

Mapping the Profiles of Franchisees:

Getting to know the Black Sheep, Rough Diamonds, Whingers and Best Buddies

ABSTRACT

Purpose – The purpose of this study is to investigate franchisees' perception of the value of quality service in the franchise system.

Methodology – Two dimensions, perceived importance and perceived gaps of the quality of the franchise system, form the anchors of a proposed 2 X 2 Franchise System Quality (FSQ) Matrix. This is empirically tested with 200 Australian franchisees.

Findings – The results reflected a strong evidence of four distinct profiles of franchisees as conceptualized. These results also showed that the more cooperative the franchisees, the better their performance and satisfaction levels with the system. In contrast to existing literature, franchisees who fall in the high-perceived importance cells of the FSQ matrix have a stronger desire for autonomy.

Managerial implications – Cooperation between franchisees and franchisors are fundamental to achieve success. It is important to provide resources and assistance to franchisees and these are considered as key success factors. Further, determining the profile of the franchisees allows franchisors to determine the potential Best Buddy who are considered an asset in the franchise system.

Limitations – A larger sample size should be implord that focuses on specific industries or service sectors. The research can be replicated in other non-Western contexts to formulate different insights. Cross national studies could be conducted to investigate differences between cultures.

Originality/value – The paper addresses the gap in literature by examining franchisees' perception of the value of services provided in a franchise system. The FSQ Matrix is also conceptualized and empirically tested on an Australian sample.

Paper type – Research paper

KEYWORDS

Franchisors, Franchising, Service Quality, Autonomy

INTRODUCTION

Franchising is one of the fastest growing business sectors in international business (Duckett, 2008; Chiou, Hsieh and Yang, 2004; Guilloux et al., 2004; Maritz and Nieman, 2008). In Australia, franchising contributes 14% of the national GDP and comprises of enterprising entrepreneurs as franchisors, and franchisees employing at least 600,000 Australians (Franchise Council of Australia, 2008). These range from food retailers, other service oriented establishments, education providers, and petrol and automobiles chains. It is perceived as an attractive strategy to set up a business quickly with a proven brand, working system and successful product. It allows one to enjoy the benefits of a well developed marketing and support structure. In principle, a franchisor sets the performance standards, builds brand name and manages the economic efficiencies (Harmon and Griffiths, 2008). A franchisee expects a working model, ongoing training, support and solutions to problems from the franchisor (Combs et al., 2004). As franchisees are also tenants of identity, they are expected to adhere strictly to policies, standards, rules and regulation (Davis, 2004). In theory at least, franchisees are closely tied to the franchiser, and their independence and autonomy are limited to the confines of their franchise agreement. Any deviation will lead to an imbalance and thus opening up a gap for dissatisfaction. But there are some inherent concerns with the franchising partnerships. These may include conflicts over

managerial control and differing degrees of risk-aversions (Greco, 2001). The consequence of these perceived differences may be a fall in efficiency of the system performance (Maritz and Nieman, 2008). It is the major responsibility of the franchisor to evaluate and understand the real needs of the franchisees (e.g. Harmon and Griffiths, 2008). In addition, there is a necessity to resolve the differences between the respective perceptions of the franchise relationship. Empirical research has indicated that the perception of a franchisee will affect his actions, choices and franchise performance (Falbe et al., 1998; Forward and Fulop, 1993; Kaufmann and Stanworth, 1995; Morrison, 1997; Spinelli and Birley, 1996; 1998). This can prevent conflicts thereby enhancing the cooperation. It will then facilitate a conducive network between the franchisors and franchisees (Falbe and Dandridge, 1992).

Three important contributions to the literature will emerge from this study. First, most researchers have pointed to the important role of franchisees in the success of the relationship (such as, Jambulingam and Nevin, 1999; Maritz and Nieman, 2008). Specifically, recognizing franchisee's perception of the value of services will allow franchisors to effectively manage the partnership (e.g. Harmon and Griffiths, 2008; Peterson and Dant, 1990). Unfortunately, this is very scant in the literature (e.g. Grunhagen and Dorsch, 2003; Harmon and Griffiths, 2008). This paper takes the

precedence in filling this gap. Second, the relationship between perceived importance and perceived gaps of the quality of the franchise system and its effects has not been adequately looked at (Maritz and Nieman, 2008). This paper will study these effects from the viewpoint of the franchisees. Third, using these two dimensions, a matrix is conceptualized and empirically tested with a sample of Australian franchisees. The finding will provide franchisors with a typology of 4 profiles by which the characteristics of each are identified and discussed. This will provide some directions to better understand and manage the franchisees and the overall system.

This paper is structured as follows. The literature will be presented, leading to the proposed matrix. Hypotheses devised to empirically test the matrix will be discussed in detail. The research design, analysis and findings are presented. Finally, implications, recommendations, and limitations of the research will be outlined.

LITERATURE REVIEW

Franchisor-Franchisee Relationship

The franchisor-franchisee relationship is bounded by a legal contract definitively outlining the obligations and rights of both parties (Brickley et al., 1991; Grunhagen and Dorsch, 2003; Castrogiovanni and Justis, 1998). Generally, the franchisor provides

the trademark, the business model, legal advice, consultation and training of the business as well as advertising leadership. In return, the franchisee pays a fee and is also expected to follow a set of policies and regulations structured to protect the interests of both parties (Harmon and Griffiths, 2008). The franchise system links the advantages of economy of scale offered by the franchisor with the local knowledge and entrepreneurial talents of the franchisee (Stanworth, 1988). This relationship represents a partnership in such a way whereby both parties will share benefits and costs (Macneil 1980; Grunhagen and Dorsch, 2003), thereby contributing significantly to the profitability and success of franchisees (Porter and Renforth, 1978; Kaufmann and Lafontaine, 1994; Michael, 1999).

Conflicts

In reality, conflicts in such relationships are commonplace, and are well documented in the literature (Bongiorno, 1993; Pollack, 1996; Porter and Renforth, 1978; Smith, 1993; Shivell and Banning, 1996). Differences emerging from goal priorities, time perspectives and earning expectations have on the one hand led franchisors engaging in unfair termination of franchisees; and on the other hand, led franchisees to act on potential market opportunities in pursuit of their own entrepreneurial interests (Gassenheimer et al., 1996). This is not uncommon especially in the Australian context

where the law seems to favour the franchisees. The Franchising Code of Conduct gives the legal rights to the franchisee by limiting the franchisor's control over the activities of the business (Davis, 2004).

Agency Theory

The franchise relationship is characterized by explicitly defined obligations and a “give and take” reciprocity consistent with the literature on agency theory (Grunhagen and Dorsch, 2003; Price and Arnould, 1999; Rubin, 1978). This refers to the contractual arrangement between the agent and the principal to help maintain order in a variety of procedural issues as stated in the agreement (Eisenhardt, 1989; Elango and Fried, 1997; Sharma, 1997; Bergen et al., 1992; Hesterly et al., 1990). Applying this to the franchisor-franchisee relationship, the franchisor will take away the burden and costs of selecting and training staff members (Stanworth, 1996). At the same time the franchisee is assumed to exercise more motivation and commitment as the personal investment is at stake. Thus, administrative efficiency is achieved from the franchisor's perspective by simply aligning their incentives with that of their franchisees (Carney and Gedajlovic, 1991; Dant and Nasr, 1998). There is however one nagging concern. Franchisors consistently have to deal with franchisees with varying degrees of risk tolerance. Consequently, goal conflicts between these parties, combined with uncertain

conditions and incomplete information may contribute to agency problems. One good example is when franchisees not conforming to the contract directives (Shane, 1996; Bergen et al., 1992; Brickley et al., 1991). To alleviate this, monitoring costs can be invested by the franchisor to evaluate the franchisees' activities and to identify any opportunistic behavior (Bergen et al., 1992).

Zone of Performance Tolerance

Within the franchising setting, there is an inherent behavioral zone of performance tolerance, which is a function of the importance of the franchisor-provided services, and the adequate provision of any of the franchisor- provided services. As such, if the franchisee perceives the adequacy of the service from the franchisor as being equal to or better than the level of perceived importance within the zone of performance tolerance, the franchisor is deemed to have fulfilled the contractual obligations. On the other hand, if the adequacy of service delivery is perceived to be below the perceived importance of the service, then the behavior of franchisees may fall outside the tolerance zone (Spinelli and Birley, 1996; 1998; Gassenheimer et al., 1996; Pizanti and Lerner, 2003).

Gaps in the Literature

Research measuring the franchisees' perspective of both importance and adequacy of the franchisor-provided services is inherently deficient. In addition, Spinelli and

Birley's (1996; 1998) found that the perceived level of fulfillment against franchisor-provided services is contingent not only on the ranked importance of a service from the franchisor, but also the gap between the adequacy and importance for which that service is delivered. In essence, the quality value of the franchise system is a critical success factor (Falbe and Welsh, 1998). This may include consistent and continuous training and support, maintenance of high quality standards, and achievement of maximum efficiency in the operating system. As such it can be assumed that the higher the franchisors' perceived importance of system quality, the higher the level of satisfaction of the franchisee (Pizanti and Lerner, 2003; Grunhagen and Mittelstaedt, 2000). In addition, the perceived gap and perceived importance of the system must also be considered.

HYPOTHESES DEVELOPMENT

Using the two dimensions of perceived gap and perceived importance as described in the preceding literature, a franchise system quality (FSQ) matrix is proposed. The four cells are presented in *Figure 1*. Cell 1 is characterized by a high perceived importance and high perceived gap permutation and is labeled as Black Sheep franchisees. They fall outside the performance tolerance level and are likely to engage in opportunistic behaviour. Cell 2 is characterized as a low perceived importance and high perceived

gap permutation and is described as the Whinger franchisees. They complain about management all the time and are of high maintenance. However, they are well within the performance tolerance level. They may also act opportunistically if the chance arises. Cell 3 is characterized as a low perceived importance and low perceived gap permutation and is labeled as Rough Diamond franchisees. They do not have much commitment to the system and are very likely to be opportunists. Cell 4 is characterized by a high perceived importance and low perceived gap permutation and is labeled as the Best Buddy franchisees. They are highly cooperative and fall well within the performance tolerance level. They are considered the model franchisees that are an asset to the franchise system.

~~~~ Insert Figure 1 ~~~~

The four cells of the proposed matrix possess distinctly different characteristics when measured against the two dimensions. It is thus anticipated that:

*H<sub>1</sub>: The cooperation of the franchisees can be aligned on a low to high continuum in the order of Black Sheep, Rough Diamond, Whinger, and Best Buddy franchisees.*

Researchers (such as Jambulingam and Nevin, 1999; Whittemore, 1994) have found that a supportive work environment and a cooperative franchisor-franchisee

relationship had a significantly positive influence on the job satisfaction of the franchisee. That is, low perceived gaps and high perceived importance in the quality system will be most successful. The literature has also indicated that franchisees will remain in the partnership as long as they see that there is adequate support and contributions emerging from the franchisors (Garbarino and Johnson, 1999; Morrison, 1997). Building on these bases and integrating them with the proposed FSQ Matrix, the following hypothesis is therefore formulated:

*H<sub>2</sub>: The satisfaction of franchisees and the intention to remain can be aligned on a low to high continuum in the order of Black Sheep, Rough Diamond, Whinger, and Best Buddy franchisees.*

Falbe and Welsh (1998) have identified some key factors for a successful franchise system. For instance, franchisees expect the franchisor to invest in brand building and strengthening strategies such as national advertising and other forms of promotion. Second it is important that the franchisor is also to look for potentially profitable business locations and to exercise flexibility to adapt to local conditions. Chiou et al. (2004) also echoed Falbe and Welsh (1998) to stress the importance of communication in order to reinforce trust and overall satisfaction with the system. Finally, it is also expected that the franchisor shows leadership and involves the community by engaging

in innovative franchisee activities. Based on the previous inferences of Falbe and Welsh (1998), we assumed that a higher level of cooperative franchisees should require less monitoring and less resources, and also higher perceptions of success. Thus:

*H<sub>3</sub>: The perception of franchisees on (a) brand image, (b) local environment, (c) communications and (d) franchisee activities can be aligned on weak to strong continuum in the order of Black Sheep, Rough Diamond, Whinger, and Best Buddy franchisees.*

Investigations in the literature have highlighted that a substantial number of franchisees have histories of self employment experience and thus more likely to expect and enjoy autonomy in the operations of their outlets (Dant and Gundlach, 1998). The challenge for the management is to accommodate these differences (Stanworth, 1995). However, the desire for independence, autonomy and self-fulfillment will still be a rational goal for franchisees to join franchising systems (Dant and Nasr, 1998). In addition, as the franchisees emphasized more perceived importance to quality of the franchise system, it increases their desire for more autonomy. Previous research also indicates that once a franchisor encourages the franchisees to seek greater autonomy in decision making, it may enhance their entrepreneurial spirit and organizational commitment to the franchisor. It will thus improve franchisor-franchisee relations and system

performance. This is because franchisees are encouraged to engage in more promotional and innovative activities, activate local market adaptation, and support the need for collective organization (Gassenheimer et al., 1996; Knight, 1984; Strutton et al., 1995; Withane, 1991). Thus:

*H<sub>4</sub>: Franchisees with higher desire for autonomy are likely to be Best Buddy franchisees, while franchisees with lower desire for autonomy are likely to be Black Sheep franchisees.*

## **METHODOLOGY**

### **Data Collection**

A mailing list was developed based on the categories of franchisees identified from the Franchise Council of Australia website. A survey form was designed and pilot tested with a number of interviews with experts, franchisors and franchisees. The final self-administered survey form was sent out to 1097 franchisees in intervals of two weeks. A reminder was sent out ten days after the first mailing. 97 were undelivered due to a number of technical issues. The final response rate was 20% or 200 franchisees. Of the completed and usable responses, 44.5% came from the automotive services sector, 10% from education services, 12.5% from the restaurant services sector, 7.5 % from leisure and lifestyle services, and finally 25.5% from others miscellaneous services.

## Measures

The scales used to operationalize the constructs in this research were adapted from previous research. All the scales recorded an alpha coefficient of above 0.70. *Appendix I* presents the measurement items employed and the scale reliabilities in this research.

The perceived importance of FSQ was measured by a 9-item scale developed by Falbe and Welsh (1998). Respondents were asked to rate the perceived importance of the franchise system quality on a ten-point Likert type scale. The Perceived Gap of FSQ was measured with the same scale. The franchisee respondents were however asked to rate the perceived adequacy for each item of service quality. A ten-point Likert type scale was also applied here, with anchors ranging from strongly disagree (1) to strongly agree (10). The perceived gap was computed by subtracting the value of “importance” from “service quality adequacy” and then adding 9.0 to the difference. For instance, if the adequacy of franchisor’s ability to develop new products is 6.0 and that of importance is 10.0, the perceived gap is  $-4.0+9.0 = 5.0$ . If the value of perceived gap is larger, it means the gap between service quality adequacy and importance under franchisees perception is lower. In the same vein, if the value is smaller, it means that the gap is higher.

Franchisees' "satisfaction and intention to remain" were measured by scales adapted from those of Gassenheimer et al. (1996) and Jambulingam and Nevin (1999). The data for "franchisee perceptions of success" were collected using scales adapted from Falbe and Welsh (1998). The Franchisee Autonomy was measured by a three-item scale adapted from Dant and Gundlach (1998). Finally demographic and socioeconomic variables of the franchisee and franchisor were also requested.

## **RESULTS**

*Table 1* presents the descriptive statistics and Pearson correlation for the variables used in this study. Generally, there is no evidence of multi-collinearity in the data. The only variables that are highly correlated are applied to dependent variables in the MANOVA analyses.

~~~~ Insert Table 1 ~~~~

FSQ Matrix

The main statistics are presented in *Tables 2* and *3*. These are used to test H_1 . The internal validity of the four-cell matrix was strongly supported by multivariate (i.e., MANOVA) analysis as well as by the subsequent univariate ANOVA tests (see *Table 2*). Dant and Gundlach (1998) argued that although various criteria and guidelines are

offered for specifying the appropriate number of clusters, unfortunately “no standard objective selection procedure exists” (Hair et al., 1995, p.442). Thus, it can be established that the final cluster solution comprised of four clusters as theoretically introduced. The multivariate classification yielded a magnitude of effect of $\eta^2 = 0.71$. Univariate effects (i.e., effect size, η^2 , see Cohen, 1977, p.282) showed that the four-cluster solution explained 87% and 90% of the variance in perceived importance and perceived gap measures respectively. In addition, the observed power in the magnitude was 0.96 (a value higher than 0.80). This is generally accepted to have demonstrated statistical conclusive validity (Cohen, 1977).

~~~~~ Insert Table 2 ~~~~~

Evidence of the external validity of the clusters can be inferred from the results summarized in *Table 3*. The cooperation variable was added to test whether the four-cell solution is significantly different. The results revealed significant differences ( $p < 0.05$ ) across the variant cooperation levels. As expected, franchisees with *high perceived importance and low perceived gap of system quality* (Cell 4) cooperate closely with the franchisors. On the other hand, the franchisees of Cell 1 (*high perceived importance and high perceived gap*) have the worst cooperative relationship



with the franchisors. The cooperation levels of franchisees of both Cells 2 and 3 are between Cells 1 and 2 ( $R^2 = .20$ ). In brief, the proposed four-cell matrix received strong inferential support with regards to theoretical stability and validity. The tested results clearly support  $H_1$ .

~~~~~ Insert Table 3 ~~~~~

The MANOVA results presented in *Table 3* were used to test the rest of the hypotheses. The decision rules are to verify that the mean of Cell 4 for each measure is higher than the other three cells, and mean of Cell 1 is the lowest among all for each measure.

The results of franchisee satisfaction were as expected: Cell 4 reported the highest level of satisfaction (mean = 15.34). The least-squares means' comparison shows that this mean was significantly different from that of the other three cells. The satisfaction of franchisees of Cell 2 (mean = 12.53) was higher than that for franchisees of Cell 1 (mean = 9.84). This result demonstrates that franchisees who cooperate closely with their franchisor are likely to have higher satisfaction. In contrast, those who do not cooperate closely with their franchisor are likely to have less satisfaction. The links between intention to remain and system quality permutations were similar. The intention to remain for the franchisees of Cell 4 (mean = 10.70) was significantly higher than that of the other three cells. The intention to remain for those in Cell 2 (mean =

9.53) was significantly higher than those in Cell 1 (mean = 7.65). Although the mean of intention to remain of Cell 1 was not significantly lower than that of Cell 3 (mean = 8.00), it was still the lowest of all cells. As such, the overall result is in support of H₂.

The results of brand image, local environment and communication are as predicted. Franchisees of Cell 4 reported the highest mean scores for brand image (mean = 30.74), local environment (mean = 14.98), and communication (mean = 24.01). The least-squares means' comparison shows that these means were statistically different from those of the other three cells. Even though the least-squares means' comparison was not statistically supported, the means of brand image (mean = 31.33), local environment (mean = 6.19), and communication (mean = 15.65) in Cell 1 were still the lowest among those of the other three cells. One deviation of what was proposed is with the factor of franchisee activities. The mean of Cell 4 (mean = 42.33) was significantly higher than those of Cell 2 (mean = 38.94), and Cell 1 (mean = 39.85), and Cell 3 (mean = 34.08). However, Cell 1 did not record the lowest mean of all the cells. As such, H_{1a}, H_{1b} and H_{1c} are supported, while H_{1d} is rejected.

The MANOVA analysis for franchisee's desire for autonomy was statistically significant (*Table 3*). Cells 1 and 4 (*high perceived importance cells*) reported the

highest means in their rating (mean = 14.35 and mean = 13.42, respectively) on overall franchisee desire for autonomy measures. Cell 2 and Cell 3 (*low perceived importance cells*) showed comparatively lower means rating (mean = 13.97 and mean = 15.46, respectively). The empirical evidence conforms to the expected results. Those with high levels of perceived importance were the franchisees with the highest desire for autonomy. Thus, H₄ is fully supported.

DISCUSSION

With empirical evidence, the initial four cell matrix can be redefined. *Black Sheep Franchisees* in Cell 1 are presented by a sample of 40 franchisees. This is the most highly educated of the 4 cells but they lack experience. They perceived themselves as considerably independent and self employed entities. Thus, they do not expect much resources from the franchisors. They are therefore the least cooperative of the 4 groups and are also the worst performing franchisees. They have recorded the lowest means in levels of brand image, local environment, and communication. They appear to be very frustrated that the franchisors are doing little to improve this. From a strategic point of view, franchisors may not wish to waste their resources in regaining their faith as it is hard to rebuild trust and cooperation. Further, these franchisees have very little motivation to remain in the relationship probably due to low levels of satisfaction.

Since these franchisees are highly educated, they are likely to have opportunities to look for other new franchisors.

Best Buddy franchisees in Cell 4 have a sample size of 111 franchisees forming the largest group of this research. This is the group that has the best relationship with the franchisors and are likely to cooperate well within the confines of the contract. They are also the best performers in comparison to the others. They pay a lot of attention to the quality of the franchise system and value the inherent importance. They have recorded the highest mean levels for the success factors of brand image, local environment and communication. They strongly believe that their franchisors are able to provide them with a supportive entrepreneurial environment. Most of the franchisees in this sample have been part of the franchise chain for less than three years but reported the highest satisfaction and intention to remain. This may be attributed to their close cooperation with the franchisor as well as their high desire and expectations to make greater profits in the near future. Although to some degree, they have some motivation for autonomy, these franchisees are likely to be considered as the most desirable by franchisors. Franchisors should continue to value and nurture this group.

Whinger franchisees in Cell 2 and *Rough Diamond franchisees* in Cell 3 show

mid-range scores in their means for cooperation even though the least-squares means' comparison shows that these means are not statistically different from those of the other two cells. These franchisees consistently exercise low co-operative relations with their franchisors. This may be due to their low level of perceived importance for the service quality of the system. They do not seem to have enough capability to expand in the local market and are highly dependent on their franchisor. Their level of satisfaction is significantly different from those of Cell 1 and Cell 4. This could be due to the lack of support for the key success factors (i.e. brand name, local environment, and communication) from the franchisors. However, these franchisees still maintain higher intention to remain within their franchise systems.

There is a major difference between Whingers (Cell 2) and Rough Diamonds (Cell 3). Whingers recorded higher mean scores for the success factors of brand image, local environment, and communication. If their franchisors were to provide more support in these success factors, it is highly possible for them to have better performance than those of Rough Diamonds (Cell 3). Whingers also have higher perception of success and are willing to cooperate with the franchisors. Franchisors would probably want to cooperate with this group of "high maintenance" franchisees if they are able to deal with their continuous dependence on them. However, there is also a good potential for

Whingers to upgrade to Best Buddy franchisees if they are provided with the right resources to better equip themselves to compete with the other franchisees. Rough Diamond franchisees have both the highest level of desire for autonomy as well as the lowest level of success perception. Although it is not impossible to change the attitude of these franchisees, it may be difficult. Franchisors are better off moulding Whingers as a form of long term investment than to potentially waste their time on Rough Diamonds franchisees in the long run.

CONCLUDING COMMENTS

Contributions

This study sets to achieve three contributions to the existing literature as described in the introductory section. First, it fills the gap highlighted by literature that the viewpoint from franchisees (as compared to the franchisors) is just as important an entity in the franchise system (Jambulingam and Nevin, 1999; Grunhagen and Mittelstaedt, 2000). Second the FSQ Matrix is shown to be empirically evident with four distinct profiles of franchisees. An understanding of the characteristics of each will enhance the effective management of the system. Third, the two dimensions namely perceived gap and perceived importance have been shown to be significant in profiling these 4 groups of franchisees. More importantly, all parties concerned should recognize and respect these two dimensions in an effort to foster cooperation between franchisees

and franchisors (Baucus et al., 1996; Dant and Gundlach, 1998; Gassenheimer et al., 1996).

Limitations

The findings have also provided support for various hypotheses concerning franchisees' perceptions of the four profiles. A number of implications are evident and should be detailed. Under low cooperative environments, the perceptions of franchisees' satisfaction and intention to remain are extremely low. As such it is unlikely that Black Sheep and Rough Diamond franchisees will have a change of heart even though more resources are utilized to enhance the relationship. Success can only be achieved if the two partners are willing to co-operate willingly. On the other hand, in a highly cooperative relationship with franchisors, franchisees seem to be better performers and also have more favourable perceptions of success. The resources will be well spent in motivating these franchisees. This is consistent with recommendations by Jambulingam and Nevin (1999) that franchisors should attempt to increase performance by carefully selecting franchisees from a richly experiential and committed base. These chosen groups should then be offered resources and assistance that are perceived by the franchisee as key success factors (Falbe and Welsh, 1998).

Dant and Gundlach (1998) suggest that these franchisees who have enjoyed more satisfaction with the franchisor are unlikely to terminate their contracts even though they do not have high autonomy. This study shows otherwise. Franchisees in Cell 1 and 4 namely the Black Sheep and Best Buddy franchisees value more autonomy than the two lower cells. More research by devising valid measures have to be looked in this area to understand the rationale behind this finding.

Whingers have the best potential to be cooperative franchisees and promoting to the Best Buddy Cell if given appropriate support and resources. The only drawback is that they have to be properly managed. They have the highest tendency to complain that they are not given the best resources. As such, negative word of mouth may affect other franchisees in the system and at the same time deter new entrants into the system.

Limitations

There are some limitations and new directions that can be considered. Like most studies, the sample size of this study can be improved. While the response rate of 20 percent is acceptable as compared to most mail survey methodology, a larger sample size will certainly enhance the validity of the matrix. Most deficient is that of Cell 4 which is only represented by 14 franchisees. Although it can argued that in practice,

this number in the overall percentage actually reflects the market in practice but it may still limit the findings.

While the measures used were adopted from established sources, other scales may be considered or developed for future studies. For instance, “local environment” has only 2 items and may not exactly capture the essence of the measure in this context. The “communication” scale can be further explored to increase the scope of the items.

Most franchising studies are done in a Western cultural context including this current one which is conducted in Australia. Chiou et al. (2004) have suggested that more studies should be considered in an Asian context. Countries such as Taiwan (because of its current political status) and Mainland China (its recent inclusion in the World Trade Organization) should be considered. One must not also underestimate the growing importance and affluence of the EU market. Replications of this study will provide results that can be generalized and find further support for the FSQ Matrix.

One other potential problem with this study is the use of an assortment of industries. Elango and Fried (1997) and Grunhagen and Dorsch (2003) have highlighted that studies covering a large base of different industries may be burdened by the fact that

specific factors within an industry may be undetected as they cancel each other out.

Further, there may be intricacies within each industry that form the key success factor.

Cross national studies of such industries will provide a better contribution for the

stakeholders concerned.

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Table 1
Correlation Matrix of Study Variables

| | Means | S.D. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
|--------------------------------|--------|-------|---------|--------|---------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|-------|
| 1. Marital status [†] | 0.910 | 0.287 | 1.000 | | | | | | | | | | | | | |
| 2. Gender [†] | 0.240 | 0.428 | 0.013 | 1.000 | | | | | | | | | | | | |
| 3. Age | 6.265 | 1.627 | 0.310** | -0.099 | 1.000 | | | | | | | | | | | |
| 4. Education | 3.065 | 0.823 | 0.002 | 0.057 | 0.028 | 1.000 | | | | | | | | | | |
| 5. Franchisor age | 5.402 | 1.333 | 0.065 | -0.038 | 0.191** | 0.006 | 1.000 | | | | | | | | | |
| 6. Franchisee age | 3.345 | 1.027 | 0.121 | -0.057 | 0.318* | -0.178* | 0.296** | 1.000 | | | | | | | | |
| 7. Brand Image | 26.801 | 8.513 | 0.057 | 0.067 | 0.056 | -0.129 | -0.110 | 0.082 | 1.000 | | | | | | | |
| 8. Location | 11.638 | 5.618 | 0.005 | 0.055 | -0.025 | -0.110 | -0.148* | 0.030 | 0.729** | 1.000 | | | | | | |
| 9. Communication | 18.807 | 8.315 | -0.073 | 0.148* | -0.002 | -0.051 | -0.159* | -0.003 | 0.607** | 0.786** | 1.000 | | | | | |
| 10. Activities | 40.050 | 6.596 | -0.040 | 0.058 | 0.014 | -0.010 | -0.033 | -0.003 | 0.178* | 0.176* | 0.255** | 1.000 | | | | |
| 11. Autonomy | 13.854 | 3.609 | 0.018 | 0.026 | 0.093 | -0.065 | 0.067 | 0.216** | -0.064 | -0.132 | -0.133 | -0.049 | 1.000 | | | |
| 12. Remain | 9.798 | 3.791 | -0.035 | 0.024 | -0.060 | -0.099 | -0.110 | 0.037 | 0.402** | 0.515** | 0.510** | 0.335** | -0.070 | 1.000 | | |
| 13. Satisfaction | 7.468 | 3.411 | -0.066 | 0.078 | -0.049 | -0.110 | -0.143* | 0.058 | 0.524** | 0.587** | 0.605** | 0.202** | -0.198** | 0.630** | 1.000 | |
| 14. Cooperation | 5.583 | 1.422 | 0.018 | 0.075 | 0.008 | -0.047 | -0.093 | -0.152* | 0.240** | 0.246** | 0.317** | 0.401** | -0.007 | 0.282** | 0.247** | 1.000 |

[†] Dummy variables; * p<.05; ** p<.01

Table 2

Cluster Solution: Description and Internal Validation

| | | Clusters | | | |
|---|--------------|---|--|--|---|
| Cluster Description | Full Sample | Cell 1
High perceived importance
High perceived gap | Cell 4
High perceived importance
Low perceived gap | Cell 2
Low perceived importance
High perceived gap | Cell 3
Low perceived importance
Low perceived gap |
| Perceived importance^a | | | | | |
| | N=200 | n = 40 | n = 111 | n = 35 | n = 14 |
| Mean | 8.51 | 9.36 | 8.77 | 8.49 | 4.18 |
| SD | 1.49 | 0.66 | 0.75 | 0.90 | 1.73 |
| Perceived Gap^a | | | | | |
| | | | | | |
| Mean | 6.92 | 3.14 | 8.34 | 6.00 | 8.80 |
| SD | 2.36 | 1.44 | 1.00 | 0.87 | 1.07 |
| Internal Validation | | $F_{(df)}$ | p -Value | Power (1- β) | Effect Size (η^2) |
| Multivariate Results | | 171.76 | 0.000 | 0.96 | 0.72 |
| Univariate Results | | | | | |
| Perceived importance ^b | | 133.56 _(df=3, 196) | 0.000 | 0.98 | 0.90 |
| Perceived Gap ^b | | 246.60 _(df=3, 196) | 0.000 | 0.94 | 0.89 |

^aAs previously mentioned in operationalization, larger values of perceived importance show greater agreement, and smaller values of perceived gap represent higher discrepancy between franchisees and franchisors.

^bPost-ANOVA Duncan's paired comparisons (with experiment-wise Type I error held at $\alpha = 0.05$) indicate that all possible pairs are significantly different from each other for perceived importance and perceived gaps.

Table 3

Results of FSQ Permutations with MANOVA

| Dependent Measures | Cell 1 | Cell 4 | Cell 2 | Cell 3 | Univariate Results
$F_{(df=3, 183)}$
p -Value | Least-squares Means' Comparison: Significantly Different Pairs ($\alpha = 0.05$) |
|-------------------------|---|--|--|---|---|--|
| | High perceived importance
High perceived gap | High perceived importance
Low perceived gap | Low perceived importance
High perceived gap | Low perceived importance
Low perceived gap | | |
| | n = 40 | n = 111 | n = 35 | n = 14 | | |
| Cooperation | Mean 3.48
SD 0.27 | Mean 5.28
SD 0.17 | Mean 4.66
SD 0.22 | Mean 3.83
SD 0.61 | 4.18
$p = 0.007$ | Cell 4 > 1, 2, and 3
Cell 2 > 1 |
| Franchisee Satisfaction | Mean 9.84
SD 0.70 | Mean 15.34
SD 0.44 | Mean 12.53
SD 0.56 | Mean 11.00
SD 1.58 | 31.32
$p = 0.000$ | Cell 4 > 1, 2, and 3
Cell 2 > 1 |
| Intention to remain | Mean 7.64
SD 0.54 | Mean 10.70
SD 0.34 | Mean 9.53
SD 0.44 | Mean 8.00
SD 1.23 | 20.38
$p = 0.000$ | Cell 4 > 1, 2, and 3
Cell 2 > 1 |
| Brand image | Mean 20.23
SD 1.14 | Mean 30.74
SD 0.72 | Mean 24.30
SD 1.25 | Mean 19.38
SD 2.00 | 27.10
$p = 0.000$ | Cell 4 > 1, 2, and 3
Cell 2 > 1 and 3 |
| Local environment | Mean 6.65
SD 0.65 | Mean 14.98
SD 0.41 | Mean 8.76
SD 0.71 | Mean 6.62
SD 1.39 | 53.85
$p = 0.000$ | Cell 4 > 1, 2, and 3
Cell 2 > 1 |
| Communication | Mean 10.13
SD 0.93 | Mean 24.01
SD 0.58 | Mean 14.97
SD 1.02 | Mean 12.46
SD 1.63 | 65.39
$p = 0.000$ | Cell 4 > 1, 2, and 3
Cell 2 > 1 |
| Franchisee activities | Mean 39.85
SD 1.02 | Mean 41.33
SD 0.64 | Mean 38.94
SD 1.12 | Mean 34.08
SD 1.79 | 5.35
$p = 0.002$ | Cell 4 > 2 and 3
Cell 1 > 3; Cell 2 > 3 |
| Autonomy | Mean 14.35
SD 0.58 | Mean 13.42
SD 0.37 | Mean 13.97
SD 0.64 | Mean 15.46
SD 1.02 | 1.56
$p = 0.201$ | Cell 3 > 4 |
| Education | Mean 3.23
SD 0.13 | Mean 2.99
SD 0.08 | Mean 3.15
SD 0.14 | Mean 2.92
SD 0.23 | 1.02
$p = 0.3835$ | None |
| Franchisee age | Mean 3.50
SD 0.16 | Mean 3.38
SD 0.10 | Mean 3.12
SD 0.18 | Mean 3.46
SD 0.28 | 0.93
$p = 0.423$ | None |
| Franchisor age | Mean 5.78
SD 0.21 | Mean 5.23
SD 0.13 | Mean 5.79
SD 0.23 | Mean 4.77
SD 0.36 | 3.70
$p = 0.013$ | Cell 1 > 3 and 4
Cell 2 > 3 and 4 |

Multivariate results: Wilks' Lambda $F = 6.65$, p -value = 0.000 (AUS). For the scaled questions above, larger values show greater agreement.

Figure 1

Proposed FSQ Matrix

Perceived Gap

| | | Perceived Gap | |
|-----------------------------|----------------------------|--|--|
| | | HIGH | LOW |
| Perceived importance | H
I
G
H | <p>Black Sheep Franchisees Cell 1</p> <ul style="list-style-type: none"> • Outside performance tolerance level • Likely chance to act opportunistically | <p>Best Buddy Franchisees Cell 4</p> <ul style="list-style-type: none"> • No commitment to the system • Very high chance to act opportunistically |
| | L
O
W | <p>Whinger Franchisee Cell 2</p> <ul style="list-style-type: none"> • Within performance tolerance level • May act opportunistically • High maintenance for management as they are complainers | <p>Rough Diamond Franchisee Cell 3</p> <ul style="list-style-type: none"> • Well within the performance tolerance level • Highly cooperative • Model franchisees |

Appendix I

Measurement items and scale reliabilities

| Construct | Number of Items | Item Descriptions |
|---|-----------------|---|
| Perceived importance of FSQ §
$\alpha = 0.91$ (AUS)
Perceived Gap of FSQ
$\alpha = 0.94$ | 9 | 1. Franchisor provides management know-how
2. Franchisor adapts to the market
3. Franchisor has ability to develop new products
4. Franchisor provides training and support
5. Franchisee applies high quality standards from franchisor
6. Franchisor establishes operational system efficiency
7. Prices of materials from franchisor are competitive
8. Franchisor shields franchisee's rights and interest
9. Franchisor is willing to solve problems |
| Brand image
$\alpha = 0.78$ | 5 | # 1. Franchisor has positive public name recognition
2. Franchisor provides facility design
3. Franchisee follows consistent product and service standards
4. Franchisor provides extensive national advertising
5. Franchisor participates in promotions with franchisee |
| Local environment
$\alpha = 0.86$ | 2 | 1. Franchisor helps franchisee to find good local market location
2. Franchisor shows flexible adaptation to local market |
| Communication
$\alpha = 0.90$ | 3 | 1. Franchisor's interaction with franchisee is excellent
2. Franchisee is encouraged to share with franchisor
3. Franchisee is encouraged to share with other franchisees |
| Franchisee activities
$\alpha = 0.77$ | 5 | 1. Franchisee shows leadership
2. Franchisee handles stressful situations
3. Full-time franchisee commitment
4. Franchisee is healthy
5. Franchisee involves community |
| Autonomy
$\alpha = 0.70$ | 3 | 1. The franchisee prefers to work independently of others
2. The franchisee prefers to consult franchisors in planning operations (R)
3. The franchisee prefers the opportunity for independent thought and action |
| Satisfaction
$\alpha = 0.74$ | 3 | # 1. The franchisee is very cooperative with the franchisor
2. Overall, the franchisor makes the franchisee earn so much money
3. The franchisor's physical distribution support system is better than that of the competitors' |
| Intention to remain
$\alpha = 0.90$ | 2 | 1. The franchisee made the right decision by investing in this franchise.
2. If he had it to do over again, the franchisee would still purchase this franchise. |

(R) denotes reverse-coded scales.

§: Both the questionnaire items of perceived importance and perceived gap of FSQ are the same.