Variables								
The relationship is best described as 'arms length'	91	111	180	121	117	3.10	1.31	620
The relationship goes beyond simply buying and selling	78	99	144	181	116	3.26	1.28	618
The franchisor is just another supplier	166	166	111	95	82	2.61	1.37	620
Mutuality Variables								
License Agreement terms are precise and understood	67	83	112	156	202	3.55	1.34	619
Franchisee monitors the franchisor	119	155	210	93	39	2.64	1.14	616
The franchisor monitors sales to ensure proper royalty payments	118	83	114	111	177	3.24	1.49	603
Role Integrity Variables								
The relationship is well coordinated and will continue	52	78	149	196	146	3.49	1.22	620
The relationship is complex	148	121	137	139	71	2.78	1.34	616

Variable Description	1	2	3	4	5	Mean	Std Dev	N
The relationship is complicated by diverse expectations	159	138	155	105	63	2.64	1.30	620

*1=not important, 5=most important

These results cannot be analysed simply by ascending order of the mean scores on the 1-5 Likert scale of agreement. For example, a low score on franchise exit is an indication of a relational exchange, while a high score for agreement with the actions of the franchisor is also an example of an exchange relationship.

There is great consistency in the distribution of the scoring. Franchisees score the solidarity variables 38% clear disagreement, 23% neutral, and 38% clear agreement. The mutuality variables are scored in a similar pattern, 37% clear disagreement, 24% neutrality, and 39% clear agreement. The role integrity variables again follow the established pattern with 37%, 24% and 39%.

A close examination of the results reveals attitudinal trends displaying a range, which lends support to the conflict construct. The franchisees understand that the relationship goes beyond basic market transactions, see the relationship as well coordinated, and generally agree with the way the franchisor acts. All of these statements exemplify the exchange relationship which has a likelihood of continuing. However, there is a relative neutrality on the issues of complexity of the relationship and arms length dealing, indicating a sense of caution and a desire for some distance by the respondents and a moderation of the exchange relationship. Kaufman and Stern (1988) would argue that agreeing with and understanding the precision of the license agreement also implies less of a relational exchange because detailed contractual adherence inhibits long term perspective. The theoretical implication is that the generalised relationship is characterised as toward the relational exchange end of the transactional spectrum but certainly not at the polar extreme. This contradicts the literature's classification of franchising as a pure relational exchange.

This result is more accurately indicated by transaction-cost analysis, which has a clear delineation of governance based on transactional and relational focus. Transaction-cost analysis places the franchise relationship in the hybrid category on the governance

grid, with "moderate" levels of interactive requirements between the franchisee and franchisor (Williamson, 1985). In fact, the relationship is at the center of the three-section transaction-cost spectrum.

Both theoretical perspectives are based in a spectrum of exchange attitudes. The scores for each goal variable cover the entire scale, again providing a complete range of variable scores for analysis with the conflict construct.

The relational exchange spectrum is constructed by analysing component models as portrayed by the specific variables used in the implementation of this study. Kaufman and Stern (1988) did not report subjecting the data to factor analysis. We do so to gain insight into the latency of the construct. That is, do the variables actually measure one goal or more than one, and if more than one factor emerges, do we gain additional insight into the motivations of the franchisee to continue the relationship or not.

Table 5.10 Factor Analysis of Solidarity Variables

Variable Description	Loadings	Factor	Eigenvalues	Cum. Pct Var
The relationship is best described as 'arms length'	0.86	1	1.5	51.4
The franchisor is just another supplier	0.87			
The relationship goes beyond simply buying and selling	0.97532	2	1	84.4

In cases where a small number of variables are used in factor analysis, the Eigenvalue cutoff of 1.0 can be relaxed (Hair et al, 1979). Therefore, we have reduced the eigenvalue cutoff to .99. Factor Analysis yields two factors from the three variables. This suggests that in the perspective of the relational exchange spectrum, franchising may not be an example of the extreme case in point. There is more than just the one "solidarity" goal. In the context of the review of scoring frequencies, franchisees are neutral on the arms length nature of the relationship, agree that the relationship goes

beyond simply buying and selling, and disagree that the franchisor is just another supplier. The mean score of the "arms length" nature of the relationship is neutral and therefore reflective of a neutral sense of solidarity with the franchisor while the mean scores for the remaining two variables are mildly supportive of relational exchange.

The first factor accounts for only 51.4% of the variance among the variables. The variable labelled "simply buying and selling," constitutes the second factor. This might be explained by the fact that nine distinct franchisors are represented in the perspectives of the franchisee respondents. "Beyond simply buying and selling" might be defined in very different ways by the different franchise affiliations. Whereas, the three variables are theoretically designed to represent a single factor called solidarity, "the norm that holds exchange relationships together" (Mcneil, 1980: 52), our study finds there are two dimensions to solidarity.

The issue of franchisee solidarity with the franchisor is unresolved. Given the nature of the conflict construct, these results are not surprising. We are encouraged to enter the three original variables separately into the CHAID analysis

Table 5.11 Factor Analysis of Mutuality Variables

Variable Description	Loadings	Factor	Eigenvalues	Cum Pct Var
License Agreement terms are precise and understood	0.73	1	1.21667	39.5
The franchisor monitors sales to ensure proper royalty payments	0.78			
Franchisee monitors the franchisor	0.98995	2	0.96734	71.7

Again, the first factor explains only a relatively small amount of the variance among the influencing variables. This gives us less confidence that the factor is informative or as rich in detail as are the individual variables. Franchisees cautiously perceive themselves in a relational exchange. The franchisor monitoring sales is a contra-indication of relational exchange, as is any rigid adherence to the license agreement. This

is an important finding because it gives us insight into the ambivalence that is indicated by franchisees as measured by the conflict construct. We would expect that a respondent who agrees with these statements to have greater conflict with the franchisor. Clearly, there are two dimensions of mutuality in the franchise relationship (from the view of the franchisee). While the first factor reflects the franchisor's mutuality, the second factor reflects franchisee mutuality. Mutuality focuses on the fair distribution of the productive benefits of the relationship. If franchisees see themselves in a relational exchange but question the franchisor's perspective, there is support for the microeconomic theory of structural conflict and the relational exchange perspective which would indicate there is fertile ground for latent conflict (Kaufman, 1987; Thomas, 1992).

Table 5.12 Factor Analysis of Role Integrity Variables

Variable	Loadings	Factor	Eigenvalues	Cum Pct Var
The relationship is well coordinated and will continue	-0.71	1	2	66 7
The relationship is complex	0.82			
The relationship is complicated by diverse expectations	0.85			

Each variable of this relational exchange model is clearly measuring a single factor. This is supportive of the theoretical underpinning provided by relational exchange theory. In this factor, loadings are high in all variables. Therefore, they all help explain the franchisee's perspective on role integrity. However, coordination is negative loaded in the factor. Complexity and diverse expectation move in the opposite direction to coordination.

Role Integrity expresses the hope that the parties to the license agreement will behave in a manner in which supports their promises. Two of the three variables do not support the role integrity characteristic of relational exchange when examined in univariate form, again supporting the potential for conflict in the relationship. Also, factor analysis indicates that complexity and diverse expectation are seen as negatively influencing

coordination in the relationship. Simply stated, franchisees do not see the relationship as diverse and complex and therefore expect it to be coordinated.

5.5 FRANCHISOR PROVIDED SERVICES

Proposition B addresses the specific transactions between the franchisee and franchisor which support the maintenance and enhancement of the trademark, franchisor provided services, and links franchisee satisfaction to the importance and adequacy of these services.

Achrol and Etzel (1990) developed a list of franchisor provided services. In their study the franchisees scored the importance of each service. In this study, the respondents have scored each of the eighteen franchisor services for both importance of the service and the adequacy of the franchisor in the delivery of that service. The objective is to understand the relative difference between importance and adequacy as well as overall rankings of the contractually obligated services. We submit that the franchisor provided services are the points of transactional interaction between the franchisee and franchisor and thus act as the informal governance of the relationship. By assessing if there is a difference between importance and adequacy of franchisor provided services we can present an argument that the theoretical informal governance of the relationship is practically executed. This gives us insight into the transactional boundaries within which the relationship continues relatively harmoniously. In multivariate CHAID analysis we will then investigate how transactional boundaries, the informal governance of the relationship, affect conflict. CHAID provides us with the ability to recognise non-linear segmentations of variables which correlate with the dependent variable. This is more useful then regression modelling in distinguishing divergent patterns of response to conflict.

Table 5.13 Service Variables: Importance vs. Adequacy

	Importance			Adequacy		
Service Variable	Mean	SD	N	Mean	SD	N
resolving disagreements fairly	4.47	0.78	613	3.02	1.30	612
effective national advertising	4.46	0.91	613	3.10	1.45	614
promoting new products & services	4.36	0.85	611	3.10	1.23	613
developing new products & services	4.33	0.83	613	3.11	1.20	613
clearly defined operating procedures	4.11	0.91	613	3.38	1.16	616
market information & analysis	4.07	0.96	610	2.39	1.17	610
programs & procedures for training employees	4.07	1.03	613	2.94	1.12	612
access to franchisor management	3.99	0.93	612	3.35	1.26	612
acting as a supplier of products	3.90	1.25	608	3.36	1.19	606
training in management skills	3.90	1.14	614	2.58	1.14	611
organizing local advertising cooperatives	3.77	1.18	612	2.40	1.23	615
support in new store development	3.76	1.27	591	2.90	1.20	587
advice on management problems	3.76	1.08	609	2.80	1.15	610
financial assistance and credit	3.74	1.28	614	2.53	1.18	607
training in accounting & bookkeeping	3.53	1.31	612	2.48	1.22	609
advice on financial management	3.52	1.21	608	2.30	1.11	605
provision of standardized equipment	3.49	1 05	603	3.31	1.07	602

Service Variable	Importance			Adequacy		
	Mean	SD	N	Mean	SD	N
advice on inventory control	3.45	1.28	609	2.75	1.19	609

The mean score of all importance variables are higher than the mean score of any of the corresponding adequacy variables. Personal experience and anecdotal information would suggest that these results are not surprising. Franchisees tend to want more for less (Spinelli and Birley, 1994). However, on the 1-5 scale of adequacy, ten of the eighteen services were scored below the neutral 'three' score. Also, only four of the eighteen franchisor services are scored clearly above the neutral '3' score. These services are operating procedures, supply of products or services, access to franchisor management, and provision of equipment. There appears to be linkage between these variables and the business format. However, the remaining fourteen services are neutral or not adequately delivered. This would indicate some dissatisfaction, encouraging us to pursue our investigation of services as antecedents of conflict in the relationship. Multivariate CHAID analysis will allow us to understand if perceived inadequacy in the delivery of services manifests as franchisee dissatisfaction as scored on our conflict scale.

Marketing services play an important role in the development of the trade mark (Stern and El-Ansary, 1988). Franchisees appear to recognise the requirements of franchise marketing economies and the role of the franchisor in leading that process. Four of the six franchisor provided services scored as most important are marketing functions

More important than the overall score of a service on either importance or adequacy is the difference between the importance and adequacy on each of the individual services. Table 5.14 lists the results from tests for rank differences between each corresponding pair of service variables.

Table 5.14 Wilcoxon Matched Pairs Test: Importance and Adequacy of Each Franchisor Provided Service

Service Importance vs. Adequacy	Z-Score	p value
Prgms/procedures for employee training.	-14.327	0.0000
Training in accounting/record keeping.	-12.1107	0.0000
Training in management skills.	-15.05	0.0000
Financial assistance and credit.	-13.9505	0.0000
Advice on financial management.	-14.3985	0.0000
Developing new products and services.	-16.2039	0.0000
Promoting new products and services.	-15.8613	0.0000
Effective national advertising.	-15.6153	0.0000
Market information & analysis.	-17.4415	0.0000
Organizing local coops for advertising.	-15.3907	0.0000
Access to franchisor management.	-10.1276	0.0000
Provision of standardized equipment.	-3.2196	0.0013
Acting as a supplier of products.	-8.7152	0.0000
Advice on management problems.	-13.0323	0.0000
Advice on inventory control.	-9.5042	0.0000
Clearly defined operating procedures.	-11.1764	0.0000
Resolving disagreements quickly/fairly.	-16.5904	0.0000
Support in new store development.	-11.1774	0.0000

A *p*-value of .05 or less infers that the underlying population means for the importance and adequacy variable pairs are different, therefore establishing statistically

significant evidence that franchisees see the importance of franchisor provided services as different than adequacy of those services. Clearly, the importance of every franchisor provided service is greater than the adequacy of delivery of that service.

The z-score is a transformation of the importance and adequacy score into a standard normal deviate. The larger the z-score the greater the disparity between importance and adequacy. Franchisees categorically expect better delivery of services than they are receiving. Ordering the matched pair analysis of each service allows for a delineation of the magnitude of disparity between importance and adequacy and therefore a description of the resource allocation priority.

Table 5.15 Franchisor Provided Services Ordered by Z-Score

Services Matched Pair	Z-Score
Importance/Adequacy Marketing Analysis & Information	-17.4415
Importance/Adequacy Fairness in Handling Problems	-16.5904
Importance /Adequacy Developing New Products & Services	-16.2039
Importance /Adequacy of Promotions	-15.8613
Importance /Adequacy of Effective National Advertising	-15.6153
Importance /Adequacy Local Advertising Cooperatives	-15.3907
Importance /Adequacy Management Training	-15.0500
Importance /Adequacy Financial Management	-14.3985
Importance /Adequacy of Employee Training	-14.3270
Importance /Adequacy of Provision of Credit	-13.9505
Importance /Adequacy Management Problem Solving	-13.0323
Importance /Adequacy of Accounting Practices	-12.1107
Importance /Adequacy of New Store Development	-11.1774
Importance /Adequacy of Operating Procedures	-11.1764

Services Matched Pair	Z-Score
Importance /Adequacy of Access to Franchisor Management	-10.1276
Importance /Adequacy of Inventory Control	-9.5042
Importance /Adequacy of Supply of Products and Services	-8.7152
Importance /Adequacy Provision of Standard Equipment	-3.2196

Five of the top six matched pairs, as ranked by the size of the z-score, are the marketing functions. Clearly, franchisees have a strong marketing focus and desire for better performance from the franchisor. Theoretically, marketing should be an important transactional focus in the relationship as it builds sales revenue and establishes value in the trade mark through communicating with the end user (Justis, 1986). The method and accuracy of the marketing communication have a dramatic impact on the effectiveness of trade mark enhancement. Franchisees understand the importance of the marketing function as it is related by their overall scoring of importance; but, they are also clearly not satisfied with the delivery of these services in relationship to their importance. We submit that to alleviate the gap between importance and adequacy in the marketing functions will require the greatest amount of resources, as exhibited by the z scores. This is especially important in light of the results of our analysis of the franchisees goals which tell us that cooperation and coordination are primary relational objectives.

The marketing functions in a franchise are typically separated into three levels of execution (Justis and Judd, 1986). The national advertising effort, if applicable, is coordinated and executed by the franchisor. The regional advertising programs are coordinated between the franchisor and franchisee and executed by the franchisee. The local advertising effort is typically coordinated and executed by the franchisee. The results of this study indicate that franchisees place a high priority in the marketing activities and believe coordination between the franchisee and franchisor are intimately linked.

5.6 FRANCHISEE PERCEIVED EXIT COSTS

Proposition C relates perceived exit costs to trade mark valuation and conflict in the franchisee-franchisor relationship. Ultimately, the alliance and resulting productivity of the franchisees and the franchisor should become embodied in the trade name (Mcneil, 1983). This brand capital would be lost to the franchisee upon exit from the franchise relationship. The extent of the loss is the value of the brand capital. Therefore, we ask the question; what are the perceived exit costs? It is posited that the extent of perceived exit costs will correlate to conflict in the franchisee-franchisor relationship. The list of exit costs is taken from the literature (Ping, 1990). Below is table 5.16 of the mean values on the 1-5 scale of agreement regarding franchisee perceived exit costs.

Table 5.16 Perceived Exit Costs*

Variable Description	1	2	3	4	5	Mean	Std Dev	N
Exiting will increase training cost	231	142	82	85	76	2.40	1.42	616
Exiting costly finding alternative suppliers	225	122	77	104	90	2.53	1.48	618
Exiting costly in store conversion	176	120	108	96	105	2.73	1.46	605
Exit will require operating changes	151	117	77	131	140	2.99	1.52	616
Exit will increase marketing budget	156	107	90	107	153	2.99	1.52	613
Exit will be costly in legal expense	146	83	106	127	154	3.10	1.51	616
Company investment is unique to the relationship	64	83	212	156	93	3.22	1.18	608
Overall costs of exit would be high	89	95	119	146	169	3.34	1 40	618
Company has invested time and energy into the relationship	42	93	173	198	110	3.39	1.14	616
Exiting costly in lost customer goodwill	73	74	108	161	201	3.36	1.36	617
I have personally invested in the relationship	13	42	96	207	259	4.06	1.02	617

*1=Disagree, 5=Agree

The expectation is that all exit costs will be scored above the neutral if the franchise is providing value in specified area of concern and that the more specific a cost is to the enhancement of the trade mark, the higher the exit cost. However, franchisees' mean scores regarding exit range from 2.4 (clearly not costly) to 4.06 (clearly costly).

Franchisees score their personal investment in the relationship as the highest of all perceived exit cost with over 73% scoring 4 or 5 and only 8% viewing personal investment as low. There is also a clear understanding that exiting the relationship will negatively impact customer goodwill (59% score 4 or 5) and that the overall cost of exit will be high (51% scored 4 or 5. These exit costs are very specific to the existing franchise relationship and cannot be transferred to another relationship.

There is a counter-intuitive overall neutrality regarding the increase in marketing costs upon exit, even with the recognition of the potential loss of customer goodwill. However, there is an almost perfect inverted bell curve for the scoring of an increased marketing budget upon exit, representing equality in difference of perspective on the issue and a smaller but significant degree of neutrality. Also, surprisingly, there is little indication that business format franchisees see much value, as expressed by perceived exit costs, in the operating system (2.99), training programs (2.4), and store conversion (2.73). The franchisees might see these operating realities as transferable. In essence, they have been paid for and are now transportable. The same is true for finding alternative sources of supply with a mean score of 2.53 and 56% of franchisees scoring 1 or 2. The more personal and more subjective costs score higher than the direct costs of doing business.

The overall assessment of the costs of exiting the relationship is surprisingly low at a mean value of 3.34. While franchisees perceive a value in the relationship, it is somewhat tentative. This is an important issue. If franchisees view the costs of exit as relatively low, they are less constrained and therefore more free to exit. Also, the literature is clear that when the costs of remaining in the relationship exceed the value, the parties are more likely to move to manifest conflict.

5.6.1 Factor Analysis of Exit Cost Variables

Although these variables are taken from a study by Ping (1990), he did not subject them to factor analysis in the same fashion as performed here. Ping (1990) combined variables in a different manner and therefore results are not comparable. However, it is

edifying to perform factor analysis because the results reveal latent variables which can be related to theory. Varimax rotation was used.

Table 5.17 Factor Analysis of Perceived Exit Variables (4 factors extracted)

Factor Name	Variables	Loadings	Factor	Eigenvalues	Cum Pct Var
Expense	Exit will be costly in legal expense	0.88	1	2.87	26.10
	Overall costs of exit would be high	0.84			
	Exit will increase marketing budget	0.52			
Business Format	Exiting costly finding alternative suppliers	0.72	2	1.62	40 80
	Exiting costly in lost customer goodwill	0.50			
	Exiting will increase training cost	0.66			
	Exit will require operating changes	0.78			
Psychic	I have personally invested in the relationship	0.74	3	1.47	54.10
	Company has invested time and energy into the relationship	0.87			
	Company investment is unique to the relationship	0.70			

Factor Name	Variables	Loadings	Factor	Eigenvalues	Cum Pct Var
Asset	Exiting costly in store conversion	0.89	4	1.00	63.20

Four factors emerge for exit costs. The first factor has been labelled the "Expense" factor, so named to reflect what appears to be the direct expenses associated with exit, the largest of which is legal expense. This indicates a belief that the license agreement is of a binding nature. Interestingly, an increased marketing budget is included in this factor. Marketing has been a function performed primarily by the franchisor, based on an advertising fee paid by the franchisees. Therefore, franchisees see marketing as an expense and not as an investment.

The second factor is labelled "Business Format" because the variables deal with the specific elements of delivering goods and services to the customer that make up the format of the operating system. Not inconsequentially, the variable with the largest factor loading is "exit will require operating changes."

The third factor is labelled the "Psychic" factor, borrowing the term from Ping and Dwyer's (1988) work on the personal psychological expenses involved in exiting an exchange relationship.

The fourth factor deals with only one variable, cost of store conversion upon exit, and is labelled the "asset" factor because it deals with the role of converting physical assets upon exit.

In relating the perceived exit cost factors to transaction-cost analysis we make judgements as to the nature of each factors asset specificity. The Expense factors are not specific assets as they are related to the specific action of exit and not a result of exit. Greater agreement with high expense factor exit costs should therefore produce greater anger. The Business Format factor consists of assets which are to a moderate extent specific to the relationship (for example, knowledge of the operations procedures cannot be expunged from the franchisee's mind even if the operating manual is returned to the franchisor, but the franchisee's ability to exactly duplicate operating procedures is

questionable). Therefore, moderate levels of anger should be produced by high business format exit costs. The Psychic factor is clearly specific to the relationship, as the psychological response of the franchisee is to a specific franchisor. High costs in the psychic factor should not produce high levels of conflict. The Asset factor is again moderately asset specific in that signage, and possibly colours and proprietary equipment in a store might have to be changed. But it is unlikely that the physical structure would be dramatically changed, and certainly the location would not be moved. Moderate levels of conflict should arise from high asset factor exit costs.

5.6.2 PERCEIVED BALANCE SHEET AND MARKET VALUES OF THE TRADE MARK

301 of the 621 respondents, or 48%, stated that they did not know the balance sheet value of their trade mark. More importantly, 315 respondents, or 51%, stated they did not know the market value of the trade mark. Additionally, 113 franchisees simply did not answer the question about the balance sheet (no affirmative value listed and the "unknown" box not ticked). Likewise, 116 franchisees did not answer the question regarding market value. **A majority of franchisees do not quantitatively link their business activity and alliance with the franchisor to the value of the trade mark.**

Table 5.18 Balance Sheet and Market Valuations

Variable Label	Mean ($)	Std Dev($)	Min($)	Max($)	N
Balance Sheet	110,795	168,633	-12000	1250000	207
Market	177,795	294,002	-10000	2000000	190

The large standard deviations in both balance sheet and market valuations of the trademark are due to both industry effect and individual franchisee firm size in terms of number of outlets owned. However, market value is higher than balance sheet value, thus suggesting that amortisation of the cost of the franchise yields a positive return to the franchisee. That is, presumably the mean franchisee believes the franchisee firm can be sold at a value exceeding the amortised cost of the trade mark (the cost of the franchise fee and the present discounted value of the royalties), yielding a gain on the transaction.

Although this is a positive indication of financial return, it is still troublesome that only 31% of the franchisees offered any opinion about trade mark value.

CHAPTER VI

MULTIVARIATE ANALYSIS OF THE DATA

6.1 THE RESEARCH QUESTION AND DELINEATION OF FRANCHISEE SATISFACTION

In Chapter III we ask the research question:

To what extent does the potential for conflict in the franchisee-franchisor relationship manifest as dissatisfaction?

The first goal of the study was to assess the level of conflict in franchising. Our earlier review of the literature clearly establishes the potential for conflict. But, there is no empirically supported measurement of this conflict in the literature. Therefore, we used satisfaction as a surrogate for conflict. Measuring satisfaction, that is, developing a scale on which to place cases, becomes paramount to the development of a model which describes and predicts the antecedents of conflict in franchising. The first step in the measurement process was to perform principle component analysis on the main study data used to construct the conflict variable. This was accomplished in section 5.2.2.1

6.1.1 CLUSTERING OF THE CASES ON THE CONFLICT CONSTRUCT VARIABLE

Since we are confident that each item in the conflict construct contributes reliable and valid information to the scale, we can search for patterns of responses among respondents. A commonly used technique for this purpose is cluster analysis. This analysis forms groups of similar objects, which, in this study, are homogeneous cases (See Chapter III: Methodology).

The QUICK CLUSTER procedure, to which the data was subjected, produces only one solution for the number of clusters requested by the user (Norušis, 1988b). A major issue with all clustering technique is how to select the number of clusters. Determination of the appropriate number of clusters is a key arbitrary and subjective decision, for which no standard, objective guidelines exist. Increasing the number of clusters will tend to reduce the average within-cluster distance (Green et al, 1967; Frank and Green, 1968). Hair et al (1987) suggest that several solutions should be computed for different numbers of clusters and the alternative solutions based upon *a priori* criteria,

practical judgement, common sense, or theoretical foundations (p.306). Lehman (1979) argues that there is generally no way to get reliable cluster size of less than 30-50 from survey data, hence approximately n/50 to n/30 clusters is the maximum. For this research the maximum is therefore 12 to 20 clusters. Hambrick (1984) argues that:

> "The aim is to pick a cluster solution that enlightens, that somehow squares with what could be expected theoretically, but that yields new insights and reveals relationships in a way not yet taken for granted (p.37-38)."

Theory would argue for a five-cluster solution to the clustering of cases on the conflict construct. That is, because conflict tends to operationalise through five stages; latent, perceived, felt, manifest, and aftermath, franchisees should theoretically be grouped by these five categories. However, the five and four cluster solutions (see Appendix VII) provide smaller separations than the three cluster solutions. This may have occurred because the stages of conflict are not necessarily distinct transitional segments, but form a less discrete spectrum of frequently vacillating relational reactions to behaviour (Thomas, 1992; Pondy and Huff, 1985). Also, our measure of satisfaction may not be fine enough to reveal the subtle differences at the cusps of the stages of conflict or that these fine distinctions are not practically relevant to the franchisee.

Clearly, the clusters of franchisees revealed by the three cluster solution (Appendix VII) are distinct separations, represent a fairly even distribution of cases across clusters, and are large enough as a percentage of the sample to be generalisable.

6.1.1.1 INTERPRETATION OF THE SPSS QUICK CLUSTER OUTPUT

The Final Cluster Centres (table 6.1) shows the centres selected for maximum Euclidean distance between them. Eight iterations were completed. These are the centre changes as centre replacement and recalculation proceeds. The centres in the Final Cluster Centres are those to which all cases are assigned. An examination of the final cluster centres revealed that the cluster assignments could be recoded to ease interpretation. That is, to be placed in scale order from low to high, reflecting low, medium, and high conflict on the relative scale.

Table 6.1 Final Cluster Centres.

Cluster	Q15ANGR	Q15NOZE	Q15SAME	Q15SAME2	N
1	1.4179*	1.3284*	2.1393*	2.0697*	201
2	2.2716	1.6078	2.8664	4.2716	232
3	3.8167**	4.1333**	3.3167	4.4111	180
mean	2.4400	2.2577	2.7602	3.5905	
std. dev.	1.4200	1.4571	1.2003	1.3408	

The labelling of each cluster involved assessing the cluster mean for each variable from the original data set and making a comparison to the respective global mean for that variable (Birley and Westhead, 1992a). Interpretation and evaluation of the clusters was done by first recognising the clear pattern. All the variables in cluster 1 are below the global mean, all are above the global mean in cluster 3, and all variables in cluster 2 are around the global mean.

Next, we identified retained anger as the key diagnostic variable because it is the highest loading component in the conflict factor. The mean of that variable differs by ½ and 1 standard deviation from the global mean, calculated from the raw, untransformed data (*under, **over). Cluster '1' is just under one standard deviation from the global mean of the anger variable. Cluster '2' is less than ½ standard deviation from the global mean, and cluster '3' is just under one standard deviation above the global mean. In terms of the factor defining anger variable, cluster '1' is below the mean, cluster '2' about equal to the global mean, and cluster '3' clearly above the global mean. Table 6.2 is a further illustration of the cluster defining method, using the factor defining variable "organisation is angry about past disputes."

6.1.1.2 LABELLING THE THREE CLUSTER SOLUTION

Ultimately, the labelling of the three cluster solution is a subjective exercise which is supported by experience, intuition, and statistical application (Birley and Westhead, 1992a). Cluster 1 consistently scores as very satisfied on all three variables, cluster 3 scores consistently dissatisfied and cluster 3 is inconsistent in its scoring.

Cluster 1 is labelled the satisfied cluster. The mean values of the "satisfied" cluster range from 1.42 to 2.14; indicating satisfaction on all levels, is between 1/2 and 1 standard deviation from the global mean.

Cluster 2 is labelled the ambivalent cluster. In the "ambivalent" cluster the, mean scores range from 1.61, clearly satisfied, to 4.27, clearly dissatisfied, is less than 1/2 standard deviation from the global mean of the anger variable.

Cluster 3 is labelled the angry cluster. It is named so because the mean values of the answers to the four questions in the conflict construct (1=less conflict to 5=most conflict) range from 3.32 to 4.41. All of these mean scores are above the neutral "3" score on the scale, the mean value of the angry cluster is almost one standard deviation above the global mean.

The overall significance of the cluster solution obtained was tested by means of the Kruskall-Wallis H-test, which is a useful alternative to analysis of variance (Westhead, 1992) since it is a non-parametric test and therefore does not rely on possibly unrealistic assumptions about the distribution of the variable. The Kruskall-Wallis H statistic was calculated with respect to the original raw data since the principal component analysis had accounted for only 57.2% of the variance of the data. The H test combines and ranks all cases from the clusters. Average ranks are assigned in the case of ties. For each group, the ranks are summed, and the Kruskall-Wallis H statistic computed from these sums (Norušis, 1988a). Below, each variable is tested in order of its contribution to the conflict construct.

Table 6.2 Organisation Angry about past Disputes: Ranks by Cluster

Mean Rank	Cases	Cluster	Chi-Square	D.F.	Significance
179.63	201	1	268.6184	2	.0000
294.35	232	2			
465.54	180	3			

The cluster groups have clear separation of mean ranks and a significance of .0000, statistically significant probability that the clusters represent different populations.

Table 6.3 I Would Not Be Part of the Franchise: Ranks by Cluster

Mean Rank	Cases	Cluster	Chi-Square	D.F.	Significance
194.02	201	1	393.0182	2	.0000
246.52	232	2			
511.11	180	3			

While the Kruskall-Wallis H test again shows statistically significant differences between the cluster groups, the mean ranks of the '1' and '2' cluster groups are separated by 52 while the ambivalence and '3' clusters are separated by 265. This would indicate closer alignment of '2' and '1' clusters then '2' and '3' clusters. It appears that while franchisees in cluster 2 are ambivalent about their relationship with the franchisor, they are not inclined to exit the relationship.

Table 6.4 Feelings Toward Franchisor Unchanged by Dispute: Ranks by Cluster

Mean Rank	Cases	Cluster	Chi-Square	D.F.	Significance
216.32	201	1	93 6574	2	.0000
326.90	232	2			
382.62	180	3			

With a significance of .0000 the groups are clearly separated. However, the reverse of the previous alignment is evident, as the '2' cluster group is separated from the '3' cluster by 55 and the '1' cluster by 110. The literature indicates that exchange relations build over time (Mcneil, 1975). Attitudes about the franchisor appear to build in a manner which aligns cluster 2 closer to cluster 3, the most angry.

Table 6.5 I Would Act as the Franchisor Does: Ranks by Cluster

Mean Rank	Cases	Cluster	Chi-Square	D.F.	Significance
117.52	201	1	93.6574	2	.0000
384.96	232	2			
418.09	180	3			

The fourth and final variable in the conflict construct reflects statistically significant different cluster groups and again displays a closer alignment of cluster 2 with the more angry cluster.

These results confirm the earlier conclusion of considerable and significant between-group variability in terms of the cluster groups of cases on the conflict construct variable. Further, the Kruskall-Wallis analysis gives additional insight and justification for the labelling, as the '1' and '3' clusters are clearly at the extremes of the mean ranks and the '2' cluster, while in the middle of the clusters, shifts from closer to cluster '1', then, closer to cluster '3'.

Each case (franchisee respondent) has been assigned a value in the new variable "Conflict." This value will be used to indicate the perceived conflict in the Franchisor-Franchisee relationship. The levels of conflict are identified as "satisfied" (value 1), "ambivalent" (value 2), and "angry" (value 3).

The final clusters, as labelled by this study are:

1: Satisfied (n=201) 32.37%

2: Ambivalent (n=232) 37.36%

3: Angry (n=180) 29.0%

The results of this study show that the potential for conflict in the franchisee-franchisor relationship manifests as a three level stratification of franchisee satisfaction. **This answers the research question**. Further, conflict results in 29% of the franchisees being clearly dissatisfied and, in this study, labelled as "angry." Of equal importance is that the results indicate over 37% of franchisees are ambivalent. The conflict literature suggests that these franchisees may be at the boundary of latent and manifest conflict

(Pondy, 1992). Relational exchange theory would point to a dynamic assessment of the franchisor by the franchisees. The results of that assessment as positive or negative are still in doubt, or, at least shifting over time for the ambivalent franchisee (Blau, 1964). Assessment of the global means and the Kruskall-Wallis support the theoretical, and for the future of the relationship, potentially hazardous positioning of the ambivalent cluster members.

6.2 PROPOSITION A: THE PERCEIVED CONTRACT

Proposition A

There is a relationship between the extent of franchisee satisfaction and their perception of the goals particular to their relationship with the franchisor.

6.2.1 INTRODUCTION

This study approaches franchisee goal attainment in two distinct sections of the survey instrument. The first section is titled "Franchisee Goals for the Relationship with the Franchisor." The second section is titled to "Franchisee View of the On-Going Relationship with the Franchisor." These sections are taken from the literature and assess both the current status of goal alignment and the effect of that assessment on the perceived goal for the future. In Chapter 5 the goals of the franchisee for the relationship were subjected to principal component analysis, resulting in some validation of the theoretical goal positions and some distinct challenges. That is, not every relational exchange model forms one factor. Regardless, it is not in the scope or interest of this thesis to scale goals but, rather, to propose that, in a theoretically supported manner, goals correlate to conflict in franchising. Therefore, we designed the CHAID analysis of the franchisee perspectives of goals to include the individual goal variables.

For all of the CHAID analysis the 621 respondents were divided into two separate and distinct files. The study file consists of 556 cases (the CHAID models reflect 548 as 8 cases have missing data for the conflict construct) and the test file consists of 65 cases. The CHAID models are built with the data from the 548 study file cases. Chi-square goodness of fit is then used to test the predictive power of the model. This is accomplished by using the percentage of franchisees in each node of the independent

variable in the model to predict the cluster group membership of the 65 cases in the test file.

6.3 CHAID MODELS OF FRANCHISEE GOALS

6.3.1 GOALS FOR THE FUTURE OF THE RELATIONSHIP

There are four independent variables which describe the franchisee's goals for the future of the relationship and are used for input to the CHAID model:

1. A more *cooperative* relationship
2. Improving *communication* and information sharing
3. Improving coordinated *quality assurance*
4. Strengthening mutual *commitment*

(See Figure 6.1)

The first stage of the CHAID analysis is a calculation of the probability value of the independent variables with respect to their correlation with the dependent conflict variable. The variables are then listed from lowest to highest p-value. Table 6.6 shows the four independent variables input into the CHAID analysis.

Table 6.6 Future Goals CHAID Model Predictors

Variable	*p*-value	Variable Label
Q10coop	6.60e-09*	A more cooperative relationship
Q13comit	4.30e-02*	Strengthening mutual commitment
Q11comm	1.00e+00	Improving communications/info sharing
Q12qual	1.00e+00	Improving coordinated quality assurance

*=Sig. at .05

Only two of the four independent variables, *cooperation* and *commitment*, have been determined by the CHAID analysis to correlate with the dependent conflict variable. Both of these variables are modelled, with *cooperation*, as the independent variable with

the lowest *p*-value, described as the first level model and *commitment*, having the second lowest *p*-value, described as the second level model. All four variables are input in all levels of models for calculation of potential independent variable correlations. As we will see from the model, improving quality assurance and improving communication are perceived by franchisees as influencing the *cooperation* and *commitment* goals but do not describe the principal goals for the relationship.

6.3.1.1 Goals for the Future of the Relationship as an Antecedent of Conflict: A Note on Reading the CHAID Model and the First Level Model

(see page 136, figure 6.1 for a tree diagram of the discussion below)

Because CHAID is not an often used statistical application, it may be helpful to review how the tree diagrams are read. For this purpose we describe the first "goals" model in dialogue form, followed by a detailed review of each node of the tree. In subsequent models the trees are displayed followed by a discussion of the key results.

Each tree begins at the top with the dependent conflict variable. This variable was developed by clustering the cases on the conflict construct and saved in our data file (section 6.1.1.). This node is titled conflict and has the percentage membership of the three clusters listed in the box, with 1 representing the satisfied cluster membership, 2 is the ambivalent cluster, and 3 the angry cluster: 1: 32.48%; 2: 38.50%; 3: 29.01%. These percentages are the conflict cluster membership of 556 case (n=548 with 8 missing cases) after 65 cases were split from the 621 cases in the data file to create a file to test the predictive value of the models developed.

Below the dependent variable box is a description of the first independent variable (as determined by the lowest *p*-value) which correlates with conflict cluster group membership. In the case of the goals model, "A More Cooperative Relationship"is the independent variable with the lowest *p*-value and therefore depicted in the aforementioned fashion. This represents the first level of the model because "a more cooperative relationship" has the lowest *p*-value of the four goals entered into the analysis. Below the statement are boxes, or nodes, which represent the scoring of the independent variable "a more cooperative relationship" by franchisees (1-5 Likert scale of importance). There are four nodes because *cooperation*=2 and *cooperation*=3 are not statistically different in their

correlation with conflict. The *n* of each node sums to the *n* of the dependent variable, 548. Reading from the left to the right, the first node, which is titled '1', represents the franchisees who scored *cooperation*=1, clearly unimportant, (n=38). For those 38 franchisees, 36.84% belong to the satisfied cluster, 23.68% belong to the ambivalent cluster, and 29.01% belong to the angry cluster. This describes the 38 franchisees and also allows us to predict that for any group of franchisees who answer *cooperation*=1, the percentage membership in each cluster group will be statistically the same as that reported above. In the node directly to the right of the *cooperation*=1 node is the node titled '23', which represents the franchisees who scored *cooperation*=2 or 3, unimportant or neutral, (n=163). Of those 163 franchisees, 50.31% are in the satisfied cluster group, 31.90% are ambivalent, and 17.79% are angry.

The node directly to the right of the *cooperation*=2 or 3 node is titled '4' and represents the franchisees who scored *cooperation*=4 (n=144). Of those 144 franchisees 29.17% are satisfied, 48.61% are ambivalent, and 22.22% angry, again both describing the 144 franchisees represented in the node and predicting the cluster group membership for any franchisee who scores *cooperation*=4. Directly to the right of *cooperation*=4 is the node titled '5', representing the franchisees who scored *cooperation*=5, very important (n=203), and who are 19.70% in the satisfied cluster, 39.41% in the ambivalent cluster, and 40.89% in the angry cluster. This node is proposed to have predictive value.

Interpreting the lowest scoring of importance regarding *cooperation* as a goal for the future of the franchisee-franchisor relationship yields very strong views in both extremes of conflict with a significant minority remaining ambivalent. Clearly, not important and neutral scoring of the importance of *cooperation* are not statistically different in their correlation with conflict; therefore, CHAID joins the scoring. With a change in scoring from 1 to 2 or 3 there is a significant shift in cluster group membership to the satisfied cluster. As scoring of *cooperation* achieves importance as a future goal *less* satisfaction is predicted, somewhat more anger is predicted, and significantly more ambivalence manifests. When *cooperation* becomes an extremely important goal for the future of the relationship anger becomes the predominant cluster and satisfaction is reduced to its lowest level in the cooperation CHAID model.

6.3.1.1.1 CORRELATION AMONG INDEPENDENT VARIABLES IN THE CHAID MODEL OF FRANCHISEE GOALS

The *cooperation*=5 node is further segmented. Additional analysis of the first level predictor CHAID model allows a perspective on what independent variables influence the franchisee regarding the nature of the variable *cooperation*=5.

Branching from the *cooperation*=5 node is the independent variable "improving coordinated quality assurance" (quality), which is segmented into two nodes. This means the 203 franchisees who considered *cooperation* very important were influenced in their scoring of *cooperation* in a statistically significant manner by their attitude toward the "quality" independent variable. Of the 203 franchisees who scored *cooperation*=5, 109 also scored "improving coordinated quality assurance" 1,2,3 or 4. As shown in the node titled '1-4', 14.68% are satisfied, 34.86% are ambivalent, and 50.46% are angry. In the node titled '5', the remaining 94 of the 203 franchisees who scored *cooperation*=5 also scored *coordinated*=5. They are 25.53% satisfied, 44.68% ambivalent, and 29.79% angry. It is clear that franchisees have a high standard for cooperation which is influenced by an equally high standard for coordinated quality assurance. Even at the highest scoring of cooperation and quality, franchisee anger is at approximately the same level as the current status of the sample. There is a marginal, but important, improvement in the relationship when the franchisees score the franchisor commitment=1-4. However, when franchisees view strengthening mutual commitment as an important goal for the future of the relationship, they are overwhelmingly angry.

As long as a correlation exists CHAID will continue to add nodes. Directly below the node quality=1-4 node is the statement "Strengthening Mutual Commitment" (Commitment). The 109 franchisees who scored *cooperation*=5 and *quality*=1-4, also scored *commitment* either 1-4, as represented in the node titled '1-4', n=65, or, *commitment*=5, as represented by the node titled '5', n=44, reinforcing the established conflict pattern.

The results indicate that franchisees see cooperation as their current goal more than for the future of the relationship. If *cooperation* is seen to be clearly important to the future of the relationship with the franchisor (score=4 or 5) there is greater angry cluster membership. It appears that franchisees believe that cooperation should exist in the

relationship, hence the lowering of conflict when the scoring is '2' or '3' versus '1'. But, if there is a need to increase cooperation, respondents are clearly angry. Therefore, cooperation is a prerequisite for minimisation of conflict between franchisee and franchisor.

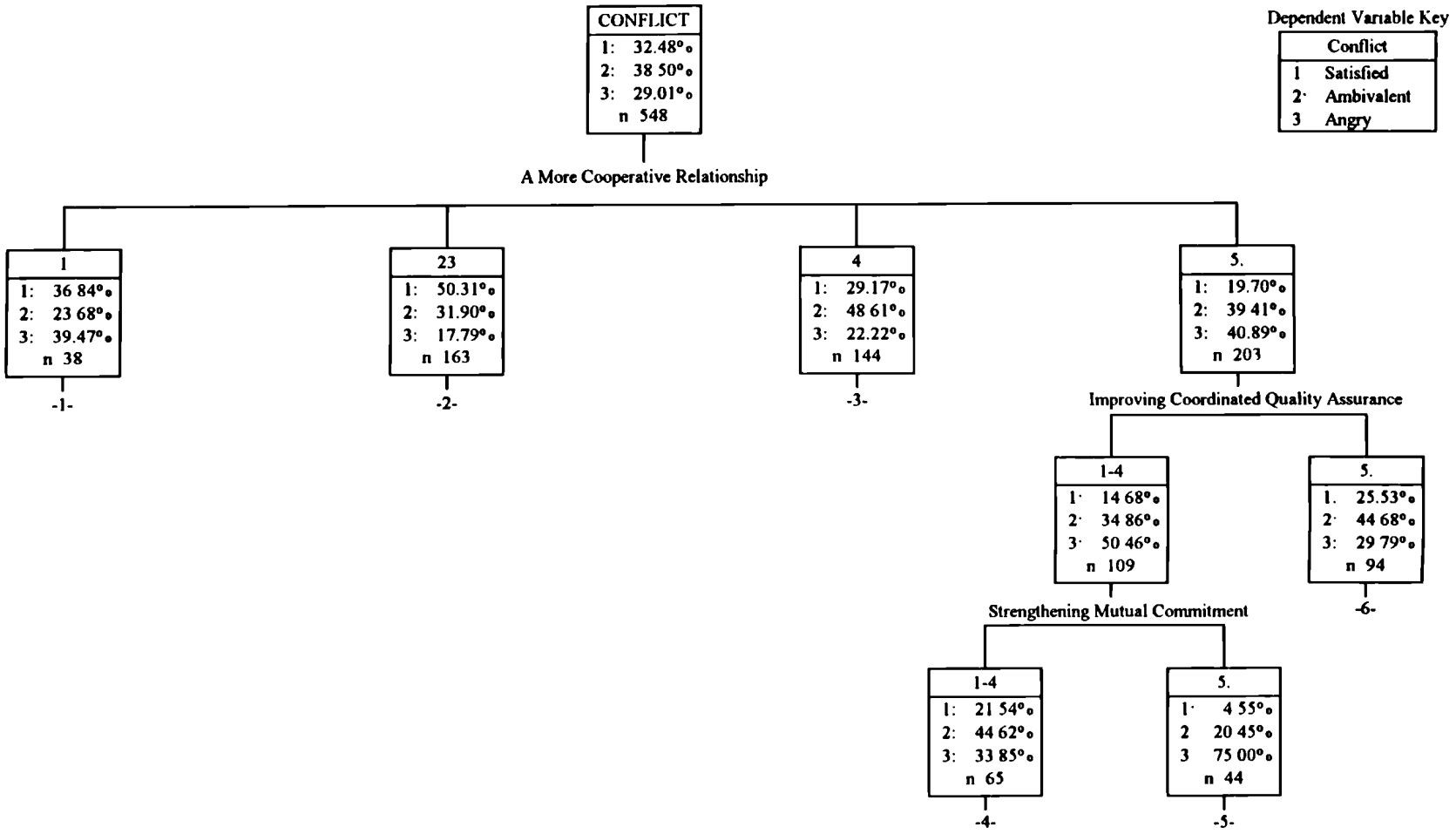


FIGURE 6.1. Tree Diagram for Predictor Variable Q10COOP (A More Cooperative Relationship)

6.3.1.1.2 CHI-SQUARE GOODNESS OF FIT TEST OF THE PREDICTIVE POWER OF COOPERATION AS AN ANTECEDENT OF CONFLICT

By separating out a test sample of 65 cases and building the CHAID models on the remaining 548 cases, we are able to use the 65 cases to test the predictive value of the model. That is, we use the percentages of cluster group membership in each node of the first correlation model to predict the cluster group membership of the test sample.

Table 6.7 Goodness of Fit Test Results: Cooperation

Node	Chi-square	DF	Significance
Cooperation=1	1.0500	2	0.5916
Cooperation=2,3	0.5602	2	0.7557
Cooperation=4	2.5159	2	0.2842
Cooperation=5	1.3586	2	0.5070

*=sig. at .05

The null hypothesis that the distribution of the population in the test data is not different from the main study data is rejected at a significance level of .05 or higher. Clearly, all scoring of cooperation contains powerful predictive qualities.

6.3.1.2 SECOND LEVEL MODEL: GOALS FOR THE FUTURE OF THE RELATIONSHIP AS AN ANTECEDENT OF CONFLICT (See Figure 6.2)

For the next model we refer to table 6.6, which lists *commitment* as the variable with the second lowest *p*-value and therefore the predictor of conflict displayed in the second level model.

In the first level model (cooperation), differences in franchisee scoring resulted in significant changes in conflict cluster group percentages. There is a far less impact of an increased mutual commitment on conflict cluster membership than in the "cooperation" model, although the pattern of the highest scoring of the goal (in this model, commitment), results in the greatest the angry cluster membership (35.6%). Also, in a complex correlation among independent variables where franchisees scored

commitment=1-3, *communications*=3, and *cooperation*=1-3; angry group membership is reduced to its lowest level in the model at 9.84% and satisfaction rises to 59.02%. Again, cooperation is an integral component of franchisee satisfaction. To achieve commitment, franchisees require communications. In turn, communications is seen as a cooperative process. We note that each variable scoring of importance in this string of correlations is at the neutral '3' or below. Clearly, it is the franchisee's view that the process should be in place throughout the relationship and therefore not an issue of importance for the future.

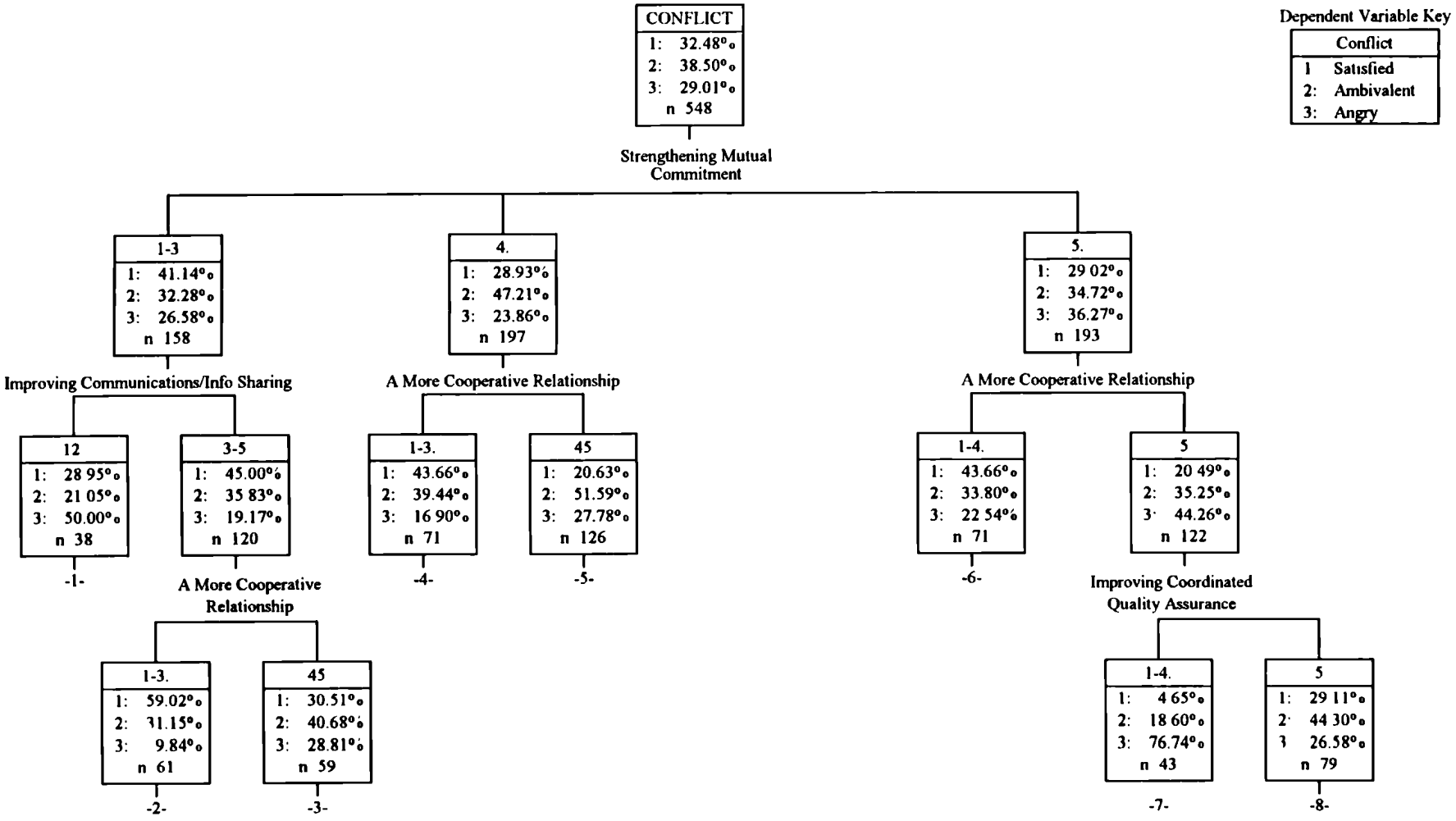


FIGURE 6.2. Tree Diagram for Predictor Variable Q13COMIT (Strengthening Mututal Commitment)

6.3.1.2.1 CHI-SQUARE GOODNESS OF FIT TEST OF THE PREDICTIVE POWER OF *COMMITMENT* AS AN ANTECEDENT OF CONFLICT

Table 6.8 Goodness of Fit Test Results: Commitment

Node	Chi-square	DF	Significance
Commitment=1,2,3	0.2162	2	0.8974
Commitment=4	0.9372	2	0.6259
Commitment=5	0.7188	2	0.6981

We cannot reject the null hypothesis for any of the three predictor variable nodes. Therefore, all have predictive value.

6.3.2 CHAID MODEL OF RELATIONAL EXCHANGE GOALS

Taken from the literature, role integrity, solidarity, and mutuality variables are used to create CHAID models of the relational goals of franchisees. Relational exchange gives a view of the on-going relationship from the perspective of the franchisee.

6.3.2.1 SOLIDARITY MODEL OF RELATIONAL EXCHANGE AS AN ANTECEDENT OF CONFLICT

The three goal variables used in the solidarity model of relational exchange:

1. The relationship is arms length
2. Franchisor is just a supplier
3. Relationship goes beyond supply

Here, only two of the three variables correlate with conflict (see table 6.9).

Table 6.9 Solidarity CHAID Model Predictors

Predictor Variable	*p*-value	Variable Description
Q15arms	1.20e-39*	The relationship is "Arms Length"
Q15just	6 60e-29*	The franchisor is just a supplier

Predictor Variable	*p*-value	Variable Description
Q15bynd	1 00e+00	Many areas beyond buy/sell product
*=Sig at .05		

(See Figure 6.3 for a tree diagram of the discussion below)

Perception of an arms length relationship and the perspective that the franchise relationship must go beyond a supply relationship has the greatest predictive and descriptive power in the solidarity relational exchange model. When franchisees score clear disagreement with the notion of an arms length relationship there are no influencing independent variables and very little anger. However, we see a clear pattern of responses reflecting the franchisees belief that if the relationship is described as arms length, influenced by, and focused primarily on, supply, conflict builds. This finding is theoretically supported (Mcneil, 1975) and a particularly important for franchisor practitioners. Manufacturers who see franchising as simply, or principally, a channel of distribution may find a considerable level of conflict with franchisees. Although there is little other empirical evidence existing in the literature which addresses this issue, there is considerable anecdotal evidence supporting this finding (Tannenbaum, March 1994), as well as strong theoretical support. Relationships that are arms length or unidimensional are less likely to be of a long term nature (Mcneil, 1985).

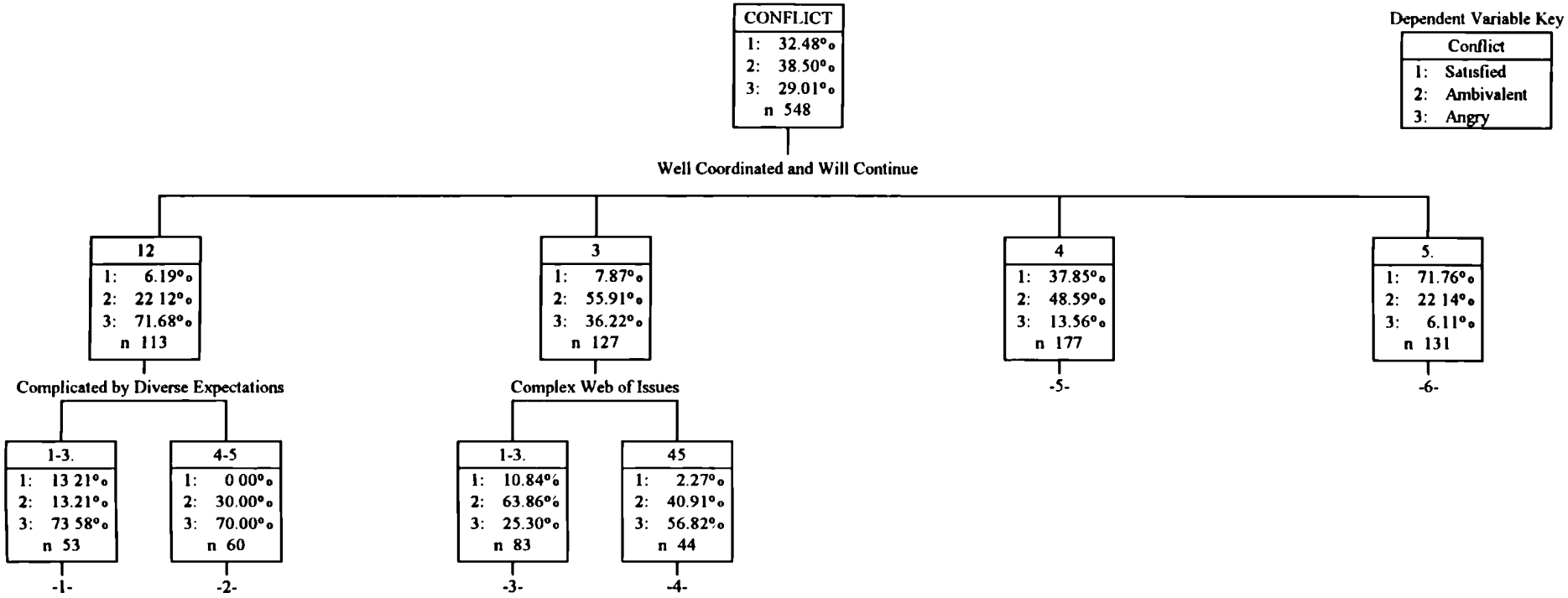


FIGURE 6.3. Tree Diagram for Predictor Variable Q15COOR (Well Coordinated and Will Continue)

6.3.2.1.1 CHI-SQUARE GOODNESS OF FIT TEST OF THE PREDICTIVE POWER OF "ARMS LENGTH" AS AN ANTECEDENT OF CONFLICT

Table 6.10 Goodness of Fit Test Results: "Arms Length"

Node	Chi-square	DF	Significance
"Arms Length" =1	1.8608	2	0.3944
"Arms Length"=2	1.5706	2	0.456
"Arms Length"=3	2.0202	2	0.3642
"Arms Length"=4	0.1383	2	0.9332
"Arms Length"=5	1.3192	2	0 5171

All segments of the predictor variable have predictive value.

6.3.2.2 MUTUALITY MODEL OF RELATIONAL EXCHANGE AS AN ANTECEDENT OF CONFLICT

Three independent variables are used in the CHAID analysis to identify the predictors of conflict in the internal control model of goals.

1. Precise understanding of the license agreement
2. Franchisee monitors franchisor activities
3. Franchisor monitors sales to ensure royalty

All three variables correlate with conflict (See Figure 6.4 for a tree diagram of the first predictor).

Table 6.11 Mutuality CHAID Model Predictors

Predictor Variable	*p*-value	Variable Description
Q15l_a	1.60e-17*	Precise understanding of the license agreement
Q15monit	3.30e-16*	Franchisee monitors franchisor activities
Q15pymts	1.40e-04*	Franchisor monitors sales to ensure royalty

*=Sig. at .05

A precise understanding of the license agreement combined with an on-going process of monitoring the relationship is a clear predictor of conflict in the franchise relationship. This is an important finding from both a theoretical and practical perspective. Transaction-cost analysis would indicate that the franchise contract (license agreement) requires an adjustment mechanism that centres on the transactions between the parties which support the trade mark. These findings indicate that the franchisees recognise that understanding the license agreement is an important start to the relationship but monitoring is required to maintain the relationship. Franchisees who have a high need for precision in the contractual relationship and a need to monitor the activities of the franchisor exhibit attributes which indicate latent conflict that are potentially destructive to the long term prospects of the relationship. A relational exchange judges the monitoring of the details of the relationship secondary to the multitude of issues not directly related to any particular transaction (Stern and Kaufman, 1988). Precision in and monitoring of individual transactions subverts long term relational exchange because the transaction becomes more important than the total relationship (Muris, 1991).

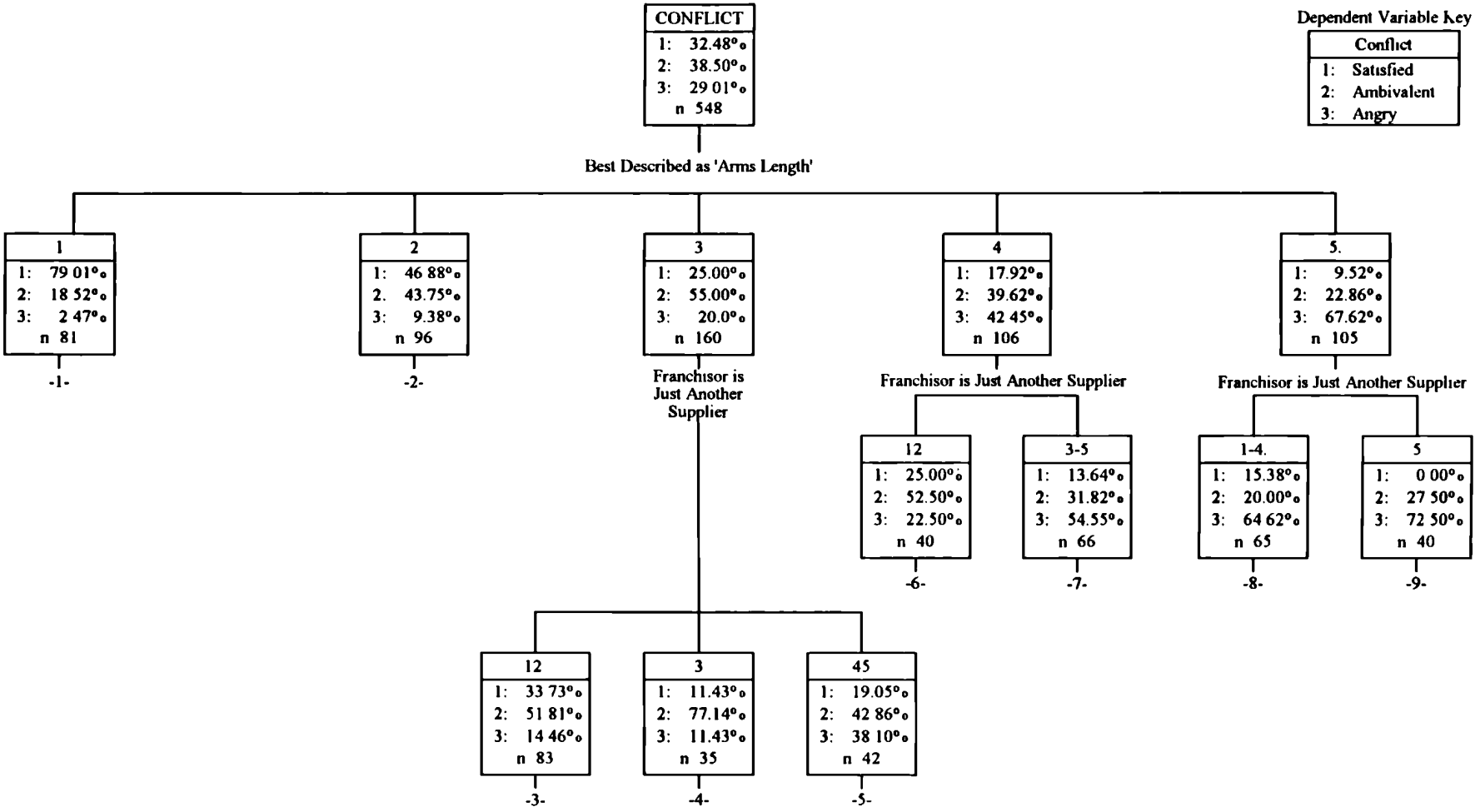


FIGURE 6.4. Tree Diagram for Predictor Variable Q15ARMS (Best Described as 'Arms Length')

6.3.2.2.1 CHI-SQUARE GOODNESS OF FIT TEST OF THE PREDICTIVE POWER OF LICENSE AGREEMENT AS AN ANTECEDENT OF CONFLICT

Table 6.12 Goodness of Fit Test Results: License Agreement

Node	Chi-square	DF	Significance
License Agreement=1,2	0.5895	2	0.7447
License Agreement=3	0 4362	2	0.804
License Agreement=4	2.7032	2	0 2588
License Agreement=5	16.3689	2	0 0003*

*=Sig. at .05

Three of the four nodes have statistically significant predictive value. We expect that the low significance of the *License Agreement*=5 node is a statistical anomaly, and because the overall pattern of predictive significance is good, we are not concerned.

6.3.2.3 ROLE INTEGRITY MODEL OF RELATIONAL GOALS AN ANTECEDENT OF CONFLICT

There are three independent variables used for the role integrity model as established by theory and set forth below:

1. Coordination
2. Expectations
3. Diverse Complexity

All three variables correlate with conflict (see table 6.13). Scoring of the variables is a 1-5 Likert scale of agreement in all three relational exchange goal models. We exhibit and describe only the first level model because of space restrictions and because the coordination model gives a clear view of franchisees perspective on role integrity. Additional models were calculated and do not provide further insights.

Table 6.13 Role Integrity CHAID Model Predictors

Variable	*p*-value	Variable Label
Q15coor	3.500e-51*	Well coordinated & will continue
Q15cmplx	2.000e-19*	Created a complex web of expectations
Q15expct	5.900e-15*	Complicated by diverse expectations

*=Sig at 0.05

(See Figure 6.5 for tree diagram of the discussion below)

Franchisees do not equivocate in their attitude toward the need for coordination. Without a clearly coordinated relationship, the franchisees exhibit little satisfaction. A lack of coordination (scoring=1,2) results in 72% angry cluster membership. Interestingly, when the franchisees score the relationship as being complicated by *diverse expectations*=4 or 5 in the segmentation of the *coordination*=1,2 node, satisfaction cluster membership is 0.00%. Neutrality in scoring coordination moves a majority of franchisees to ambivalence from anger but does little to change satisfied cluster membership. That is, the percentage of cases in the cluster changes. We do not know if the specific franchisees change cluster membership or not, but we do know that the total percentage of franchisees in each cluster changes with respect to scoring changes.

The further segmentation of the neutrality node marginally affects population cluster membership. Only at the highest scoring of coordination do a majority of the respondents join the satisfied cluster.

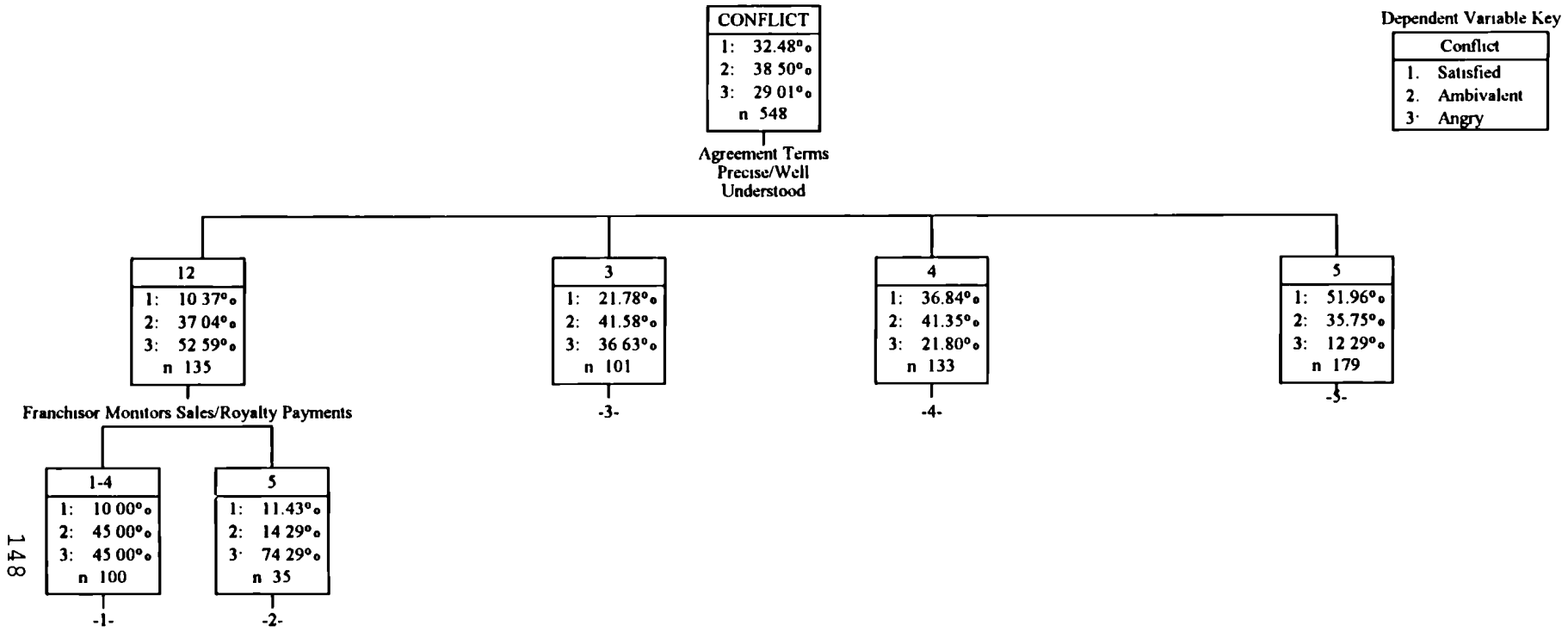


FIGURE 6.5. Tree Diagram for Predictor Variable Q15L_A (Agreement Terms Precise/Well Understood)

6.3.2.3.1 CHI-SQUARE GOODNESS OF FIT TEST OF THE PREDICTIVE POWER OF COORDINATION AS AN ANTECEDENT OF CONFLICT

Table 6.14 Goodness of Fit Test Results: Coordination

Node	Chi-square	DF	Significance
Coordination=1,2	0.0421	2	0.9792
Coordination=3	0.0418	2	0.9793
Coordination=4	0.6448	2	0.9244
Coordination=5	2.0395	2	0.3607

Three of the four predictor nodes are significant at above 90% and all four nodes exceed the threshold .05.

6.3.3 AN INCLUSIVE CHAID MODEL OF FRANCHISEE GOALS AS AN ANTECEDENT OF CONFLICT

This model includes all of the independent variables used in the preceding relational exchange models which reflect franchisee perspectives of goals for the relationship in an attempt to discover the principal goal of the franchisee regarding the relationship with the franchisor (See Figure 6.6).

Clearly, franchisees want a well coordinated, arms length relationship which is uncomplicated by diverse expectations.

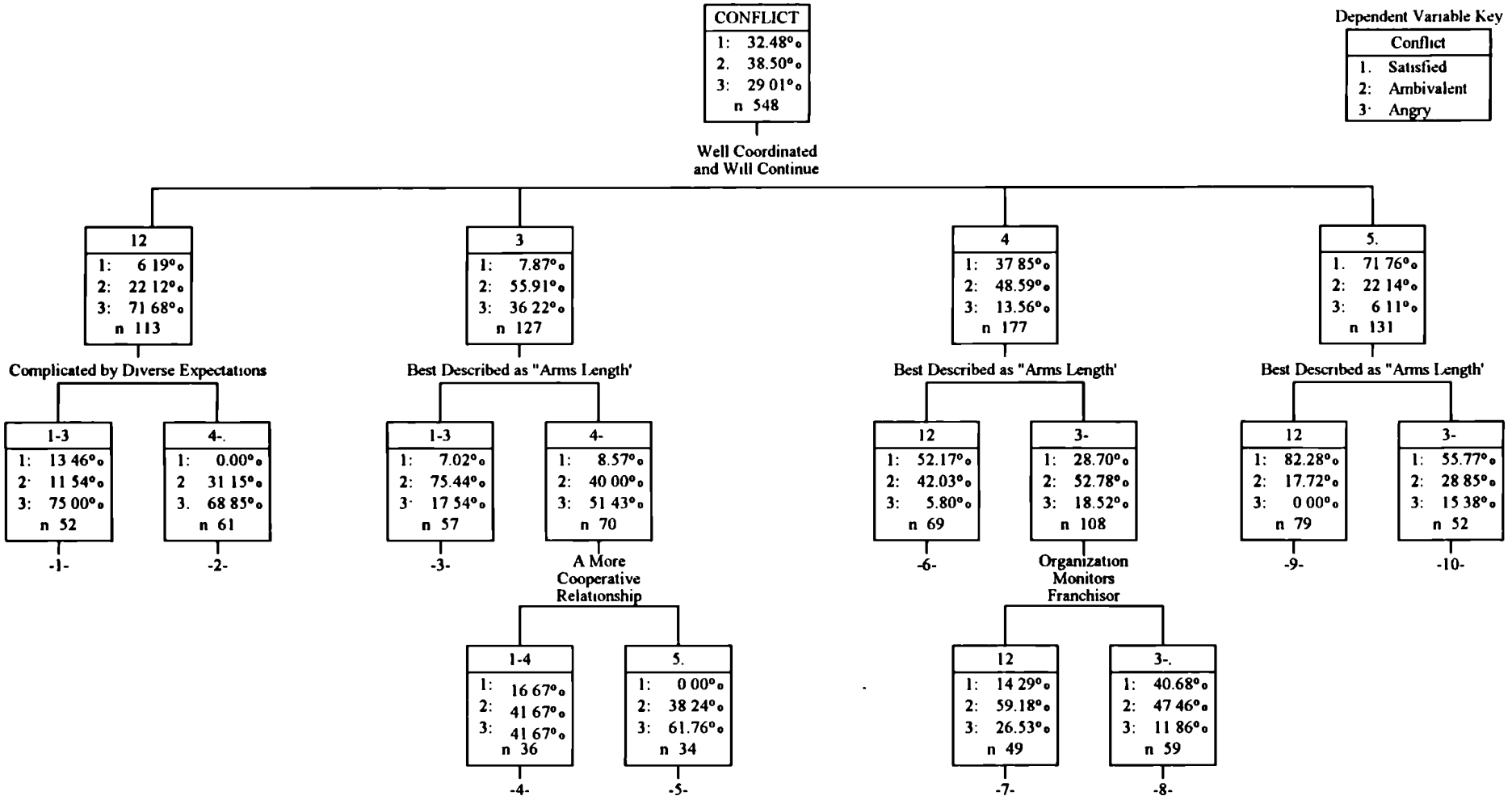


FIGURE 6.6. Tree Diagram for Predictor Variable Q15COOR (Well Coordinated and Will Continue)

6.3.4 SUMMARY OF GOALS AS AN ANTECEDENT OF CONFLICT

The preeminent goal of franchisees is cooperation with the franchisor. In both levels of CHAID modelling, cooperation is either the principal predictor, or an independent variable influencer of the principal predictor. However, it is equally clear that cooperation is a prerequisite of establishing the relationship and a requirement of on-going franchisee satisfaction and not a goal to be achieved in the future. Given cooperation, franchisees require coordination with the franchisor to maintain satisfaction. When complexity in the relationship is perceived, then coordination is inhibited and conflict manifests in a high percentage of angry cluster group membership. This result is a contra-indication of a relational exchange as described by Mcneil (1975).

Coordination is centred on an understanding and monitoring of the license agreement and the responsibilities of the parties therein. Therefore, we next examine Proposition B, franchisor provided services, which are the contractual obligations of the franchisor to fulfill the license agreement in the business format franchise.

6.4 PROPOSITION B: FRANCHISOR PROVIDED SERVICES AS A SOURCE OF CONFLICT IN THE FRANCHISEE-FRANCHISOR RELATIONSHIP

Proposition B

Franchisee satisfaction with the services provided by the franchisor is the principal measure of contractual performance. Contractual performance is an antecedent of conflict in the franchisee-franchisor relationship.

6.4.1 INTRODUCTION

Having established an empirical measure of conflict in the franchisee-franchisor relationship, and the relational goal of cooperation, which is empirically supported, and further modelled by coordination, this study now examines how coordination is achieved in franchising. Proposition B contends that franchisor provided services are the principal means by which the contract, the franchise license agreement, is fulfilled by the franchisor. These transaction specific actions are modelled using Chi-square Automatic Interaction Detector and, therefore, depict correlation between the dependent conflict variable and the franchisor provided services variables and yield both descriptive and predictive results. Correlations among independent franchisor provided services variables are also depicted.

This is particularly important in speaking to the practitioner community as a guide to the coordination of franchise relations through management of the resources applied to franchisor provided services.

Transaction-cost economics has recently been criticized for isolating transactions between parties to a governance structure which are actually completed within the context of multiple transactions (Gulati, 1995). CHAID, allowing for correlation among independent variables, contextualises the analysis, segments the population, and illustrates the potential for franchisee movement among cluster groups with transactional focus. Also, this model is developed with an understanding that it follows the empirically supported goals of cooperation and coordination and is subsequent and integral to the goal model. Therefore, this concern is relieved.

6.4.2 CHAID Model of Franchisor Provided Services as Antecedents of Conflict in the Franchisee-Franchisor Relationship

Eighteen franchisor provided services, scored for both importance and adequacy were used for this CHAID analysis for a total of thirty-six independent variables.

Only five of the eighteen independent franchisor provided services *importance* variables correlate with the dependent conflict variable (see table 6.15). All eighteen independent *adequacy* variables concerning franchisor provided services correlate with the dependent conflict variable. Additionally, all franchisor provided services adequacy variables have a lower *p*-value than any of the five importance variables. Franchisees' conflict cluster group membership is defined to a much greater extent by execution by the franchisor of the contractually required services than by the importance of the services. There are clear and distinct parameters of service delivery adequacy with intuitively sound and quantifiable results which correlate to conflict cluster group membership. Given that, **Proposition B is supported by the data**.

Table 6.15 Franchisor Provided Services Predictor Variables[3]

Variable	p-value	Variable Label
Adfair	1 30e-30*	Adequacy of disagreement resolution

[3] 1-5 Likert scale of adequacy/importance

Variable	p-value	Variable Label
Adprob	3 40e-29*	Adequacy of advice for solving management problems
Adzorm	1.70e-25*	Adequacy of access to management
Adnewd	2.40e-21*	Adequacy of support in new store development
Adops	2.90e-18*	Adequacy of operating procedures
Adfinma	7.70e-18*	Adequacy of advice on financial management
Admgmt	3.10e-15*	Adequacy of management training
Adsuply	9.70e-15*	Adequacy as a supplier of products
Adprom	4.30e-14*	Adequacy of new product/service promotion
Adtrain	7.90e-14*	Adequacy of employee training programs
Admkinf	8.60e-14*	Adequacy of market information and analysis
Adnwpr	8.90e-14*	Adequacy of new product & service development
Adacct	2.80e-13*	Adequacy of training in accounting
Adcrdt	2.30e-11*	Adequacy of financial assistance and credit
Adnaf	3.20e-11*	Adequacy of national advertising
Adinv	4.40e-10*	Adequacy of advice on inventory control
Adequip	1.40e-08*	Adequacy of equipment provision
Adlclad	6.80e-06*	Adequacy of organizing local coops for advertising
Q14crdt	2.40e-04*	Importance of financial assistance and credit
Q14ops	6.40e-03*	Importance of clearly defined operating procedures
Q14zorm	7.20e-03*	Importance of access to franchisor management
Q14lclad	8.60e-03*	Importance of organizing local coops for advertising
Q14inv	3.40e-02*	Importance of advice on inventory control

*=Sig. at.05

Again, all *adequacy* variables correlate to conflict at a higher level of statistical significance than do any importance variables. Franchisees first (as measured by this variable having the lowest *p*-value) judge the franchisor on their perception of adequacy of disagreement resolution, referred to hereafter as 'fairness', then the franchisor's ability to help solve management problems. The third predictive variable is franchisee access to franchisor management. All variables are intuitively sound. As perceived fairness, management problem solving, and access to franchisor management increases, so does satisfaction.

Adequacy of support in new store development and adequacy of operating procedures are the next two predictors with the lowest *p*-value and follow the same intuitively consistent pattern of increased adequacy yielding less conflict in the relationship.

That franchisees want more adequately delivered services is not surprising. Franchisees generally want more services for diminishing expense. We are somewhat surprised that all services are rated as inadequate in relationship to importance. However, the specific patterns of population segmentation and influences of independent variables are more important to understanding what degree conflict manifests as a result of inadequacy. These correlation and segmentation are described below in five models. The number of models is arbitrary but, we believe, adequate.

6.4.3 THE FIRST LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: FRANCHISOR PROVIDED SERVICES (See Figure 6.7)

The variable which describes the adequacy of franchisor resolution of disagreements is a "gatekeeper" to those services which drive conflict cluster membership. That is, all five *adequacy of fairness* scores correlate to cluster membership. There is no scoring by franchisees of franchisor fairness which precludes satisfied cluster membership. Even the lowest scoring of fairness can result in some satisfaction, especially if the correlation among independent variables is managed. For example, *adequacy of fairness*=1, clearly inadequate resolution of disagreements, logically yields a high degree of anger (64.36% angry cluster membership). *Adequacy of fairness*=2 describes and predicts 10% satisfied, 50% ambivalent, and 40% angry cluster group membership.

However, *adequacy of fairness*=2, still clearly unfair, is further segmented by the variable *adequacy of new products and services*. *Adequacy of new products and services*=1-3 exacerbates anger, but *adequacy of new products and servics*=4, 5 reduces anger to just 10%. Even if the franchisee perceives the franchisor as patently unfair in settling disagreements, but, the franchisor achieves at least an adequate score in developing new products and services, most of the franchisees will be satisfied or ambivalent. This pattern continues at each *adequacy of fairness* node.

Adequacy of fairness=3, a neutral scoring of fairness, further reduces anger to 25.33% from *adequacy of fairness*=2: 40.00% anger. The dual sub group for this node is *adequacy of access to management*=1-4 and *adequacy of access to management*=5. *Adequacy of access to management*=5 dramatically reduces the angry cluster membership and shifts a majority of the franchisees into the satisfied cluster membership. The *adequacy of access to franchisor management*=1-4 node is further influenced by the *adequacy of new products and services*. *Adequacy of new products and services*=4,5 only slightly reduces anger in the *adequacy of access to management*=1-4 node. The franchisees appear to recognize that the value of new stores is reduced if access to management of the franchisor is not adequate.

Adequacy of fairness=4, clearly fair in handling disagreements yields the intuitive result of only 13.71% angry cluster membership. However, there is still a large percentage of franchisees in the ambivalent cluster, 37.10%. There is further segmentation of *adequacy of fairness*=4 by *adequacy of training*=1,2,3 and *adequacy of training*=4,5. Fairness scoring above the neutral score requires clearly adequate performance in the sub groups. *Adequacy of training*=4,5 produces 69.23% satisfaction among franchisees who also score *adequacy of fairness*=4. This level of franchisee satisfaction is only matched by those franchisees who score *adequacy of fairness*=5. Clearly, excellence is rewarded by franchisees in their cluster group membership.

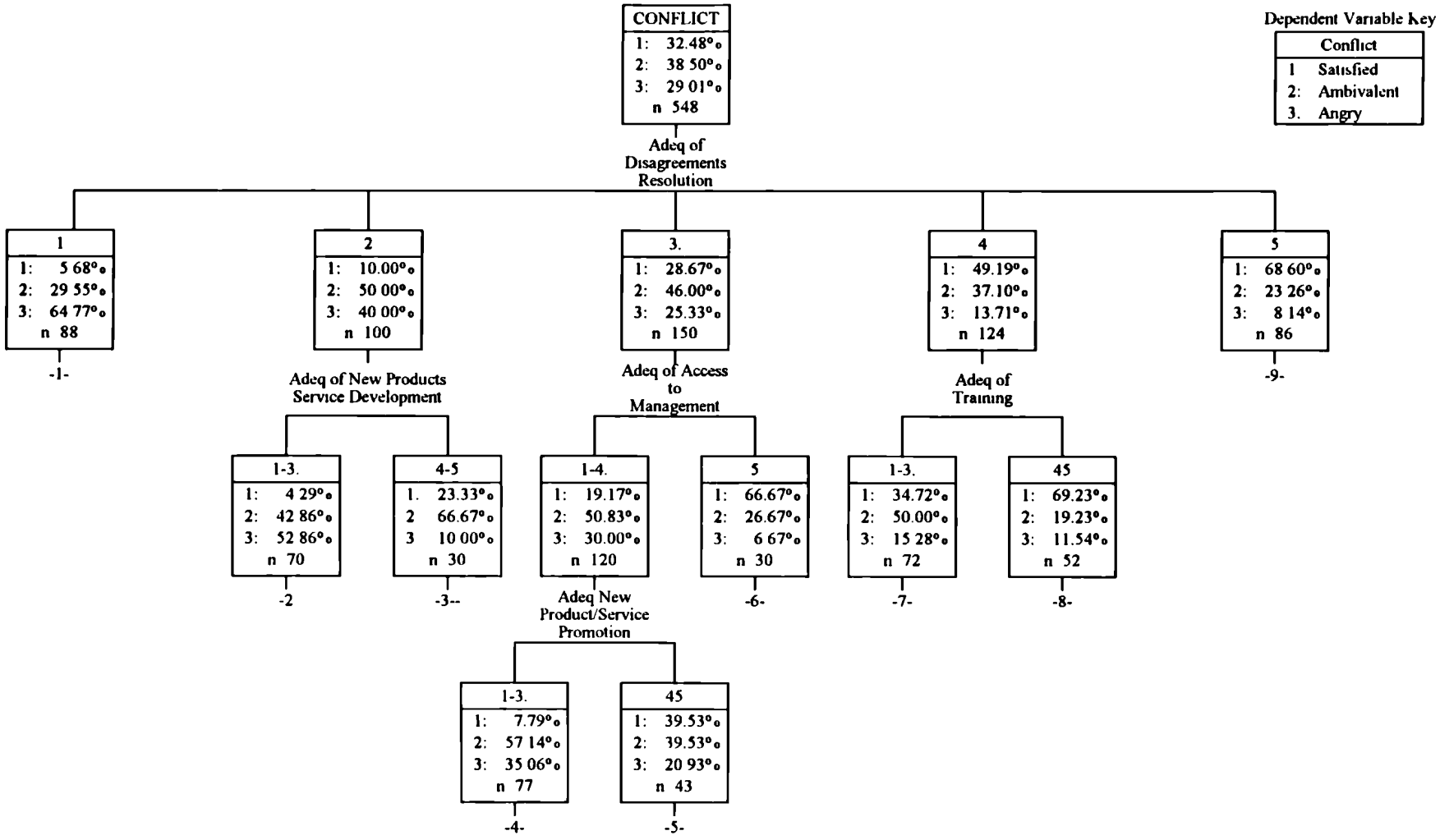


FIGURE 6.7. Tree Diagram for Predictor Variable ADFAIR (Adequacy of Disagreements Resolution)

6.4.3.1 GOODNESS OF FIT: TESTING THE FIRST LEVEL PREDICTOR, *ADEQUACY OF FAIRNESS*, IN THE CHAID MODEL

Table 6.16 Goodness of Fit of the CHAID Model Fourth Level Variable: *Adequacy of Fairness*

Variable Category	Chi-square	D.F.	*p*-value
Adequacy of fairness=1	1.0883	2	0.9568
Adequacy of fairness=2	1.1252	2	0.5697
Adequacy of fairness=3	0.1323	2	0.9360
Adequacy of fairness=4	0.0042	2	0.9979
Adequacy of fairness=5	0.6624	2	0.7181

This table represents the predictive value of the CHAID model when *adequacy of fairness* is the independent predictor variable. A *p*-value of .05 or more indicates a statistically significant probability that the test sample cases have the same distribution as the cases used to develop the model. Therefore, the cluster group membership described by the model in 6.3.3 predicted the cluster group membership in the test sample cases at a statistically significant level. This validates Model 6.3.3 as having significant predictive value in assessing conflict in franchising.

6.4.4 SECOND LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: FRANCHISOR PROVIDED SERVICES (See Figure 6.8)

The second level CHAID model predictor is similar in structure to the first level model (6.3.3) in that *adequacy of advice for problem solving* is also segmented into five distinct nodes and each node is then segmented into two sub groups, except the neutral score is segmented again to a third sub group.

The cluster membership percentages described and predicted by adequacy of advice for solving management problems virtually mirrors the first level predictor tree diagram at the *adequacy of advice for problem solving*=1, *adequacy of advice for problem solving*=2, and *adequacy of advice for problem solving*=3 nodes. These nodes are also influenced by marketing functions, albeit different functions than *adequacy of*

fairness. Clearly, marketing is at the forefront of franchisee thinking and influences relational issues with the franchisor and these marketing function influences are dramatic.

Adequacy of problem solving=1 is influenced by the adequacy of national advertising. If *adequacy of national advertising*=1, an overwhelming 88% of franchisees are angry. Being scored *adequacy of national advertising*=2 as a sub group of *adequacy of advice for problem solving*=1 shifts 47% of the franchisees from angry to the ambivalent and satisfied cluster groups.

Clearly adequate scores (4,5) yield significantly positive results in franchisee cluster membership with 60% and 74% satisfied membership and, 12% and 2% angry cluster membership. *Adequacy of advice for problem solving*=4 correlates with the importance of training in accounting in a difficult to interpret correlation. Both here and in the *adequacy of promotion*=4 node there is a negative correlation with importance of a franchisor provided service and the level of franchisee satisfaction. When the importance of credit and financial assistance is higher (*adequacy of credit*=4) then satisfaction is reduced by 34%. If credit and financial assistance are important, it may be because the franchisee needs financial assistance and credit. The need may reflect a tenuous financial perspective by the franchisee. In fact more franchisees who score the importance of credit and financial assistance as a five have the lowest two categories of profit margin than any other profit category (table 6.17).

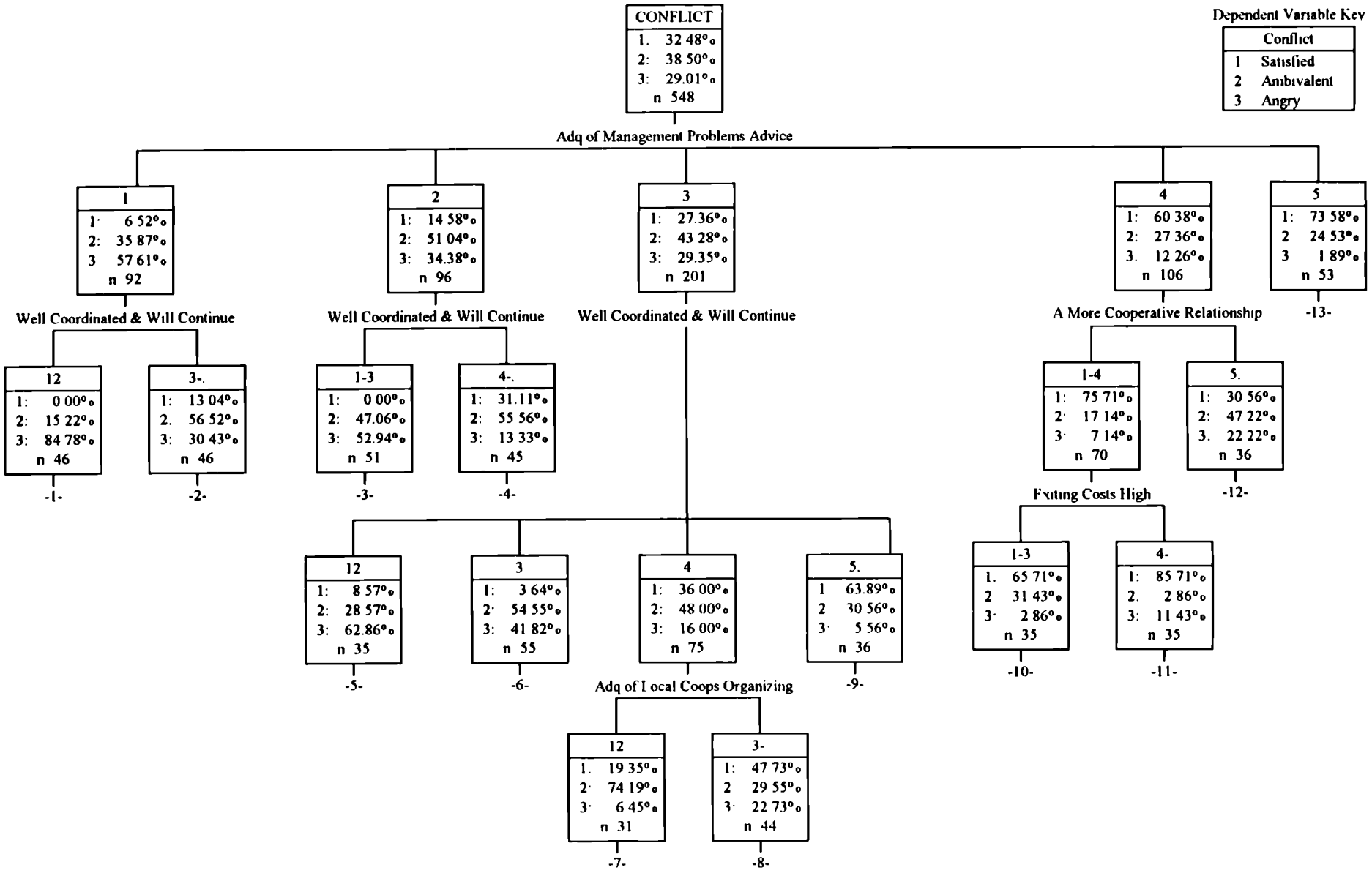


FIGURE 6.8. Tree Diagram for Predictor Variable ADPROB (Adequacy of Management Problems Advice)

Table 6.17 Correlation of franchisees scoring importance of credit and financial assistance as '5' with profit, N=618

profit	% respondents
0-2%	41.79
3-5%	42.42
5+%	13.41

6.4.4.1 GOODNESS OF FIT: TESTING THE SECOND LEVEL PREDICTOR *ADEQUACY OF ADVICE FOR PROBLEM SOLVING* IN THE CHAID MODEL

Table 6.18 Goodness of Fit Test for the CHAID Model Second Level Variable: *Adequacy of Advice for Problem Solving*

Variable Category	Chi-square	D.F.	p-value
Adequacy of advice for problem solving=1	1.0179	2	0.6011
Adequacy of advice for problem solving=2	3.8968	2	0.1425
Adequacy of advice for problem solving=3	5.4016	2	0.0550
Adequacy of advice for problem solving=4	7.4330	2	0.0243*
Adequacy of advice for problem solving=5	0.7297	2	0.6943

*=Sig at .05

Four of the five predictor nodes have significant predictive value.

6.4.5 THIRD LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: FRANCHISOR PROVIDED SERVICES (See Figure 6.9)

There is very little equivocation on the part of franchisees in their view of access to franchisor management. Anger and ambivalence predominate with only marginal change at scoring *adequacy of access to management*=1-4. *Adequacy of access to management*=5 dramatically reverses that phenomenon yielding 64% satisfaction cluster group membership. It appears that franchisees demand the highest level of access to franchisor management. It is a pre-requisite to franchisee satisfaction.

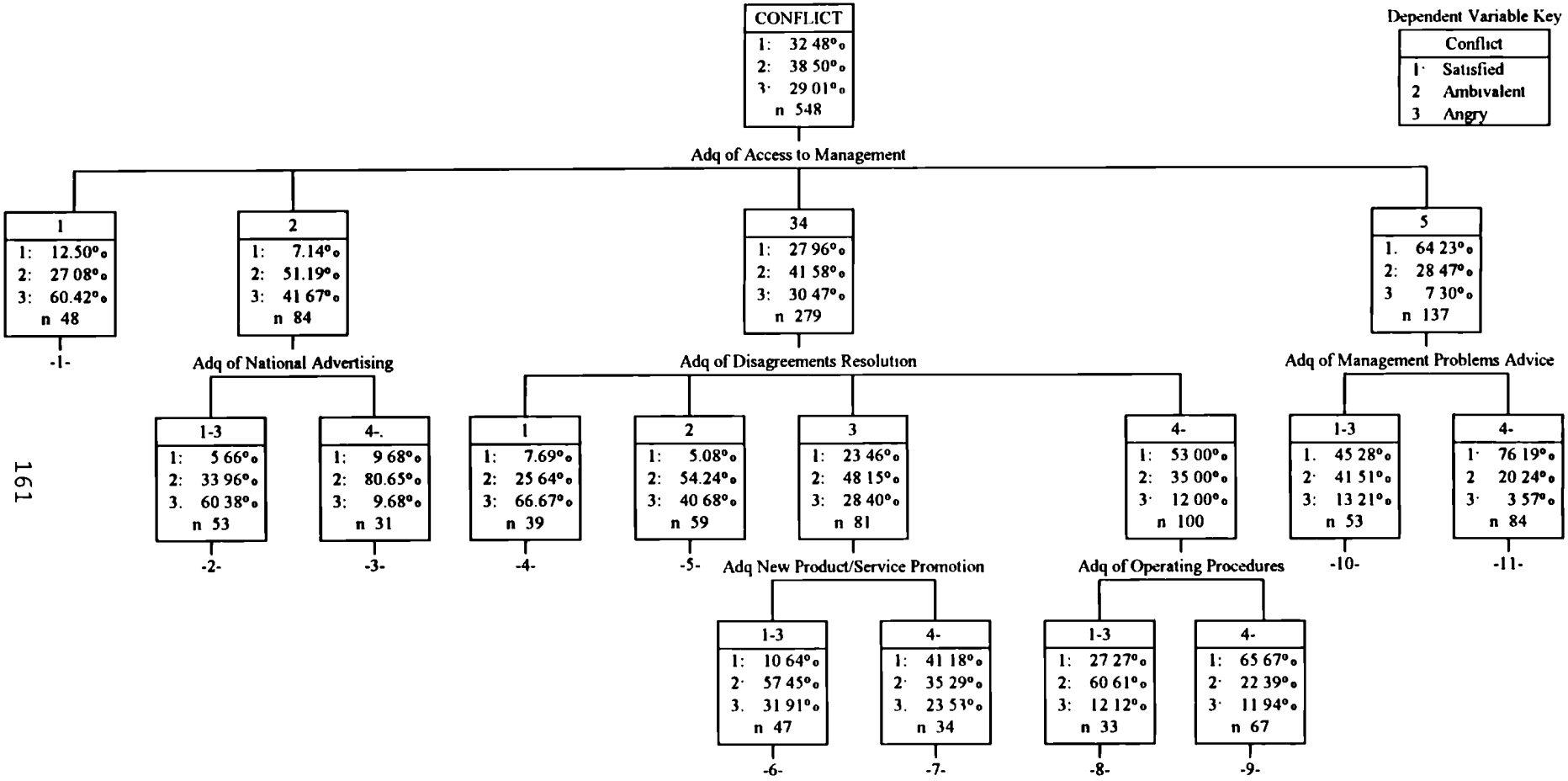


FIGURE 6.9. Tree Diagram for Predictor Variable ADZORM (Adequacy of Access to Management)

6.4.5.1 CHI-SQUARE GOODNESS OF FIT TEST OF PREDICTIVE POWER OF *ADEQUACY OF ACCESS TO MANAGEMENT AS AN ANTECEDENT OF CONFLICT*

Table 6.19 Goodness of Fit Test Results: *Adequacy of Access to Management*

Variable Category	Chi-square	D.F.	p-value
Adequacy of access to management=1	3.5169	2	0.1723
Adequacy of access to management=2	2.6775	2	0.2622
Adequacy of access to management=3,4	0.7063	2	0 7025
Adequacy of access to management=5	0.1739	2	0.9167

All four of the segments have statistically significant predictive value.

6.4.6 FOURTH LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: FRANCHISOR PROVIDED SERVICES (See Figure 6.10)

The fourth level franchisor service predictor of franchisee conflict is *adequacy of store development support*, the adequacy of franchisor support for the development of new outlets. The four initial nodes of *importance of store development support* follows a classic pattern of conflict reduction with increased scoring of the dependent variable. However, there is a core of angry franchisees even at the *importance of store development support*=4 (11.65% angry) and *importance of store development support*=5 (12.73% angry). This might be emanating from franchisees who are adversely affected by the extent of new store development, *vis à vis* territorial encroachment and subsequent sales cannibalization. This effect is predicted by neo-classical economic theory (Mittlestaedt and Stassen, 1990). It would also explain the slightly increased level of conflict when *adequacy of store development support* scoring increases from 4 to 5. Increased efficiency in new store development quickens the pace of territorial shrinkage for the franchisee who does not grow.

Conflict cluster membership can be greatly affected by correlating independent variables. *Adequacy of store development support*=1,2 has an angry cluster membership of 43.88%. However, if the franchisee scores the franchisor provision of national

advertising as *adequacy of national advertising*=5, the angry cluster shrinks to 17.65%. Again, with an in depth understanding of franchising, this phenomenon is intuitively sound. The marketing economies which, in part, motivate the use of franchising as a growth mechanism, should aid the individual store sales growth curve. Effective national advertising is the most encompassing form of marketing. Therefore, deficiencies in new store development are apparently offset, to some degree, by effective national advertising, which, in turn, promotes franchisee revenue.

When neutrality of opinion regarding *importance of store development support* manifests then fairness drives cluster group membership.

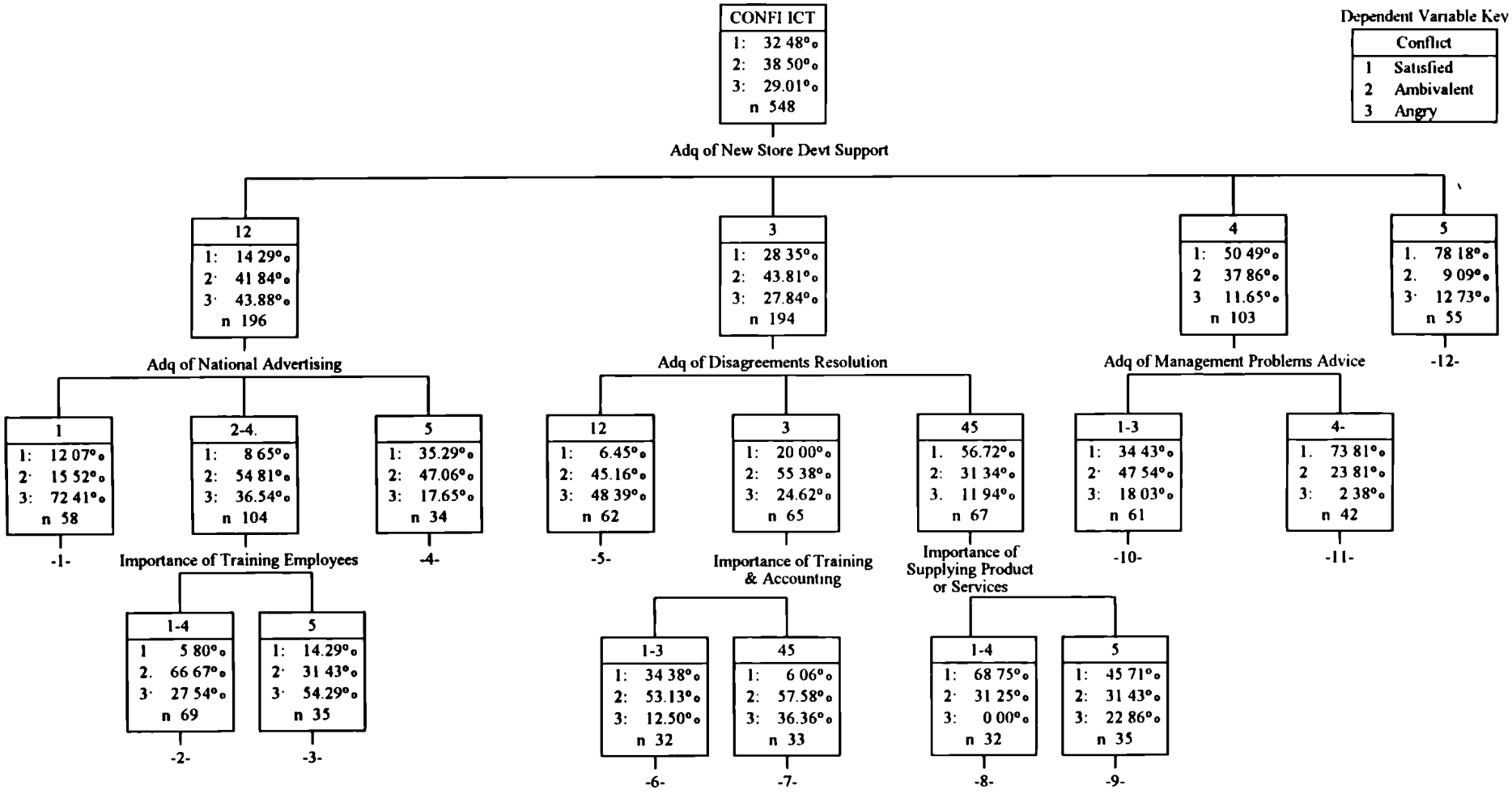


FIGURE 6.10. Tree Diagram for Predictor Variable ADNEWD (Adequacy of New Store Development Support)

6.4.6.1 GOODNESS OF FIT: TESTING THE FOURTH LEVEL PREDICTOR *ADEQUACY OF STORE DEVELOPMENT SUPPORT* IN THE CHAID MODEL

Table 6.20 Goodness of Fit Test for the CHAID Model Third Level Variable: Adequacy of Store Development Support

Variable Category	Chi-square	D.F.	p-value
Adequacy of store development support=1,2	1.5005	2	0.4722
Adequacy of store development support=3	0.9122	2	0.6338
Adequacy of store development support=4	0.3067	2	0.8578
Adequacy of store development support=5	1.9829	2	0.3710

Again, all four segments predict conflict cluster membership at a statistically significant level.

6.4.7 FIFTH LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: FRANCHISOR PROVIDED SERVICES (See Figure 6.11)

The adequacy of operating systems from the franchisor is discretely segmented into five scoring nodes. The *adequacy of operation*=2, *adequacy of operation*=3, and *adequacy of operation*=4 all correlate with the *adequacy of fairness* independent variable. However, even when the franchisor is scored *adequacy of operation*=4, there is 22% angry cluster membership and only 42% in the satisfied cluster. The *adequacy of fairness* influence is helpful, but, *adequacy of fairness*=3-5 increases satisfied membership to only 53% and 36% of the franchisees remain ambivalent and 11% angry. On one extreme, at *adequacy of operation*=1, there is correlation with the independent variable *adequacy of supply*. *Adequacy of supply* scoring of 3-5 affects cluster membership by reducing the angry cluster from 51% to 35%. At the other extreme, *adequacy of operation*=5, the independent variable correlation is with *adequacy of store development support*. When *adequacy of store development support* is scored 4 or 5 there is a shift of cluster membership from the ambivalent cluster (24% to 10%) to the satisfied cluster (62% to 79%).

Franchisees clearly expect superior operating systems. It is difficult to move a majority of the franchisees from anger and ambivalence unless a superior operating system is delivered. There is important differentiation by franchisees at each scoring of *adequacy of operation*. Important incremental gains in franchisee satisfaction can be gained by a franchisor who is scored at anything below *adequacy of* operations=5.

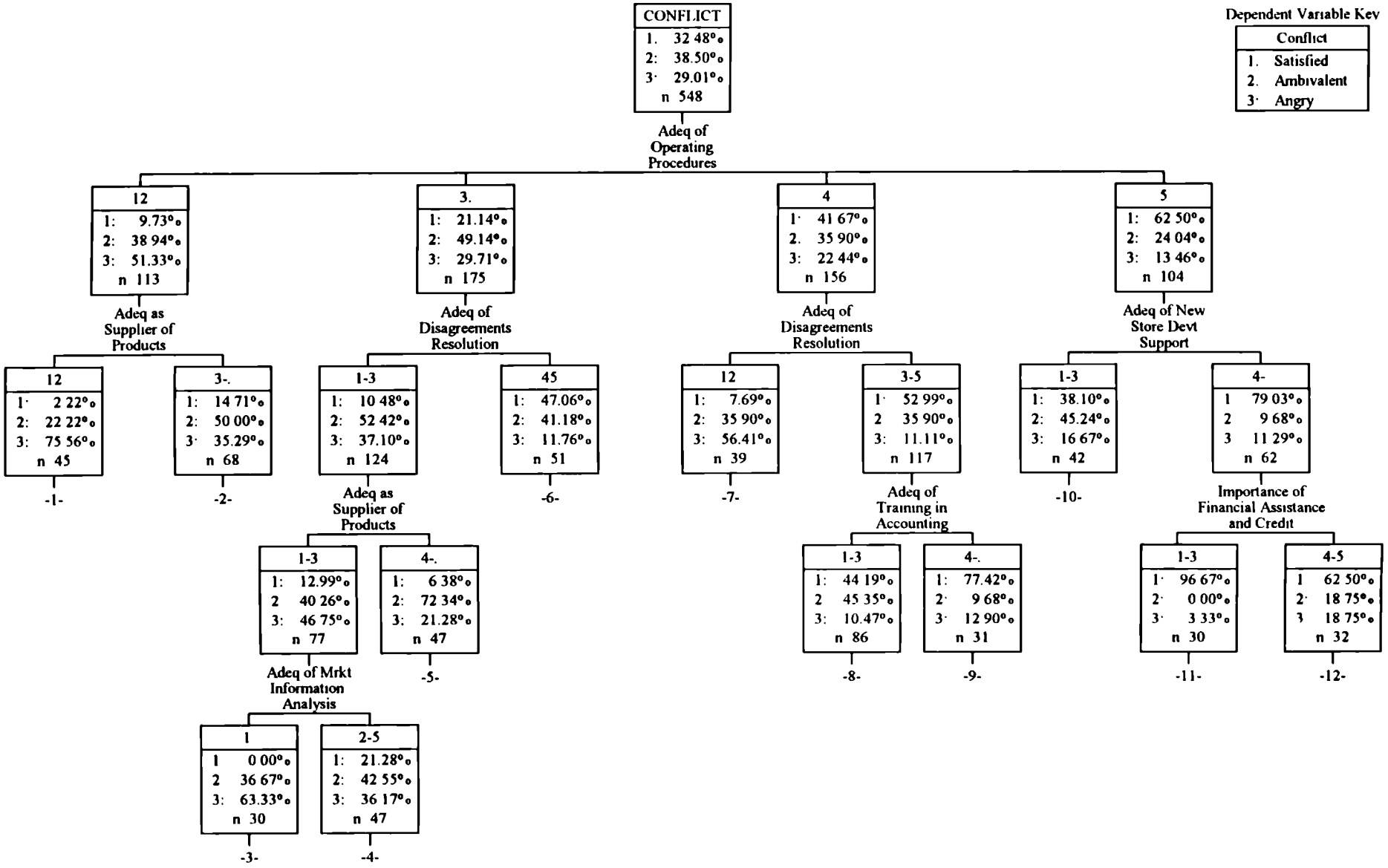


FIGURE 6.11. Tree Diagram for Predictor Variable ADOPS (Adequacy of Operating Procedures)

6.4.7.1 GOODNESS OF FIT: TESTING THE FIFTH LEVEL PREDICTOR *ADEQUACY OF OPERATIONS* IN THE CHAID MODEL

Table 6.21 Goodness of Fit Test for the CHAID Model Second Level Variable: Adequacy of Operation

Variable Node	Chi-square	D.F.	Significance
Adequacy of operation=1,2	4.9276	2	0.0851
Adequacy of operation=3	3.6997	2	0.1573
Adequacy of operation=4	1.8473	2	0.3971
Adequacy of operation=5	1.6906	2	0.4294

Again, all four segments of ADEQUACY OF OPERATIONS are statistically significant predictors of conflict cluster membership.

6.5 SUMMARY OF MULTIVARIATE ANALYSIS OF FRANCHISOR PROVIDED SERVICES

Relational issues continue to emerge from the analysis. Resolving disagreements fairly is clearly the first predictor of franchisee conflict cluster group membership. The third predictor is access to franchisor management, which is relationship oriented. However, many of the franchisee perspectives are influenced by marketing variables. It seems that franchisees are more tolerant of the relationship when they view the marketing functions as adequately provided.

The existence of a "spectrum" of franchisee perspectives and influences on attitudes is apparent from the highly discrete predictor segments. This is theoretically supported by transaction-cost and relational exchange. However, in the multivariate analysis CHAID modelling of the franchisor provided services we begin to measure the spectrum and provide guidance to the practitioner for movement along the spectrum.

6.6 PROPOSITION C: THE RELATIONSHIP BETWEEN EXIT COSTS, TRADE MARK VALUE, AND CONFLICT

Proposition C

Perceived costs associated with leaving the franchise relationship reflect the perceived value of the trade mark, and correlates with conflict in the franchisee-franchisor relationship.

6.6.1 INTRODUCTION

The asset that has been established as the focus of the relationship between the franchisee and franchisor is the trade mark. Transaction-cost analysis has directed this study to the transactions which support the trade mark. In Proposition B the franchisor provided services were examined because they are the actions specifically undertaken to support the trade mark. Given that the trade mark is the compelling reason for the alliance between franchisee and franchisor, this study proposes that the value of the trade mark, built and supported as a result of the transactions included in franchisor provided services, is internalized by the franchisee firm and will be reflected by the costs associated with leaving the relationship. That is, the franchisee has worked with the franchisor to build value in the trade mark and would forfeit that value if the relationship was exited. Therefore, the franchisee's perception of trade mark value can be examined in a number of ways. First, the market places a value on the trade mark by what it will pay for a franchise versus a similar "stand alone" business. Alternatively, the franchisee places a technical value on the trade mark in the form of intangible asset value on the balance sheet. Ping (1991) found that exiting and switching costs are another way to estimate the value of a channel relationship. Therefore, we examined trade mark value in three ways; estimated market and balance sheet value and the scoring of exit costs.

6.6.2 CHAID ANALYSIS OF PERCEIVED MARKET AND BALANCE SHEET VALUES OF THE TRADE MARK

Although only one third of the respondents (n=190) offered a perspective of the market value of the trade mark, this study proposes that trade mark value is linked to perception of exit costs. Therefore, we subject the data to CHAID analysis to investigate the correlation between market value of the trade mark and exit costs. All exit cost independent variables were used in the CHAID analysis. Scoring of market value of the

trade mark was used as the dependent variable. Likewise, 182 franchisees offered a balance sheet value of the trade mark and a CHAID analysis of the balance sheet value as the dependent variable and all exit costs as the independent variable was run.

Surprisingly, there were no exit cost predictor variables which correlate to market or balance sheet valuation of the trade mark. It is clear that franchisees do not directly link exit cost with trade mark value. It may be that expense factor components are sufficiently prohibitive to preclude exit as a realistic alternative to the franchise arrangement. Also, the scoring of legal expense as clearly high may indicate a recognition of the contractually binding nature of the agreement. **The first part of Proposition C is not supported**. We now look to exit costs as a predictor of conflict cluster membership.

6.6.3 EXIT COST AS AN ANTECEDENT OF CONFLICT

The accumulation of knowledge which is necessarily internal to the franchise system constitutes the bundle of resources which are firm specific (Wernerfelt, 1984). Partners in an interorganisational form like franchising continually reconsider the strategic accumulation and implementation of these resources and thus create a dynamic assessment of the value of the relationship (Dierickx and Cool, 1988). Zajac and Olsen (1993) emphasize that the value of transaction-cost analysis as a theoretical tool is enhanced when a view to long term value, as well as cost, of the transactions which form the alliance.

6.6.3.1 EXIT COSTS PREDICTORS OF CONFLICT IN FRANCHISING

Eight of the eleven exit cost variables correlate to conflict in franchising (table 6.18).

Table 6.22 Exit Costs Which Correlate to Conflict Cluster Membership

Factor	*p*-value	component variable Label
business format	1.40e-08*	exiting costly in finding alternative suppliers
business format	1.40e-08*	exiting will increase training cost
business format	4.00e-06*	exiting will require operating procedures changes
asset	2.20e-04*	exiting costly in store conversion
expense	4.40e-04*	exiting will increase the marketing budget

Factor	*p*-value	component variable Label
business format	3.70e-03*	exiting costly in lost goodwill
psychic	7.70e-03*	company investment unique to the relationship
expense	3.20e-02*	exiting costly in legal expense
psychic	0.069	company invested time and effort in the relationship
expense	0.270	exiting costs would probably be high
psychic	1.000	franchisee invested personally in the relationship

*=Sig. at .05

Components of the business format factor dominate the exit cost variables that correlate with conflict. The top three exit cost predictors are all business format factor components and all four business format factor components are represented in the predictor list. Conversely, only two expense factor components and one of the three psychic factor components are exit cost predictors of conflict. We would expect that the transactions undertaken to support the alliance engender the highest level of conflict in a commercial relationship (Pondy, 1992). The business format components, *exit costs* are clearly the focus of the franchise relationship. CHAID analysis will allow us to review the nature and manifestation of the exit cost related conflict.

6.6.3.2 CHAID Analysis of Exit Costs as Antecedents of Conflict in Franchising

The three independent variable predictors with the lowest *p*-value are modelled, followed by a discussion of the findings.

6.6.3.2.1 CHAID Analysis with Tree Diagram: *Exiting Costly in Finding New Suppliers* (See Figure 6.12)

The higher the perceived cost of finding alternative suppliers upon exit, the higher the satisfied cluster group membership. This phenomenon is consistent across the four alternative supplier nodes of scoring which predict cluster membership. When franchisees perceive value in the franchise supply system, there is a reticence to exit. There is additional correlation between the independent variable *exiting costly in store conversion*

(perceived cost of store conversion upon exiting the relationship) at the *exiting costly in finding new suppliers*=1 node. *Exiting costly in store conversion* is segmented into three additional nodes. When the perceived costs of store conversion are high, franchisees strongly tend to the angry cluster, the reverse of the reaction to high alternative supplier costs. When finding alternative suppliers is scored 3 or 4, the node is further segmented in correlation with the cost of training employees. Low exit costs associated with training correlates to a mostly ambivalent franchisee attitude. Neutral and high scoring of training costs associated with exit significantly reduces the angry cluster (from 27% to 10%) following the pattern established by the cost of finding alternative suppliers.

This model illustrates the mixed signals that can be associated with exit costs. The principal independent variable predictor and two of the three independent variables which correlate with the principal predictor increase satisfaction when exit costs are perceived as high. However, one of the independent variables reflects an opposite reaction. The sometimes alternating correlations between exit cost and conflict cluster group membership occurs in each of the exit cost models.

The store from which the franchisee operates is an asset developed which is specific to the relationship, but, the asset is not necessarily specific to the franchise relationship. That is, the store is seen as a transferable asset. However, building design, layout, and signage are all a part of that which constitutes the trade mark, yet there does not appear to be recognition of this fact.

Supplier relations are not a specific asset to the franchise relationship. Transaction-cost economics theorizes that the franchise, or any hybrid organizational form, is focused on the transactions which bind the relationship and builds the assets which are most specific to the relationship. The results in the first CHAID model of exit cost as an antecedent of conflict regarding the perceived cost of finding alternative suppliers upon exiting the franchise relationship would indicate that the perceived cost of exit regarding a specific asset correlates negatively with conflict. Exit costs associated with a non-specific asset correlates positively with conflict.

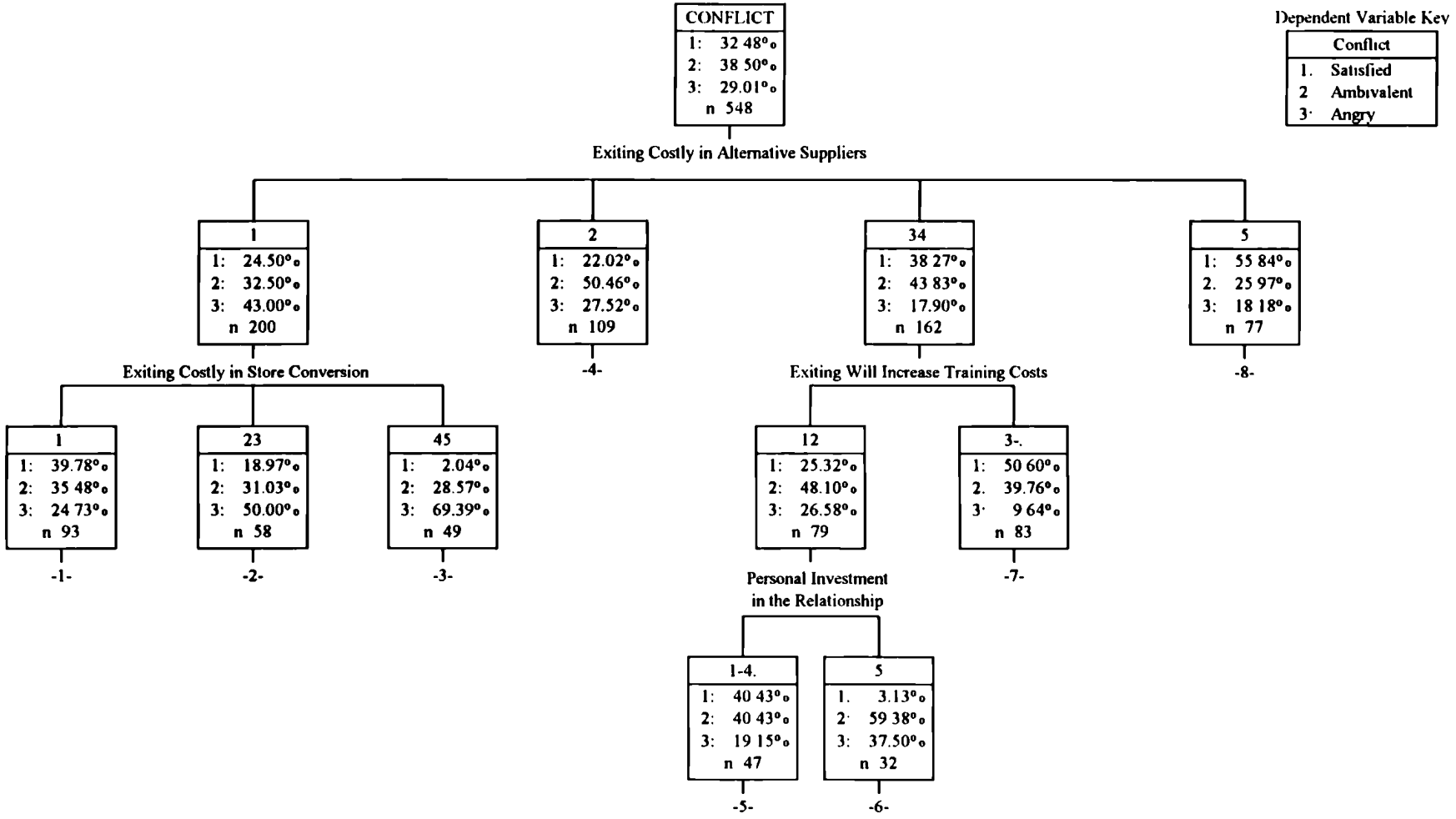


FIGURE 6.12. Tree Diagram for Predictor Variable Q17ALTSU (Existing Costly in Alternative Suppliers)

6.6.3.2.1.1 CHI-SQUARE GOODNESS OF FIT TEST OF THE PREDICTIVE POWER OF ALTERNATIVE SUPPLIER AS AN ANTECEDENT OF CONFLICT

Table 6.23 Goodness of Fit Test Results: Alternative Suppliers

Node	Chi-square	DF	Significance
Alternative Suppliers=1	2.7987	2	0.2468
Alternative Suppliers=2,3	5.6162	2	0.0603
Alternative Suppliers=4,5	0.863	2	0.7877

*=Sig. at .05

6.6.3.2.2 PERCEIVED EXIT COST CHAID ANALYSIS WITH TREE DIAGRAM: *EXITING WILL INCREASE TRAINING COST* (See Figure 6.13)

Training follows the predictive pattern that was established by the first CHAID exit cost model. The independent variable, *Exiting will increase training cost*, is segmented into three nodes and as scoring of the variable increases, so does the angry cluster group membership.

Training costs upon exit are greatly influenced by the respondent's particular franchise system membership. Therefore, the second level segmentation gives us less insight, but, does caution franchisors to attentively design training programmes specific to the needs of the business format they are offering.

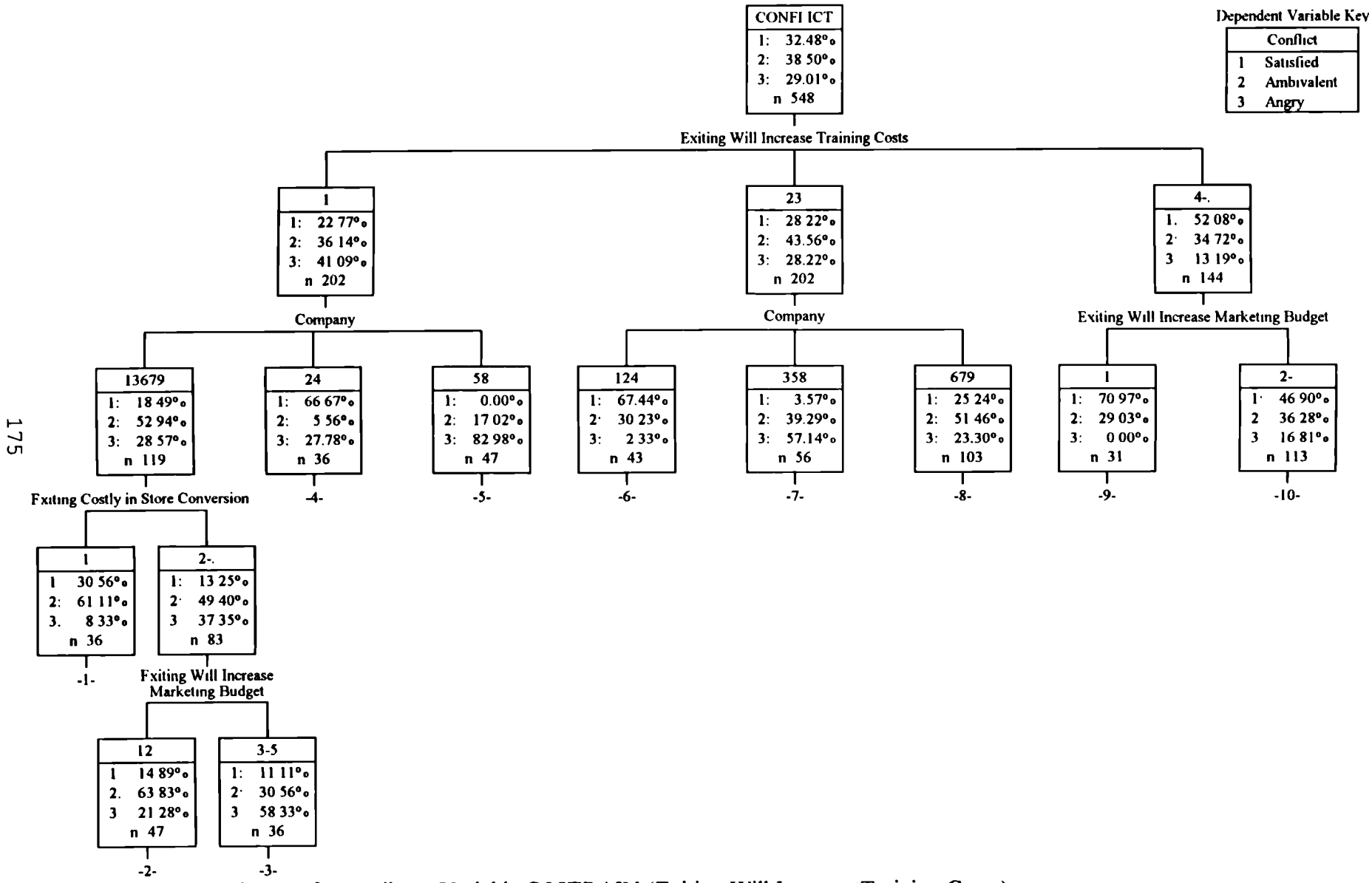


FIGURE 6.13. Tree Diagram for Predictor Variable Q25TRAIN (Exiting Will Increase Training Costs)

6.6.3.2.2.1 CHI-SQUARE GOODNESS OF FIT TEST OF THE PREDICTIVE POWER OF ALTERNATIVE SUPPLIER AS AN ANTECEDENT OF CONFLICT

Table 6.24 Goodness of Fit Test Results: Training Cost

Node	Chi-square	DF	Significance
Training Cost=1	0.2152	2	0 898
Training Cost=23	0.9668	2	0.7077
Training Cost=4	1.007	2	0.6045

*=Sig. at .05

6.6.3.2.3 CHAID ANALYSIS OF PERCEIVED EXIT COST WITH TREE DIAGRAM: EXITING WILL REQUIRE OPERATING PROCEDURE CHANGES (See Figure 6.14)

There is a pattern of higher satisfaction with at least neutral agreement with operational changes being required upon exiting the franchise relationship. This is consistent with the theoretical linkage between asset specificity and a recognition of the costs associated with losing an asset unique to the relationship. However, the recognition of operating system specificity appears to be limited, with only a small increase in satisfaction with an increase in scoring of agreement with operational changes.

Consistent with the recognition of the unique nature of the operating procedures is a further segmentation of the nodes by company affiliation. This segmentation follows the same pattern of greater satisfaction with higher scoring of agreement with operating procedure changes upon exit, with dramatic differences in cluster membership by company.

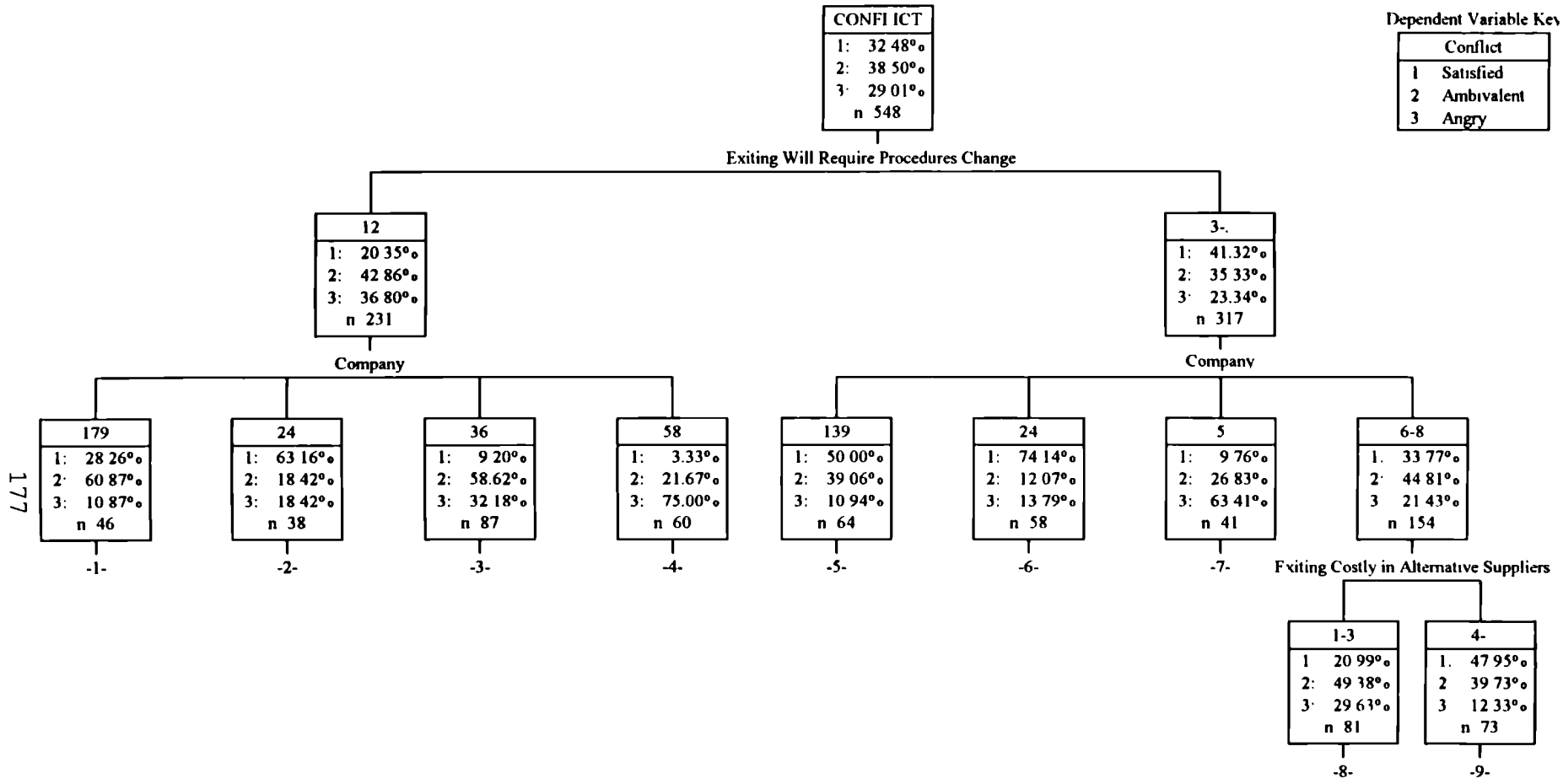


FIGURE 6.14. Tree Diagram for Predictor Variable Q26OPS (Exiting Will Require Procedures Change)

6.6.3.2.3.1 CHI-SQUARE GOODNESS OF FIT TEST OF THE PREDICTIVE POWER OF *OPERATING PROCEDURES* CHANGES AS AN ANTECEDENT OF CONFLICT

Table 6.25 Goodness of Fit Test Results: Operating Procedures Changes

Node	Chi-square	DF	Significance
Operating Procedure Changes= 1,2	2.4162	2	0.2988
Operating Procedure Changes=3	3.6059	2	0.1648

*=Sig. at .05

6.6.4 SUMMARY OF EXIT COSTS AS AN ANTECEDENT OF CONFLICT IN FRANCHISING

Theory is supported as franchisees place greater value on those assets which are specific to the relationship and therefore less easily transferred to another exchange relationship. However, the most specific asset in the relationship, the trade mark, is only obliquely recognised as non-transferable and therefore a cost upon exit.

6.7 GENERAL MODEL OF THE ANTECEDENTS OF CONFLICT

6.7.1 INTRODUCTION

The intent of this study is to examine the issues in the franchisee-franchisor alliance which affect conflict in the relationship. Theory has been used as a tool to direct the development of the research question and propositions and focus the investigation *vis à vis* collecting data regarding specific independent variables. The CHAID models reveal correlation between and among independent variables and the dependent variable and segments the population based on these correlations. This provides perspectives on conflict which allow us to address the propositions. It is also the stated objective of this thesis to bridge academic work to practitioner utilisation. Comprehensive models of conflict in the relationship support and prioritise the propositions and provides a grand view. This allows the practitioner to more efficiently allocate management resources and the researcher with an agenda for future research which reflects these priorities.

SPSS CHAID indicates that forty-six of the seventy-six independent variables input to the model have descriptive and predictive correlation probability with the dependent conflict variable at a .05 level or better (Appendix IX). It is interesting and informative to note the "types" and quantity of variables included in the list of predictor variables:

1) 18 of 18 franchisor provided services *adequacy* variables
2) 8 of 9 relational goal variables
3) 8 of 11 perceived exit cost variables
4) 4 of 7 financial variables
5) 2 of 4 future goal variables
6) 2 of 9 demographic variables
7) 4 of 18 franchisor provided services *importance* variables

This list provides a sweeping view of the overall nature of franchisees attitudes toward the relationship with the franchisor, the business format franchise, and their satisfaction. Adequacy of franchisor provided services, within a complex relational exchange, is the predominant theme. There is an indirect understanding of the trade mark value as represented by perceived exit costs. Finance plays only a supporting role in the relationship.

Each independent variable predictor of conflict can be modeled and will illustrate the interaction among independent variables. Space limitation in this dissertation prohibits exhibiting all forty-seven models Additionally, the practical requirement of describing and predicting franchisee cluster membership can be achieved with far fewer models. Therefore, the following CHAID models depict the 5 principal independent variables (those with the lowest *p*-value) which are the descriptive and predictive antecedents of conflict in franchising from the perspective of the franchisee survey population. Each predictor is displayed in a separate tree diagram which includes the sub-groupings. These sub-groupings are indicative of correlation among independent variables. Four of the five predictors are contained in previously developed models. However, because all variables are used, the general model of conflict varies somewhat. Each model is described in detail.

Table 6.26 First Five Predictors of Conflict in Franchising

Predictor	Variable type	*p*-value
well coordinated and will continue	Goal	1.60e-51*
relationship best described as "arms length"	Goal	6.50e-40*
adequacy of disagreements settlement	Service	1.30e-30*
franchise system affiliation	Characteristic	7.00e-30*
adequacy of management problems advice	Service	4.20e-28*

*=Sig. at .05

6.7.2 THE FIRST LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: ANTECEDENTS OF CONFLICT (See Figure 6.15)

Coordination, representing the statement "the relationship with the franchisor is well coordinated and will continue," is the independent variable which has the lowest probability value (p-value=1.6e-51) of the seventy-six independent variables in the survey. That is, the *coordination* independent variable should have the "best" descriptive and highest predictive value of the dependent conflict variable of all the independent variables. The *coordination* variable is segmented into four sub-groups based on the 1-5 likert scale. The first sub-group is *coordination*, scores 1 and 2 (n=113).

From these results we see that the franchisees believe that coordinating the activities of the system are essential to their satisfaction with their relationship with the franchisor. Almost 73% of franchisees are dissatisfied ("angry") if the relationship is clearly not well coordinated. Over 22% are ambivalent about the relationship if they feel at distinct lack of coordination. Also, in this node we see "structural" satisfaction that the 6.19% satisfied cluster membership may represent. The opposite structural group, in the angry cluster, may be present in the *coordination*=5 node.

The node located directly to the right of the *coordination* 12 node is the subgroup node *coordination* score=3 (n=127).

A neutral perspective of coordination with the franchisor moves a large block of franchisees from angry to ambivalent but still leaves more than a third of the segment in the angry cluster and does little to increase the satisfied cluster membership. Franchisees are clearly not neutral in their perspective of coordination as a requirement in the relationship with the franchisor.

The node located directly to the right of the *coordination* 3 node is the *coordination* 4 node which represents the subgroup *coordination* who scored 4 on the 1-5 scale (n=177).

Franchisees have to have a clear perspective of coordination with the franchisor to become satisfied with the relationship. Although almost half of the respondents remain in the ambivalent conflict cluster group when they answer 4 on the 1-5 scale, it is in this segment that we see the first shift toward a more satisfied group of franchisees. Although the single largest cluster membership is still in the ambivalent group, the satisfied clustered increases 30% (to almost 38%).

The node located directly to the right of the *coordination* 4 node is the *coordination* 5 node

The highest rating of coordination yields an overwhelming level of satisfaction by the franchisees. Almost 72% of the franchisees are satisfied and only 6% are angry. In this segment there is an indication of the previously noted structural or chronic dissatisfaction that may be very difficult to eliminate. Thus, this model establishes a realistic goal of franchisee satisfaction that the franchise system might attain

6.7.3 Correlation Among Independent Variables in the Model of the Antecedents of Conflict

Further analysis of the first level predictor CHAID models allows a perspective on what independent variables affect the perspective of the franchisee regarding the nature of a "coordinated" relationship. The most striking of these relationships occur at the nodes below *coordination*=3 and *coordination*=5.

Branching from *coordination*=3 is the independent variable which is a dummy variable representing the nine franchise systems who participated in the study. Although all nine companies had virtually the same percentage membership in the satisfied cluster in the franchise system sub-group, the ambivalent and angry cluster membership are

dramatically different and almost exactly opposite. Membership in a particular franchise system becomes important in assessing conflict in the relationship only when the attitude of the franchisee toward coordination is neutral. Branching from *Coordination*=5 is the independent variable representing the adequacy of access to the franchisor management. Significant access to franchisor management creates an overwhelmingly satisfied group of franchisees (90%). This question does not ask for agreement with franchisor management action which result from access. This implies that franchisees attain greater satisfaction with the relationship when involved in the decision making process. There is nothing to indicate that the outcome of those decisions affects conflict.

It is important to note that the perspective of the franchisee appears to transition from the satisfied through the ambivalent clusters, not directly shifting back and forth from satisfied to angry. Although we do not propose the individual franchisee necessarily transitions through the conflict clusters, the data suggest that the percentage of franchisees in each cluster shifts transitionally. This suggests incremental steps in gaining the satisfaction of the franchisee.

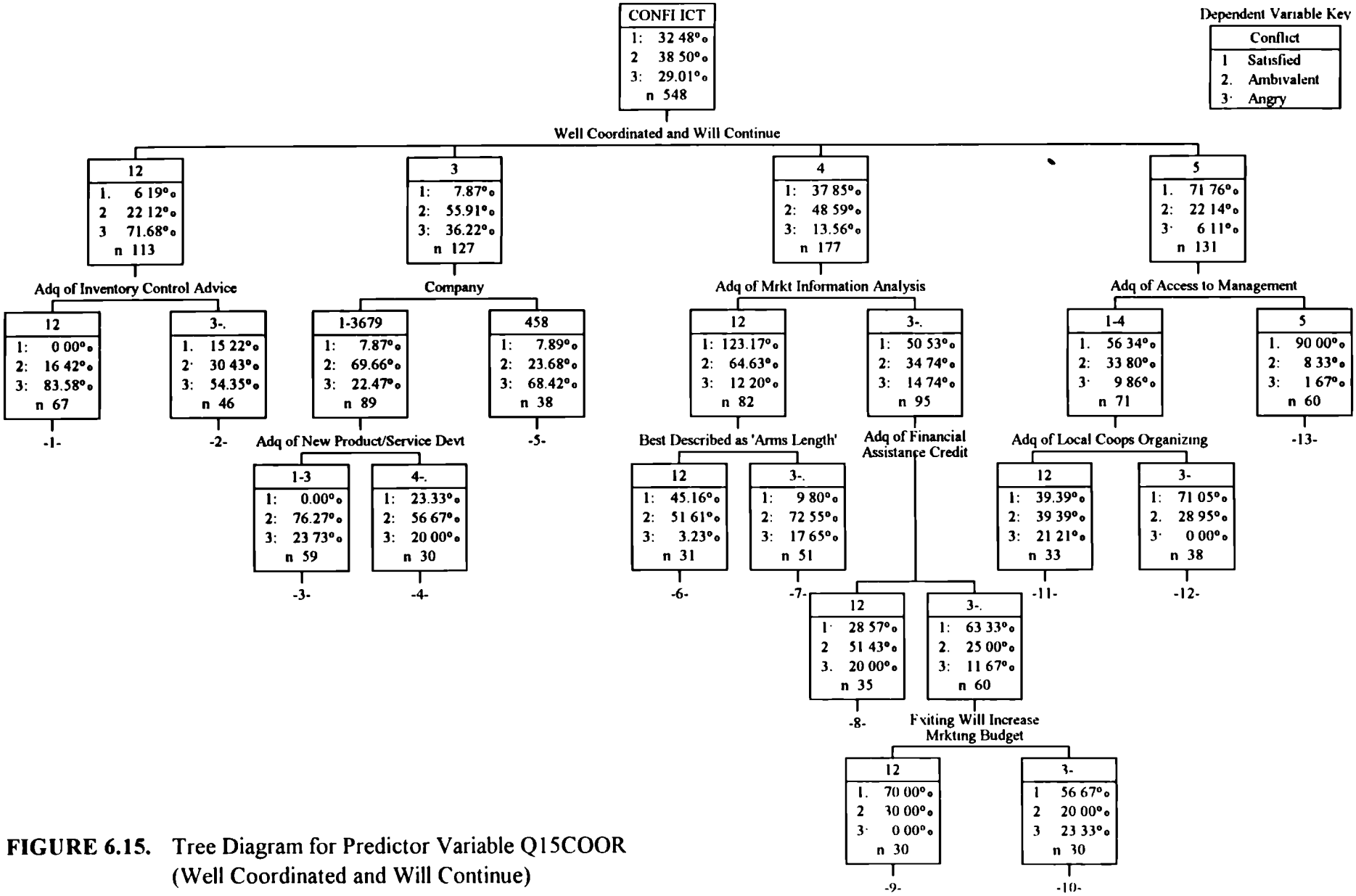


FIGURE 6.15. Tree Diagram for Predictor Variable Q15COOR (Well Coordinated and Will Continue)

6.7.3.1 GOODNESS OF FIT: TESTING THE FIRST LEVEL PREDICTOR *COORDINATION* IN THE CHAID MODEL

As previously noted, a randomly selected test file of 65 cases was held out of the data base to be used to test the predictive value of the model which was built using the 556 remaining cases. Chi-Square Goodness of Fit was used for testing the model. For each variable node in the CHAID tree the expected percentages displayed in the model were used to predict the cluster membership of the test file. The conflict cluster membership of the test file cases has been previously established in the cluster analysis in section 5.1.3.

Table 6.27 Goodness of Fit Test for the CHAID Model First Level Variable: *Coordination*

Variable Node	Chi-Square	D.F.	p-value
Coordination=1,2	0.0421	2	0.9792
Coordination=3	0.0418	2	0.9793
Coordination=4	0.6442	2	0.7244
Coordination=5	2.0395	2	0.3607

The "significance" statistic (p-value) indicates the probability that the expected and observed percentage of cases for each category are the same. That is; we establish a model we expect to have both descriptive and predictive power. This model indicates that for each of the *coordination* answers listed above and in the model, specific percentages of franchisees will fall into each of the three conflict cluster groups. The expected cluster membership percentages are then used to predict the cluster membership of the cases in the test file. A significance level of 0.05 or more indicates that the expected and observed cases have a probability of being the same. Clearly, each node of the first level predictor, *coordination*, has significant predictive value.

6.7.4 THE SECOND LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: ANTECEDENTS OF CONFLICT (See Figure 6.16)

The second level predictor is "*arms length*," which asks for the degree of agreement (1-5 Likert scale) with the statement "my relationship with the franchisor is arms length."

The second level independent variable is again a highly discrete predictor of franchisee-franchisor conflict. Each of the 1 (disagree) to 5 (agree) answers on the scale are segmented into descriptive/predictive sub-groups. The interpretation of the sub-groups follows the pattern established and explained in the first level predictor *coordination*. The franchisees are clearly more satisfied with the relationship if they do not see it as "arms length." However, it is important to note that strong disagreement with the arms length notion of the relationship (1 on the 1-5 scale) is required to obtain a majority of the franchisees (79%) in the satisfied cluster membership. As soon as there is any doubt by the franchisee that the relationship is not arms length (2 on the 1-5 scale) ambivalence becomes manifest and anger rises somewhat (from 2.47% to 9.38%). This phenomenon becomes exacerbated in the 3, 4, and 5 segments. There is little doubt in the minds of franchisees that the franchisee-franchisor relationship should not be arms length. This would indicate that the coordination previously required (as depicted in the first level model) goes beyond formal boundaries. Axlerod (1984) describes an "organic" cooperation that represents informal and spontaneous cooperation born out of an understanding or belief that the relationship will be maintained for a long time. Organic cooperation goes beyond the formal, contractual relationship.

The "*arms length*"=1 node, (n=81, 1:79.01%, 2:18.52%, 3:2.47%) is further segmented into two sub-groups which correlate to the independent variable *cooperation*, which asks for level of importance regarding the statement, "At this point in time, developing a more cooperative relationship with the franchisor is relatively..." (1, not important to 5, very important, Likert scale). This further segmentation places each of the 81 franchisee respondents from the "*arms length*"=1 sub-group into cooperation=1-3, or cooperation=4 segments.

These results indicate that franchisee perception of an arms length agreement correlates with their attitudes about the on-going relationship with the franchisor in terms

of the relational goal of cooperation. Franchisees logically believe that if cooperation in the relationship is currently in place then they have less of an arms length deal. However, the franchisees appear to allow great latitude in their perspective of cooperation. There is no statistically significant difference in the correlation with conflict in the franchisee-franchisor relationship between clearly seeing the relationship as not needing more cooperation and neutrality in perspective on the issue.

The shifting of conflict cluster group membership is between satisfied and ambivalent, with relatively little effect on the angry cluster. Although the majority of the franchisees remain satisfied with the relationship, the franchisor has lost unequivocal support *vis à vis* satisfaction, as group membership in the ambivalent cluster increased to a third of the sub-group.

The "*arms length*"=2 node, (n=96, 1: 46.88%, 2: 43.75%, 3: 9.38%) is further segmented into two sub-groups which correlate to the independent variable *promotional expense*, which asks for level of expenditure on promotion based on percentage of sales (1=0-1%, 2=2-4%, 3=5-7% and so on).

Spending more on promotional expense inversely correlates with franchisee satisfaction. The economics literature discussed in the literature review chapter would support the notion that higher promotional expense, often a result of franchisor marketing programs (Mittlestaedt and Stassen, 1990), would result in conflict. The *promotion expense* sub-groups are a small but clear indication of that phenomenon.

The "*arms length*"=3 node, (n=160, 1:25.00%, 2:55.00%, 3:20.00%) is further segmented into two sub-groups which correlate to the independent variable *coordination*. This further segmentation places each of the 160 franchisee respondents from the "*arms length*"=3 node into either *coordination*=4, or coordination=5.

This sub-group indicates again that the franchisees are clear in their desire to coordinate activity with the franchisor. Less of an arms length relationship and neutrality on coordination result in and ambivalence and anger and very little satisfaction. This is consistent with the findings in the first level predictor model.

The fourth "*arms length*" node is segmented by company, or franchise affiliation. The nine companies are divided into two groups. The largest segment has six companies with a large ambivalent cluster and even minority clusters of angry and satisfied

franchisees. There is a higher propensity of conflict if the market value of the trade mark is not known. This is the only appearance of a trade mark related variable and, although theoretically sound, the result is rather minor when transaction-cost points to a much greater role.

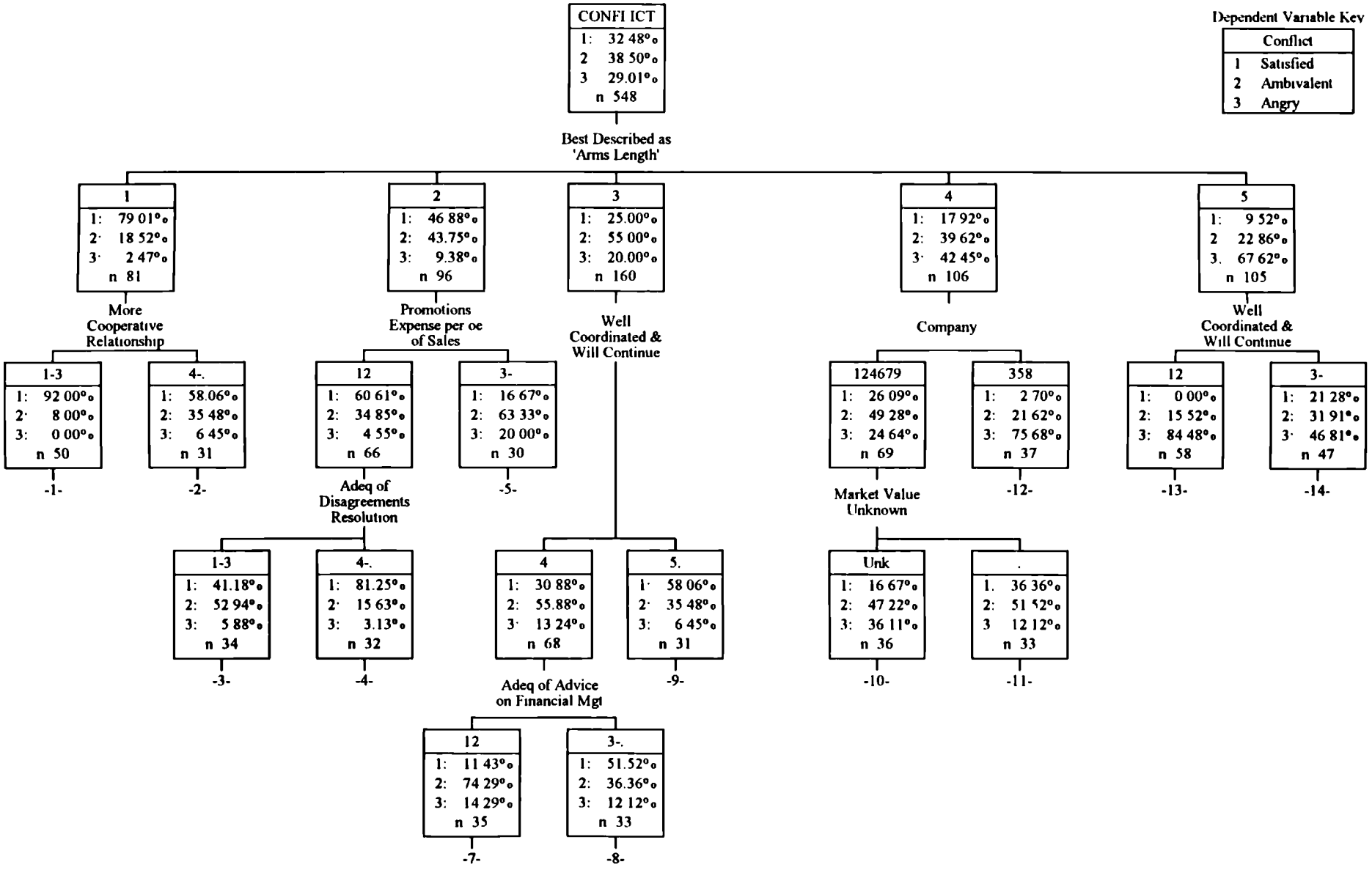


FIGURE 6.16. Tree Diagram for Predictor Variable Q15ARMS (Best Described as 'Arms Length')

6.7.4.1 GOODNESS OF FIT: TESTING THE SECOND LEVEL PREDICTOR "*ARMS LENGTH*" IN THE CHAID MODEL

Table 6.28 Goodness of Fit Test for the CHAID Model Second Level Variable:"*Arms Length*"

Variable Category	Chi-square	D.F.	p-value
"Arms length"=1	1.9051	2	0.3858
"Arms length"=2	1.5706	2	0.4560
"Arms length"=3	2.0202	2	0.3642
"Arms length"=4	0.1383	2	0.9332
"Arms length"=5	1.3192	2	0.5171

Although the significance of the goodness of fit analysis is less than that for the first level predictor, all five variable segments are statistically significant ($p>.05$) predictors of franchisee cluster membership.

6.7.5 THE THIRD LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: ANTECEDENTS OF CONFLICT (See Figure 6.17)

The third level independent variable predictor of franchisee conflict cluster membership is *adequacy of fairness*, the variable which scores (1-5 Likert scale of adequacy) the statement, contained in the Franchisor Provided Services section of the questionnaire, "Resolving disagreements and complaints quickly, eagerly and fairly." Therefore, the franchisee respondents are commenting on the adequacy of the franchisor in resolving disagreements brought by the franchisee. It is intuitively logical that fairness and conflict would correlate (Ouchi, 1972). However, this intuitive relationship has not been measured in franchising before this study.

The respondents who scored *adequacy of fairness*=1, clearly inadequate fairness, are clearly dissatisfied franchisees (5.68% satisfied, 29.55% ambivalent, 64.77% angry). It is surprising that only 65% of the franchisees are angry when they score the franchisor as clearly unfair. This adds further support for a structural group of satisfied franchisees. Importantly, if the franchisor achieves only *adequacy of fairness*=2, a majority of the

franchisees move from the angry to primarily the ambivalent conflict cluster. If the franchisor can achieve a neutral (*adequacy of fairness*=3) score for fairness, only 26.03% of franchisees are angry. The movement of franchisees toward greater satisfaction continues through to *adequacy of fairness*=5. However, even at a high degree of fairness, 8.14% of franchisees remain in the angry cluster, possibly representative of the structurally angry franchisee.

The sub groups of the *adequacy of fairness* predictor variable are primarily relational variables. If a franchisee believes the relationship is clearly arms length then the franchisee sees fairness as clearly inadequate. However, "clearly arms length" is defined by the franchisee response of "*arms length*"=5. There is no statistically significance difference among "*arms length*"=1,2,3 or 4 in the way those scores correlate to the franchisee response *adequacy of fairness*=1.

Adequacy of fairness=3 represents the neutral franchisee perspective on fairness. The resulting conflict cluster membership is intuitive and symmetrical. About half of the franchisees are ambivalent and one quarter satisfied and one quarter angry. Neutrality of fairness scoring correlates to *the franchisor is just another supplier*. Disagreement with that statement *the franchisor is just another supplier*=1,2, and therefore a belief that the relationship goes beyond product and service transactions, dramatically shifts franchisees from anger and ambivalence to satisfaction. The franchisee scoring of *the franchisor is just another supplier* correlates with the adequacy of advice from the franchisor regarding inventory, *adequacy of inventory management*. An interesting and important point is that correlation among independent variables in the sub group headed by *adequacy of fairness*=3 (neutrality) segment vertically down the tree diagram into two distinct sub groups. These two groups are scoring 1 and 2 versus 3, 4, and 5. Gaining a neutral or better perspective from franchisees on supplier issues dramatically affects the anger group, reducing it by 26% to 39%.

Adequacy of fairness=4 indicates the first segment in which satisfaction has the largest cluster group membership. However, 37.1% of franchisees are still ambivalent. Angry franchisees are reduced to 13.71%. Again, it is coordination that correlates with satisfaction in the sub groups of the *adequacy of fairness*=4 predictor variable. Clear

coordination (*coordination*=4,5) predicts over 50% satisfaction cluster membership. Likewise, coordination is linked to a relationship which is not arms length.

Adequacy of fairness=5 yields two-thirds satisfaction among franchisees. The sub groups correlate to the franchisees perception that the relationship goes beyond that of supply. However, if there is any doubt that the franchisor is more than just another supplier franchisee ambivalence manifests.

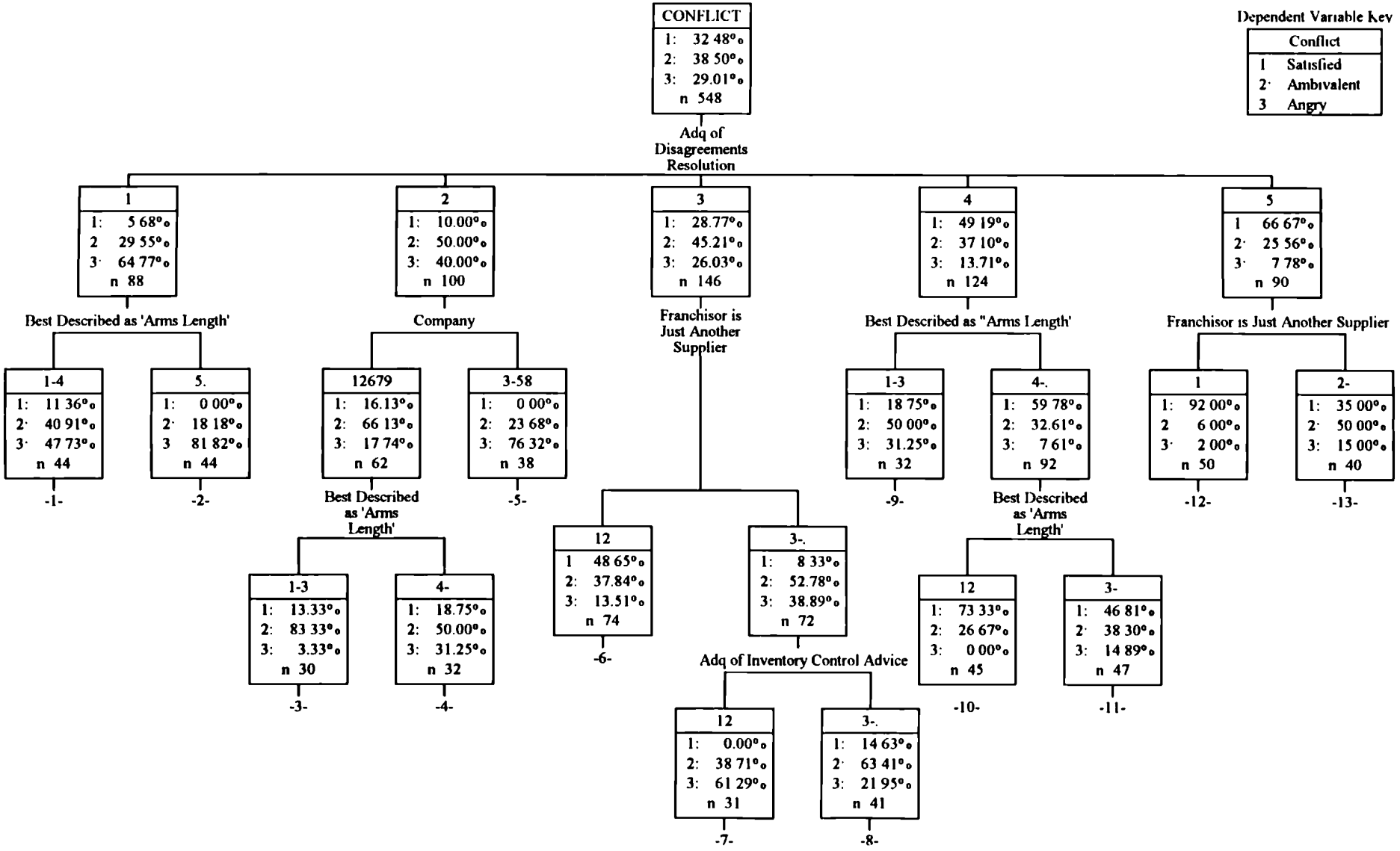


FIGURE 6.17. Tree Diagram for Predictor Variable ADFAIR (Adequacy of Disagreements Resolution)

6.7.5.1 GOODNESS OF FIT: TESTING THE THIRD LEVEL PREDICTOR *ADEQUACY OF FAIRNESS* IN THE CHAID MODEL

Table 6.29 Goodness of Fit Test for the CHAID Model Third Level Variable: *Adequacy of Fairness*

Variable Category	Chi-Square	D.F.	p-value
Adequacy of fairness=1	0.0882	2	0.9569
Adequacy of fairness=2	1.5000	2	0.4724
Adequacy of fairness=3	0.1323	2	0.9360
Adequacy of fairness=4	0.0301	2	0.9851
Adequacy of fairness=5	0.6036	2	0.7395

The Goodness of Fit test indicates that all five *adequacy of fairness* segments have statistically significant predictive value.

6.7.6 THE FOURTH LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: ANTECEDENTS OF CONFLICT (See Figure 6.18)

Franchise system, the categorical variable which designates franchise system affiliation of the respondent. Coordination is the independent variable which correlates with company affiliation in five of the nine companies in the study at this level of analysis. Agreement that the relationship is arms length correlated with two company affiliations. Agreement that the relationship creates a complex web of expectations correlates with the remaining two companies.

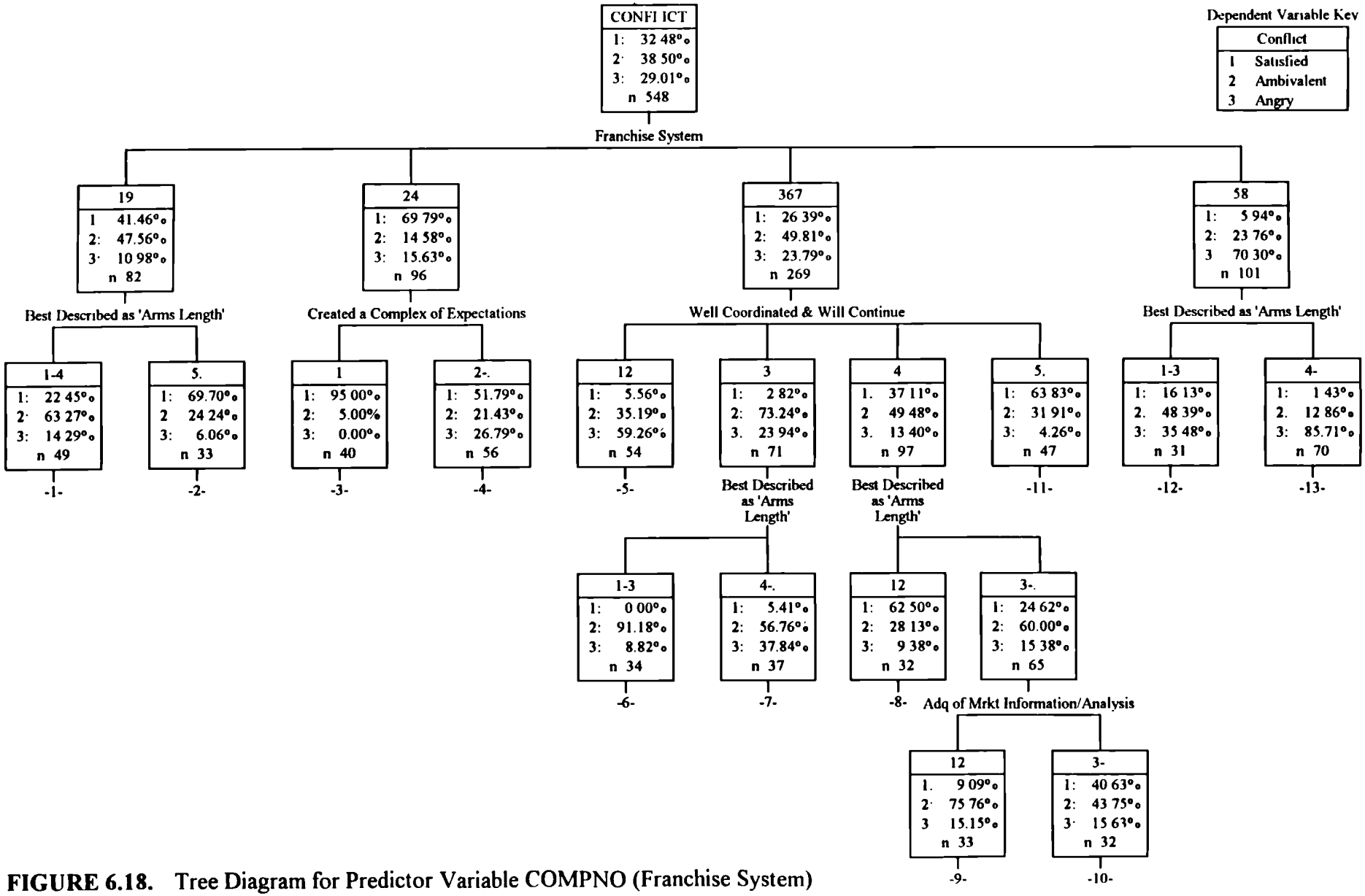


FIGURE 6.18. Tree Diagram for Predictor Variable COMPNO (Franchise System)

6.7.6.1 GOODNESS OF FIT: TESTING THE FOURTH LEVEL PREDICTOR *FRANCHISE SYSTEM* IN THE CHAID MODEL

Table 6.30 Goodness of Fit Test for the CHAID Model Fourth Level Variable: *Franchise System*

Variable Node	Chi-Square	D.F.	p-value
Franchise system=1,9	1.2535	2	0.5343
Franchise system=2,4	6.6577	2	0.0358
Franchise system=3,6,7	1.6126	2	0.4465
Franchise system=5,8	0.4206	2	0.8103

Franchise systems two and four are not statistically significant predictors of conflict cluster membership. There are few nodes in all of the CHAID modelling that did not support the predictive value of the independent variable. Therefore, we remain confident in the descriptive and predictive value of the models.

6.7.7 THE FIFTH LEVEL CHAID MODEL PREDICTOR WITH TREE DIAGRAM: ANTECEDENTS OF CONFLICT (See Figure 6.19)

The fifth level independent variable predictor is *adequacy of management problem solving advice*, is consistent with previously developed CHAID modelling using this variable. Patently poor advice is influenced by the franchisor's performance in delivering national advertising. Developing new products and services influences the *adequacy of management problem solving advice*=2 node and promotion of products and services influences the *adequacy of management problem solving advice*=3 node. All influencing independent variables are marketing oriented.

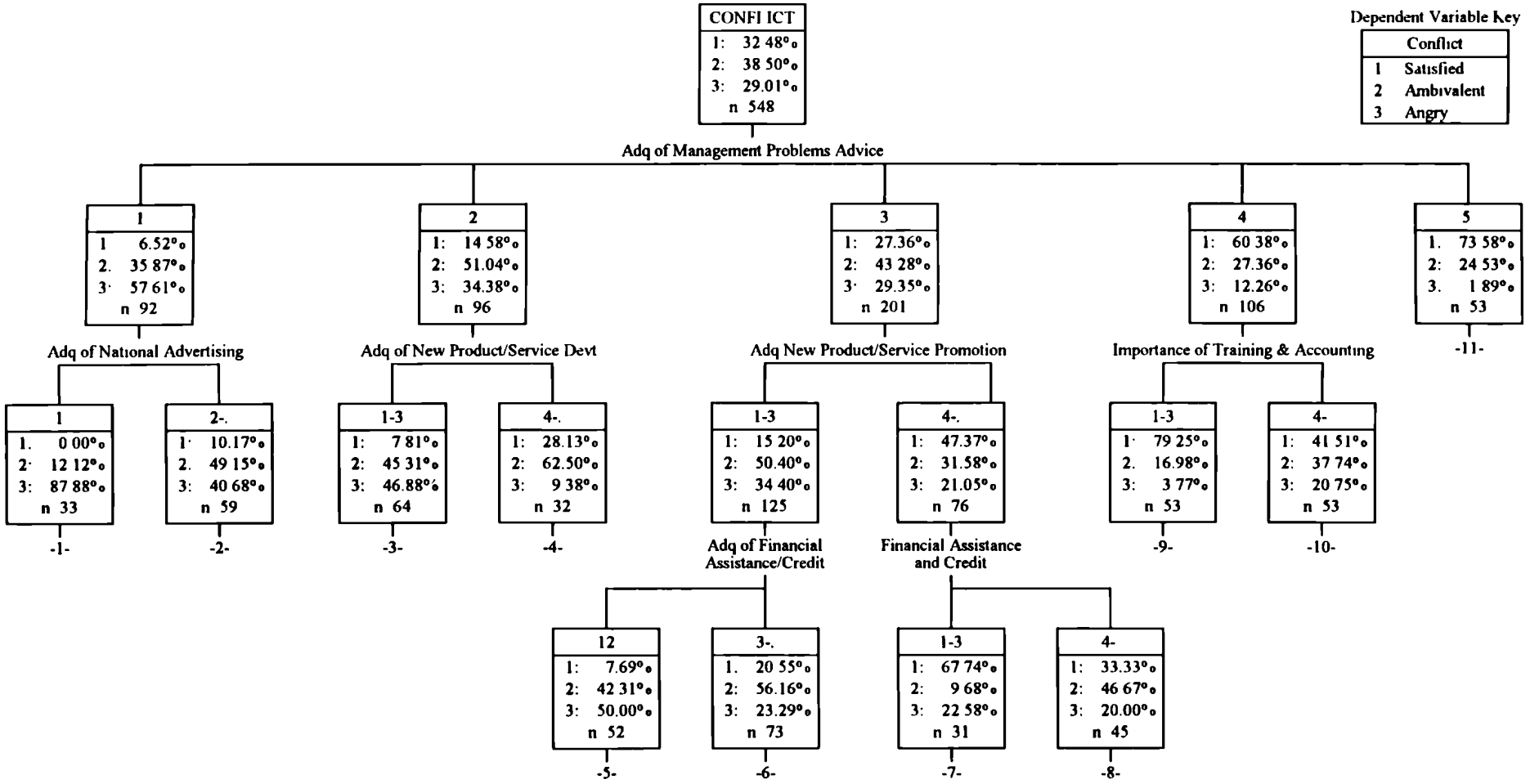


FIGURE 6.19. Tree Diagram for Predictor Variable ADPROB (Adequacy of Management Problems Advice)

6.7.7.1 GOODNESS OF FIT: TESTING THE FIFTH LEVEL PREDICTOR *ADEQUACY OF PROBLEM SOLVING* IN THE CHAID MODEL

Table 6.31 Goodness of Fit Test for the CHAID Model Fifth Level Variable: *Adequacy of Problem Solving*

Variable Node	Chi-Square	D.F.	p-value
Adequacy of problem solving=1	1.0753	2	0.5841
Adequacy of problem solving=2	3.8968	2	0.1425
Adequacy of problem solving=3	10.3241	2	0.0057*
Adequacy of problem solving=4	7.4333	2	0.0243*
Adequacy of problem solving=5	0.7297	2	0.6943

*=Sig. at .05

Only three of the five nodes have statistically significant predictive power as opposed to the more specific franchisor provided services models which contain the *problem solving* variable. Franchisees may judge the franchisor's problem solving ability in the context of their daily activities, as represented by the franchisor provided services adequacy variables. This is a very task oriented perspective and underscores the value of the franchisor provided services model.

6.8 SUMMARY OF THE MULTIVARIATE ANALYSIS OF THE DATA

Conflict exists in all commercial organisations at some level (Thomas, 1992). The clear and rational separation of the three cluster solution in establishing the conflict construct scale is a striking depiction of the theoretical potential for conflict in franchising. Equally striking is the almost even distribution of the cases in the three clusters.

Theoretical underpinnings have led us to significant correlation of variables to the conflict construct. These correlations point to the pivotal role of the ambivalent cluster group as cases move along the conflict scale. There appears to be a small core of both structural satisfaction and anger and significant movement from the ambivalent group into anger and satisfaction.

The research question is answered by this delineation of the status of conflict in the franchisee samples studied with a strong case for the generalisability to the populations of the franchise systems.

The franchisee's belief that cooperation is the underpinning of the relationship makes the delicate balance between coordination and an arms length relationship an important and intricate franchisor management function if high satisfied cluster membership is to be achieved. Coordination, however, is achieved by promulgating a system which is not complex and has clearly understandable expectations. These expectations can be delivered, at least initially, in the license agreement. Franchisees understand the importance of this contract. There are expectations of monitoring of the relationship by both the franchisee and the franchisor. Parenthetically, this is an interesting adjunct to the mutuality component of Mcneil's relational exchange theory. Mutuality is clearly at least a two party phenomenon which may be best studied by using two constructs. **Proposition A, which relates franchisee goals to conflict in franchising, is supported.**

The monitoring activity is captured in the analysis of the franchisor provided services. Adequacy within the boundaries of the CHAID model produce a very high level of satisfaction. Franchisees appear to be flexible in their acceptance of performance by the franchisor but not without boundaries. **Proposition B, which relates franchisor provided services to conflict in franchising, is supported.**

That the trade mark cannot be directly linked to exit costs nor directly quantified in valuation is surprising. This symbol of the relationship's asset accumulation is clearly not directly addressed as a part of the alliance between the franchisor and franchisee. It is not the coalescing agent that theory would suggest. Although not linked to trade mark valuation, exit costs do provide an interesting perspective on conflict. It appears that assets which are more easily transferred out of the relationship are viewed as less of an exit cost than those assets which are relationship specific. Also, the greater the value of the transferable asset the higher the level of conflict. The opposite is true for relationship specific assets. **Proposition C, which links exit costs to trade mark value and conflict is only partially supported**.

Table 6.32 below is a summary of the 19 models and the independent variables contained in the models. The numbers opposite the variable labels indicate the whether the variable is a principal predictor (#1) or an independent influencing variable by depth (#'s 2,3,4).

Forty variables are included in the table. Coordination is the principal predictor three times. Attitude towards an arms length relationship appears eight times, once as a principal predictor and seven times as an influencing predictor.

Table 6.32 Predictor Depth Level for CHAID Models

FIGURE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
MODEL	q10coop	q13comit	q15coor	q15arms	q15_a	q15coor	adfair	adprob	adzorm	adncwd	adops	q17altsu	q25train	q26ops	q15coor	q15arms	adfair	compno	adprob
adacct							2				3								
adcrdt															3				3
adfair							1		2	2	2					3	1		

FIGURE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
MODEL	q10coop	q13comit	q15coor	q15arms	q15l_a	q15coor	adfair	adprob	adzorm	adnewd	adops	q17altsu	q25train	q26ops	q15coor	q15arms	adfair	compno	adprob
adfirma											3					4			
adinv															2		3		
adlclad															3				
admkinf											4				23			4	
adnaf							2		2	2									2
adnewd							3			1	2								
adnwpr															3				2
adops							2		3		1								
adprob								1	2	2									1
adprom							2		3										
adsuply											23								
adtram							2			3									
adzorm									1						2				
q10coop	1	2				2										2			
q11com		2																	
q12qual	2	3																	
q13comt	3	1																	
q14acct										3									2

FIGURE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
MODEL	q10coop	q13commit	q15coor	q15arms	q15l_a	q15coor	adfair	adprob	adzorm	adnewd	adops	q17altsu	q25train	q26ops	q15coor	q15arms	adfair	compno	adprob
q14supl										3									
q14train										3									
q15expt			2			2												2	
q15arms				1		2									3	1	2 3	2 3	
q15cmpl			2																
q15coor			1			1									1	2		2	
q15just				2													2		
q15l_a					1														
q15monu						3													
q15pymt					2														
q16cnvrt												2	3						
q17altsu												1		3					
q21prsnl												3							
q24mktb													2 4		4				
q25train												2	1						
q26ops														1					
compno													2	2	2	2	2	1	
q31pro																2			

FIGURE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
MODEL	q110coop	q113comit	q115coor	q115arms	q151_a	q115coor	adfair	adprob	adzorm	adnewd	adops	q117alsu	q25train	q26ops	q115coor	q115arms	adfair	compno	adprob
q32mktu																3			

Within the seventy-six independent variables used in this study there are four major areas of variables which seem to impact the models to the greatest extent. First are the franchisor provided services adequacy variables. It is striking how prominent they are in predicting conflict and how few franchisor provided services importance variables impact conflict. Franchisees appear to focus their attention more on delivery of the system than on ordering the priorities of the system. Second, are the goals for the future of the relationship. Cooperation is the most important goal and an important influencing goal in the general model of conflict. The third area of concentration is in the goals for the on-going relationship, and in particular, the role of coordination as a principal predictor of conflict. However, the franchisor is also expected to deal at arms length with the franchisee. There is a delicate balance between coordination and arms length dealing that franchisees expect from the franchisor. The fourth area of concentrated effect on conflict is the exit cost. Interestingly, the expense factor components are not prominent and the business format components are. The transaction specific costs of doing business are the costs which affect conflict.

In only one of nineteen models is franchise affiliation (company) the principal independent variable predictor of conflict. However, it is an influencing variable in both the perceived exit cost models and in the general models of conflict. Therefore, the predictor should be the focus of the relationship with detail of the process executed with specific company issues in mind. For example, in model 6.13 the principal independent variable predictor of conflict is the increase in training costs upon exit. For five of the nine

companies the percentage of franchisee in each cluster is influenced by the cost of store conversion upon exit. While our model is clear that training costs are a predictor of conflict for all franchisees in the populations from which the sample was drawn, "fine tuning" this issue may require company specific knowledge.

Considering the density of the data, maneuvering throught the CHAID models can be a tedious task. However, it's greatest contribution may be in the overall perspective gained by reviewing the detail, rather than the detail itself. The patterns of response are astonishingly consistent within both theoretical and intuitve parameters, providing guideance to the researcher for teasing out intricacies in future work while sending strong messages to the practitioner regarding the tone and direction for managing the relationship.

CHAPTER VII
CONCLUSIONS

7.1 INTRODUCTION

This study has attempted to expand the understanding of franchising as well as delineate and empirically support the antecedents of conflict in the franchisee-franchisor relationship from the perspective of the franchisee. The literature review has been focus in an attempt to focus on the definition of franchising, specifically to categorize the organizational form and to rationalise the governance structure. The methodology is designed to segment the franchisee population and reveal the intricacies of the correlations with conflict which could affect decision making and consequently help form the governance of the relationship.

The theoretical foundations of the study, specifically Transaction-cost Economics and Relational Exchange Theory, guide the study, and, when linked with the methodology, are extended by the applications. The intricacies of franchisee motivations are studied in a manner which focuses on the individual transaction but accepts the reality of correlation among transactions. Thus, the transactional boundaries of the relationship are viewed as a series of models which offer varied perspectives on conflict rather than individual and possibly unrelated events.

Conclusions and recommendations are presented in several sections which generally follow the chapter headings of the dissertation. This is done because there is a wide range of literatures this study impacts.

7.2 MEASURING CONFLICT AND SEGMENTATION OF THE FRANCHISEE POPULATION

We have spent considerable time in the development and explanation of operationalising and scaling conflict through measuring satisfaction. Other researchers have developed similar operationalisations but usually as linked to "job satisfaction" and not a reflection of the relationship with the franchisor. However, it is useful to review their work and explain both the extensions of and variances from the literature this study contributes.

Walker's (1971) mail survey of 319 franchisees was the first to examine franchisee satisfaction, defined as a franchisee's general feeling toward his entire work situation. Relative scaling (1-6 Likert scale of agreement) of satisfaction was operationalised as the average of the response to two questions: 1.) indicate your overall feelings about your present position; and 2.) describe your level of satisfaction as a franchisee.

The main findings of the study included the following: 1.) a majority of the franchisees reported satisfaction of between 58.5% and 85%, depending on the specific work environment; 2.) the most common sources of satisfaction were, being one's own boss, and high income; 3.) the most common sources of dissatisfaction were poor financial return, lack of franchisor support, and prospects oversold by the franchisor; 4.) the most beneficial element of franchising was having trade name recognition or trade mark image; 5.) the most undesirable elements of franchising were the absence of continuing support and excessive royalties.

Goodman's (1980) study surveyed non-food franchisees and examined franchisee-franchisor conflicts of interest. Fifty-three percent of the sample did not perceive significant conflicts of interest with their franchisor but forty-two percent were undecided. Goodman's study reveals that 62% of franchisees reported being clearly satisfied with their franchise and 15% dissatisfied. No report was made as to the status of the remaining 23%. Principal sources of dissatisfaction were lack of contractual fairness, low levels of franchisor services, and inadequate income.

Also in 1980, Schul studied franchised real estate brokerage services and showed that various dimensions of franchisee satisfaction were negatively affected with respondent identified issues of conflict with the franchisor, specifically in the areas of franchisor provided services, and fee structure. Additionally, he found that franchisee performance (measured as annual pre-tax profit) was negatively affected by reported levels of conflict with the franchisor.

Christenholz (1989) explored franchisee satisfaction in a picture framing franchise. He attempted to relate franchisee satisfaction with economic success. He found no

correlation. However, adequacy of controls in the license agreement did correlate to both franchisee satisfaction and economic success.

Mayo, Robicheaux, and Ferrell (1989) conducted exploratory research, measuring franchisee satisfaction with an eight-item scale that included earnings, growth, support and personal relations items. The findings show a positive relationship between satisfaction and 1.) fairness of the license agreement 2.) overall satisfaction with the franchise relationship, 3.) experience relative to expectations and 4.) future development plans of the franchisee. Variables most likely to produce disagreement with the franchisor were advertising fees, product availability, territorial restrictions, and product restrictions.

The most recent study was conducted by the Gallup organisation in the U.S. (Gallup, 1992). This was the largest study of its kind, with 994 franchisees interviewed via telephone and sponsored by the franchisor organisation, the International Franchise Association (IFA). The results suggest that: 1.) ninety-four percent of respondents consider their franchise to be either very (47%) or somewhat (47%) successful; 2.) More than 70% of the respondent's franchise experience either met or exceeded their expectations with regard to their personal satisfaction (76%), and overall satisfaction (73%). Franchisor support was reported as the variable least likely to have met franchisee expectations (63%). When asked if they were satisfied with the franchisor, 79% of respondents answered affirmatively. However, 25% of the respondents answered that they would not invest in the franchise again.

Our study at times validates and sometimes refutes the results of these works, but more importantly, is the first to focus principally on the relationship with the franchisor as a source of conflict. Also, some methodological and theoretical weaknesses may affect validity and generalisability of these studies which we believe have been, at least to some degree, alleviated in this study. Satisfaction constructs were discussed only briefly and validity and reliability data for the measures sometimes unreported (Gallup, 1992; Goodman, 1980). Small sample sizes or only one franchise were used in some studies, or no proof of samples representing the franchise population were offered (Christenholz, 1989; Schul, 1980; Hunt and Nevin, 1974; Mayo et al, 1989). Importantly, segmentation

of the population was achieved using the mean scoring of questions with no analysis of statistical significance (Walker, 1971). Having described these deficiencies, the studies do provide some grounded support for our results.

Walker's (1971) study is the first to attempt to measure franchisee satisfaction and to point to franchisor provided services as a pivotal issue in the franchisee-franchisor relationship as a source of conflict. Further he attempts to segment the population generally as satisfied or not satisfied. Goodman's (1980) study was the first to reveal a large percentage of franchisees as "undecided." We cluster cases on our conflict construct and more specifically label the "ambivalent" group of franchisees. Schul (1980) also found conflict to correlate with franchisor provided services, however, made no specific delineation of those services. He also found a correlation between satisfaction and financial return, which our data does not support. Christenholtz (1989) also found no correlation between economic success and franchisee satisfaction. He made a tangential finding regarding the license agreement and satisfaction, but no specific reference to franchisor provided services. Mayo, Robicheaux and Ferrell's (1989) findings introduce personal relations variables in scaling satisfaction and consequently fairness as a variable involved in conflict, although the scale itself is heavily weighted in favour of financial and economic variables, which we find to have less impact on conflict. Even with the Gallup (1992) study's methodological weaknesses (the vested interest support of the IFA and potential interviewer bias), the 25% of respondents who would not again invest in the franchise is similar to our angry cluster of franchisees who would not be a part of the franchise if it were up to them.

Our contribution to the literature includes a sound methodology in the development of the conflict construct (use of the appropriate correlation matrix and presenting both pilot and main study data on validity and reliability) and in presenting a theoretically and statistically sound clustering of the cases on the construct. Additionally, we extend the measure to segmentation of the population using the appropriate statistical application (SPSS CHAID), allowing us to develop predictive as well as descriptive models of conflict in the franchisee-franchisor relationship. These models provide a useful

platform for further academic research and a pathway to greater inter-organisational efficiency for the practitioner.

Validating and assessing a measure of conflict in franchising is an advancement of the literature. By measuring conflict, a base line is established from which antecedents are measured. Also, future research can attempt to duplicate, refine and expand the experiment. The conflict construct forms a spectrum of franchisee satisfaction, ambivalence and anger. The difference between satisfaction, ambivalence and anger, as measured by distance from the global mean, is striking. The ability to manage the relationship better and move franchisees from the angry to ambivalent and ambivalent to satisfied clusters is evident in the data. The conflict literature explains that destructive conflict occurs and the commercial relationship breached when a party to the relationship sees the costs of continuing the relationship exceeding the benefits. The satisfied cluster group member sees the action of the franchisor and agrees with those action. The ambivalent and angry cluster members see franchisor action and disagree. Also, the result of the action by the franchisor in the angry cluster is retained anger and a desire to exit the relationship. The ambivalent cluster member has less retained anger and desires to remain in the franchise relationship. Theory explains that a commercial relationship builds anger or trust over a series of transactions between the participants. The conflict cluster groupings appear to form a spectrum. Theoretically, the franchisee places himself somewhere on the spectrum immediately upon entering the relationship and moves along the spectrum as transactions with the franchisor occur. The franchisee perceives these transactions as positive or negative, which moves the franchisee toward greater satisfaction or greater anger. There is a highly sensitive response by franchisees to the actions of the franchisor, which effects the franchisee's position on the spectrum. The danger in franchising is that the ambivalent cluster group members move toward the angry cluster over time. The reverse, of course, is the opportunity to motivate satisfied cluster group membership among the ambivalent franchisees and to move the angry franchisees into at least ambivalence, where they tend to want to stay in the relationship.

The percentage of franchisees in each cluster is important. The three clusters are almost equally divided. With almost a third of the franchisees angry, the reported high level of litigation in franchising (Wall Street Journal, 1994) is understandable. Quantification of the problem, the percentage of franchisees who are angry, establishes a general scope of the tasks required to ameliorate the conflict. Therefore, having established the nature and extent of the problem, the models of the antecedents of conflict focuses the analysis on the detail of the problem.

The practical nature of using these models to influence cluster group membership is also evident. The next section begins with a discussion of the major findings from the CHAID modelling and then discusses the practical implications.

7.3 EXPANSION OF THE EMERGING FRANCHISE LITERATURE

Using divergent literatures franchising is established as an inter organizational form by this study. Our empirical work clearly illustrates that franchisees see the relationship cooperative in nature and coordinated as a requirement in a dynamic set of transactional boundaries. Also clear is that franchising is a relational exchange but not at the extreme of the spectrum. Relational exchange goals describe a cautious franchisee partner. We believe this supports the definition of franchising as an inter-organisational form. This is an important step in the continuing evolution and development of a franchise literature. Previously, franchising has been viewed, and studied, by many scholars as a hierarchy. The hierarchial perspective is promulgated by both the Agency theorists and a formal legalistic approach. The various CHAID models developed in this study exhibit an interdependent set of processes. It is clear that interdependent processes of this nature are required of the inter-organizational form (Muris, 1981). In our view the franchise literature under- emphasizes the interdependencies which this study emphatically models as essential in franchising. Also, the hierarchial perspective tends to underestimate the role of the franchisee in the management of the system. Hierarchy is its own court of last appeal and therefore a hierarchial perspective of franchising requires the franchisee to undertake decision making processes which presume an inferior strategic position. Strict

legal interpretations of the relationship grant the franchisor pre-emptive contractual rights which lever franchising into a hierarchy. If the franchisor has the absolute contractual right to terminate a franchisee then the franchisor is the court of last appeal and thus franchising is a hierarchy. Grossly diverse legal environments within the United States and around the world and legal precedent clearly evolving toward greater equity in the relationship deny the validity of the strict legal perspective.

Choice of organizational form is imperative to optimise outcome (Hambrick, 1989). Logically then, it is imperative to properly define the organizational form for franchising. This allows for a research agenda with focused perspectives, specifically in governance and the consequent influence strategies. For the practitioner, a better understanding of the organizational form enhances the rational model of strategic decision making. The consequence will be enhanced inter-organizational performance.

7.4 FRANCHISEE GOALS AND CONFLICT IN THE FRANCHISEE-FRANCHISOR RELATIONSHIP

The literature is replete with studies on cooperation. This study clearly reveals that cooperation is essential to gaining franchisee satisfaction. Also, there is a path to cooperation which is outlined by the franchisee. This path illustrates the detailed route of problem solving (reducing conflict in the relationship) that the franchisees require of the franchisor. Specifically, coordination of activities designed to build the trade mark leads to a feeling of cooperation which then maintains satisfaction. The reduction in conflict is exhibited by definable movements of franchisees from the angry cluster to the ambivalent and satisfied cluster groups. Otherwise stated, coordination, cooperation, and commitment are linear correlations and positively correlate with satisfaction.

Smith, Carroll, and Ashford (1995) use an interesting historical anecdote about 20 Greek cities in 448 B.C. who allied to defeat the larger and more powerful Persian empire. The focus of the battle would be on the ocean. The Greek cities use of smaller ships and ramming techniques required a high degree of training to create speed and synchronization of movements. The Greeks attributed their ultimate success to the initial cooperation

among the cities and eventual coordination among the ships' crews. Additionally, this initial concept of cooperation and coordination became a template for the flowering of Greek culture with its vast contributions to civilization. It is in this tradition that the findings of this study are an important guide for franchise management and development. Understanding and following the path to coordination and cooperation will establish a highly satisfied franchisee body. Allocation of resources to functions which support and enhance cooperation and coordination will reduce anger and yield greater productivity.

A closer review of the literature reveals a progressive examination of cooperation in management. Barnard (1939) viewed the business organization as a system of cooperative efforts and coordinated activities. Mayo's (1945) work focused on the interaction between workers and management. He discovered that workers felt a high social need to coordinate with management which lead to cooperation in work flow and acceptance by workers of management decisions. Fayo (1949) wrote extensively on the functions of management and included coordination as one of the five key elements of successful management. Although he did not place the same emphasis on cooperation, it was included as an antecedent of coordination. Interdependence within organizations follows in the chronology of the development of the literature on cooperation and coordination. Thompson (1967) outlines a variety of pathways which organizations develop to achieve coordination and cooperation within firms. Lorsch and Lawrence (1969) followed Thompson's (1967) work by linking the strength and depth of these pathway to organizational performance measures. This lends support to the conclusion that a franchisor who follows the path of coordination and cooperation will develop a more productive franchise system. It also addresses the value of the multiple CHAID models developed in this study which form greater depth of pathways to franchisee satisfaction. Following these pathways theoretically gives the franchisor ample opportunity to enhance system performance.

Current literature takes the lead of Lawrence and Lorsch (1969) in describing the detailed relationship between antecedents and outcome variables. Cooperation as a prerequisite for an organization's competitive success through innovation is the clear

conclusion of a 1990 study by Beer, Eisenstat, and Spector. The individual organization as the unit of analysis has been the predominate form of study. The organizational development literature has in recent years given rise to a number of definitions for emerging organizational forms. The network organization (Powell, 1990), the virtual organization (Davidow and Malone, 1992), the horizontal organization, (Byrne, 1993), and the self-managed task team (Manz and Sims, 1993), all rely heavily on cooperation as the foundation for success within their organizational form. However, there is little written about the cause and effect of coordination and cooperation with partners using the inter-organizational form as the unit of analysis. While the literature has concluded that coordination and cooperation is important to organizational satisfaction, this study illustrates that inter organizational coordination and cooperation is an important ingredient for satisfaction.

This study uses satisfaction as a surrogate for conflict. The work on cooperation and conflict is less rich but still informative. Thomas (1992) found that cooperating parties within organizations had less conflict and better performance results. Thompson's (1967) study assumed that cooperation led to coordination and therefore better performance. He found, based on these assumptions, that high levels of cooperation correlate to higher levels of harmony among task participants within organizations. This study does not presume, but finds, that cooperation and coordination are intimately linked. Empirically supported models of franchisee conflict clearly illustrate that coordination and cooperation cannot be decoupled without affecting satisfaction.

Until recently, cooperation was typically defined as individuals, groups, or organizations concentrating on jointly followed processes in the formation of an alliance for mutual gain (Smith, Carroll, and Ashford, 1995). Ring and Van de Ven (1994) importantly extend that definition to include a willingness to continue the relationship. Equally important is their conclusion that the continuing nature of cooperation requires a constant re-evaluation and reshaping of the relationship to ensure cooperation and, therefore, maintenance of the relationship. The series of CHAID models developed in this study endorse Ring and Van de Ven's (1994) definition by portraying the adjustments that

cause the reshaping. Because these models are both descriptive and predictive, they provide a guide to managing the relationship which is theoretically supported and practical in their application.

From the variables which explain franchisee perceptions of coordination, it appears that marketing has a key role. A franchisor marketing department which serves to continuously perform marketing research and deliver findings at the local level to be used in the implementation of advertising plans, will be seen by franchisees as well coordinated.

7.5 FRANCHISOR PROVIDED SERVICES AND THE TOLERANCE ZONE

A primary tenet of transaction-cost analysis is that the nature of the transactions between exchange partners defines the efficient boundaries of an organisation and therefore the appropriate governance structure (Williamson, 1979). Williamson (1981) points to transaction uncertainty, frequency, and specificity in his definition of appropriate governance.

We find the inter-organisational form, or at least franchising as a single case representation, is likewise bounded. That is, neither franchisor or franchisee has unlimited resources available to monitor the transactions in the relationship. Therefore, neither party has complete information regarding the action of the other party to the relationship. Monitoring is necessary to assure partner opportunism, the extra-contractual seeking of exchange advantage, is limited. Alchian and Woodward (1988) argue that calculating the exact cost of transactions is impractical. This study accepts that argument but believes that the perspective of the exchange party to the relative transactions is calculable and useful in the governance process. Additionally, inter-organisational structural differences can be explained in terms of these relative transaction costs (Ouchi, 1972). Williamson (1981) termed limited resources for monitoring transactions as "bounded rationality" and argues for limiting the range of transaction contingencies between exchange partners as a way of efficiently utilising resources. Franchising employs a contract (license agreement) to allocate and define the inter-organisational transaction responsibilities and therefore act as the limiting agent. Our findings disclose a highly discrete set of acceptable performance

variables which suggests an empirically supported, franchisee described, boundary of transaction efficiency. This rationalised transactional boundary, operationalised in this study through scoring both importance and adequacy of franchisor provided services, is linked to perceived efficiency via correlation with the conflict construct. There is a definable (and modeled) pattern of correlation between franchisee perception of franchisor transactional performance and cluster group membership. Understanding the issue of resource scarcity, this model contextualises the transactions relative to other transactions and to conflict. That is, absolute scoring of a variable on the Likert scale is only important relative to other variable scores and to its correlation with conflict. We call this relative scaling and establishment of transactional boundaries, within which franchisee satisfaction as an exchange partner with the franchisor is achieved, the "tolerance zone."

Cooperation can occur in at least two forms, formal and informal (Smith, Carroll, and Ashford, 1995). This is underscored in our findings and supported by our analysis of franchisor provided services. Not only does this study outline an informal structure of cooperation, it is the first to discover and empirically support the nature and boundaries of the cooperative system in franchising. Having defined franchisor provided services as the key transactional points of interaction between the franchisee and franchisor, and then developed a model of cooperation between the parties that establishes transactional boundaries within which a spectrum of satisfaction ambivalence and anger manifests; "franchise tolerance zone." It is the transactional space within which harmony and efficiency is achieved because coordination and cooperation is seen in the context of specific business objectives. That is, the best ways to maintain and build trade mark value in a manner which satisfies the franchisee and induces a greater desire to maintain the relationship. Enhanced productive benefits as a result of a lasting and harmonious relationship are assumed.

Additionally, Browning, Beyer, and Shetler (1995) note that cooperation at any level must ultimately be reduced to cooperation between individuals. The "players" in the franchise tolerance zone, when reduced to the individuals, are most commonly the franchisee and the franchisor's field personnel. Field personnel are the employees in the

franchisor support system who are charged with delivering many franchisor services (Justis and Judd, 1989). The role of these individuals should be more coordination than simply the delivery of services. Communicating the franchisor's position on any given issue and then accepting input and feedback from the franchisee is a critical role. Our models indicate that it is the critical responsibility of the field support personnel in franchising. The informal adjustments in the relationship suggested by this model can be refined by the dynamic organisation to become process oriented. Thus, incremental changes become continuous and relationship breach less probable. The detailed process of incremental change as described in the tolerance zone, which induces movement toward greater franchisee satisfaction, are a valid contribution to the management literature. Linkages between the pathways described in the tolerance zone model and higher levels of perceived coordination are evident. Three of the four nodes spawned by the predictor variable which scores the level of coordination in the relationship are explained by the adequacy of franchisor services. Only the coordination score=3, or neutral, is explained by franchise system affiliation. Explanation of the first node, coordination score=1,2, comes from the adequacy of advice regarding inventory. The franchisor need only be perceived as neutral (or better) in delivering advice on inventory to dramatically reduce conflict. Adequate delivery of marketing information and analysis explains coordination node=4. Again, the franchisor need only be scored as neutral regarding adequacy to profoundly reduce conflict, as the satisfied cluster membership changes from 23% to 51%. The highest scoring of coordination, '5' is explained by the adequacy of access to the franchisor. There is no statistically significant difference between adequacy of access to the franchisor scoring 1-4. However, if the franchisor is scored '5' for this variable, the satisfied cluster reaches 90% Interestingly, this access is explained by the adequacy of advice regarding local advertising cooperatives. Once more the franchisor only needs a neutral score or better to achieve 71% satisfied cluster membership. Franchisees do not have unreasonable expectations regarding the necessary steps to coordinate the relationship on its most basic level. Also important in the interpretation of this variable is that services which explain coordination are delivered by the field personnel. Even the

adequacy of access to franchisor management is explained by a service delivered on the local level. However, it should be noted that achievement of the highest scoring for access to franchisor management has no explanatory independent variable.

Understanding the tolerance zone equips the franchisor with a pathway to managing franchisee satisfaction in a resource scarce environment. Resources can be applied in amounts appropriate to rationalise both strategic decisions and franchisee satisfaction. Franchisor performance within the tolerance zone will ameliorate the need for monitoring, reduce strict contractual interpretation and, therefore, necessarily increase efficiency. The bounded rationality of the franchisees, the tolerance zone, can be met with the bounded action of the franchisor, the allocation of scarce resources. This is the first attempt to empirically define transaction-cost economics' bounded rationality in an inter-organisational form.

Much in the literature discusses the dichotomous reality of conflict in and continued growth of franchising. One explanation of this phenomenon is franchisor dynamic movement into and out of the tolerance zone.

A number of studies have concluded that franchisor support is an important aspect of the relationship and that there is a delicate balance among support for franchisees, franchisee independence, and franchisee satisfaction (Withane, 1991; Schul, 1980; Goodman, 1980; Walker, 1971). We believe that transaction-cost analysis provides the appropriate guidance, and our findings support, prioritisation and responsibility allocation of transactions. Franchisees want cooperation and coordination in fulfilling their entrepreneurial ambitions. Low levels of satisfaction manifest because cooperation and coordination, specifically related to delineated franchisor provided services, not because of unfulfilled need for independence.

7.6 PERCEIVED EXIT COSTS AND TRADE MARK VALUATION

Conflict significantly impacts the franchisee-franchisor relationship at both the firm and system levels (Zeller, Achabel, and Brown, 1980). Our scaling of conflict and the

subsequent clustering of cases indicates that when conflict becomes endemic in the franchisees, there is a desire to exit the relationship.

Because our results indicate overall angry cluster membership of 29%, the role of perceived exit costs as a structural constraint is important. This group of angry franchisees may have a greater inclination to exit the relationship. Terminating the relationship may obsolete the transaction specific assets. The obsolescence of transaction specific assets has also been called irretrievable investments, represented by the expenditures of resources, time, and effort, sacrifice, shared possessions, pledges, and public announcements that are lost if the relationship is ended (Lund, 1985). Ping and Dwyer (1988) developed the notion of switching costs, the economic and psychic costs of terminating the current relationship. They argue that the existence of switching costs creates exit barriers and perceptually render alternatives as less attractive. Our findings indicate that commitment to the franchise is more relational than structural for franchisees. This conclusion is drawn from the scoring of psychic exit costs. Franchisees have indicated that much of what is thought to be transaction specific activity undertaken to build the trademark can be transferred to the establishment of a new trademark. Even though lost customer goodwill is scored high, operating procedures, employee training, and increased marketing budget score low as exit barriers. Parenthetically, most franchises, and all those who participated in this study, require all manuals, including training, operations, and marketing, to be returned to the franchisor upon termination of the license agreement. Franchisees internalise this information, thus allowing retrieval of the investment.

Franchisors may be well advised to invest in highly sophisticated methods of information development and retrieval which take full advantage of the scale economies, such as point of sale computing with proprietary software which integrates accounting and management information systems, and video training devices which reach beyond the franchisees to their employees and therefore cannot be completely internalised by the franchisee.

Analysis of the exit cost factors, and factor loading, reveals that franchisees see the value of the trade mark, and the subsequent customer goodwill, as a byproduct of the

operations program. They do not appear to link marketing and trade mark value. Indeed, one of the most surprising results of this study is that franchisees don't generally have an opinion of the market value of their trade mark. This would seem to blur the value of the franchise, specifically as opposed to a stand alone operation. This finding is important to the franchisor because 1) the proper allocation of the productive benefits is difficult to reconcile if the end value (sale and capital gain by the franchisee) is not recognised by the franchisee and 2) the purpose of the franchise alliance is to build the trade mark value and if franchisees are not measuring their success in a long term perspective (i.e., long term value of the franchise as represented by the cash flow generated by the trade mark or through sale of the franchisee firm) a major reason for franchising is not optimised.

7.7 SUMMARY OF KEY IMPLICATIONS AND RECOMMENDATIONS FOR PRACTITIONERS

This study delivers a strong message of caution to those who practice franchising. With almost 30% of franchisees angry and prone to exiting the relationship, and an equally large percentage of ambivalent franchisees, many franchise companies could be in peril. Even with most license agreements clearly favouring the franchisor, enforcement of the contract is costly and further deteriorates relationships. However, optimism can be derived from the empirically demonstrated dynamic nature of franchisee attitudes. Cooperation and process oriented coordination will enhance franchisee satisfaction. These processes should be prefaced with the recognition by both parties that the franchise relationship is formed to achieve specific business goals and is an alliance , not a hierarchial organisational form. A perplexing result of this study is the overwhelming lack of quantification of trade mark value on both a market and accounting basis. The overarching rationale for the franchise alliance is development, maintenance, and enhancement of the trade mark. This crucial point is only obliquely understood by franchisees. In the development of processes to coordinate decision making, franchise partners will be well served to define, reiterate, and measure goals for the trade mark.

The "tolerance zone" is an understandable set of criteria for franchisor fulfilment of obligations in a dynamic environment. Most striking in the models of franchisor provided services is the clearly outlined path to franchisee satisfaction which appears to be reasonable and therefore should be within franchisor management capabilities. We recommend that processes established to ensure coordinated effort include a periodic assessment of the tolerance zone.

Although there are implicit efficiencies in having a cooperative relationship with franchisees, the models illustrate diminishing returns for allocation of resources to gain franchisee satisfaction beyond certain core levels. That is, there appears to be a small core of both perpetually satisfied and chronically angry franchisees. In the 19 models and 219 nodes only once is 100% satisfaction achieved. However, it is evident that reducing anger to between 10-15% (half of the overall current level) and satisfaction to 60-70% (double the current level) is achievable.

7.7 LIMITATIONS OF THE STUDY

The two principal limitations of the study are: 1) the data is limited to nine franchise systems. Although 621 respondents are included, the universe of franchisees is much larger and broader than represented in our sample and 2) Our analysis centres on individual variables and draws them together through inference. Future research should advance the propositions through hypothesis testing.

7.8 FUTURE RESEARCH

This research is ground breaking work in the study of franchising, making a theoretically driven comprehensive analysis of conflict in the franchisee-franchisor relationship. The stages of conflict, as revealed in the three distinct clusters of franchisees, present a complete spectrum of the relationship. Thus, the insights into the relationship span the entire spectrum of inter-organisational involvement. This study has developed fertile ground for further research. The research question answer and propositions present rich prospects for hypothesis testing. When linked, they describe a process of behavioural

interactions which prescribe the potential for, and likelihood of, all of the stages of conflict in the relationship. Theory has provided guidance for pursuing specific issues in the relationship to propose, then support or deny certain propositions. The next methodologically sound step is to use the supported propositions to derive hypotheses. Through the use of structural equation modelling (SEM) we can continue the development and refinement of the models examined empirically in this study. SEM allows for the specification of regression structure among the latent variables in the model. The latent variables are represented by their manifest variables, e.g., "conflict" as measured by the four item construct. SEM reveals features of the latent variables that generate the observed variables. With SEM we can present the latent variable models as hypotheses and test their goodness of fit with the sample data. Therefore, we can confirm the reliability and validity of the measures of conflict developed in this study with confirmatory factor analysis. Thus, we develop a measurement model. There are a number of latent variables stated or implied in this work, such as solidarity, mutuality, role integrity, goal perspectives, and franchise tolerance. All of these latent variables can be tested and confirmed in SEM.

Additionally, we can test the many causal models inferred by the CHAID analysis. That is, we can test the assumptions drawn from our analysis of the results in Chapter 6 about the causality among the variables. We would be capable of developing a comprehensive and "best" model which draws together the research question and three propositions and explains the direct and latent variables at work in franchisee-franchisor conflict.

Because the franchisee-franchisor is a highly dynamic relationship, a longitudinal study would be interesting and informative. When the data files are recombined (study and test files) a comprehensive CHAID analysis indicates that age of the franchise organisation impacts conflict. Longitudinal studies could come in the form of recurring surveys of targeted franchise inter-organisations or a representative event history analysis targeting a significant relational event such as litigation or license agreement termination.

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APPENDIX I QUESTIONNAIRE

THE FRANCHISEE RELATIONSHIP WITH THE FRANCHISOR

THE MANAGEMENT SCHOOL
IMPERIAL COLLEGE OF SCIENCE, TECHNOLOGY, AND MEDICINE
UNIVERSITY OF LONDON
LONDON, ENGLAND

The aim of this survey is to provide a greater understanding of the relationship between the franchisor and its franchisees - from the view of the franchisee.

Data gathered from this survey will be treated with STRICT CONFIDENTIALITY and presented only in a summary form without the name or affiliation of the respondent.

Would you like to receive a summary of the results from this survey?

NO [ ] YES[ ]

If yes, please write the name and address of the person you wish to receive the summary:

_____

_____

c Stephen Spinelli, Jr , Management School, Imperial College, University of London, 1993

I. THE FRANCHISEE FIRM

This section is about you and your company and are needed for classifying responses. ALL REPLIES ARE CONFIDENTIAL.

1. How many territories do you currently operate ?

_____ territory(ies)

2. What year did you sign your franchise license agreement ?

19____

3. Have you ever owned another franchise ?

NO[ ] YES[ ]

4. How many new territories will you develop in the next 5 years ?

_____ territory(ies)

5. Do you plan to purchase other existing territories in your franchise system ?

NO[ ] YES[ ] if yes, _____ potential territories

6. What is your position with the company? _____

7. How long have you held this position? _____ years

8. Your previous position (in this firm or previous employment)

_____

9. How many years have you been involved in franchising?

_____ years with this firm _____ years with other firms

II. THE FRANCHISEE - FRANCHISOR RELATIONSHIP

Below are four statements about goals which may be important to a franchise business at various stages of its development. It is likely a franchisee will have a number of important goals at any given time, but it is unlikely that all will be equally important.

Please rate the relative importance at this time of each of the following goals describing the FRANCHISEE-FRANCHISOR RELATIONSHIP for your particular franchise outlet(s). Please circle the appropriate number, 1 through 5. "1" is Unimportant, "5" is Very Important.

	NOT IMPORTANT				VERY IMPORTANT
10. At this point in time, developing a more cooperative relationship with your franchisor is relatively.....	1	2	3	4	5
11. Compared with other goals, given current business conditions, improving communications and information sharing between franchisee and franchisor is.....	1	2	3	4	5
12. Relative to other goals, at this time, better coordinated franchisee-franchisor quality assurance is.....	1	2	3	4	5
13. Weighted against other goals, strengthening the mutual commitment between your franchisor and you is.....	1	2	3	4	5

III. FRANCHISOR PROVIDED SERVICES

14. How important are the following FRANCHISOR PROVIDED SERVICES in helping you achieve your GOALS. The two scales below measure the importance of the service to you and the adequacy of the franchisor in providing that service. Please circle the appropriate number on both of the 1 through 5 scales shown on the right and left of each question.

NOT IMPORTANT				MOST IMPORTANT		NOT ADEQUATE				MOST ADEQUATE
1	2	3	4	5	Programs and procedures for training employees...	1	2	3	4	5
1	2	3	4	5	Training in accounting and record keeping	1	2	3	4	5
1	2	3	4	5	Training in management skills	1	2	3	4	5
1	2	3	4	5	Provision of financial assistance and credit	1	2	3	4	5
1	2	3	4	5	Advice on financial management	1	2	3	4	5
1	2	3	4	5	Developing new products and services	1	2	3	4	5
1	2	3	4	5	Promoting new products and services	1	2	3	4	5
1	2	3	4	5	Effective national advertising	1	2	3	4	5
1	2	3	4	5	Market information (consumer research,local market analysis)	1	2	3	4	5
1	2	3	4	5	Organizing local coops for advertising and promotion	1	2	3	4	5
1	2	3	4	5	Access to franchisor management	1	2	3	4	5
1	2	3	4	5	Provision of standardized equipment	1	2	3	4	5
1	2	3	4	5	To act as a supplier of products	1	2	3	4	5
1	2	3	4	5	Advice on management problems	1	2	3	4	5
1	2	3	4	5	Advice on inventory control	1	2	3	4	5
1	2	3	4	5	Clearly defined procedures for operating the franchise	1	2	3	4	5
1	2	3	4	5	Resolving disagreements and complaints quickly, eagerly and fairly	1	2	3	4	5
1	2	3	4	5	Support in new store development	1	2	3	4	5

IV. THE FRANCHISEES VIEW OF THE CONTINUING RELATIONSHIP WITH THE FRANCHISOR

15. Below are thirteen statements describing the nature of the on-going interaction between the franchisee and franchisor For each statement please circle the number on the 1 through 5 DISAGREE-AGREE Scale.

	DISAGREE				AGREE
My relationship with the franchisor is best described as "arms length" than a cooperation of effort	1	2	3	4	5
The franchisor is just another supplier of products and/or services	1	2	3	4	5
My relationship with the franchisor is generally well coordinated and there is an expectation that the relationship will continue in the long run	1	2	3	4	5
The relationship between our organization and the franchisor is extremely complicated being comprised of many diverse expectations about each other's behavior	1	2	3	4	5
The relationship with the franchisor involves many different areas of commercial activity beyond buying and selling product	1	2	3	4	5
The relationship with the franchisor created a complex web of expectations between us over all kinds of issues	1	2	3	4	5
Our organization assures itself that the franchisor acts as we expect by precisely monitoring their activities and performance	1	2	3	4	5
The franchisor closely monitors our sales to assure the proper royalty is paid	1	2	3	4	5
Terms of the License Agreement are specified precisely and understood by both parties	1	2	3	4	5
Our organization feels the same way about the franchisor before and after any dispute	1	2	3	4	5
Our organization has retained anger toward the franchisor because of past disputes	1	2	3	4	5
If it was up to me we would not be a part of the franchise system any longer	1	2	3	4	5
If I was the franchisor I would act in the same way as the franchisor does now	1	2	3	4	5

V. INVESTMENT IN THE FRANCHISE

This section addresses your investment in the franchise relationship.

	DISAGREE				AGREE
16. If I left the franchisor I would spend a lot of effort converting the store	1	2	3	4	5
17. If I left the franchisor I would have to spend a lot of time, money and effort to set up alternative suppliers	1	2	3	4	5
18. Terminating my license agreement would involve considerable legal expense	1	2	3	4	5
19. Terminating the license agreement would cost my company time, money and customer goodwill	1	2	3	4	5
20. The costs involved in exiting the franchise relationship would probably be high	1	2	3	4	5
21. I have personally invested a lot of time and effort in the relationship with the franchisor	1	2	3	4	5
22. A lot of the company's energy, time, and effort have gone into building and maintaining the relationship with the franchisor	1	2	3	4	5
23. Much of the company's investment with the franchisor is unique to the relationship	1	2	3	4	5
24. Terminating my license agreement will increase my marketing budget	1	2	3	4	5
25. Ending my relationship with the franchisor will increase my training costs	1	2	3	4	5
26. Ending my relationship with the franchisor will require modification of the operating procedures	1	2	3	4	5

VI. FINANCIAL INFORMATION:

This informaton is needed to classify your answers and to make an assessment of the financial relationship between you and the franchisor.

27. What is your company's sales in the 12 months ended Dec. 31, 1992 ?

[ ] $0-50,000	[ ] $50,001-100,000	[ ] $100,001-250,000
[ ] $250,001-500,000	[ ] $500,001-750,000	[ ] $750,001-1,000,000
[ ] $1,000,001-1,500,000	[ ] $1,500,001-2,000,000	[ ] $2,000,001-2,500,000
[ ] $2,500,001-3,000,000	[ ] $3,000,001-3,500,000	[ ] $3,500,001-4,000,000
[ ] $4,000,001-4,500,000	[ ] $4,500,001-5,000,000	[ ] $5,000,001-5,500,000
[ ] $5,500,001-7,500,000	[ ] $7,500,001-10,000,000	[ ] OVER $10,000,000

28. What are your annual fixed expense per outlet?

[ ] $1,000-10,000	[ ] $10,001-30,000	[ ] $30,001-50,000	[ ] $50,001-70,000
[ ] $70,001-90,000	[ ] $90,001-110,000	[ ] $110,001-130,000	[ ] $130,001-150,000
[ ] $150,001-170,000	[ ] $170,001-190,000	[ ] $190,001-210,000	[ ] $210,001-230,000
[ ] $230,001-250,000	[ ] $250,001-300,000	[ ] $300,001-350,000	[ ] $350,001-400,000
[ ] $400,001-500,000	[ ] $500,001-600,000	[ ] $600,001-700,000	[ ] $700,001-800,000
[ ] OVER $800,000			

29. What are your variable expense per unit of product or service for each $ of sales ?

[ ] 1-10%	[ ] 11-15%	[ ] 16-20%	[ ] 21-25%
[ ] 26-30%	[ ] 31-35%	[ ] 36-40%	[ ] 41-45%
[ ] 46-50%	[ ] 51-55%	[ ] 56-60%	[ ] 61-65%
[ ] 66-70%	[ ] OVER 70%		

30. What is your profit margin per unit of service or product for each $ of sales ?

[ ] 0-1%	[ ] 2-4%	[ ] 5-7%	[ ] 8-10%
[ ] 11-13%	[ ] 14-16%	[ ] 17-19%	[ ] 20-22%
[ ] 23-25%	[ ] 26-28%	[ ] 29-31%	[ ] 32-34%
[ ] 35-37%	[ ] 38-40%	[ ] OVER 40%	

31. What is your promotions expense for every pound of sales ?

[ ] 0-1%	[ ] 2-4%	[ ] 5-7%	[ ] 8-10%
[ ] 11-13%	[ ] 14-16%	[ ] 17-19%	[ ] 20-22%
[ ] 23-25%	[ ] 26-28%	[ ] 29-31%	[ ] 32-34%
[ ] 35-37%	[ ] 38-40%	[ ] OVER 40%	

32. The value of being a part of a franchise company can be described in many ways. We are looking at both the value as recorded on your balance sheet and the portion of value in your business you think the "market" would pay you for being a part of a franchise system versus being a stand alone business. Please fill in a value under both of these headings.

	"Balance Sheet"	"Market"
Customer Goodwill (trademark, franchise rights)	$_____	$_____

33. The primary product you sell:_____

THANK YOU HELPING TO IMPROVE THE FRANCHISEE-FRANCHISOR RELATIONSHIP

VII. OPTIONAL COMMENTS

If there are additional issues or perspectives you believe are important please use the space below to comment. Your input has served to help build a greater understanding of franchising and is appreciated.

_____

_____

_____

_____

_____

_____

_____

_____

_____

APPENDIX II KEY TO STUDY VARIABLES

Table II.1 Key to Study Variables

Variable Name	Variable Label	Full Description
adacct	Adequacy of training in accounting	Adequacy of training in accounting and record keeping.
adcrdt	Adequacy of financial assistance/credit	Adequacy in providing financial assistance and credit.
adequip	Adequacy of equipment provision	Adequacy of provision of standardized equipment.
adfair	Adequacy of disagreements resolution	Adequacy of resolving disagreements and complaints quickly, eagerly, and fairly.
adfinma	Adequacy of advice on financial management	Adequacy of advice on financial management.
adinv	Adequacy of inventory control advice	Adequacy of advice on inventory control.
adlclad	Adequacy of local coops organizing	Adequacy of organizing local coops for advertising and promotion.
admgmt	Adequacy of training in management skills	Adequacy of training in management skills.
admkinf	Adequacy of market information/analysis	Adequacy of market information (consumer research, local market analysis).
adnaf	Adequacy of national advertising	Adequacy in effective national advertising.
adnewd	Adequacy of new store development support	Adequacy of support in new store development.
adnwpr	Adequacy of new product/service development	Adequacy of developing new products and services.

Variable Name	Variable Label	Full Description
adops	Adequacy of operating procedures	Adequacy of clearly defined procedures for operating the franchise.
adprob	Adequacy of management problems advice	What is the adequacy of advice on management problems?
adprom	Adequacy new product/service promotion	Adequacy of promoting new products and services.
adsuply	Adequacy as a supplier of products	Adequacy of the franchisor to act as a supplier of products.
adtrain	Adequacy of training	Adequacy of programs and procedures for training employees.
adzorm	Adequacy of access to management	Adequacy of access to franchisor management.
q1outs	How many territories do you operate?	How many territories do you currently operate?
q2l_a	What year did you sign your agreement?	What year did you sign your franchise license agreement?
q3prezee	Have you ever owned another franchise?	Have you ever owned another franchise?
q4newte	How many new territories next five years?	How many new territories will you develop in the next five years?
q5dev	Plan to purchase existing territories?	Do you plan to purchase other existing territories in your franchise system?
q6title	What is your company position?	What is your position with the company?
q7yrsjob	How long have you held this position?	How long have you held this position (in years).
q8prejob	What was your previous position	Your previous position (in this firm or previous employment).

Variable Name	Variable Label	Full Description
q9yrszee	How many years in franchising?	How many years have you been involved in franchising?
q10coop	A more cooperative relationship	At this point in time, developing a more cooperative relationship with your franchisor is relatively ...
q11comm	Improving communications/info sharing	Compared with other goals, given current business conditions, improving communications and information sharing between franchisee and franchisor is...
q12qual	Improving coordinated quality assurance	Relative to other goals, at this time better coordinated franchisee-franchisor quality assurance is...
q13comit	Strengthening mutual commitment	Weighted against other goals, strengthening the mutual commitment between your franchisor and you is ...
q14acct	Importance of training and accounting	Importance of training in accounting and record keeping.
q14crdt	Importance of financial assistance and credit	Importance of provision of financial assistance and credit.
q14equip	Importance of provision of standardized equipment	Importance of provision of standardized equipment.
q14fair	Importance of resolving disagreements fairly	Importance of resolving disagreements quickly/fairly.
q14finma	Importance of advice on financial management	Importance of advice on financial management.
q14inv	Importance of advice on inventory control	Importance of advice on inventory control.
q14lclad	Importance of organizing local coops for advertising	Importance of organizing local coops for advertising and promotion.

Variable Name	Variable Label	Full Description
q14mgmt	Importance of training in management skills	Importance of training in management skills.
q14mkinf	Importance of market information & analysis	Importance of market information (consumer research, local market analysis).
q14naf	Importance of effective national advertising	Importance of effective national advertising.
q14newd	Importance of support in new store development	Importance of support in new store development.
q14nwpr	Importance of developing new products and services	Importance of developing new products and services.
q14ops	Importance of clearly defined operating procedures	Importance of clearly defined procedures for operating the franchise.
q14prob	Importance if advice on management problems	Importance of advice on management problems.
q14prom	Importance of promoting new products and services	Importance of promoting new products and services.
q14suply	Importance of supplying product or services	Importance of franchisor to act as a supplier of products.
q14train	Importance of training employees	Importance of programs and procedures for training employees.
q14zorm	Importance of access to franchisor management	Importance of access to franchisor management.
q15expct	Complicated by diverse expectations	The relationship between our organization and the franchisor is extremely complicated being comprised of many diverse expectations about each other's behavior.

Variable Name	Variable Label	Full Description
q15angr	Organization angry about past disputes	Our organization has retained anger toward the franchisor because of past disputes.
q15arms	Best described as 'arms length'	My relationship with the franchisor is best described as "arms length" than a cooperation of effort.
q15bynd	Many areas beyond buy/sell product	The relationship with the franchisor involves many different areas of commercial activity beyond buying and selling product.
q15cmplx	Created a complex web of issues	The relationship with the franchisor created a complex web of expectations between us over all kinds of issues.
q15coor	Well coordinated and will continue	My relationship with the franchisor is generally well coordinated and there is an expectation that the relationship will continue in the long run.
q15just	Franchisor is just another supplier	The franchisor is just another supplier of products and/or services.
q15l_a	Agreement terms precise/well understood	Terms of the license Agreement are specified precisely and understood by both parties.
q15monit	Organization monitors franchisor	Our organization assures itself that the franchisor acts as we expect by precisely monitoring their activities and performance.
q15noze	I would not be part of franchise system	If it were up to me we would not be a part of the franchise system any longer.

Variable Name	Variable Label	Full Description
q15pymts	Franchisor monitors sales/royalty payments	The franchisor closely monitors our sales to assure the proper royalty is paid.
q15same	Feelings toward unchanged by dispute	Our organization feels the same way about the franchisor before and after any dispute.
q15same2	I would act as franchisor does	If I were the franchisor I would act as the franchisor does now.
q16cnvrt	Exiting costly in store conversion	If I left the franchisor I would spend a lot of effort converting the store.
q17altsu	Exiting costly in alternative suppliers	If I left the franchisor, I would have to spend a lot of time, money, and effort to set up alternative suppliers.
q18bond	Exiting costly in legal expense	Terminating my license agreement would involve considerable legal expense.
q19logo	Exiting costly in goodwill	Terminating the license agreement would cost my company time, money and customer goodwill.
q20cost	Exiting costs high	The costs involved in exiting the franchise relationship would probably be high.
q21prsnl	Personal investment in the relationship	I have personally invested a lot of time and effort in the relationship with the franchisor.
q22enrgy	Company invested effort in relationship	A lot of the company's energy, time, and effort has gone into building and maintaining the relationship with the franchisor.

Variable Name	Variable Label	Full Description
q23unik	Company investment unique to relationship	Much of the company's investment with the franchisor is unique to the relationship.
q24mktb	Exiting will increase marketing budget	Terminating my license agreement will increase my marketing budget.
q25train	Exiting will increase training costs	Ending my relationship with the franchisor will increase my training costs.
q26ops	Exiting will require procedures change	Ending my relationship with the franchisor will require modification of the operating procedures.
q27rev	Company's 12 month sales ending 12/31/93	What is your company's sales in the 12 months ended Dec. 31, 1993?
q28fxexp	Annual fixed expense per outlet	What are your annual fixed expense per outlet?
q29vrexp	Variable unit expense per $ of sales	What are your variable expense per unit of product or service for each $ of sales?
q30prof	Profit margin per unit per $ of sales	What is your profit margin per unit of service or product for each dollar of sales?
q31prom	Promotions expense per $ of sales	What is your promotions expense for every dollar of sales?
q32bsval	$ Value customer goodwill-Balance Sheet	What is the balance sheet value of customer goodwill (trademark, franchise rights).
q32mkt	$ Value customer goodwill-Market	What is the market value of customer goodwill (trademark, franchise rights).

Variable Name	Variable Label	Full Description
q32mktuk	Market value of trademark unknown	The market value of the trademark is unknown.

APPENDIX III CHOOSING A CORRELATION MATRIX

In the SPSS system, by default, both RELIABILITY and FACTOR are performed on a matrix of Pearson correlations. The Pearson correlation is valid for interval or ratio scales, but will underestimate the true correlation between ordinal variables where their underlying distribution may be bivariate normal. Therefore, when one or more of the variables to be analyzed are ordinal, choosing the right type of moment matrix is important. Because ordinal variables do not have an origin, the most meaningful moment matrices are correlation matrices. Accordingly, a correlation appropriate for ordinal variables must be considered.

Four types of correlations are provided by SPSS PRELIS. Correlation (continuous) is a Pearson correlation matrix based on raw scores, on ordinal variables treated as if they come from continuous interval-scaled variables. Correlation (ordinal) is a Pearson correlation matrix with observations on ordinal variables replaced by normal scores determined from the marginal distributions. Optimal is a Pearson correlation with observations on ordinal variables replaced by optimal scores determined for each pair. Polychor is a matrix of polychoric correlations.

The first three of these correlation types correspond to scoring systems for the categories and the product moment correlation computed for this scoring system. The polychoric correlation is not a correlation between two sets of scores but is a maximum likelihood estimate of the correlation in the latent bivariate normal distribution representing the two ordinal variables.

In a Monte Carlo study conducted by Jöreskog & Sörbom (1989) on ordinal variables derived from normally distributed data, a number of correlations were tested to see which was "best," i.e., consistently closest to the true ρ. Of the correlations investigated by Jöreskog & Sörbom which included all the correlations described above as well as Spearman's rank correlation and Kendall's tau-*b*, the polychoric correlation was found to be the best (most consistent) estimator of the trueρ for ordinal data derived from a normally distributed variable. Where appropriate, polychoric correlation matrices generated by SPSS PRELIS are used in this study.

APPENDIX IV RELIABILITY TESTING

IV.1 Cronbach's Alpha

One of the most commonly used reliability coefficients is Cronbach's alpha (α). Alpha may be said to estimate the correlation between scores (item responses) on two halves of a test for any randomly chosen halves. The computation of alpha is based on the average correlation of (standardized) items within a scale,

$$s_{\bar{x}} = \frac{s}{\sqrt{n}} \cdot \sqrt{\frac{N-n}{N-1}}$$

where k is the number of items in the scale and $\bar{r}$ is the average correlation between items:

or the average covariance among (unstandardized) items on a scale.

$$s_{\bar{x}} = \frac{s}{\sqrt{n}} \cdot \sqrt{\frac{N-n}{N-1}}$$

where $\overline{cov}$ is the average covariance between items and $\overline{var}$ is the average variance of the items.

APPENDIX V RELIABILITY ANALYSIS FOR CONFLICT CONSTRUCT

A matrix of polychoric correlation coefficients was prepared by SPSS PRELIS. The matrix was then submitted to SPSS RELIABILITY for analysis.

Table V.1 SPSS RELIABILITY Output

RELIABILITY ANALYSIS - SCALE (ALPHA)

		Mean	Std Dev	Cases
1.	Q15ANGR	2.4454	1.4173	613.0
2.	Q15NOZE	2.2577	1.4571	613.0
3.	Q15SAME	2.7602	1.2003	613.0
4.	Q15SAME2	3.5905	1.3408	613.0

Covariance Matrix

	Q15ANGR	Q15NOZE	Q15SAME	Q15SAME2
Q15ANGR	2.0089			
Q15NOZE	1.2499	2.1230		
Q15SAME	.6416	.5065	1.4408	
Q15SAME2	.8960	.9080	.5320	1.7978

Correlation Matrix

	Q15ANGR	Q15NOZE	Q15SAME	Q15SAME2
Q15ANGR	1.0000			
Q15NOZE	.6052	1.0000		
Q15SAME	.3771	.2896	1.0000	
Q15SAME2	.4715	.4648	.3305	1.0000

RELIABILITY ANALYSIS - SCALE (ALPHA)

N of Cases = 613.0

Statistics for	Mean	Variance	Std Dev	Variables
Scale	11.0538	16.8384	4.1035	4

Item Means	Mean	Minimum	Maximum	Range	Max/Min	Variance
	2.7635	2.2577	3.5905	1.3328	1.5903	.3470

Item Variances	Mean	Minimum	Maximum	Range	Max/Min	Variance
	1.8426	1.4408	2.1230	.6822	1.4735	.0899

Inter-item Covariances	Mean	Minimum	Maximum	Range	Max/Min	Variance
	.7890	.5065	1.2499	.7434	2.4676	.0737

Inter-item Correlations	Mean	Minimum	Maximum	Range	Max/Min	Variance
	.4231	.2896	.6052	.3156	2.0897	.0120

Item-total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Alpha if Item Deleted
Q15ANGR	8.6085	9.2545	.6465	.4399	.6310
Q15NOZE	8.7961	9.3865	.5969	.4085	.6614
Q15SAME	8.2936	12.0374	.4034	.1734	.7611
Q15SAME2	7.4633	10.3687	.5410	.2946	.6938

Analysis of Variance

Source of Variation	Sum of Sq.	DF	Mean Square	F	Prob.
Between People	2576.2772	612	4.2096		
Within People	2572.5287	1839	1.3989		
Between Measures	638.1370	3	212.7123	201.8929	.0000
Residual	1934.3916	1836	1.0536		
Nonadditivity	10.1092	1	0010.1092	9.6401	.0019
Balance	1924.2825	1835	1.0487		
Total	5148.8059	2451	2.1007		
Grand Mean	2.7635				

RELIABILITY ANALYSIS - SCALE (ALPHA)

Tukey estimate of power to which observations
must be raised to achieve additivity = 1.3393

Hotelling's T-Squared = 586.3579 F = 194.8139 Prob. = .0000
Degrees of Freedom: Numerator = 3 Denominator = 610

Reliability Coefficients 4 items

Alpha = .7497 Standardized item alpha = .7458

APPENDIX VI FACTOR ANALYSIS FOR CONFLICT CONSTRUCT

Table VI.1 SPSS RELIABILITY Output

---------- F A C T O R A N A L Y S I S ----------

Analysis number 1 Listwise deletion of cases with missing values
Extraction 1 for analysis 1, Principal Components Analysis (PC)
PC extracted 1 factors.
Factor Matrix:

	Factor 1
Q15ANGR	.83368
Q15NOZE	.80246
Q15SAME2	.75326
Q15SAME	.61783

Final Statistics:

Variable	Communality *	Factor	Eigenvalue	Pct of Var	Cum Pct
	*				
Q15ANGR	.69502 *	1	2.28807	57.2	57.2
Q15NOZE	.64394 *				
Q15SAME	.38171 *				
Q15SAME2	.56740 *				

VARIMAX rotation 1 for extraction 1 in analysis 1 - Kaiser Normalization.

>Warning # 11310
>Only one factor was extracted. The solution cannot be rotated.

APPENDIX VII CLUSTER ANALYSIS FOR CONFLICT CONSTRUCT: THREE CLUSTER SOLUTION

Table VII.1 SPSS QUICK CLUSTER Output

Initial Cluster Centres.

Cluster	Q15ANGR	Q15NOZE	Q15SAME	Q15SAME2
1	5.0000	5.0000	1.0000	3.0000
2	1.0000	1.0000	1.0000	1.0000
3	1.0000	4.0000	5.0000	5.0000

The maximum distance by which any centre has changed is .0942
Minimum distance between initial centres is 6.0000

Iteration	Change in Cluster Centres		
	1	2	3
1	2.3999	2.1754	2.4151
2	.3862	.1308	.1755
3	.3467	.0473	.3568
4	.2240	.0964	.2983
5	.1165	.1574	.2692
6	.1920	.1599	.3115
7	.0397	.1755	.1711
8	.1127	.0583	.1256

Final Cluster Centres.

Cluster	Q15ANGR	Q15NOZE	Q15SAME	Q15SAME2	N
1	1.4179	1.3284	2.1393	2.0697	201
2	2.2716	1.6078	2.8664	4 2716	232
3	3.8167	4.1333	3.3167	4.4111	180

missing value 8

Number of Cases in each Cluster.

Cluster	unweighted cases	weighted cases
1	201.0	201.0
2	232.0	232.0
3	180.0	180.0
Missing	8	
Valid cases	613.0	613.0

Dependent Variable = "CONFLICT"

FOUR CLUSTER SOLUTION

Initial Cluster Centers.

Cluster	Q15ANGR	Q15NOZE	Q15SAME	Q15SAME2
1	1.0000	5.0000	5.0000	5.0000
2	5.0000	5.0000	5.0000	1.0000
3	1.0000	1.0000	1.0000	1.0000
4	5.0000	1.0000	3.0000	5.0000

Convergence achieved due to no or small distance change.
The maximum distance by which any center has changed is .0915
Current iteration is 8

Minimum distance between initial centers is 5.6569

Iteration	Change in Cluster Centers			
	1	2	3	4
1	2.4265	2.3803	1.9393	2.0318
2	.4057	1.3269	.1865	.3130
3	.4871	.4235	.0393	.2056
4	.1154	.1350	.1156	.2274
5	.0000	.1222	.0785	.1560
6	.0663	.0903	.0764	.1350
7	.0000	.0736	.1135	.1489
8	.0000	.0259	.1009	.1054

Final Cluster Centers.

Cluster	Q15ANGR	Q15NOZE	Q15SAME	Q15SAME2
1	1.9452	4.1781	3.0411	4.0959
2	4.5161	4.0484	3.3226	4.4274
3	1.3610	1.2195	2.1024	2.2000
4	2.4550	1.5498	2.9716	4.2749

Number of Cases in each Cluster.

Cluster	unweighted cases	weighted cases
1	73.0	73.0
2	124.0	124.0
3	205.0	205.0
4	211.0	211.0

FIVE CLUSTER SOLUTION

Number of Cases in each Cluster. (Cont.)

Cluster	unweighted cases	weighted cases
Missing	8	
Valid cases	613.0	613.0

Initial Cluster Centers.

Cluster	Q15ANGR	Q15NOZE	Q15SAME	Q15SAME2
1	4.0000	1.0000	1.0000	2.0000
2	1.0000	5.0000	2.0000	1.0000
3	5.0000	5.0000	1.0000	5.0000
4	1.0000	1.0000	5.0000	1.0000
5	4.0000	2.0000	5.0000	5.0000

Convergence achieved due to no or small distance change.
The maximum distance by which any center has changed is .0929
Current iteration is 8

Minimum distance between initial centers is 5.0000

Iteration	Change in Cluster Centers				
	1	2	3	4	5
1	2.5161	2.0318	1.6965	2.2275	1.6622
2	.3010	.2867	.5274	.3070	.1131
3	.2009	.1705	.3401	.4309	.3087
4	.1092	.3839	.1429	.2375	.2373
5	.0882	.2016	.2094	.1787	.2105
6	.1583	.3797	.1705	.0592	.2648
7	.1785	.1626	.0411	.0502	.1854
8	.0000	.1066	.0732	.0762	.0620

Final Cluster Centers.

Cluster	Q15ANGR	Q15NOZE	Q15SAME	Q15SAME2
1	1.0788	1.2182	1.7576	2.9030
2	2.0000	4.1000	2.6286	3.9000
3	4.4331	4.1024	3.4016	4.5433
4	1.9770	1.3218	3.0000	1.8161
5	2.7195	1.5854	3.2012	4.3537

Number of Cases in each Cluster.

Cluster	unweighted cases	weighted cases
1	165.0	165.0
2	70.0	70.0
3	127.0	127.0
4	87.0	87.0
5	164.0	164.0
Missing	8	
Valid cases	613.0	613.0

APPENDIX VIII GENERALISABILITY OF THE RESULTS· TEST OF TWO MEANS

We standardize the difference of the two means using the sample standard deviation and sample n.

$$s_{\bar{x}} = \frac{s}{\sqrt{n}} \cdot \sqrt{\frac{N-n}{N-1}}$$

Using a two-tailed test at a 0.05 significance level we will fail to reject H_0 if:

$$s_{\bar{x}} = \frac{s}{\sqrt{n}} \cdot \sqrt{\frac{N-n}{N-1}}$$

and the sample size is 30 or greater.

Where the sample size is less than 30 we will use the t distribution and fail to reject H_0 if:

$$s_{\bar{x}} = \frac{s}{\sqrt{n}} \cdot \sqrt{\frac{N-n}{N-1}}$$

Where the ratio of sample size to population size is greater than 0.05 we adjust the standard error of $\bar{x}$ by including the finite population correction (fpc) factor:

$$s_{\bar{x}} = \frac{s}{\sqrt{n}} \cdot \sqrt{\frac{N-n}{N-1}}$$

APPENDIX IX GENERAL MODEL PREDICTORS OF CONFLICT

Variable	p-value
Well coordinated and will continue	1.60e-51
Best described as "arms length"	6.50e-40
Adequacy of disagreement resolution	1.30e-30
Franchise system affiliation	7.00e-30
Adequacy of management problem advice	4.20e-28
Just another supplier	5.10e-28
Adequacy of access to franchisor management	1.40e-23
Complex web of expectations	1.20e-19
License agreement terms precise and understood	5.30e-18
Adequacy of advice on financial management	7.70e-18
Adequacy of operating procedures	1.80e-17
Complicated by diverse expectations	3.60e-15
Adequacy as a suppliers of products	4.40e-15
Adequacy of new store development support	4.80e-15
Adequacy of training in management skills	1.50e-14
Adequacy of new product promotion	4.30e-14
Adequacy of new product development	5.60e-14
Adequacy of market information/analysis	1.60e-13
Adequacy of training in accounting	2.80e-13
Adequacy of training programs and procedures	1.90e-12
Adequacy of financial assistance and credit	4.70e-12
Adequacy of national advertising	3.30e-11
Adequacy of inventory control advice	4.40e-10

A more cooperative relationship	6.20e-09
Exiting will increase training costs	6.90e-09
Exiting costly in finding alternative suppliers	4.10e-08
Adequacy of equipment provision	2.20e-06
Exiting will require procedure changes	3.30e-06
Promotion expense per unit of sales	3.30e-06
Adequacy of organising local coops	1.50e-05
Company's last 12 months sales	8.00e-05
Importance of financial assistance and credit	3.40e-04
Having owned another franchise	4.40e-04
Exiting will increase marketing budget	9.80e-04
Exiting costly in store conversion	1.50e-03
Profit margin per unit of sales	1.60e-03
Annual fixed expense per outlet	2.60e-03
Franchisee monitors the franchisor	3.50e-03
Importance of clearly defined operating procedures	3.70e-03
Exiting costly in customer goodwill	7.20e-03
Importance of access to franchisor management	2.58e+01
Importance of organising local advertising coops	0.018
Exiting costly in legal expense	0.041
Strengthening mutual commitment	0.041
Franchisor monitors sales/royalties	0.047

(All variables below the significance level of .05)