

CHAPTER 1

INTRODUCTION

1.1 Background

Franchising can be described as a contractually based business arrangement between the franchisor who develops a product or service and the franchisee who buys the right to use the franchisor's trade name and sell that product or service (Khan, 1992). Franchising emerged as a significant way of doing business in the second half of the twentieth century, and continued to expand during the 1980s and 1990s, becoming a major force in the United States' economy. Franchising offers opportunities for individuals and business firms who want to expand the number of their distribution outlets carrying their products and services (Khan, 1992), and is becoming an important strategy in both the U. S. and the world markets for business growth, creation of jobs, and economic development (Hoffman and Preble, 1991).

Currently, franchising represents a major section of the distribution structure in the United States. Over 3,000 companies are involved in franchising, spanning more than 65 industries, and with over 500,000 retail locations (Seid, 1993). Information from the International Franchise Association Educational Foundation (IFAEF, 1992) reveals that over one-third of all retail sales in the United States are by franchisees or outlets owned by franchisers. Products and services sold by restaurant franchising firms were estimated, as of 1990, to exceed \$64 billion. In the year 1992 alone, franchising across

industries amounted to sales of \$803 billion, and accounted for 8 million jobs (International Franchise Association, 1996). In a study commissioned by the International Franchise Association (IFA), it was predicted that by the year 2000, 50% of all retail sales in the United States would be by franchises (Regulation of Franchising, 1994b). Presently, sales by franchises account for 40% of all retail sales.

Franchise systems can be described as systems of interdependent organizations that are involved in the process of making a product or service available to the consumer through negotiation and exchange (Khan, 1992). In a franchisor-franchisee relationship, the franchisee is granted or sold the right to use the franchisor's system of distribution and/or trademark (Khan, 1992). The limits of a franchisor-franchisee relationship are formalized by contract, which either extends from three to twenty years, or has no fixed time limit, and can have a great deal of variety in its terms. The contractual agreements are at the mid-point of a continuum between highly integrated systems and decentralized entrepreneurial markets. In the franchisor-franchisee relationship, although the limits are defined by the contract, the relationship between the two parties is near exclusive. Franchising contracts represent the products to be sold, standards of quality, prices, and hours of operation, and they also specify the start-up date, the duration of the contract agreements, periods of renewal, and termination clauses.

Franchising is unique among most other types of entrepreneurial activity in that it involves symbiotic and legally differentiated economic forms. In the franchisor-franchisee relationship, the two entities remain distinctly separate, yet are closely linked to one another, leading to the description of franchising as a partnership or strategic alliance (McIntyre, Young, and Gilbert, 1994). Franchise systems are made up of

interdependent, symbiotic, individual members or organizations. Among the many types of franchise systems, two general types can be identified, both of them relatively recent. These are product trade-name franchising, where a contractual channel of distribution is created by the franchisor, and business format franchising, where a franchisor grants license to a franchisee to duplicate the franchisor's business concept in another location. Product trade-name franchising arose from modernization of technology that produced a nation-wide market and significant increases in the volume of production. Product trade-name franchising was the forerunner of business format franchising. These two types of franchising are distinct forms from a legal and functional point of view. Business format franchisors sell the opportunity for business ownership, while product trade-name franchisors sell their goods through franchised outlets. At the basis of each form is the fact that the franchisor's decision to franchise arises from its desire to widen the distribution of its products or trademarked services.

The partners in a franchise system are mutually dependent on one another's objectives and performance to achieve their goals. Justis and Judd (1989) identified three types of interdependence in franchise systems. These include the business form, the legal form, and the agreement form, which accommodate one another's independence. There are many advantages for joining a franchise system, among them, awards and public recognition, decreased risk due to a proven business format in comparison to independent business operation, the training offered by the franchisor, and others. However, being a franchisee also brings responsibilities, including working within the restrictions of the franchisor and sharing the financial rewards. A successful franchise benefits not only the franchisees, but also the end-customers, and franchisees can be motivated to change

through a focus on the end-customer. Potential franchisees also can be seen as customers of the franchising companies.

There is variation in the services franchisors provide in franchise contracts. A mixture of services may be specified that maintain and build the franchise's value. Franchisors may assist franchisees begin their operations by helping with financing, site selection, lease negotiation, training, and store openings. On a continuing basis, franchisors may provide franchisees with central data processing, inventory control, retail unit evaluation, newsletters, regional or national meetings, and telephone hotlines. These services are utilized by franchisors to control, monitor, and support franchisees' performance, and in these ways minimize problems in their relationships with franchisees. It is customary for franchisors who offer extensive services to set higher base fees and royalties to compensate for the higher costs associated with these mechanisms for monitoring franchisees.

The franchisor-franchisee relationship can be conceptualized as having four phases. The first is the introduction, where mutual interdependence and a shared motivation for success and profits is fostered (Justis and Judd, 1989). The second phase can be characterized by growth, beginning when the business is functioning. During this phase, the franchisor is offering support to the new franchisee and the relationship is growing and developing. Also during this phase, the relationship can become problematic if the franchisor does not provide proper training or support. When each participant is able to understand what is expected from the another, it can be said that the maturity phase has been reached. At this point, the franchisee has an accurate impression of the competence and expertise of the franchisor and may either value or question the

franchisor's contributions to the relationship (Justis and Judd, 1989). The last stage in the relationship is one of decline. In this phase, either one or two situations prevail. The first is that the business is not doing well and the franchisee is motivated to end the relationship, and the second possibility is that the business is thriving and the relationship with the franchisor is solidified (Justis and Judd, 1989).

Empirical economic research has been conducted to explain why firms choose to distribute their products or service offerings through franchise channels. In contrast, the reasons why individuals join franchise systems and the characteristics that predict which individuals are likely to be interested in becoming franchisees have received little attention. (Peterson and Dant, 1990).

1.2 Statement of the Problem

The growth of franchising has been an important trend in the restaurant business, since it was introduced into the restaurant sector by Howard Johnsons in the 1930s. During the next decade, over 100 restaurants joined the Howard Johnson's franchising system. In recent years, quick service restaurants have faced significant external and internal pressures, due to intense competition. These pressures can cause disputes and abuses of the system that affect external suppliers, customers, and suppliers, as well as franchisees within the franchise system. Potential abuses can include victimization by unethical and even criminal operators (Kaufmann, 1990a, 1990b).

The ideal franchisor-franchisee relationship is one built on mutual trust, consideration, and cooperation, and is vital for the success of both parties. The

relationship at its optimum should be mutually beneficial and involve shared effort, should enhance profits, maximize market share, product sales, and growth for the franchisor and franchisee (Justis and Judd, 1989). Because the franchisor is risking its business reputation, contracts specifying franchisee obligations are often very explicit in their details, but may provide only a general outline of the franchisor's obligations. With the significant popularity of franchising as a method of business expansion have come problems, including allegations of franchisor misconduct or the failure of the franchisor to deal in good faith.

There is much potential for conflict in a relationship where both parties are mutually dependent, bound together by a contract, and must rely on inputs from both parties, and many franchisees complain about franchisors (Purvin, 1994). By the end of the 1980s, many prominent franchise companies had experienced problems. Units that are not well-run and have declining sales may face cancellation of their franchises or non-renewal of contracts. When contracts expire, franchisees must choose between making more capital investment or non-renewal of their contracts. If the franchisee chooses not to renew, then years of the relationship with the franchisor may be destroyed. The termination of a franchisor-franchisee relationship may have many implications, among them law suits and counter-suits.

It is clear that the implications of the franchisor-franchisee have yet to be fully explored, and that a better understanding of the factors that produce a high-quality relationship between franchisor and franchisee would be beneficial to both parties. Therefore, the first research question guiding this study is as follows:

Research Question 1

What are the key factors that affect the quality of the relationship between the franchisor and franchisee, and the franchisee's job performance, the franchisee's job satisfaction, and the franchisee's commitment.

Research Question 2

Is there a relationship between the franchisee's commitment, the quality of the relationship between the franchisor and franchisee, the franchisee's job performance, and the franchisee's job satisfaction?

1.3 The Need for the Study

Although franchising is a growing business form with economic benefits to participants, little empirical research has been done to evaluate the factors that contribute to a successful franchise relationship, particularly from the viewpoint of franchisees. Early research in the franchising field was primarily focused on economics. Over the past thirty years, research has broadened to include both the behavioral and economic aspects of franchising. Behavioral research has primarily focused on measuring the effectiveness of a franchise system by investigating its conflict resolutions, inter-organizational cooperation, the balance of power in the organization, and the satisfaction of participating members. However, very little information is available about the factors that affect the quality of the relationship between the franchisor and franchisee, and the reasons why a franchisee decides to stay in the franchise or to leave it. Therefore, in the current study,

an attempt has been made to understand the impact of these factors on the franchisor-franchisee relationship.

1.4 Objectives of the Study

The study will investigate franchising in the restaurant industry. This study will develop and test a theoretical model of antecedents (predictors) to determine the effects of key factors that determine the quality of the franchisor-franchisee relationship. Among these factors are the franchisee's commitment to remain in or leave the franchise relationship, the franchisee's satisfaction with purchasing and operating a franchise outlet, the effects of the franchisor's brand name on the quality of the relationship, the franchisee's perception of the franchisor's support, the franchisee's motivation to become a franchisee, and the franchisee's performance.

1.5 Theoretical Contributions

The proposed model will provide valuable information for establishing an effective management strategy, which will improve the relationship between the franchisor and franchisee and to prevent turnover. The study will include an analysis of the predictors of a quality relationship between the franchisor and the franchisee. The proposed theoretical model will increase an understanding of the relationships between the predictors of a quality relationship, the franchisee's performance, the franchisee's satisfaction, and the franchisee's commitment predicting intention to terminate or remain

in the franchising relationship. Firm-level data have been collected through a survey of American franchisees in the restaurant industry. The research hypotheses, developed through a review of the literature, will be tested in comparison to the survey data analyses. The study contributes to knowledge about a variety of factors that influence the quality of the franchisor-franchisee relationship, including the development of more appropriate and comprehensive research agendas for further study of the franchise turnover process.

1.6 Practical Applications for Franchise Restaurants

The results and knowledge gathered from this study should provide both theoretical and practical contributions for the improvement of franchising in the restaurant industry. The predictors identified for this study will also provide a useful tool for restaurant franchising companies who wish to examine franchisee's satisfaction. Once the franchisor understands the variables leading to franchisee satisfaction, changes can be implemented to reduce conflict and improve the overall performance of the franchisee. The proposed model can also be used to develop the franchisor's management strategy to improve the rate of success of both franchisor and franchisee. Similarly, the model can assist both the franchisor and the prospective franchisee in understanding their policies in strategic terms and in integrating their different activities so as to provide the firm with the quality relationship required for competitive advantage.

1.7 Research Boundaries

The boundary of the research is the foodservice industry, because of the interest of the researcher, and because business-format franchising involves more complicated contracts that include not only sales, but also the entire business concept itself. Important aspects of the business format franchise include the trademark, compensation package, marketing strategy and planning, the management approach, operating manuals and standards, quality control, and a continuing process of consultation with the franchisor. The largest industry to use business-format franchising is the restaurant industry. About half of the dollar value of food away from home is generated by franchises.

1.8 Organization of the Dissertation

This chapter contains a description of the research problem, and a discussion of the factors underlying its importance and relevance to franchising research. Chapter 2 contains a review of the relevant literature, the extent of the findings with regard to the research questions addressed in this dissertation, and an assessment of the gaps in the literature. Chapter 3 contains a theoretical model of the franchisor-franchisee relationship in the franchise system, with the key decision variables that affect the quality of the relationship. The model is constructed as a set of causal relationships, which also are discussed Chapter 3. Chapter 4 contains a description of the empirical research methodology. In this study, a conceptualization of motivation, the franchisor's support of

the franchisee, the brand name, franchisee performance, the nature of a quality relationship, franchisee satisfaction, and the franchisee's commitments regarding remaining with the franchise are modified by a path model in order to develop the structural equation model, and then are empirically tested. This modification will be based on the knowledge of what generally occurs in a restaurant franchise. Chapter 5 contains the tests of the hypotheses derived from the solutions to the theoretical model. In Chapter 6, the implications of the research are summarized, conclusions are drawn, and suggestions are provided for future research.

1.9 Summary of the Chapter

This chapter presents an overview of the proposed research, beginning with the background of the study. The chapter then discusses the problem statement, which includes the two research questions that guide the study. The objectives of the study are discussed, which include the design and testing of a model of antecedents (predictors) in order to determine the factors that affect a franchisor's commitment to stay with the franchisor or to leave the franchising system. Also among the study's objectives are to identify the factors that impact the quality of the franchisor-franchisee relationship, and the quality of that relationship as it relates to the performance of the franchisee, franchisee satisfaction, and the franchisee's commitments. The chapter also discusses the practical and theoretical contributions of the study, including its applications to the restaurant franchising industry.

1.10 Definitions of Terms

Motivation is the reason why people would like to be franchisees. In other word, why he or she would seek a franchise rather than operating an independent business.

Evaluation is the franchisee's perception of franchisor's support.

Brand name is the perceived brand value of the franchisor's brand name.

The quality of the relationship is the degree to which franchisees are interrelated with franchisor. A high quality relationship can be expected to result in high productivity.

Performance is the franchisee's perception about his or her financial performance or success of the business.

Satisfaction is the franchisee's affective (emotional) response to the relationship.

Commitment is defined as a franchisee's predicting intention to leave the relationship with overall assessment of worthiness or utility in a franchisor's offering, based on what is to be received and what is to be given.

CHAPTER 2

LITERATURE REVIEW

Most studies done in the area of the franchisee-franchisor relationship take the approach that franchising is a form of organization aimed toward maximizing profit. These studies may include related questions about the optimum proportion of franchised units and the appropriate mixture of outlets in the franchise system. Fiol and Lyles (1985) discovered that the ability of the franchising system to provide more opportunity for learning than a unitary organization provides should be taken into account. The nature of the formal and informal relationships in a franchise system influence their commercial transactions, and these commercial transactions can potentially generate conflict (Spinelli and Birley, 1996). The line of thought that addresses franchising choice as a form of organization describes franchising as being driven by a long-term contract whereby the owner, producer, or distributor of a service or trademarked product (franchisor) grants the non-exclusive rights to a distributor for local distribution of the product or service (franchisee). General, organizational efficiency theories that have relied upon industrial organizational theories of alignment of incentives are becoming the most generally accepted means of approaching research about franchising. Caves and Murphy (1976) defined a franchise agreement as an agreement lasting for a specified or indefinite span of time in which the owner of a protected trademark grants to another person or firm the

right to operate under his trademark for the purpose of producing or distributing a product or service.

Research on franchising as a type of organization can be categorized into three primary areas: capital theory, the resource-constraints view, and agency theory. A number of different theoretical perspectives within the above categories are discussed in this chapter.

2.1 A Review of Franchising from the Viewpoint of Organizational Structure

The body of research dealing with the choice of organizational form and outlet is primarily descriptive and empirical. The reasons motivating firms to choose franchising rather than expansion through company-owned units is a topic that inspires debate in the literature. In this section, we assess the different theoretical explanations for the choice of franchising as an organizational form, followed by an examination of the empirical support available for each of the perspectives.

2.1.1 Capital Theory

The capital market imperfection argument is among the earliest explanations for franchising (Oxenfeldt and Kelly, 1968; Oxenfeldt and Thompson, 1969; Hunt, 1973; Caves and Murphy, 1976). According to this argument, the franchisor, when confronted with capital constraints, is able to raise capital at lower cost than is the case with other business situations and thus is able to expand without adding company-owned stores. In other words, franchisees are viewed by the franchisor as a means to deal with the problem

of scarce capital. According to Caves and Murphy (1976), “For financing outlets the capital supplied by franchisees has no ready substitute” (p. 581).

A life-cycle model of franchising was proposed by Oxenfeldt and Kelly (1968), whereby at early stages in a company’s life-cycle, when it may lack sufficient capital for expansion, it may utilize franchisee’s capital for the growth of the firm. When the company reaches the stage where it has acquired sufficient capital, the franchisor is able to regain the larger units from franchisees. Lillis, Narayana and Gilman (1976) also used a life-cycle approach to investigate the evolution of franchises. The authors suggested unique advantages of the franchising distribution system, according to the franchise’s life-cycle stage. They identified the following four primary advantages: “(1) rapid market access, (2) a reduction in capital costs, (3) sharing risks within the distribution channel, (4) highly motivated owner-operators” (p. 77). In addition, several other advantages were: (5) work-sharing among management, (6) anti-trust action protection, (7) an ability to provide service in marginal locations, (8) reducing economic concentration, and (9) the promotion of independently owned business.

Further, the authors correlated the importance of these advantages to stages in the life-cycle of a franchise. Generally speaking, the motivation of the franchisee was perceived by franchisors to be the most important advantage. Also of importance, respectively, were rapid market penetration, risk-sharing, and entry capital. The authors surveyed fast-food franchises, and discovered that franchising was encouraged by rapid market penetration in the early life-stages of a firm, but in the more mature stages, fully integrated direct distribution was more advantageous. The authors also investigated the importance of commonly accepted competitive advantages at various of the franchise’s

life-stages. Significant differences were discovered in the perceptions of the importance of these competitive advantages at the various stages; differences were not as significant across stages. The authors suggested that capital and management talent were more significant to start-up companies than they were to successful franchisors.

An empirical study by Hunt (1973) and Thompson (1994) provided early support for the life-cycle approach to investigating franchises. An aggregate trend was found toward company-owned units in the fast-food industry. Also discovered was the fact that large and older units were more likely to revert back to company ownership, a trend that was corroborated by Caves and Murphy (1976) concerning company ownership of hotels, motels, and restaurants. A prevailing rationale for franchising suggests that franchising is a means for the franchisor to raise capital (Oxenfeldt and Thompson, 1968; Caves and Murphy, 1976).

Markland and Furst (1974) have proposed a franchise portfolio optimization model that can be utilized by potential franchises to determine their optimum portfolio. This model has two primary attributes. First, a probabilistic capital budgeting technique is used to evaluate potential franchises, and second, integer programming determines the optimum portfolio of discrete, alternative franchises given the rationing of capital and the constraints of risks.

It was found (Thompson, 1992) that when units necessitate high capital investment, company ownership is less likely to occur. The fact that new franchisors charge a higher initial fee than more established franchisors is an indication that resources are important in the early stages of a firm's growth (Sen, 1993). Although it has been widely accepted among researchers, the capital constraint explanation seems to be in disagreement with

the theory of finance (Rubin, 1978). Rubin (1978) uses the theory of portfolio management to emphasize the typically greater risk aversion of franchisees, and suggests that there is a higher cost of capital for franchisees. Franchisees' investments are not as diversified as franchisor's investments, because the franchising company will have revenue from its portfolio of royalties and input fees. Therefore, it would be advantageous for franchisees who do not want to incur high risks to require a risk premium from the franchisor, which results in lower returns for the franchisor.

Rubin further notes (1978) that despite gross capital market imperfections which cause franchisors to rely exclusively on store managers for capital, franchisors may reduce capital costs by issuing shares to a portfolio of all its units, rather than following a scheme of limited ownership. The franchisor controls the franchisees contractually, which negates making this substitution, and also negates the other types of asset-reducing franchisor behavior (Norton, 1988). The incentives of franchising are responses to a vertical chain of market power. However, the market power structure is lacking in generality (Rubin, 1978). Market power is, however, difficult to measure empirically (Norton, 1988).

Neither the agency perspective nor the capital-constraints perspective alone provides a complete rationale for ownership patterns in franchising (Dant et al., 1996). Another perspective is the transaction cost-analysis, presented by Dant et al. (1996), which utilized a framework that incorporates elements from both theories. According to transaction cost analysis (TCA), the most efficient ownership structure is one that minimizes both transaction and production costs. When applying TCA to franchising, the varying proportions of units owned by franchising companies and by franchisees in

different franchising systems reflect the most efficient proportion for each system. Franchising systems encounter various proportions of transaction and production costs, and adjust their proportions of company-owned and franchisee-owned units in order to minimize these costs (Dant et al., 1996; Klein, 1980; Williamson, 1979, 1981, 1983).

Behavioral uncertainty, in the context of franchising, refers to difficulties that franchisors may encounter in monitoring the behaviors of franchisees and evaluating their performance as per their contracts. Often mentioned in the literature is the tendency for franchisors to “free-ride,” a practice that is detrimental to franchisees, who have no incentive to cut costs or quality, since any savings do not accrue to them (Carney and Gedajlovic, 1991). The free-riding practice is detrimental to the franchise trademark, and is a pervasive problem for franchisees (Brickley and Dark, 1987; Norton, 1988; Carney and Gedajlovic, 1991). The transaction cost point of view holds that the majority of variance in ownership structure, the franchisor’s experience in production, and the franchisor’s ability to achieve economies of scale have a significant effect on the extent of the importance of company-owned units (Klein and Kim, 1998).

2.1.2 Resource-Constraints View

Among resource-scarcity oriented theories about why firms choose to become franchisors, a lack of entrepreneurial/managerial resources has been generally accepted as a key factor, in that firms’ managers may lack the resources to establish a network of company-owned stores. Recruiting and training unit-managers can account for a sizable percentage of firms’ growth costs, whereas in a franchising system, franchisees furnish

both capital and labor. This hybrid quality of franchising allows firms to overcome both the constraints of a lack of managerial resources and capital constraints.

Oxenfeldt and Kelley's approach to research about franchising is to explain its essential nature and prospects, and to identify factors that lead franchisors to buy out franchisees. Attaining higher profits is a primary goal. The authors suggest that franchising is an appealing choice because there is a need for a ready supply of management labor and talent. The motivation for franchisors to own and operate their units is suggested to be the fact that franchisors are in the best position to identify and retain the most profitable new franchise outlets. A goal that is related to the desire for profit is that of attaining a "critical size" rapidly.

Another motivation toward franchisor ownership is the availability of essential resources. At the outset of operations, franchisors may require funds and may need to rely on franchisees financially. The factor of control is also an important factor that leads franchisors to become owners, in that operating a franchise system allows greater control over quality and service standards. And finally, the authors suggest that acquiring franchisees was a necessary, although often problematic and difficult to control, step in expanding their franchise systems.

According to Woll (1968), a prospective franchisor faces choices about the mix of sources of revenue that will best serve continued growth and the continued growth of franchisees in the system. The author identified eight primary ways in which franchisors acquire revenue. Among these are: the initial franchise fee; royalties, and the rental of property; the sale or leasing of equipment; raw materials and supplies; the sale of franchise products; and the sale of territory rights. Two or more of these are usually

found in combination, utilized by a franchisor to gain revenue from franchisees. He suggested that over time, successful firms would continue to grow, would become more institutionalized, and would be more difficult to manage as they grew more complex.

It was found by Oxenfeldt and Kelly (1968) that the most successful franchise systems eventually become entirely company-owned, and that during the early life-cycle stages franchising is most advantageous to the franchisor. Franchising becomes less and less attractive as the company matures beyond the expansion phase, and as its goals, opportunities, and resources evolve. This is a theory that is supported by several empirical studies on the topic, including Hunt's (1973) empirical study that found that successful franchise systems eventually are destined to become wholly owned chains, gradually displacing franchisee-owned units, but never becoming 100 percent company-owned. He identified six main reasons why firms seek to buy back franchised units, including lack of ready capital, problems with franchising ethics, the desire for rapid expansion, isolated units, and insufficient franchise fees. The author also identified five factors in favor of company-owned units. These include higher profits per unit, greater control over units, legal problems, and new restrictive legislation.

In their research, Zeller, Archabal and Brown (1980) also found a tendency for franchisors to buy out the more successful franchisees. They suggested that a "franchisor-master" system might be preferable to a system having a franchisor and franchisee structure, because it promotes harmony in the system and opportunities to buy back the units. Martin (1988) and Padmanabhan (1988) had a more complicated interpretation of the effects of a franchisor-owned or a franchisee-owned system, in that they utilized more than one operation. The authors found that company-owned units were more successful

than franchised units. These findings support Oxenfeldt and Kelly's suggestion that franchisors will, over time, re-acquire franchisee-owned units, leaving only the units that are less successful under the control of franchisees (Lilis, Narayana, and Gilman, 1976; Brickley and Dark, 1987).

A different viewpoint was taken in the research of Caves and Murphy (1976). They suggest that franchisors must balance the possible revenue from a change to company ownership against the investment costs of buying back the franchise. Their analysis implies that changes in ownership will grow to the extent that franchisors use their control of contracts to lower the costs of acquisitions. Also, the advantages of company-owned units increase when unit performance increases, because the franchisor usually uses fixed royalty rates. The authors found that, in comparisons of the average sales volume of franchisee and company-owned establishments, that "company ownership had probably peeled off the more profitable outlets in each sector" (p. 583). They took the viewpoint of franchising as an economic relationship between the parties involved, and analyzed the franchisor's market power and found it an exercise in constrained maximization.

Caves and Murphy (1976) further identified that the central features of franchising were the rental of an intangible property asset, and the operation of a production or distribution process that is decentralized. They further identified that there are benefits and disadvantages to a firm's rapid expansion. Rapid geographical expansion may allow a company to pre-empt competition and achieve first-mover advantage, but rapid growth of a franchise system may intensify the problem of scarce resources that is

faced by franchisors, in that a firm requires accessible financial and managerial resources to support its expansion.

Norton (1988) found that the central characteristic of franchise organizations is that they are a combination of market-like qualities and firm-like qualities. A franchise is market-like due to the trade that exists between the company and its franchisees. The franchisee pays a set amount to acquire the right to market the franchisor's products, and also pays royalties that include a percentage of sales, and may purchase specific inputs from the franchisor. The firm-like qualities are found in the way that the franchisor's and franchisee's relationship resembles nearly full vertical integration, but with the franchisor exercising significant control over the franchisee. Also, the relationship resembles a contract between employer and employee in that the contract usually strictly specifies the right of the franchisor to unilaterally terminate the relationship, and specifies performance criteria (Rubin, 1978).

According to Lafontaine (1992), 79 percent of franchisors indicate that they are operating at or above their perceived optimum proportion of the revenue of company-owned units. Also, she noted that among the reasons given by franchisors for franchising were perceived long-term operational benefits. Through the use of secondary data, she investigated whether or not the proportion of franchisor-owned units would be greater in the early stages of a firm's evolution when the investment costs were greater. However, Lafontaine's conclusions are relatively unclear as to the theory about changes in franchise ownership over time.

Rubin (1978) suggests that it is not lack of capital or lack of management resources that explains fully why firms choose to franchise. He contends that a firm

could simply hire experienced managers, assuming that the firm had sufficient capital. He concluded that because of the inefficiency of the risk-sharing structure of franchising, that there must be other factors that contribute to the wide-spread usage of franchising. Rubin, as well as other researchers, reject the argument that a lack of financial resources is a motivation for franchising. However, it should be understood that franchising is a source of capital, as a type of private equity, and is a hybrid form of capital (Norton, 1988).

Despite substantial research, including empirical studies, the reasons for shifts in ownership in franchise systems is not clear. From a public policy viewpoint, it is recognized by Congress and state legislatures considering regulations about franchise termination that the issue of changes in ownership remains unclear.

2.1.3 Agency Theory

In contrast to the resource-constraint view of franchising as being primarily attractive to small firms wishing to expand, there is an alternative view that identifies the incentive aspects of franchising. However, the resource scarcity view does not explain why franchising is used by many businesses who clearly have full access to capital (Lafontaine and Kaufmann, 1994).

An “agency relationship” has been defined by Jensen and Meckling (1976) as a contract under which one or more persons (the principal) engage one another (the agent) to perform some service on their behalf, which involves delegating some authority for decision-making to the agent. In this situation, both parties may have varying motivations and the agent will not always act in the best interests of the principal. Agency theory

holds that the purpose of contracts with an agent is to allow for the necessary transactions of the business to be conducted in an integrated way. Agency problems are likely to occur in units that are company owned because the parent company has only an imperfect capacity to observe the employed manager's actions and information base.

The costs to the agency occur where there are conflicts of interest, in combination with the exercise of self-interested actions under conditions where there are rational expectations. These conflicts of interest can result in sub-optimal business decisions (Jensen and Meckling, 1976). In many organizational arrangements, agency costs -- the costs of aligning the incentives of principals and agents, including bonding and monitoring and the related forgone output attributable to those activities -- are incurred because the value of specialization between principals and agents exceeds these costs. In this instance, the parent company incurs costs associated with monitoring the managers of company units in order to ensure that the company units are doing business in a way that is in the parent company's best interest. Therefore, it can be assumed that units owned by franchisees are likely to perform better than company-owned units, because the franchisees do not have the same incentives as the company-owned units' managers. Franchisees receive residual profits generated by their units. Changes in the organization occur when the costs are too high relative to the benefits that result from specialization.

Relative to the theory of efficient capital markets, many researchers take a different viewpoint, based on organizational economics, and in particular, agency theory. This viewpoint suggests that franchisors can reduce risks by investing in the entire franchising system at lower capital costs than the costs of the franchisees. This makes capital more accessible to the franchisor than to the franchisee (Rubin, 1978). According

to agency theory, franchising is usually seen as a way to reduce agency costs, and follows the assumption that managers will usually not perform to capacity when they are paid a fixed rate. Several problems have been identified that are associated with company-owned units (Rubin, 1978; Mathewson and Winter, 1985). The costs of monitoring manager effectiveness in company-owned units have been most usually the focus of researchers (Mathewson and Winter, 1985; Brickley and Dark, 1987; Norton, 1988).

Another problem with company-owned units is that physical dispersion in a company can make conventional firm organization prohibitive (Rubin, 1978), in that given a certain stage of dispersion, the monitoring costs exceed their benefits. It is difficult for owners to distinguish between managers who are not working efficiently and a low demand for the company products or services. Franchising avoids these monitoring costs, but loses the efficiency of specialization. Then, it could be assumed that franchising should be the more common business form, particularly in rural and other physically dispersed areas. The more dispersion there is of units, the less the gains from ownership.

Although franchising may economize on monitoring costs, it is not entirely efficient. The use of high-powered incentives gives rise to three other problems, which include inefficient investment, free-riding, and quasi-rent appropriations. There is a trade-off, therefore, for the franchisor between agency costs and the benefits of reduced monitoring of franchisees (Brickley and Dark, 1987; Krueger, 1991). Concentrated risk is a cause of inefficient investment. Franchisees must bear the full risk of undertaking a marginal investment (Carney and Gedajlovic, 1991). According to Brickley and Dark (1987), the owner of multiple units disperses the risks among the units. These authors

also found that franchising was preferable to company-owned units in terms of low initial investment per unit, high frequency of repeat customers per unit, and high employee monitoring costs. It would be expected that a rational franchisee would under-invest in particular assets.

Another agency problem associated with franchising is the possibility of free-riding. If the costs of shading product quality are externalized and the gains are internalized, then the franchisee may have a motive for such activities (Carney and Gedajlovic, 1991). Free-riding is the most detrimental to the parent company when there are few repeat customers in terms of unit sales (Norton, 1988). An additional agency problem is the possibility of quasi-rent appropriation. Quasi rent can be defined as an asset over the salvage potential of the physical property. If the quasi-rent is high, the franchisee may be appropriated by the franchisor (Carney and Gedajlovic, 1991). The risk of this appropriation is highest when a high beginning investment is necessary to establish a franchise. Conversely, it was found that restaurants owned by franchisees outperformed company-owned units, despite the compensation of managers commensurate with profits.

Rubin has studied the characteristics of the franchise contract. Franchising has often been seen as a means for franchisors to raise capital, rather than taking the route of expansion by company-owned subsidiaries. The author has shown that the capital-raising theory for franchising is in disagreement with contemporary capital theory, in that selling franchises is more costly than selling franchise shares. He also suggests that entrepreneurial franchisees would outperform hired managers due to their greater incentives for profits. The author disputes the resource-constraints explanation, and

concludes that franchisees are more responsive to daily resource usage, costs, and specific market-conditions than are the less motivated franchise managers, and hence franchisee performance is higher. As a consequence, the decision to franchise may be motivated more by advantages gained by the superior service and performance of the franchisee than by the desire to gain capital through expansion. Shelton (1967) confirms this finding in his study of restaurants, in which he concludes that restaurants owned by independent franchisees performed better than those that were supervised by company managers, even when managers received compensation for performance. However, empirical studies do not always confirm Rubin's position. Dant, (1995), and Lafontaine (1992) documented resource-based explanations for franchising.

Thomas, O'Hara, and Musgrave (1990) support the agency theory, in their findings that high unit sales are a factor in the decision to convert away from a franchising to a company-owned system. They also did not find support for the life-cycle theory of franchising. According to Thompson (1992), company ownership of units is most likely in urban regions and regions where there tend to be large units. A study by Combs and Castrogiovanni (1994) did not confirm the idea of resource scarcity, but did discover significant support for the agency theory and the idea of risk-taking.

Forward and Fulop (1996) suggest that established firms that choose to become franchisors do not fit into the categories of either resource-constraints or agency-incentives, but have qualities of both theories. Because company-owned stores are sometimes run by inefficient managers, it was recommended that companies should monitor their store managers, thus incurring monitoring costs. Franchisees, who have invested capital in their own stores and whose profits come from store earnings, would

have more incentive to work harder than store managers. Self-motivated managers, who are likely to take the initiative for the success of their units, do not require the investment in monitoring that company-owned managers require, and thus franchising helps to reduce monitoring costs to the company (Krueger, 1991). Shelton (1967) discovered that franchised stores out-performed company-owned stores, even though company-owned stores seem to offer higher salary increases over time than do franchised stores (Krueger, 1991). According to franchisors, the high level of motivation of franchisees compared to pay employees is the most important advantage of participating in a franchising system (Lillis, Narayana, and Gilman, 1976).

2.2 A Review of the Franchise Relationship

According to the literature, a conflict situation may arise when the costs of remaining in a franchise relationship are greater than the perceived costs of leaving the relationship (Kaufmann and Stern, 1988; Ping, 1990). Franchise relationships are undertaken when the parties perceive that the efficiency produced in the relationship will result in increased value. The viewpoint of Stephenson and House (1971) is that for franchise relationships, the benefits are based on the potential for greater gains through group membership than through operating independently. The characteristics of the franchise relationship raises questions about how much latitude the parties have for independent action, and about constraints on decision-making autonomy. The authors reached the conclusion that there was no particular benefit in a high degree of franchisee autonomy.

Kaufmann and Stern (1988) used, in their research, relational exchange theory, which investigates the nature of transactions between entities. They cite franchising as a prototype for relational exchange, and suggest that the conditions that are detrimental to the exchange relationship are not easy to identify. According to Hunt and Nevin (1974), franchisee cooperation might be obtained through the use of power to manipulate the franchisee's behavior, or by convincing the franchisee of the benefits to be gained in the relationship. A study by Felstead (1994) concentrates on the tendency for power to be centralized in the organization, and for the franchisor to use that power to achieve goals. The stability of the relationship is important to any composite organization (Borys and Jemison, 1989). Although the literature portrays the relationship as one where the

franchisee is the recipient of the franchisor's expertise and knowledge, it is important to recognize the franchisee as an intelligent participant who is capable of contributing to the system. A study by Zeller, Archabal, and Brown (1980) discovered that the goals of franchisors and franchisees are in conflict, in that the franchisor strives to maximize profits for the entire system, and the franchisee would like to maximize profits in its territory, and particularly unit profits.

Early research focused on the tendency of the franchise relationship to be conflict-prone, and involving a great deal of dissatisfaction due to the imbalance of power between the participants (Parsa, 1994; Gaski, 1984, 1986). The use of inter-organizational power and the satisfaction of distributors were studied in the context of heavy industrial machinery (Gaski and Nevin, 1985). In this context, and based on a previous study by Hunt and Nevin (1974), the authors dichotomized measures of power sources and exercised power as "coercive" and "reward." They found that if franchisors relied more on non-coercive power sources and less on coercive power sources, franchisee satisfaction would be greater. The authors further stated that the membership contract builds into the relationship the direction of power for decision-making. In a study of franchised automobile dealers, Lusch (1976) investigated the relationship between power sources and intra-channel conflict. He found that conflict in the automobile distribution franchise system was increased by the use of non-coercive power.

Another approach to the study of franchising is the micro-economic theory, which places franchising's theme of intangible assets-sharing in a theoretical structure. In this theory, the reduction of costs or the increase of revenue is seen to result from a division of tasks between two independent firms (Williamson, 1975). The assumption underlying

this theory is that both the franchisor and the franchisee are seeking to maximize profits (Hayek, 1989). The franchisor-franchisee relationships are affected by differences in the perceived value of a franchise. In the initial contract negotiations, franchisors specify uniform contract terms for all franchisees. It is assumed that the contract terms take into account the value of the franchise and its brand name, should include estimations of the retail outlets financial performance, and should specify the costs of providing services. The contract terms are contained in disclosure documents, used by prospective franchisees as a “menu” from which they can choose franchise opportunities. Prospective franchisees are more likely to choose franchisors with a higher brand name value, and with proven success formulas. Such franchisors find easier entry into new markets. Since franchisor revenue is generated primarily through franchise fees, royalties, and sales of goods and services to franchisees, successful franchisors are likely to charge higher fees to franchisees, and be more strict in selecting potential franchisees. Hunt (1977) found that franchising benefits society by offering more opportunities for minorities and women, and because franchisees have higher success rates than independently owned businesses.

Arrow (1969) used a cost-economics approach to study franchising relationships. In this theory, the principal burden of analysis lies in the comparisons of the various costs involved in running the economic system under investigation. It is assumed that the parties in the relationship are acting out of economic self-interest and will enhance their own positions by engaging in opportunistic behaviors (Bergen, Dutta, and Walker, 1992). In transaction-cost economics, the basic unit of analysis is the transaction (Williamson, 1975). Analysis of transactions involves examining the basic dimensions on which they

differ, and the implications of those differences for the design of management systems. Transaction-cost analysis (TCA) regards asset-specificity as a primary concept (Williamson, 1985). TCA is utilized as a technique to safeguard transactions against possible opportunism by either party (Simpson, 1990). In any franchising relationship, the formal safeguard is the license agreement that specifies the terms of the common ownership and the responsibilities of both parties with reference to their common asset. Williamson (1991) has found that transaction-cost economics analysis extends farther than marginal analyses, in that it investigates efficiency in resource allocation. His conclusion is that franchising has more benefits than autonomy in transactions, in that it is multilaterally dependent, a situation that reduces the costs and risks.

Conflict reduction and the maintenance of the relationship are linked with franchisee satisfaction in the relationship exchange (Frazier, Gill, and Kale, 1989). Among the researchers in the area of conflict in franchise channels of distribution are Lusch (1976), and Brown and Day (1981). These authors have focused primarily on identification of the reasons for conflict. Two major areas of conflict are deception in the selling and granting of franchises, and unfair practices in operating franchise systems (Nevin, Hunt, and Ruekert, 1980). The interrelated goals of the franchisor and franchisee tend to generate high degrees of trust and solidarity in the relationship. Kaufmann and Rangan (1990) have proposed a mathematical model to resolve the problem of conflict between the franchisor and franchisee during the process of adding new franchised units. This model includes an integration of store choice, site allocation, and a proactive system of management that optimizes the dichotomous effects of competitiveness and system attractiveness.

Sharing economic rent becomes an issue when a franchisor-franchisee relationship is entered into. Franchisors have available as revenue sources the initial franchise fees, royalties, property rentals, the sale or leasing of equipment, supplies and raw materials, franchise products' sales, and the sale of territorial rights (Woll, 1968). It was found, by Bacus, Bacus, and Human (1993), that both the industry and franchisor characteristics determined base fees and royalty rates. The applicable franchisor characteristics included age of the company, market share, number of employees in the system, the types of services offered to franchisees, and the value of the franchisor's trademark value.

The assumption arises, from an examination of the franchisor's theoretical cost-structure, that the franchisor's cost is fixed. Therefore, the franchisor's revenue curve is linked to that of the system's franchisees, and, as previously described, will slope downward and to the right. However, this assumption must be modified to include the tiered placement of overhead and the marginality of product and services sales to franchisees. A proposal by Hayek (1989) suggests that the price-system is very efficient as a means of communicating information and bringing about change. In this proposal, the central objective of economic organizations is adaptation, with a marketplace focus. These findings were congruent with those of Sen (1993), who reported that the total investment per unit, the tie-in sales requirements, and the percentage of franchised units set the initial fees required by franchisors. A positive relationship was found by Combs and Castrogiovanni (1994) between the number of franchised units and the amount of royalties charged by the franchisor.

In the economics literature, the choice of the franchisee to purchase a franchise is seen as a rational response to an appealing investment opportunity. However, this viewpoint does not take into account the personal characteristics of the franchisee. Peterson and Dant (1990) describe the franchisee as being subject to a “large number of situational, personality, and economic correlates are likely to influence perceptions” (p. 48) about franchising. It is important to understand the franchisee’s economic motivations, but such an inquiry should be augmented by a consideration of the franchisee’s personal characteristics, which may have both economic and social origins.

Schul, Little, and Pride (1985) discovered that franchisee satisfaction is related to how the franchisee perceives the quality of the interactions with the franchisor, the quality of the franchisor’s operational support, the appeal of the reward structure, and the fairness and autonomy of the relationship. Similar results were found by Lewis and Lambert (1991), that franchisees were satisfied if they felt that the success of their franchise was due to the franchisor. Franchisee satisfaction or franchisee’s fulfillment of its goals has been used as a performance measure in some studies (Elango and Fried, 1997). Another performance measure that has been used for franchising is system-wide growth in sales or units. Carmen and Klein (1986) have suggested that these measures may be flawed in that they fail to recognize the multi-layered features of franchising performance. Most research has measured franchising only from the perspective of the franchisor, and it should be understood that the performance impact on franchisees might be different. An example of this difference is the fact that increasing the number of units may be of benefit to the franchisor, whose revenues depend on royalties from units in the system, while, on the other hand, such increases may be detrimental to the franchisee,

whose market may be decreased by the existence of new franchisees. Morrison (1996) found that in the contractual relationship between franchisor and franchisee, each party has a role to play in ensuring that financial satisfaction will result for both, and that the franchisee will experience job satisfaction.

The legal problems involved in franchising have been studied by Hunt and Nevin (1975). They suggest that legal problems currently facing franchising fall into three main areas: “(1) misrepresentations by franchisors to potential franchisees about the operation of the franchise (the disclosure problem), (2) restrictions by franchisors on the source of supplies or services purchased by their franchisees (the tying agreement problem), and (3) onerous termination provisions in the franchise agreement (the capricious termination problem)” (p. 20). Tying agreements are justified by advocates of franchising on the basis of mass purchase and quality control. They recommend that when tying agreements are used by franchisors in order to achieve higher prices than the competitive market offers, they may have negative effects on franchisee’s revenues and hence with his satisfaction with the franchise relationship. In a study of franchisees by Porter and Renforth (1978), it was found that the three most common legal problems encountered by franchisees were cooperative advertising, franchisor inspection and evaluation, and minimum performance requirements. Franchising tie-in contracts can be seen as reducing the monitoring costs that could prevent franchisee free-riding on the franchisor’s trade name (Klein and Saft, 1985).

2.3 Summary

This chapter comprises a review of selected literature relating to franchising and the franchisor-franchisee relationship. The chapter reviews franchising literature from the viewpoint of organizational structure, which includes literature that is primarily a mixture of descriptive and empirical studies. Also reviewed are research perspectives from capital theory, resource constraints, agency theory, and literature concerning the franchisor-franchisee relationship, including relational exchange theory.

Most usually, research attempting to explain the creation of franchise systems has focused upon the franchisor's motivation to open a franchise. These studies do not attempt to explain why some people want to be franchisees. The motivation of individuals who join franchise systems and the antecedents that predict which individuals are likely to be interested in becoming franchisees have received little attention (Bradach and Kaufmann, 1988). The majority of theoretical and empirical support has been found in the organizational efficiency perspective, which views the optimal franchise contract as one which extracts rents, and minimizes free-riding by either party.

CHAPTER 3

Conceptual Model of the Franchisee-Franchiser Relationship

This chapter proposes a model of the interrelated factors that impact the quality of the franchisor-franchisee relationship (See Figure 1, p.196). The following chapter describes the portion of the model that was tested. This model's structure includes an integration of concepts from the area of the motivation to be a franchisee, the evaluation of franchisor support, the perception of brand name, franchisee's job performance, franchisee's job satisfaction, and the franchisee's commitment to remain in or leave the franchise system. The model uses concepts from motivation theory, social exchange theory, service quality theory, Leader-Member exchange theory (LMX), and satisfaction theory. The model describes what factors are the most important to the franchisee, how a high quality relationship differs from a low quality relationship, and how this relationship affects outcomes.

The first section of this chapter presents the framework for the model and describes how each of these concepts is used in its construction. Each of these concepts is defined, and a rationale for its inclusion in the model is offered. It should be noted that the concepts represented in the model are interrelated and mutually influential, and therefore, the discussion in each section refers to these interrelationships. The exchange relationship has, in particular, been the subject of franchising relationship research; the first section reviews the findings of this research.

The second section defines what is meant by the quality of the franchisor-franchisee relationship. This construct is exemplified by Castleberry and Tanner (1986) in their utilization of the Vertical Dyad Linkage Model (Graen and Schiemann, 1978; Dunchon et al., 1986; Vecchio et al., 1984) that has recently been termed Leader-Member Exchange (LMX). LMX may offer an enhanced understanding of franchisees' perceptions and attitudes toward the franchise system. In organizational behavior research, the benefits of a high-quality leader-member exchange are low turnover, high job satisfaction, and high performance. Despite the importance of a high quality exchange relationship between a franchisor and a franchisee, very little is known about these relationships in the franchise system.

The third section of this chapter describes the linkage between the quality of the exchange relationship and the job-related outcomes of performance and overall satisfaction. LMX may be particularly useful in franchise research to assist in the explanation and understanding of the socialization process, in identifying the variables which are influenced by the leader-member exchange process, including satisfaction, performance, loyalty, turnover, motivation, and in developing an understanding of the management process as it affects the franchisor-franchisee relationship. In this chapter section, propositions are offered which differentiate a high quality relationship from a low quality relationship, and the possible behaviors of franchisees are explored.

3.1 Theoretical Framework: Leader-Member Exchange Theory

Exchange theory views human behavior as being guided by considerations of exchanges of costs and rewards between interacting parties. Exchanges between a subordinate and his or her leader (supervisor) are referred to as leader-member exchanges. Over twenty years ago, Dansereau, Graen, and Haga (1975) presented the vertical dyad linkage (VDL) theory. Since then, this theory has evolved into a dyadic approach to understanding the leader-subordinate relationship known as leader-member-exchange (LMX) theory, with the dyad consisting of a leader and an organizational member (Herold, 1977; Graen and Scandura, 1987; Graen and Uhi-Bien, 1995). In the case of this study, the leader-member exchange refers to the exchange relationship between the franchisor and the franchisee.

The theoretical basis of LMX is that a dyadic relationship and work roles are developed or negotiated over time through a series of exchanges, or “interacts,” between the leader and the member (Wayne and Ferris, 1990; Wayne et al., 1997; Deluga, 1998). Through their behavior, each member of the dyad invests resources in the development of the relationship. LMX theory defines leadership as a mutually influential process characterized by trust and obligation between the leader and the subordinate.

LMX is a subset of social exchange theory, which is a general theory that explains behavior in various types of dyadic relationships (Blau, 1967; Ekeh, 1974; Heath, 1976; Gergen et al., 1980; Cook, 1987). LMX theory is more specific, and attempts to describe the behaviors of the subordinate and superior in a vertical dyadic relationship. LMX applies general social exchange principles to this vertical dyad. These principles include

the following: (1) interpersonal relationships can be characterized as exchange relationships, (2) each dyad member is seeking rewards, and (3) each dyad member makes contributions based on the rewards offered by the other dyad member. Social exchange theory applied to the leadership setting calls attention to the way in which the subordinate's behaviors or contributions to the exchange relationship affect the leader.

Leader-member exchange (LMX) theory stresses the various relationships between a leader and subordinates within a work unit (Dansereau, Graen, and Haga, 1975; Liden and Graen, 1980; Graen and Scandura, 1987). LMX theory holds that the quality of the leader-subordinate exchange affects performance (Dunegan, Duchon, and Uhi-Bien, 1992), worker productivity (Scandura and Graen, 1984; Schriesheim, Neider, and Scandura, 1998), organizational climate (Kozlowski and Doherty, 1989; Scandura, Graen, and Novak, 1986), demographic similarity (Liden et al., 1993), perceived similarity (Liden et al., 1993; Turban and Jones, 1988), and attitudinal similarity (Turban, Jones, and Rozelle, 1990). The widespread application of LMX theory suggests that it is a useful tool in understanding the dynamics of dyadic functioning in organizational settings.

It is important to understand the leader-member-exchange relationship for a number of practical reasons. First, the quality of exchange relationships can influence many of a subordinate's job-related outcomes. Positive relationships between LMX and objective performance have been observed in some studies (Duarte et al., 1994; Scandura and Graen, 1984; Eden and Shani, 1982; Graen, Novak, and Sommerkamp, 1982). Second, expectations on the part of either a leader or member can lead to self-fulfilling

prophecies (Eden, 1990a,1990b; Turban et al., 1990; Eden, 1992; Liden et al., 1993; Elaine and Lord, 1997).

It has been suggested by previous research that the leader-member relationship can influence many behavioral employee responses. The influence of a leader on the perceptions of fairness in procedures can be understood best as one of several possible outcomes of a negotiated process of role-making which involve leaders and their subordinates during the early phases of their working relationship (Dansereau et al., 1975; Wayne and Ferris, 1990; Wayne and Liden, 1995). At its optimum, this relationship can develop into an effective partnership (a high LMX partnership) which is characterized by mutual trust, respect, and obligation as well as mutual goals (Graen and Uhi-Bien, 1995).

It has been demonstrated by research that the leader-member exchange can be related to significant organizational results, including subordinate turnover (Graen, Liden, and Hoel, 1982), subordinate satisfaction (Graen, Novak, and Sommerkamp, 1982; Graen, Orris, and Johnson, 1973; Scandura and Graen, 1984), and member extra-role performance (Wayne and Green, 1993; Graen and Cashman, 1975). Delegation has been investigated as a component of a larger construct (Scandura et al., 1986), by looking at the relationship of decision-influence afforded to subordinates with subordinates' performance and the quality of the leader-member exchange. It was discovered that the correlation between the exchange quality and the performance of subordinates can indicate that either a higher quality LMX or good performance was associated with a greater degree of decision-making influence on the part of subordinates (Bauer and Green, 1996). In another study, it was found that in dyads identified as having high-

quality leader-member exchange, the decision-making of supervisors was characteristically less autocratic and more delegate than that of supervisors engaged in lower-quality dyads.

High-quality leader-member exchange relationships can be viewed as evidence of successful trust-building over time, which corresponds with theories of trust grounded in social-exchange theory, that assume that trust is a product of the repeated exchanges of benefits between two individuals. Studies have found that the personality trait of trust is a basic foundation for high levels of leader-member exchange (Scandura and Graen, 1984).

From the discipline of psychology comes the premise that trust is a well established and important factor of psychological well-being (Erickson, 1950) and that the stability or instability of human relationships can be seen to have a basic grounding in the personality trait of trust (Kee and Knox, 1969). More specifically, trust within members of groups has been documented as being important to the group's performance. To elaborate further, trust can be seen as the basis for effective delegation, two-level communication, giving and receiving feedback, and a sense of team spirit. The development of trust is a primary factor in establishing a high-quality leader-member relationship (Dienesch and Liden, 1986).

More recently, research has focused on the role of mature partnerships in effective leadership processes (Graen and Uhi-Bien, 1995), and has extensively investigated the role of "liking" in dyadic relationships (Dienesch and Liden, 1986; Liden et al., 1993; Turban et al., 1990; Wayne and Ferris, 1990). Dienesch and Liden (1986) have proposed that "liking" is actually a component of LMX, which they describe as a multidimensional

construct. Accordingly, several researchers have examined liking as an antecedent of LMX. Wayne and Ferris (1990) showed that liking was a strong determinant of LMX quality in both a laboratory and a field setting. According to Liden et al. (1993), early liking in dyadic relationships was even more influential to a leader's view of an LMX relationship than the leader's perceptions of performance.

Relationship quality has been discussed as a bundle of intangible values which augments products and results in an expected interchange between buyers and sellers (Levitt, 1986). In an empirical study on relationship quality, Crosby, Evans, and Cowles (1990) investigated services selling and viewed relationship quality as a higher-order construct that is comprised of the increasing importance of the dimensions of satisfaction and trust. The trust that develops allows expectations to sustain the relationship. Relationship quality can be seen as particularly relevant to franchisee-franchisor interactions.

The leader-member exchange (LMX) relationship is based upon the level of emotional support and the exchange of valued resources. The most important contribution of the LMX is the supposition that the quality of the subordinate's relationship with the leader is critical in determining his or her success or failure in the organization, and further, that the quality of the leader-member relationship correlates with productivity, satisfaction (Graen, Novak, and Sommerkamp, 1982), and subordinate turnover (Graen, Liden, and Hoel, 1982).

3.2 Components of the Model

In the theoretical model (see Figure 1, p. 196), leader-member exchange (LMX) theory is a core concept dealing with the quality of the relationship between franchisor and franchisee. The model describes the effects of motivation, the evaluation of the franchisor's support, the perceived advantage of the brand name, the franchisee's performance, the franchisee's satisfaction, and the commitments of the franchisee in terms of staying with or leaving the relationship. This study will demonstrate that in a given leader-follower relationship, the causal directions are reciprocal in their effects on behavior, and further, the study investigates variables which may determine the degree of influence which dyadic partners may have on one another's behavior.

3.2.1 Motivation for Choosing a Franchise

Perhaps the most important question to ask of a franchisee is why he or she would seek a franchise rather than operating an independent business. Researchers usually have chosen to identify the most important perceived advantages of franchising. In one study, British franchisees identified "national affiliation with a nationally known trademark" (Stanworth, 1977) as the most important advantage, while in another study "franchisor support" was identified as the most important (Hough, 1986). Baron and Schmidt (1991) found that although franchisees might desire to operate their own businesses, they found franchising attractive due to the availability of backup help, a proven concept and name, and reduced risks of failure. A study by Knight (1986) found that among the most important reasons for becoming a franchisee were the benefits of a known trade name,

higher independence, and job satisfaction. A subsequent study by Withane (1991) used Knight's list in his research of a sample of Canadian franchisees, and identified "proven business format" as the most important feature.

Peterson and Dant (1990) studied U. S. franchises, and found that those franchisee's who had owned businesses in the past ranked "established name" and "lower development cost" as most important, while franchisees who had not had a history of self-employment ranked "greater independence" and "training" as the most important benefits of being franchisees. In another study, Hunt and Nevin (1974) looked for a correlation between a franchisee's past self-employment experience and the success of the franchise, with the franchisee's income as the indicator of success. However, no significant relationship was found between these factors.

The choice to become a franchisee has its origin in both economic and social factors, and the personal characteristics of the franchisor that guide the decision can be assumed to have both personal and economic components. According to literature from the field of economics, deciding to purchase a franchise is seen as a rational response to an appealing investment opportunity (Kaufmann and Stanworth, 1995). It is typical for franchise units to be small in scale and family-run (Kaufmann and Stanworth, 1995). However, this viewpoint does not take into account several personal factors, among them the initiation of the decision process because of unfulfilled need (Engel, Kollat, and Blackwell, 1973; Engel, Blackwell, and Miniard, 1990). It could be suggested that it is the desire for entrepreneurial activity that leads franchisees to purchase a franchise outlet. Again, personal factors, as well as the previous experience of the franchiser may guide the decision to purchase an outlet (Williamson, 1975). It is suggested, also that personal

characteristics associated with small business entrepreneurs may motivate franchisees to purchase franchises, in that franchising is a subset of small business management.

Peterson and Dant (1990) have described franchisees as being subject to a “large number of situational, personality, and economic correlates . . . likely to influence their perceptions” (p. 48) about franchising. Therefore, it is important to realize that the individual, personal characteristics of franchisees should be taken into account, in addition to other factors. For example, it was discovered (Knight, 1983; Stanworth et al., 1989; Stanworth and Kaufmann, 1994, 1996) that a proactive scale of personality traits has a potential for clarifying the reasons why an individual would decide to become an entrepreneur. Entrepreneurial commitments may be defined as one’s judgments about the likelihood of owning one’s own business.

In his research, Korman (1968) said that “all other things being equal, individuals will choose, adjust their performance to, and find satisfying those behavioral roles that maximize their sense of cognitive balance or consistency” (p. 485). He identified self-esteem as a behavioral trait that influences the other relationships between organizational variables. According to Korman (1968), differences in self-esteem cause people to behave differently in different situations in order to bring their cognitive processes in alignment with their views of reality. In particular, the potential for self-esteem to moderate situations has been a frequent topic for studies about the relationship between job performance and job satisfaction. Korman (1968) suggested that people with high self-esteem would demonstrate a high correlation between job satisfaction and performance.

Another personality trait that potentially influences the decision to become a franchisee is the perception of independence. Peterson and Dant (1990) suggested that an increasing perception of personal power and independence was a likely factor in a hierarchy of motivations to purchase a franchise. However, the authors identified a weakness in their study, in that they did not use potential franchisees in their research, and instead relied solely on the hindsight of current franchisees. Peterson and Dant (1990) did not identify meaningful findings about the motives that attract small business entrepreneurs to purchasing franchises, but Williams (1994) found that there was less probability of becoming a franchisee for people who had not had prior small-business experience.

People who do have prior experience in self-employment most likely find the competitive advantage provided by franchising to be appealing, in comparison to running a similar business independently. Franchising provides a somewhat easier means toward self-employment than does beginning a small business enterprise, and it provides opportunities for individuals to create jobs and long-term wealth and stability for their families (Leach, 1994). The independence of franchising compared to salaried occupations may be attractive to people with these motivations.

It can be seen from the review of the literature that a decision to become a franchiser reflects a change directed at particular social or economic goals. The most important characteristics of a franchisee were seen as the desire to work hard and to succeed. The most significant concerns an individual might have about his or her work environment are reflected in the advantages an individual perceives in becoming a franchiser. Individuals who are self-employed are expected to value the reduced risk

associated with a successful and proven franchise company. Therefore, the following proposition is based on the proposed model and the results of the prior research.

Proposition 1:

The franchisee's motivation to become a franchisee is related to the quality of the relationship with the franchisor and the commitments of the franchisee.

3.2.2 Evaluation of Franchisor Support

In the literature dealing with satisfaction/dissatisfaction, customer's expectations can be correlated with the predictions customers make about the likely outcome of a given exchange or transaction. Nearly all the models about the process of satisfaction formation assert that satisfaction results from consumers' comparison of their perceptions of product performance to their expectations about the product. However, the expectation construct has not been well defined or conceptualized in the literature. Expectations can be viewed as desires or wants of customers, i.e., what they feel a service provider should offer rather than what they do offer (Parasuraman, Zeithaml, and Berry, 1985; Zeithaml et al., 1988, 1990; Zeithaml, 1988). And further, expectation can be seen as primary perceptions about the likelihood of some event (Bearden and Teel, 1993; Westbrook, 1987; Westbrook and Reilly, 1983). Another viewpoint expands on this in that expectation is the perception of the likelihood of an event, and additionally, includes the perception of whether or not the event will be positive or negative (Churchill et al., 1974; Churchill and Surprenant, 1982; Tse and Wilton, 1988; Oliver, 1993).

According to Oliver (1981), “it is generally agreed that expectations are consumer-defined probabilities of the occurrence of positive and negative events if the consumer engages in some behavior” (p. 33). Oliver (1977, 1989) characterized expectations as having two components: the probability of occurrence and the occurrence’s evaluation. Both of these components are necessary, in that it is ambiguous as to which attributes are preferred by consumers. As applied to the franchisee, Oliver’s broader definition of the expectations (1974, 1979, 1980, 1996) construct combines an individual’s judgment of an event with his or her expectations of the likelihood of its occurrence. Miller (1977) proposed a construct having to do with “ideal expectations”, defined as the “wished for” level of performance. Swan and Trawick (1980) suggested a standard that they termed “desired expectations,” which can be defined as the level at which the customer would like a product or service to perform. Miller (1977) proposed a related idea, the minimum tolerable expectation, which can be defined as the lowest level of performance acceptable to the customers’ subjective evaluation of their own investment. Although Zeithaml, Berry, and Parasuraman (1991) have indicated that service expectations are similar to ideal standards, they have not clearly articulated a specific interpretation of the idea standard to which they are referring. It will be demonstrated that conceptualizing service expectations as ideal standards is a problem under each of the interpretations examined.

The expectation construct has been seen as having a major role in evaluating franchisor support. The emphasis in the literature about quality assurance seems to focus on product reliability through procedures rather than on the “validity” of the product.

From the customer's point of view, matching fitness with purpose appears to have the principal influence on quality.

A three-dimensional approach to service quality was taken by Lehtinen and Lehtinen (1982). Physical quality, the first dimension, concerns a service's tangible aspects. The second dimension is interactive quality, which involves the interactive nature of services and refers to two-way flows between the customer and the service provider. The third dimension of the construct is corporate quality, which refers to the image the customer has of the service provider. And finally, the fourth dimension is identified as corporate quality, which refers to the image attributed to the service provider by its customer. The authors contend that corporate quality tends to be the more stable of the dimensions over time. In his study, Gronroos (1983) proposed that there are two basic dimensions for service quality. The first, technical quality, refers to what is delivered, while the latter, functional quality, refers to how the service is delivered.

The evaluation of quality results in degrees of one of two outcomes, satisfaction or dissatisfaction, which can be viewed as representing opposite ends of a continuum. In general, satisfaction occurs when outcomes meet or exceed the customer's expectations, and similarly, dissatisfaction occurs when there are negative discrepancies between the outcome anticipated by the customer and the actual outcome. Satisfaction is determined as a result of a comparison between expectations and outcome (Oliver, 1974, 1977, 1979, 1996). Quelch and Ash (1981) have suggested that customers do not always take action when dissatisfied with services because they feel helpless in a given situation. The cause for customer helplessness can be identified in the professional characteristics of the service provided. Customers may be reluctant to complain except in cases of extreme

dissatisfaction with professional services because of the costs that such complaints may entail, such as the legal costs associated with malpractice litigation, for example. According to Parasuraman et al. (1985, 1988), investigating both the customer and the service provider in the transaction will yield insight into the perception of service quality. This suggests that assessing the perceptions of both sides of the transaction should aid in understanding quality.

The role of the franchisee when purchasing contracts for the franchise system is that of the franchisor's representative. In the role of buyer, the franchisee's responsibility is to meet the franchisor's requirements, and the franchisee's accountability is to the franchisor. Studies have shown that firm factors such as accountability, loyalty, commitment to a constituency, monitoring of constituents, and the representational role may greatly influence individual behavior in negotiations (Clopton, 1984). Therefore, it is clear that there are several standards of comparison, and an understanding of the impacts of expectations about the quality of a relationship on performance, and on satisfaction must take these standards into account.

System growth is important to the establishment of a strong franchisor brand name, and Shane and Spell (1997) suggest that the franchisee should seek a franchisor that is expanding rapidly. To ensure quality, it is important to seek reliability through effective procedures and efficiency, and also through attempting to influence attitudes, behavior, and flexibility. Demonstration of trustworthiness and a high quality of operating systems and other intangible assets can attract franchisees. Seen in this light, perceived service quality derives from franchisees' comparisons of the benefits they seek from franchisors and the characteristics of actual service performance.

Proposition 2:

A franchisor's support is related to the quality of the relationship, to the franchisee's job performance, and to the franchisee's job satisfaction.

3.2.3 Perception of Franchisor's Brand Name

The current study proposes that brand name may be a positive influence on the franchisee's behavior and reflect the quality of the relationship with the franchisor. A good brand name would have a positive impact on perceived value and the willingness to stay in the franchise system. A brand can be considered a conceptual construct that stands for a product's tangible and intangible assets, and is what sets the product apart from other products in a competitive market. The customer's perception of brand value may derive from multiple sources, and the customer may have a perception of the product's image that is not related to the actual make-up of the product (Grewal et al., 1998). This perception can have genuine value for the customer (Bojanic, 1996). Brand name is frequently used as an "informational chunk" that represents a composite of information about a product (Olson, 1976). A great advantage of a brand name is its economies of scale in application (Caves and Murphy, 1976). According to Richardson, Dick, and Jain (1994), ingredients associated with national brands have considerably higher quality assessments than do ingredients that have private brand names. Often, brand names are associated with superior quality, whether or not that assessment is justified. A brand name gives customer confidence that there is an actual individual who

stands behind the recognizable corporate insignia and will back the product, and thus, customers are willing to pay a higher price for brand name products.

Esteem can be defined as how highly consumers regard a particular brand, as differentiated from knowledge, which is an understanding of what the brand stands for in its growing market (Huddleston et al., 1990). The well-being of a brand can be seen as a relationship between knowledge and esteem. A brand may be held in higher esteem than knowledge; in other words, knowledge about a brand and the esteem with which it is regarded are not necessarily the same. Brands which consumers hold in high esteem tend to be newer brands, and in the case of franchises, they tend to be newer, expanding firms. Conversely, brands about which consumers have higher knowledge than esteem tend to have lower consumer perceptions of quality, and most likely have maintained sales through discounting or low pricing (Agres and Dubitsky, 1996). Brand knowledge can be subdivided into brand awareness (recall and recognition) and brand image (a combination of the favorability, strength, and uniqueness of a brand).

There has been renewed interest in the role of consumers' behavior as it relates to the role and impact of brands, focusing on topics such as consumer evaluations of brand extensions to brand equity (Aaker and Keller, 1990; Aaker, 1991; Loken and John, 1993). A link has been found between consumers' perceptions of the costs of advertising campaigns and consumers' expectations of brand quality (Kirmani and Wrigh, 1989). Consumers' memory of their brand evaluations and attitudes toward a brand can be enhanced through advertising (Farquhar, 1989). If brand image is well created and promoted, consumers can, through brand recognition, feel more confident about uniformity of service quality, thus providing service companies with greater degrees of

latitude in pricing (Onkvisit and Shaw, 1989). Onkvisit and Shaw (1989) further assert that, due to the abstract nature of services, a service company should attempt to create a positive image through appropriate branding. A norm may derive from the expected performance of a particular brand, and thus brand name can be viewed as a pledge to consumers about a certain level of quality in products and services. This view is paralleled by Cadotte, Woodruff, and Jenkins, (1987), who have stated that consumer experience with a brand is a source of consumer expectations of a norm, particularly in the case of focal brands.

Consumers and companies are willing to pay high prices for brand names because of the perception that they add value. Brand image can be defined as the perceptions of the brand that reflect consumer associations of the brand in memory (Keller, 1993, 1998). The added value that a brand name gives a product is termed “brand equity” (Aaker, 1991). Brand equity can protect a company’s products from the risks of competition, can facilitate the successful addition of new products. can ensure a consistent volume of sales, and contributes to the image of the company or retail outlet. In a situation involving collaboration, the brand image contributes to the overall impression the public has of each partner (Varadarajan, 1986, Young and Greyser, 1983), where evaluations of both brands occur when the brands are linked by collaboration of firms, in addition to the perceptions that are attached to store-brand specific impressions (Broniarczyk and Alba, 1994).

The level of customer loyalty to certain brands is linked to the level of commitment to a brand by customers. Brand equity exists in the perceptions, or mental image, of the customer about the associations with a company or restaurant or service,

and the benefits of a given brand. Brand equity can take years to achieve, although it can be lost in a very short time, or it can be strengthened, or expanded to other products and services. Taken as an example, McDonalds is an institution with high brand equity. Brand equity is a critical factor for the entrepreneur, whether self-employed, the operator of a restaurant chain, or a single franchise.

It is difficult to manage “added value” without knowing the actual value that a brand name adds to a product (Crimmins, 1992). The potential value of brands to an acquiring firm is an indicator of brand equity (Kerin and Sethuraman, 1998; Muller, 1998). Within the area of marketing literature, brand equity usually falls into two categories: those involving consumer perceptions (e.g. awareness, brand associations, perceived quality) and those involving consumer behavior (e.g. brand loyalty) (Cobb-Walgren, Ruble, and Donthu, 1995). Brand name is often the core indicator of brand equity, and therefore brand equity and brand importance can be equated (Louviere and Johnson, 1988; Sharkey, 1989). Keller (1993) offered the following perceptual definition: Brand equity is “the differential effect of brand knowledge on consumer response to the marketing of the brand.” Brand equity can be built by establishing service delivery systems that consistently meet customer expectations in the level of products and services. Also, to be retained in the customer’s memory, the brand must be reinforced by consistent symbolic images that evoke significance and are graphic representations of the firm’s level of product quality and service delivery.

Consumers choose restaurant brands because they stimulate excitement, or they are comfortable, or they are reliable. Since consumers judge the acceptable level of restaurant products and service quality as a combination of sacrifice and utility, which

restaurateurs commonly call value, market leaders in the restaurant industry can maintain market share by offering a high quality product at a fair price, which can be seen as corresponding to brand equity.

Franchise systems have expanded because there apparently has been an increase in the efficiency of national brand names through television exposure and more efficient national information technology, thus reducing the costs of establishing national brand names. Also, an increase in travel has caused consumers to stop in unfamiliar geographical areas where brand names would be perceived as a guarantee of a consistency of quality. In this instance, the recognition of brand names through national advertising would be indicators to consumers of quality. This in turn enhances the value of the national brand name. Also, consumer preferences have changed as consumer income has risen, and these changes have served to enhance the value of national brand names. In other words, consumers are often inclined to purchase standardized products from the nearest available source.

Base fees and royalties reflect the financial value of the franchise, and costs are those expenditures associated with running a franchise operation. A franchisor's value to the franchisee is linked to consumer preferences for nationally known brands offering standardized products or services. Franchisors specify uniform contract terms for their affiliated franchisees, which serve to reflect the value of the franchise and its associated brand name, including the estimated financial performance of the individual franchisees, and the costs that come with the provision of contracted services. Differences in the value of a franchise have implications for the franchisor-franchisee relationship. The

greater the value of the brand name, the easier the franchisor's entry into new markets, and the greater the demand from franchisees (Baucus, Baucus, and Human, 1993).

Proposition 3:

Brand name is associated with the quality of the relationship between the franchisor and the franchisee, and is related to the franchisee's job performance.

3.2.4 The Quality of the Relationship Between the Franchisor and the Franchisee

The proposed model of the franchisor-franchisee relationship builds on Leader-Member Exchange Theory (LMX), which utilizes the concept of dyads. Dyads, a special case of groups, are defined by two individuals who are interdependent on a one-to-one basis. In utilizing LMX, it is assumed that franchisor-franchisee dyads are unique types of dyad, and that the specific relationship under investigation determines the outcome variables and performance processes. The model proposed in this study illuminates the process of exchange between the franchisor and franchisee through the use of a dyad perspective. The model attempts to provide a complete description of the franchisee-franchisor relationship by identifying each of the contributions to the relationship, and describing how these contributions are interrelated (or exchanged). Further, this model attempts to capture the unique problems of a vertical dyad, which is located at the boundary of the organization.

Social exchange theory provides general principles regarding dyadic relationships; LMX explains what is involved in vertical dyads, and boundary role theory holds some implications for vertical dyads, which are located at the perimeter of the

organization and include the franchisor and the franchisee. Using categorization structures from the leadership literature, behaviors on the parts of the franchisor and the franchisee can be ordered according to personal and positional factors impacting the exchange relationship. When seen in the light of boundary role theory, these contributions to the relationship are applicable to the franchise system. On the franchisee side of the relationship, the advantages include a proven concept, the tools necessary for success, technical and managerial help, standards and quality control, a minimal risk, less capital necessary for operations, access to credit, and the advantages of advertising. On the franchisor side of the relationship, franchisees make valuable contributions to the system. It should be noted that some of the most productive concepts utilized by chains have come from franchisees. An example would be the world's single most recognizable fast-food item, McDonald's Big Mac, which was initiated by a franchisee. The Egg McMuffin and Wendy's taco salad have similar origins. The advantages for franchisors include opportunities for expansion, increased buying capabilities, convenience of operation, and the contributions of the franchisee.

A focus of current research is on dyads consisting of the franchisor and the franchisee within groups, and independently of their formal groups. Dynamic exchanges can occur between the franchisee and significant others, including the franchisor, which is the key relationship in the franchisor-franchisee dyad. Whether or not the parties involved can work smoothly with one another, whether or not they share compatible goals; and whether they have an understanding of and place value on one another's strengths and weaknesses, are all important questions that impact performance. The potential significance of leader-member exchange to the business success of companies

has been demonstrated to correlate highly with satisfaction and performance (Scandura and Graen, 1984). A high quality relationship can be expected to result in high productivity, and thus the quality of the relationship between franchisor and franchisee potentially can determine revenues and profits.

Proposition 4:

The quality of the LMX is related to the level of performance, to the level of satisfaction, and to the commitments of the franchisee.

3.2.5 Franchisees' Job Performance

Many researchers who have attempted to find correlations between performance and outcomes have recognized the need for a definition of the construct of performance. A study by Schwab and Cummings (1970, 1976) found a relatively weak to moderate relationship between job performance and job satisfaction, and suggested that the variables that affect performance and job satisfaction differently could be potential moderators of the performance-satisfaction relationship. Carrying this idea further, Porter and Lawler (1968) noted that variations in job performance might be the reason for variations in satisfaction. This idea was also supported by Schwab and Cummings (1970, 1976).

A higher correlation was found between comparatively satisfied franchisees and a higher annual income and/or higher total sales than was the case with relatively dissatisfied franchisees. Schul (1980) found that the degree of conflict was potentially of influence in the franchisor-franchisee relationship, and in another study Morrison (1997)

found that conflict had impacted performance negatively in those organizations that were found to have a higher mean level of conflict. Franchisees' performance can be seen as a cluster of related factors, including motivation, aptitude, role perception, and environmental variables. In turn, successful performance brings rewards that lead to job satisfaction. Studies have examined various components of these issues, as well as the effects of the franchisee's adaptability.

Recently, attempts have been made to provide an integrative framework addressing the process by which the franchisee's affect variable may be an antecedent of sales performance. One such study was done by Tanner and Castleberry (1986) using Vertical Exchange (VE) theory, and focusing on the interaction between the manager (franchisor) and the salesperson (franchisee). The VE model illustrates the relationship chains that are formed in a sales organization. The advantage of VE theory over other theories is that VE takes into account the franchisee's behaviors that affect the franchisor. These behaviors have an effect on franchisor's behaviors and impact role stress and other factors that relate to performance, such as territory quality, training quality, and others (Tanner and Castleberry, 1990). A relationship based on the exchange of work-support forms between the manager (franchisor) and the subordinate (franchisee) through a continuum of the give and take of rewards. The continuum consists of a high quality of exchange (termed a cadre relationship), to a low quality of exchange (a hired-hand relationship). Of the two types of relationship, the cadre relationship enjoys more latitude, support, and attention from the manager (Graen and Schiemann, 1978).

Proposition 5:

A franchisee's job performance is related to the level of the franchisee's satisfaction, and also is related to the franchisee's commitments.

3.2.6 Franchisee's Job Satisfaction

Job satisfaction is defined as the degree to which the characteristics of the job itself and the work environment are judged by employees to be rewarding, fulfilling, and satisfying (Churchill, Ford, and Walker, 1974, 1976, 1979; Churchill et al., 1985). A further, commonly used definition is that job satisfaction is "a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience" (Locke, 1976, p. 1300). Empirical studies have been conducted to determine the effects on job satisfaction of pivotal organizational outcomes such as the commitment to leave the business relationship (Mobley, 1982), job performance (Iaffaldano and Muchinsky, 1985), and improving organizational interrelationships (Schul, 1980). In practice, franchisor-franchisee relationships that mesh well are a primary determining factor leading to the future attractiveness of franchising (Morrison, 1996).

Many empirical studies have investigated the franchisee's work attitude in various areas of the franchise work environment (Hunt, 1977; Goodman, 1980; Knight, 1986; Morrison, 1996). Job satisfaction has been one of the most frequently studied work attitudes, and it has been noted that franchisees' attitudes toward their work tend to have an important role to play in their decision-making and job satisfaction (Morrison, 1997). Morrison postulated that there were three primary factors that influence franchisee job satisfaction positively. These include: (1) franchisor support meets franchisee's

expectations, (2) franchisee's expectations are met regarding operational characteristics; and (3) franchisees perceive fairness in the franchisor's restrictions. Morrison (1996) stated that both franchisor and franchisee have roles to play in ensuring that their relationship would lead to franchisee job satisfaction and financial success for both.

A distinction can be made between the quality of a relationship and job satisfaction. The perceived quality of a relationship is a global judgment or attitude, whereas satisfaction is more local, and related to a particular transaction. Oliver (1980) summarizes the current thinking on job satisfaction in the following definition: Satisfaction is a summary psychological state resulting when the emotion disconfirmed expectations is coupled with the consumer's prior feelings about consumption experience. Given these factors, the most likely and easily measured were favorable or unfavorable word-of-mouth and whether franchisees would purchase their outlet again if given the opportunity.

It is proposed that franchisees' relative job satisfaction play an integral role in maintaining the franchisor-franchisee relationship. In addition to helping improve the franchisor-franchisee relationship, this investigation may provide useful information to the franchisor in franchisee selection, and for marketing franchises.

Proposition 6:

Franchisee job satisfaction is related to the franchisee's commitments.

3.2.7 Franchisee's Commitment

Meyer and Allen's (1991) referred to three forms of commitment as *affective*, *continuance*, and *normative* commitment. They also identified three distinct themes in the definition of commitment: (1) commitment as an affective attachment to the organization, (2) commitment as a perceived cost associated with leaving the organization, and (3) commitment as an obligation to remain in the organization. Common to the three approaches is the view that "commitment is a psychological state that (a) characterizes the employee's relationship with the organization and (b) has implications for the decision to continue or discontinue membership in the organization" (Meyer et al., 1993, p. 539).

According to many studies, turnover is a behavior resulting from individual choice, and is a psychological factor. In the commitment-turnover relationship, commitment with one's job is the most often investigated psychological variable studied on the individual level (Mobley et al., 1979). Satisfaction and organizational commitment have been invariably been found to correlate positively with one another (Bluedorn, 1978,1982; Clegg, 1983). Commitment to an organization is a vital factor, and includes its effect on turnover and intentions to remain in or leave the relationship (Shore and Martin, 1989), and the relationship of commitment to job performance (Mowday, Steers, and Porter, 1979).

A lack of job satisfaction has been found the single most important reason why franchisees leave the franchisee-franchisor relationship. According to Price and Mueller's empirical study (1986), job satisfaction has an indirect effect on turnover in that it affects

the formation of the intent to leave and a positive relationship has been found between commitment and intention to quit the relationship. Job satisfaction is thought to be a product of immediate affective attitudes to the work and the characteristics of the work, while commitment to an organization is thought to develop slowly over time (Locke, 1976; Mowday, Porter, and Steers, 1982).

There are few definitive findings about which factors impact the level of franchisees' commitment to the franchise system of which they are a part. Early studies indicate that franchisees who have a positive perception of their relationship with the franchisor have more commitment to their franchise system (Mayo, Robicheaux, and Ferrell, 1989). It should be remembered that this relationship may be reciprocal (Morrison, 1997). A relatively significant negative relationship was identified between worker-satisfaction and voluntary turnover. A study by Porter et al. (1974) contends that the relationship between job satisfaction and job turnover is based on the extent to which job expectations are met. The psychological reasons for this result, according to Mobley (1982) are that dissatisfaction on the job leads to thoughts about leaving the job, the commitment to search for another job, the evaluation of employment alternatives, the intention to leave the job, and subsequent turnover.

Cotton and Tuttle (1986) found a negative relationship to turnover with overall job satisfaction, satisfaction with the work itself, satisfaction with income, satisfaction with supervision, and organizational commitment. Hing (1995, 1996) suggests that franchisee satisfaction can be strongly correlated with positive post-purchase intentions. And further, he found that if the re-contract is positively related to franchisee satisfaction, franchisees have the commitment to recommend franchise investment to others, and to

invest in their franchise unit again. This finding suggests that franchisee satisfaction positively influences the intention to remain in the franchise system. Another factor that may positively influence organizational commitment is whether or not it is perceived that the parent company has an investment in the franchisee's success, and the quality of the partnership between the franchisor and the franchisee.

3.3 Summary

This chapter discusses literature relevant to the constructs of the proposed model, and to the propositions of the study. The design of the model presented in this chapter was based on information gathered from an extensive review of the relevant literature. The basic conceptualization of the proposed model is investigated, with the assumption that the quality of the franchisor-franchisee relationship depends on various inputs by both franchisors and franchisees. These inputs influence both the franchisee's performance, job satisfaction, and commitment.

The concepts presented in this chapter represent the initial steps in the research agenda, in that they describe an antecedent stage in the proposed model. First, leader-member exchange theory is discussed, as a subset of social exchange theory and as a core concept about the quality of the franchisor-franchisee relationship. The relationships in the model are then expressed as six propositions, which are the assumptions underlying the model's constructs. These propositions include the areas of motivation for choosing a franchise, the quality of the relationship as related to job performance and franchisee job satisfaction, the significance of the perceptions of brand name, the relationship of the

LMX quality to performance level, the level of satisfaction and to the commitments of the franchisee, These propositions address significant factors in the franchisor-franchisee relationship, including the perceived quality of the franchisor's service, and the perceived brand value. Further, the linkages between these factors are explored

CHAPTER 4

RESEARCH METHODOLOGY

This chapter introduces the research hypotheses, the measurements for all the constructs, and the analytical procedures used to check instrument reliability and validity. In the first section of this chapter, the research hypotheses are presented. The hypotheses are based on the theoretical model of the franchisor-franchisee relationship that includes the effects of the franchisee's motivation for choosing the franchisor, the evaluation of the franchisor's support of the franchisee, and the franchisee's perceptions of brand value. And also, the model addresses the effects of the quality of the relationship on the franchisee's job performance, job satisfaction, and willingness to stay with the franchising company. The second section of this chapter discusses the sample selection and data collection, and the administration of the questionnaires. The measurement methods used in the study are presented in the third section.

It is necessary to examine the quality of the data in terms of testing the non-response bias and informant competency. Some of the assumptions underlying the theoretical model are then tested. The analysis is based on the Covariance Analysis of Linear Structural equations (used to test the model). This design allows the researcher the opportunity to examine causal relationships in the field setting.

4.1 Research Hypotheses

A hypothesized model (see Figure 2) of the franchisor-franchisee relationship was developed based on the proposed conceptual model (see Figure 1). Six research hypotheses are tested, including hypotheses that deal with the examination of the effects of motivation, evaluation, brand name, the quality of the relationship, performance, satisfaction with the franchisor-franchisee relationship, and willingness to remain in the franchise relationship. Hypothesized relationships among the variables in Figure 2 are indicated by causal and effect signs.

The motivations of individuals who join a franchise system have received relatively little attention (Peterson and Dant, 1990). The growth of franchising and its lower failure rate in comparison to independent business is generally attributable to greater market recognition based on an established trade-name, proven products and systems, the provision of training by the franchisor, and continuing support of a franchisor's professional staff.

The selection of a franchisor is a critical element in the success of an individual or group of individuals entering business through becoming a franchisee. Weinrauch (1986) maintains that effective franchisees should be dedicated entrepreneurs, good team-players and able to work within the system.

Hypothesis 1.a:

A higher level of franchisee motivation leads to a higher quality relationship between the franchisor and the franchisee.

Hypothesis 1.b:

Franchisee motivation is negatively related to the franchisee's commitment.

Hypothesis 1.c:

Franchisee motivation for choosing a franchise is positively correlated to the perceived quality of the franchisor's support

Hypothesis 1.d:

Franchisee motivation for choosing a franchise is positively correlated to the perceived brand value of the franchisor.

The concept of perceived value or subject value evolved from early research. Rational choice theory holds that people weigh the possible benefits of their actions against the cost incurred. A franchisee's perceived value can be seen as a trade-off between two basic components: what is received (the benefits) and what is given (the cost), while the other two concepts are more related to the benefit components (Flint, Woodruff, and Garial, 1997).

Franchisees pick and choose among competing contracts, looking for an opportunity that provides good value and a fairly high probability of success. The perception of contract fulfillment is contingent not only upon the ranked importance of a service from the franchisor, but also the adequacy with which that service is delivered. Thus, the transaction boundaries of the relationship can be clearly established from the

perspective of the franchisee. Both transaction-cost analysis and relational exchange theory rely on a spectrum of transactional involvement between parties.

Hypothesis 2.a:

The quality of the franchisor's support is positively related to the franchisee's job satisfaction.

Hypothesis 2.b:

A perceived higher level in the quality of the franchisor's support leads to a higher quality relationship between the franchisor and the franchisee.

Hypothesis 2.c:

The quality of the franchisor's support is positively related to the franchisee's job performance.

Early studies suggest that consumers rely heavily upon brand names, at least when brand cues are either unassociated or positively associated with product quality levels (Hite, Hite, and Minor, 1991). Researchers empirically tested the effects of brand names on perceived quality. Their findings suggest that brand information significantly influence perceptions of quality.

A service firm's trademark and brand image is crucial to the success of its retail outlets. Companies typically develop their brand image and trademark through extensive advertising and promotion. However, a company will benefit from mass-media

advertising only if customers who see its ads have access to a number of its stores. To achieve the benefits of its national or regional advertising efforts, a company needs to attain an efficient scale, in terms of the number of stores, as quickly as possible. Because franchising entails less monitoring and provides quicker access to capital and managerial resources, a firm can expand more quickly through franchising than through company-owned stores.

Goodwill (referred to as “trademark value” and “brand name”) is central to the decisions faced by a franchisor. Considerable evidence has been found that indicates a negative relationship between the level of goodwill and the ownership proportion in a chain (Norton, 1988; Banerji and Simon, 1992). This association is driven by the implications that the level of goodwill has for free-riding and the franchisee’s quasi-rent stream, which suggests linkages between the stock of goodwill and an optimal contract structure.

Hypothesis 3.a:

Brand value is positively related to the quality of the relationship between the franchisor and the franchisee.

Hypothesis 3.b:

Brand value is positively related to the franchisee’s job performance.

Through a synthesis of the diverse literature on exchange relationships, this study conceptualizes relationship quality as consisting of three dimensions: mutual trust,

mutual commitment, and interdependence. Trust, commitment, and interdependence have received a considerable amount of attention by marketing researchers (Brown, Lusch, and Nicholson, 1995).

Research shows that LMX theory is related to important organizational outcomes such as subordinate turnover (Graen, Liden, and Hoel, 1982), subordinate satisfaction (Graen, Novak, and Sommerkamp, 1982; Scandura and Graen, 1984), and member performance (Wane and Graen, 1993).

Hypothesis 4.a:

A higher level of quality in the franchisor-franchisee relationship leads to a higher level of franchise job performance.

Hypothesis 4.b:

A higher level of quality in the franchisor-franchisee relationship leads to a higher level of franchisee job satisfaction.

Hypothesis 4.c:

The quality in the franchisor-franchisee relationship is negatively related to the franchisee's commitment.

The relationship between LMX and performance has been repeatedly demonstrated in studies where performance has been measured using subjective ratings by supervisors (Dansereau et al., 1975; Duarte, Goodson, and Klich, 1994). Positive

relationships between LMX and objective performance have been observed in some studies (Graen, Novak, and Sommerkamp, 1982; Scandura and Graen, 1984; Duarte et. al., 1994). Morrison (1997) have hypothesized that the level of service and support in advertising and training is highly correlated with the franchisee's ultimate success.

Hypothesis 5.a:

Franchisee's job performance is positively related to the franchisee's job satisfaction.

Hypothesis 5.b:

Franchisee job performance is negatively related to the franchisee's commitment.

Robinson (1979) has characterized aspects of the satisfaction of the franchisee with the franchise relationship as “post-purchase and complimenting,” and “post-purchase and complaining.” Valencia differentiated between post-purchase satisfaction and favorable or unfavorable word-of-mouth, and appeals to a third party. For franchisees, favorable/unfavorable word-of-mouth and whether or not franchisees would purchase their outlet again if given a second chance were considered to be the most likely and most readily measured indicators of satisfaction.

Hypothesis 6:

Franchisee's overall job satisfaction is negatively related to the franchisee's commitment.

4.2 Sample

The sampling frame for this study consists of franchisees in business-format franchising. The reasoning for the decision to concentrate on this type of franchise arrangement is that business-format franchising involves a complete business context rather than a single product or trademark (Khan, 1992). The primary means of data collection in this study involves a mailed questionnaire survey of selected members of the International Franchising Association (IFA), with a concentration on franchises in the foodservice industry. Assuming a conservative response rate of 10% that allows for some screening-rate attrition, the study draws a random sample of 3,000 franchisees from around the United States. The most important criterion in selecting a sample is to increase the validity of the collected data (Carmines and Zeller, 1979, 1988). In the case of the present study, the data selection criterion was designed to increase validity, rather than to ensure that the sample was representative of a given population. Therefore, the study uses a purposive sample, which is most desirable when certain important segments of the target population are intentionally represented in the sample.

4.3 Data Gathering

A franchisee questionnaire was constructed following an extensive review of the literature. Previously established scales were utilized to measure the study constructs whenever possible. The initial draft of the questionnaire was reviewed by a number of

faculty and five franchisees at the study site to ensure the face reliability and validity of the scale items. Based on feedback offered by those who examined the questionnaire, there were no significant changes made to the scale items.

Next, the finalized questionnaire was pretested by the 7 franchisees who operate restaurants in Blacksburg and Christiansburg, Virginia and several Ph.D. students who are studying restaurant franchising. The pretest served a number of purposes. First, it was determined that the average time spent in completing the questionnaire was less than 20 minutes. Second, additional support for the face validity of the survey instrument was established. Third, it was determined that the readability of the questionnaire was acceptable across various educational levels. The survey instrument is included in Appendix C (p. 217).

A total of two thousand seven hundred ninety seven questionnaires were distributed to the franchisees. Included with each questionnaire was a cover letter explaining the importance of the research and written instructions for completion of the survey. In total, 210, usable questionnaire were returned, comprising a response rate of 7.8 percent.

4.4 Measures

The questionnaire used in this study is divided into eight parts, as follows. Part 1 is designed to measure the motivation for choosing a franchise; Part 2 involves measuring the franchisee's evaluation of franchisor support; Part 3 is designed to measure the perceived brand value; Part 4 is designed to obtain information about the quality of the relationship between the franchisor and the franchisee; Part 5 measures the franchisee's

job performance when the subject is impacted by the quality of the relationship with the franchisor; Part 6 is designed to measure the franchisee's overall satisfaction when the subject is impacted by the quality of the relationship; Part 7 measures the franchisee's willingness to quit or remain in the franchise system when the subject is impacted by the quality of the relationship with the franchisor, by job performance, and by overall satisfaction; and finally, Part 8 is designed to gather demographic information about the subjects. The respondents are asked to respond to the questions using a seven point Likert-type scale.

4.4.1 Measurement of the Motivation for Choosing a Franchise

In a study of U. S. franchisees, Peterson and Dant (1990) found that previous business owners ranked "established name" and "lower development costs" as the most important advantages of being a franchisee, while franchisees with no self-employment history ranked "greater independence" and "training" as the most important advantages. Stanworth and Kaufmann (1996) presented a list of nine main reasons why people might be motivated to buy a franchise. The list included the motives of "independence," "proven business system," "a known trade-name," and "reduced risk." Edens, Self, and Grider (1976) found the most important factors in the selection process to be general management knowledge and previous work experience. Other important factors were industriousness, motivation and perseverance, family commitment, and health.

The following questions were designed to measure the motivation for choosing a franchise (see Table 4.1).

1. Franchising is in an industry that I believed had a good growth potential.
 2. The franchisor provides tools for success.
 3. Franchising offers a high yield on my investment at a low risk.
 4. I do not feel highly constrained by the agreement.
 5. The franchisor offers a superior training program to their franchisees.
 6. I have the experience required for operating a franchise restaurant.
 7. The franchisor offers complete systems, services, and technical expertise to its franchisees.
-

Source: Adapted from Peterson & Dant

Motivation to be a franchisee was measured on a 7-point Likert-type scale ranging from (1) = Strongly Disagree to (7) = Strongly Agree

Table 4.1 Motivation to be Franchisee Scale

4.4.2 Measurement of Evaluation of the Franchisor's Support

Among the services considered to be important to the success of a franchise are site selection, building plans, training programs, and operating manuals and field supervision (Hunt, 1977). A successful franchise operation requires a broad-based support system for franchisees, including training, sales promotion, and strong brand names (Shane and Spell, 1998). Contracted services include direct financial assistance such as loans and leases, help with site selection, lease negotiations, and store openings. Franchisors may also provide central data processing, central purchasing, field training, inventory control, telephone hotlines, and cooperative advertising (Khan, 1992). Contracted supports vary more across industries than within industries, which makes them less useful as predictors of base fees and royalties (Baucus, Baucus, and Human, 1993). The following questions were designed to measure the franchisee's evaluation of the franchisor's support (see Table 4.2).

1. The initial training was very useful.
 2. The amount of franchise fees/royalties was not high.
 3. The promotional and advertising assistance was very good.
 4. The on-going service provided by the franchisor is very good.
 5. There are few franchisor restrictions.
 6. The marketing fees and advertising fees were not too much.
 7. My franchisor provides products superior to those available from other sources.
-

Source: Adapted from Morrison (1996)

Evaluation of the franchisor's support was measured on a 7-point Likert-type scale ranging from (1) = Strongly Disagree to (7) = Strongly Agree

Table 4.2 Evaluation of the Franchisor's Support Scale

4.4.3 Measurement of Brand Name

Rubin (1978) and Lal (1990) have proposed a positive relationship between the level of goodwill, which, as discussed in an earlier section, is equated with brand name, and the royalty rate, assuming the creation and maintenance of goodwill to be the sole responsibility of the franchisor. This is not necessarily the case, since franchisees can enhance or diminish the stock of goodwill as well (Dant, Kaufmann, and Paswan, 1992). However, there is considerable theoretical and empirical support for treating goodwill as an exogenous variable in models of vertical exchange relations in both the industrial organization (Fershtman and Muller, 1984), and marketing science (Chintagunta and Jain, 1992) literature. Clearly, the analysis of the relationship between franchisor and franchisee would benefit from the treatment of goodwill as an exogenous factor. Therefore, this research could be accomplished by modeling the brand name as an exogenous variable (impacting the franchisor-franchisee relationship) and examining its impact on the quality of the relationship between the franchisor and franchisee.

Brand equity arose from customer brand-name awareness, brand loyalty, perceived brand quality, and favorable brand symbolism and associations that provide competitive advantage and future earnings streams (Aaker, 1991).

The following questions were designed to measure the franchisee's perceptions of brand value (see Table 4.3).

1. Most people feel that brand name goods are usually worth the money.
 2. Most people feel that well-known national brands are best.
 3. Most people don't pay much attention to brand names. ®
 4. Most people try to stick to certain brands.
 5. It is important to have well-known brands for business.
 6. My franchisor's brand name will help my business.
 7. Considering the competition in my territory, my brand name is stronger than those of competitors.
-

Source: Adapted from Huddleston & Cassill (1990)

® Denotes reverse score item.

Brand name perception was measured on a 7-point Likert-type scale ranging from (1) = Strongly Disagree to (7) = Strongly Agree

Table 4.3 Brand Name Perception Scale

4.4.4 Measurement of the Quality of the Relationship

The operationalization of LMX has been developed over several studies. In Dansereau et al. (1975), two items were used to assess LMX. The measure was extended to four items (Graen and Schieman, 1978), and then additional items were added (Graen, Novak, and Sommerkamp, 1982). The questionnaire scale-items used for this study have been adapted from the most widely used LMX version since 1982 (see Table 4.4).

1. My franchisor understands my job problems and needs very well.
 2. My franchisor recognizes my potential.
 3. I have a very good working relationship with my franchisor.
 4. My franchisor is satisfied with how I operate my business.
 5. I do not understand the policies and procedures which I am expected to follow. ®
 6. My franchisor considers my opinion before making decisions that affect my area.
 7. My franchisor helps me to be more effective in my job.
-

Source: Adapted from Scandura & Graen (1984).

® Denotes reverse score item

The quality of the relationship between the franchisee and franchisor was measured on a 7-point Likert-type scale ranging from (1) = Strongly Disagree to (7) = Strongly Agree

Table 4.4 The Quality of the Relationship Scale

4.4.5 Measurement of Job Performance

The relationship between LMX and performance has been repeatedly demonstrated in studies where performance has been measured using supervisors' subjective ratings (Dansereau et al., 1975; Duarte, Goodson, and Klich, 1994). Positive relationships between LMX and objective performance have been observed in some studies (Graen, Novak, and Sommerkamp, 1982; Scandura and Graen, 1984; Duarte et al., 1994). Morrison (1997) hypothesized that the level of service and support is likely to be highly correlated with franchisees' success.

An overall measure of job performance is obtained through self-ratings of performance, using a 7-point Likert-type scale (see Table 4.5).

1. I have been very successful in exceeding my year-to-date sales quota so far.
 2. I think that my sales performance so far this year ranks in the top half of all the restaurant franchisees.
 3. My perception is that my sales performance this year to date is below average relative to other franchisees in my company. ®
 4. I am behind in reaching my sales quota thus far this year.
 5. The amount of income I actually received from working as a franchisee is at least what I expected it to be.
 6. My franchisor would rate the quality of my performance as very good.
 7. I think the quality of my own performance in my job is very good.
-

® Denotes reverse score item

Franchisee's performance was measured on a 7-point Likert-type scale ranging from

(1) = Strongly Disagree to (7) = Strongly Agree

Table 4.5 Franchisee's Performance Scale

4.4.6 Measurement of Job Satisfaction

Job satisfaction is measured by the commonly used 20-item short form of the Minnesota Job Satisfaction Questionnaire (MSQ) described by Weiss et al. (1967). Some statements were modified to reflect the franchise environment (see Table 4.6).

1. I think the territorial restrictions set in the contract agreement are reasonable.
 2. The termination/renewal terms of my franchise contract are fair.
 3. My franchisor often ignores my suggestions and complaints. ®
 4. I am satisfied with my franchisor's training program.
 5. My franchisor's operational commitment compares favorably to my competitors.
 6. I am satisfied with the relevance of my franchisor's brand name
 7. The overall relationship between franchisor and me is very satisfying.
-

Source: Adapted from Hing (1995) and Churchill, Ford, & Walker (1974).

® Denotes reverse score item

Franchisee's satisfaction was measured on a 7-point Likert-type scale ranging from

(1) = Strongly Disagree to (7) = Strongly Agree.

Table 4.6 Franchisee's Job Satisfaction Scale

4.4.7 Measurement of Commitment

Commitment, the dependent variable, is defined as a franchisee's predicting intention to leave the relationship with overall assessment of worthiness or utility in a franchisor's offering, based on what is to be received and what is to be given out.

The relationship between satisfaction and commitment has been consistently found in many relationship studies. It is apparent that the model of the franchisee's commitment process must move beyond satisfaction as the primary explanatory variable. Organizational commitment was measured by using the 15-item version of the Organizational Commitment Questionnaire (OCQ) developed by Porter et al., (1974) to measure the extent to which the individual identifies with organizational goals, is willing to exert effort on behalf of the organization, and intends to remain or to leave a member of the organization (Mowday et al., 1982). Statements were modified to reflect the franchise environment. (See Table 4.7).

1. I feel very little loyalty to my franchisor.
 2. I would comply with almost any type of request from my franchisor in order to keep my contract.
 3. I am proud to tell others that I am part of this franchise system. ®
 4. There is not too much to be gained by sticking with my franchisor indefinitely.
 5. Often, I find it difficult to agree with my franchisor's policies on important matters relating to its franchisees.
 6. I really care about the fate of my franchisor. ®
 7. I am willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful. ®
-

Source: Adapted from Mowday, Steers, & Porter (1979)

® Denotes reverse score item

Commitment was measured on a 7-point Likert-type scale ranging from

(1) = Strongly Disagree to (7) = Strongly Agree

Table 4.7 Franchisee's Commitment Scale

4.5 Statistical Analysis

Structural equation modeling (SEM) evaluates how well a conceptual model that includes observed variables and hypothetical constructs fits the obtained data (Hoyle and Smith, 1994; Hoyle, 1995; Bollen, 1989). A hypothetical construct accounts for the intercorrelations of the observed variables that define that construct (Bollen and Lennox, 1991).

CALIS generated an estimated matrix, using a hypothesized factor structure specified by the investigator as a guide. If only small differences were found to exist between the actual and estimated matrices, then the hypothesized factor structure was viewed as a plausible one. Unfortunately, there was a lack of consensus regarding how best to determine when a difference is small. Ideally, this determination should be made statistically with a chi-square test. However, with large sample sizes it is not very useful because it has the power to detect nonsubstantive differences between the matrices. Accordingly, as recommended by Bollen (1989, p. 281), because of distortion in the chi-square statistic associated with sample sizes (Hayduk, 1987; Joreskog and Sorbom, 1989, 1993a, 1993b, 1996), the fit of the structural equation models was assessed with several indices, including the goodness-of-fit index (GFI) (Joreskog and Sorbom, 1996), and the Type 1 and Type 2 normed-fit indices (Muliak, James, Van Alstine, Bennett, Lind and Stilwell, 1989). The GFI is produced by CALIS as an estimate of the overall fit of a model. It most closely approximates a coefficient of determination with a value of 1.00 indicating a perfect fit (Muliak et al., 1989). Like chi-square, it is sensitive to sample size and to the number of model parameters estimated, and it should be interpreted with this in

mind. The normed-fit index (NFI) can be interpreted as “the proportion in reduction in lack of fit between the null and saturated models achieved by the intermediate model’s fixing fewer and estimating more parameters” (Muliak et al., 1989, p. 433). The NFI is also sensitive to variations in sample size (Marsh, Balla and McDonald, 1988). Type 2, or adjusted normed-fit indices have been developed to correct for these sample size based distortions. Type 2 NFI is interpreted in the same way as the Type 1 NFI with value of .90 or greater indicating that the fit cannot be improved meaningfully by increasing the number of parameters estimated in the model (Bentler and Bonet, 1980). Several fit measures are reported on in this study: the normed fit index (NFI), the nonnormed fit index (NNFI), the comparative fit index (CFI; Bentler, 1989), the goodness-of-fit index (GFI), the adjust goodness-of-fit index (AGFI), and the root-mean-square residual (RMSR; Joreskog and Sorbom, 1989).

The hypotheses were tested using CALIS (Covariance Analysis of Linear Structural equation). The model designed for this study, shown in Figure 2 on page 195, is a causal model. Cause-effect relations have been proposed based on prior empirical research and theory. However, the set of variables were collected at one point in time. In order to test the causal assumptions, the equations implied by the arrows were solved, thereby yielding estimates of the magnitudes of the linkages shown. The exogenous variables are motivation, evaluation, and brand name. The endogenous variables are the quality of the relationship, performance, job satisfaction, and commitment. As shown in Figure 1 on page 196, gamma (γ) is used to indicate a structural coefficient of a causal relationship between an exogenous variable and an endogenous variable. Beta (β) is used to indicate a structural coefficient of a causal relationship between two endogenous

variables. The amount of shared variances contributions is estimated by the Phi (ϕ) parameters.

The hypotheses tested using CALIS are as follows:

Hypothesis		Parameter
H1a.	A higher level of franchisee motivation leads to a higher quality relationship between the franchisor and franchisee.	γ_{41}
H1b.	Franchisee's motivation is negatively related to the franchisee's commitment.	γ_{71}
H1c.	Franchisee motivation for choosing a franchise is positively correlated to the perceived quality of the franchisor's support.	ϕ_{21}
H1d.	Franchisee motivation for choosing a franchise is positively correlated to the perceived brand value of the franchisor.	ϕ_{31}
H2a.	The quality of the franchisor's support is positively related to the franchisee's job satisfaction	γ_{62}
H2b.	A perceived higher level in the quality of the franchisor's support leads to a higher quality relationship between the franchisor and franchisee.	γ_{42}
H2c.	The quality of the franchisor's support is positively related to the franchisee's job performance.	γ_{52}
H3a.	Brand value is positively related to the quality of the relationship between the franchisor and the franchisee.	γ_{43}
H3b.	Brand value is positively related to the franchisee's performance.	γ_{53}
H4a.	A higher level of quality in the franchisor-franchisee relationship lead to a higher level of the franchisee's performance.	β_{54}
H4b.	A higher level of quality in the franchisor-franchisee relationship leads to a higher level of the franchisee's job satisfaction.	β_{64}
H4c.	The quality in the franchisor-franchisee relationship is negatively related to the franchisee's commitment.	β_{74}
H5a.	Franchisee's performance is positively related to the franchisee's job satisfaction.	β_{65}
H5b.	Franchisee's performance is negatively related to the franchisee's commitment.	β_{75}
H6.	Franchisee's job satisfaction is negatively related to the franchisee's commitment.	β_{76}

4.6 Summary

This chapter first introduces the research hypotheses that guide the study. The second section presents the methodology used to gather samples and the data collection procedures. The third section presents measurement methods used in the study. Finally, the statistical analysis technique is illustrated, with a primary focus on the structural equation modeling used to test the theoretical model. The results of the hypothesis testing are presented in the next chapter.

CHAPTER 5

RESULTS

The purpose of this chapter is to present a description of the respondents and the results of the analyses (scale development as well as model testing). Profiles of the franchisees participating in this survey are reported in the first section of this chapter. Next, the empirical portion of the scale developed for the measures of each variable is presented. This is followed by a discussion of the reliability and validity of the measures used in this research. Finally, the results of the structural model with the hypotheses and the theoretical model are examined and the final model is provided with the analysis of the direct and total effects using CALIS procedure (SAS Institute Inc, 1989).

5.1 Profile of the Sample

Because the primary focus of the study is an investigation of factors affecting the quality of the relationship between franchisees and franchisors, the objective was to collect data in the sector of the restaurant industry where there was a franchisee-franchisor relationship. Participants were sampled from franchisees operating franchise restaurants. The data for this study were collected through a mail survey of 2,797 franchisees. The list of franchisees was randomly generated by the membership list of the International Franchise Association. Participants were sent a research packet with a cover

letter explaining that the nature of the study was to examine the franchisee-franchisor relationship. There were 217 research packets returned, yielding a participation rate for the study of 7.8 percent (Table 5.1). The sample for this study included 210 usable questionnaires returned to the university in a postage-paid envelope, and that had complete data on all questions. The respondents consisted of 164 men (78.1%) and 46 women (21.9 %). Their average franchisee experience was 11.04 years. Approximately 5.7 % of the respondents were of the ages 20 to 30; 25.5 % were of the ages 31 to 40; 32.9 % were of the ages 41 to 50; 25.2 % were of the ages 51 to 60; and 11.0 % were over 60. The sample was primarily white (84.3%) and male (78.1%). Approximately 95% of the participants were experienced in the restaurant industry before joining the franchise system. Seven questionnaires were returned blank or otherwise unusable and were not included in any analyses.

Table 5.1**The Sample Characteristics**

State	Percentage of Sample
CA	13.3 % (28)
VA	8.0 % (17)
KY	5.7 % (12)
MI	5.2 % (11)
GA	4.8 % (10)
TN	4.8 % (10)
DC	3.8 % (8)
PA	3.8 % (8)
IN	3.3 % (7)
NY	3.3 % (7)
WA	3.3 % (7)
OR	2.9 % (6)
TX	2.9 % (6)
FL	2.4 % (5)
LA	2.4 % (5)
NC	2.4 % (5)
NJ	2.4 % (5)
OH	2.4 % (5)
SC	2.4 % (5)
AZ	1.9 % (4)
CO	1.9 % (4)
MA	1.9 % (4)
AL	1.4 % (3)
IA	1.4 % (3)
Others	11.9 % (25)
Age	
20 – 30	5.7 %
31 – 40	25.5 %
41 – 50	32.9 %
51 – 60	25.2 %
60 Over	11.0 %
Gender	
Male	78.1 %
Female	21.9 %
Ethnic	
Caucasian	84.3 %
African American	1.9 %
Hispanic	1.9 %
Asian	10.5 %
Pacific Islander	0.0 %
Others	1.4 %
Average Relationship Length with this Franchisor	11.04 Years

5.2 Descriptive Statistics

Covariance was computed for all observed variables (see Appendix B, p. 203). Furthermore, the values of skewness and kurtosis were computed for all measured variables, as the assumption of multivariate normality is a prerequisite to a robust SEM (Bollen and Long, 1994). Cronbach (1951) alpha was computed to examine the internal consistency of the items comprising the theory of reasoned action. Descriptive analysis, internal consistency analyses, and further analyses for evaluating the construct validity of the theory of reasoned action were conducted with structural equation modeling using CALIS (SAS Institute Inc, 1989). An examination of the distribution properties of all items was conducted in order to ascertain possible deviations from multivariate normality (see Table 5.2). Analysis indicated that the values of kurtosis and skewness were minimal, thus allowing for the use of Maximum Likelihood procedures. The values of the mean scaled univariate kurtosis was $-.0259$. Skewness values ranged between -1.19 and 1.26 . The internal consistency of the items which comprised the theory of reasoned action produced an alpha range from $.737$ to $.888$ (see Table 5.4 – 5.10), indicating strong relationships among the variables. Internal consistency is the extent to which the individual items that constitute a test correlate with one another or with the test total (Hatcher, 1994). In the social sciences, one of the most widely used indices of internal consistency reliability is coefficient alpha (Cronbach, 1951). A widely used rule of thumb of $.70$ has been suggested by Nunnally (1978). However, Hatcher (1994) argued that this is only a rule of thumb, and the social science literature does sometimes report studies

employing variables with coefficient alpha reliabilities under .70, and sometimes even under .60.

Table 5.3 shows the mean scores of the all items on each of the seven franchisor-franchisee relationship scales with standard deviations. The univariate analysis revealed that the magnitude of the franchisee's attitude about the franchise system he/she is currently involved. For example, Q1, "Franchising is in an industry that I believed had a good growth potential", has the mean value of 5.70 with a standard deviation of 1.42, indicating that many franchisees strongly believe in the growth of the franchising and high levels of agreement among the sample respondents. The rest of the table can be interpreted the same way.

Non-Response Bias

According to Armstrong and Overton (1977), possible non-response biases were addressed by comparing the responses of the early respondents to those of the late respondents. Such comparisons are often similar and are commonly used for testing. Early responses ($N=40$) were received on February 24 and March 3, 1999. Late responses ($N=40$) were received between April 1 and April 10, 1999. Appendix B (p. 205) shows comparisons between the early responses and late responses on selected demographic and behavior variables. *T*-tests done on twelve-selected behavior variables for the twelve groups showed the groups were not significantly different. The chi-square tests performed on the two groups showed no significant difference for age and gender variable. Chi-square and *t* tests performed revealed that the two groups were not significantly different, thereby addressing the non-response bias.

Table 5.2

Covariance Structure Analysis: Maximum Likelihood Estimation

Distribution of Asymptotically Standardized Residuals
(Each * represents 1 residuals)

-4.75000	-	-4.50000	1	0.43%	|	*
-4.50000	-	-4.25000	0	0.00%	|	
-4.25000	-	-4.00000	1	0.43%	|	*
-4.00000	-	-3.75000	1	0.43%	|	*
-3.75000	-	-3.50000	3	1.30%	|	***
-3.50000	-	-3.25000	0	0.00%	|	
-3.25000	-	-3.00000	3	1.30%	|	***
-3.00000	-	-2.75000	3	1.30%	|	***
-2.75000	-	-2.50000	3	1.30%	|	***
-2.50000	-	-2.25000	7	3.03%	|	*****
-2.25000	-	-2.00000	6	2.60%	|	*****
-2.00000	-	-1.75000	8	3.46%	|	*****
-1.75000	-	-1.50000	4	1.73%	|	****
-1.50000	-	-1.25000	9	3.90%	|	*****
-1.25000	-	-1.00000	15	6.49%	|	*****
-1.00000	-	-0.75000	6	2.60%	|	*****
-0.75000	-	-0.50000	12	5.19%	|	*****
-0.50000	-	-0.25000	15	6.49%	|	*****
-0.25000	-	0	11	4.76%	|	*****
0	-	0.25000	33	14.29%	|	*****
0.25000	-	0.50000	14	6.02%	|	*****
0.50000	-	0.75000	12	5.19%	|	*****
0.75000	-	1.00000	10	4.33%	|	*****
1.00000	-	1.25000	9	3.90%	|	*****
1.25000	-	1.50000	7	3.03%	|	*****
1.50000	-	1.75000	9	3.90%	|	*****
1.75000	-	2.00000	4	1.73%	|	****
2.00000	-	2.25000	6	2.60%	|	*****
2.25000	-	2.50000	2	0.87%	|	**
2.50000	-	2.75000	3	1.30%	|	***
2.75000	-	3.00000	4	1.73%	|	****
3.00000	-	3.25000	3	1.30%	|	***
3.25000	-	3.50000	3	1.30%	|	***
3.50000	-	3.75000	0	0.00%	|	
3.75000	-	4.00000	0	0.00%	|	
4.00000	-	4.25000	0	0.00%	|	
4.25000	-	4.50000	1	0.43%	|	*
4.50000	-	4.75000	0	0.00%	|	
4.75000	-	5.00000	1	0.43%	|	*
5.00000	-	5.25000	1	0.43%	|	*
5.25000	-	5.50000	0	0.00%	|	
5.50000	-	5.75000	1	0.43%	|	*

Table 5.3 Mean and Standard Deviation of Items

Variable	N	Mean	Std Dev	Minimum	Maximum
Q1	210	5.7047619	1.4204508	1.0000000	7.0000000
Q2	210	5.1666667	1.5608344	1.0000000	7.0000000
Q3	210	3.6142857	1.9463586	1.0000000	7.0000000
Q4	210	3.2190476	1.7930272	1.0000000	7.0000000
Q5	210	4.3809524	1.6651850	1.0000000	7.0000000
Q6	210	6.1428571	1.2711640	1.0000000	7.0000000
Q7	210	4.7428571	1.7636878	1.0000000	7.0000000
Q8	210	5.3761905	1.4629081	1.0000000	7.0000000
Q9	210	4.1238095	1.8467364	1.0000000	7.0000000
Q10	210	3.8333333	1.9332976	1.0000000	7.0000000
Q11	210	3.7380952	1.7670499	1.0000000	7.0000000
Q12	210	2.7428571	1.7986096	1.0000000	7.0000000
Q13	210	3.6047619	1.8793708	1.0000000	7.0000000
Q14	210	5.4142857	1.5757692	1.0000000	7.0000000
Q15	210	5.8666667	0.9739837	2.0000000	7.0000000
Q16	210	5.9000000	1.1215591	1.0000000	7.0000000
Q17	210	2.3476190	1.4270521	1.0000000	7.0000000
Q18	210	5.3666667	1.1465919	1.0000000	7.0000000
Q19	210	5.8714286	1.1356101	1.0000000	7.0000000
Q20	210	6.1142857	0.9616004	2.0000000	7.0000000
Q21	210	5.4857143	1.5350095	1.0000000	7.0000000
Q22	210	3.5333333	1.7666050	1.0000000	7.0000000
Q23	210	4.2238095	1.8411575	1.0000000	7.0000000
Q24	210	4.6380952	1.8333634	1.0000000	7.0000000
Q25	210	5.3666667	1.6085398	1.0000000	7.0000000
Q26	210	2.3285714	1.6692097	1.0000000	7.0000000
Q27	210	2.7000000	1.6746063	1.0000000	7.0000000
Q28	210	3.8809524	1.7251639	1.0000000	7.0000000
Q29	210	4.6904762	1.8155113	1.0000000	7.0000000
Q30	210	4.5047619	1.9448069	1.0000000	7.0000000
Q31	210	3.0142857	1.8129744	1.0000000	7.0000000
Q32	210	3.3142857	1.9967164	1.0000000	7.0000000
Q33	210	3.6523810	2.0839140	1.0000000	7.0000000
Q34	210	5.6190476	1.4100185	1.0000000	7.0000000
Q35	210	6.2380952	0.9436142	1.0000000	7.0000000
Q36	210	4.1285714	2.0653540	1.0000000	7.0000000
Q37	210	4.0333333	1.9985242	1.0000000	7.0000000
Q38	210	4.4047619	1.9473884	1.0000000	7.0000000
Q39	210	4.3952381	1.7474455	1.0000000	7.0000000
Q40	210	4.4047619	1.6895333	1.0000000	7.0000000
Q41	210	5.6904762	1.3605532	1.0000000	7.0000000
Q42	210	4.2666667	1.8880975	1.0000000	7.0000000
Q43	210	3.6666667	2.1595085	1.0000000	7.0000000
Q44	210	3.9857143	1.9795088	1.0000000	7.0000000
Q45	210	5.3238095	1.6886632	1.0000000	7.0000000
Q46	210	3.6238095	2.0417660	1.0000000	7.0000000
Q47	210	4.2666667	1.9381176	1.0000000	7.0000000
Q48	210	5.4476190	1.8063204	1.0000000	7.0000000
Q49	210	5.5904762	1.6784319	1.0000000	7.0000000
LENGTH	210	11.0476190	7.5468311	1.0000000	45.0000000

5.3 Measurement Model

The measurement model describes the relationships between the latent factors and their indicator variables. Confirmatory Factor Analysis (CFA) was used to test the adequacy of the current study's measurement model before conducting tests of the structural models. Anderson and Gerbing (1988) argued that confirmatory measurement models should be estimated and, if necessary, respecified before the simultaneous examination of measurement and structure models.

The analysis followed a two-step procedure based in part on an approach recommended by Anderson and Gerbing (1988). In the first step, confirmatory factor analysis was used to develop a measurement model that demonstrated an acceptable fit to the data. In step two, the measurement model was modified so that it came to represent the theoretical (causal) model of interest. This theoretical model was then tested and revised until a theoretically meaningful and statistically acceptable model was found.

In designing a study, great care should be used in deciding the indicator variables that will measure each latent variable. In many studies, indicator variables are the composite scores of standardized tests using carefully developed scales that assess attitudes or beliefs (Hatcher, 1994), such as the Job Descriptive Index, a measure of job satisfaction (Smith, Kendall, and Hulin, 1969).

The CALIS program was used in the present study to estimate the parameters of the measurement model; The CALIS program was also used for the later simultaneous estimation of measurement and structural models. The full CFA measurement model consisted of 7 latent variables or constructs and 21 manifest or observed variables

(composite scores). Covariance matrices were analyzed, and maximum likelihood (ML) was the estimation method. The adequacy of the model fit was determined by using the chi-square test, the χ^2/df ratio, the NFI, the GFI, and the CFI. Fit statistics are the central means through which alternative factor structures are compared. There are numerous statistics that can be used to describe a model's fit to the data. The most widely used measure of fit is χ^2 . Significant χ^2 statistics suggest that the model does not adequately fit the data. However, it is widely recognized that χ^2 depends on the sample size, and therefore even excellently fitting models will produce a significant χ^2 when the sample size is large (Harvey et al., 1985; Hu and Bentler, 1995).

Typically, researchers seek a nonsignificant chi-square to indicate no significant difference between the hypothesized model and the observed data. However, the chi-square statistic is affected by sample size, and some of the underlying assumptions regarding the statistic may be invalid (Bentler, 1990; Bentler and Chou, 1987). Although strict guidelines for minimum sample sizes do not exist, Bentler (1985, 1992) suggested that a sample size to parameter ratio of 5 or more is sufficient to achieve reliable estimates in maximum likelihood estimation.

Therefore, other indexes of fit should be examined. The GFI indicates the amount of variance and covariance explained by the model, with values closer to one indicating a better fit. The χ^2/df ratio adjusts the chi-square test to control for the sample size, and values exceeding two suggest poorer fitting models (Byrne, 1989). The CFI yields an index of model fit that mathematically compares the theoretical model with a null, poorly fitting model. The CFI can range from zero to one, with values closer to one again indicating better fitting models. A problem with GFI is that it, like χ^2 , may depend on the

sample size. Accordingly, researchers have suggested alternative fit statistics that depend less on model fit (Marsh, Balla, and McDonald, 1988). Four of these fit statistics were used in this study. These are the normed fit index and non-normed fit index (NFI and NNFI; Bentler and Bonnett, 1980), the comparative fit index (CFI; Bentler, 1990), and the goodness-of-fit index (GFI; Joreskog and Sorbom, 1993a). As with the GFI, levels above .90 for these statistics imply adequate fit. The fit statistics reported include the four basic types of statistics recently reviewed by Hu and Bentler (1995).

Confirmatory factor analysis involves the specification and estimation of one or more putative models of factor structure, each of which process a set of latent variables (factors) to account for covariance among a set of observed variables. CALIS (SAS Institute Inc., 1989) is used to describe alternative models and to test the fit of each hypothesized model against the sample data.

5.3.1 Partial Confirmatory Factor Analysis

To refine the initial measures and test for the internal consistency of the scale, a combination of exploratory factor analysis, confirmatory factor analysis (each construct individually) and item-to-total correlations were used. Based on the results of these analyses, those items that had low item-to-total correlations were dropped, as well as the items that had low factor loadings or loadings on multiple factors. With exploratory factor analysis, for the each of the constructs (motivation, evaluation, brand name, the quality of the relationship, performance, job satisfaction, and commitment), First-order confirmatory factor models were tested, where every item was restricted to load its a priori specified factors. The confirmatory factor analysis was estimated by the maximum likelihood (ML) procedure. In all these models, the cogenerated items loaded significantly on their prespecified factors; none of the measurement errors were correlated, and goodness-of-fit measures indicated the adequacy of the model fit. This provided evidence of construct unidimensionality. The initial analyses suggested 7 items with low factor loading (below .50) that were dropped from further analyses (see Table 5.4 – 5.10). Most loadings exceeded .5, and each indicator t -value exceeded 6.0 ($p < .001$). Coefficient α exceeded .70 for each scale.

Confirmatory Factor Analysis for Motivation

The exploratory factor analysis for the motivation construct led to one factor model. The measurement model is a single factor model comprised of seven indicators. Table 5.4 presents the results of the confirmatory factor analysis for the motivation construct, including factor loading, t value, and fit statistics. Although the chi-square test

was significant, other fit indices indicated an acceptable fit with the data (GFI = .906; CFI = .851; NFI = .834). Standardized loading estimates ranged from .509 to .746, with all t values significant at $p < .001$. Summated scores of the multi-item scales were used to address the reach questions. The Cronbach's alpha coefficient was .797.

Confirmatory Factor Analysis for Evaluation

The one-factor initial measurement was confirmed by exploratory factor analysis. The chi-square test was also significant, but the remaining fit statistics indicated an acceptable fit (GFI = .930; CFI = .888; NFI = .868). Standardized loading estimates ranged from .498 to .855, with all t values significant at $p < .001$. The Cronbach's alpha coefficient was .788.

Table 5.4 Factor Loading for Motivation

Item	Standardized Loading	Indicator Reliabilities	<i>t</i> Value ^a
Q1	.509	.259	7.15
Q2	.746	.557	11.41
Q3	.538	.289	7.62
Q4	.575	.331	8.24
Q5	.706	.498	10.63
Q6	drop		
Q7	.708	.501	10.68

Note: ^aAll *t* tests were significant at $p < .001$. Coefficient $\alpha = .797$

Table 5.5 Factor Loading for Evaluation

Item	Standardized Loading	Indicator Reliabilities	<i>t</i> Value ^a
Q8	.465	.216	6.58
Q9	.490	.240	6.96
Q10	.748	.560	11.64
Q11	.855	.731	13.85
Q12	.552	.305	7.99
Q13	.604	.365	8.91
Q14	drop		

Note: ^aAll *t* tests were significant at $p < .001$. Coefficient $\alpha = .789$

Confirmatory Factor Analysis for Brand Name

The one-factor initial measurement was confirmed by exploratory factor analysis. The goodness of fit index (GFI) was .952; the comparative fit index (CFI) was .954; the normed fit index was .936 (see Table 5.6). Standardized loading estimates ranged from .587 to .781, with all t value being significant at $p < .001$. The Cronbach's alpha coefficient was .843.

Confirmatory Factor Analysis for the Quality of the Relationship

Exploratory factor analysis of the brand name items was conducted to verify the one-factor model. The measurement model is a single factor model comprised of six indicators. Table 5.7 presents the results of the confirmatory factor analysis for the quality of the relationship construct, including factor loading, t value, and fit statistics. Although the chi-square test was significant, other fit indices indicated a good fit with the data (GFI = .916 CFI = .936, NFI = .925). Standardized loading estimates ranged from .577 to .853, with all t values significant at $p < .001$. The Cronbach's alpha coefficient was .887.

Confirmatory Factor Analysis for Performance

The one-factor initial measurement was confirmed by exploratory factor analysis. The chi-square test was significant, but the remaining fit statistics indicated a good fit (GFI = .943; CFI = .909; NFI = .899). Standardized loading estimates ranged from .521 to .777, with all t values significant at $p < .001$. The Cronbach's alpha coefficient was .826.

Table 5.6 Factor Loading for Brand Name

Item	Standardized Loading	Indicator Reliabilities	<i>t</i> Value ^a
Q15	.780	.608	12.56
Q16	.712	.507	11.08
Q17	.587	.345	8.67
Q18	.613	.325	9.14
Q19	.751	.376	11.92
Q20	.682	.465	10.74
Q21	drop		

Note: ^aAll *t* tests were significant at $p < .001$. Coefficient $\alpha = .842$

Table 5.7 Factor Loading for the Quality of the Relationship

Item	Standardized Loading	Indicator Reliabilities	<i>t</i> Value ^a
Q22	.853	.728	14.91
Q23	.814	.663	13.89
Q24	.839	.704	14.56
Q25	.577	.333	8.77
Q26	drop		
Q27	.633	.401	9.83
Q28	.804	.646	13.54

Note: ^aAll *t* tests were significant at $p < .001$. Coefficient $\alpha = .888$

Table 5.8 Factor Loading for Performance

Item	Standardized Loading	Indicator Reliabilities	<i>t</i> Value ^a
Q29	.711	.506	10.96
Q30	.744	.554	11.63
Q31	.747	.558	11.69
Q32	.777	.604	12.33
Q33	.521	.272	7.47
Q34	drop		
Q35	drop		

Note: ^aAll *t* tests were significant at $p < .001$. Coefficient $\alpha = .826$

Confirmatory Factor Analysis for Satisfaction

The results of the exploratory factor analysis reported a one-factor model of the satisfaction construct. Table 5.9 presents the results of confirmatory factor analysis for job satisfaction. Again, the chi-square test was significant, but the remaining fit indices indicated an acceptable fit with the data (GFI = .902; CFI = .834; NFI = .809). Standardized loading estimates range from .492 to .781, with all t values being significant at $p < .001$. The Cronbach's alpha coefficient was .790.

Confirmatory Factor Analysis for Commitment

The results of the exploratory factor analysis reported a one-factor model of commitment. The initial measurement did not fit the data well. After reviewing the modification indices, three items were dropped from the measurement model. The overall fit of the revised model was confirmed with a goodness-of-fit index of .961, a comparative fit index of .925, and a normed fit index of .918. All these indices provided a strong indication of good model fit (see Table 5.10). The Cronbach's alpha coefficient was .737.

Table 5.9 Factor Loading for Satisfaction

Item	Standardized Loading	Indicator Reliabilities	<i>t</i> Value ^a
Q36	.515	.265	7.25
Q37	.592	.351	8.53
Q38	.564	.318	8.06
Q39	.532	.283	7.53
Q40	.687	.472	10.27
Q41	.492	.242	6.87
Q42	.781	.610	12.10

Note: ^aAll *t* tests were significant at $p < .001$. Coefficient $\alpha = .790$

Table 5.10 Factor Loading for Commitment

Item	Standardized Loading	Indicator Reliabilities	<i>t</i> Value ^a
Q43	drop		
Q44	drop		
Q45	.939	.882	13.22
Q46	.495	.245	6.98
Q47	.516	.266	7.28
Q48	.620	.384	8.79
Q49	drop		

Note: ^aAll *t* tests were significant at $p < .001$. Coefficient $\alpha = .737$

5.3.2 Confirmatory Factor Analysis

A confirmatory factor analysis (CFA) model is a structural measurement formulation in which latent constructs are assumed to have generated the relations among observed variables. The procedure is designed to test a priori hypotheses of specific relations between the latent constructs and the observed variables.

In this study, a seven-factor model of franchisee-franchisor relationship was specified a priori. The recommended procedure was followed, of forming subscales of items that comprise factors when the number of factors is small relative to the number of observed variables (Takahashi and Nasser, 1996; Russell, Kahn, Spoth, and Altmaier, 1998). Using this item-parceling procedure, items are summed to form a smaller set of items that purportedly measure the same construct. An obvious advantage of item parcels is that fewer parameters need to be estimated, and that the estimates will be more stable in small samples (Marsh et al., 1988). The covariance matrices for the 21 aggregate variables are presented in the Appendix B (see p. 203).

The measurement model describes the nature of the relationship between (a) a number of latent variables, or factors, and (b) the manifest indicator variables that measure those latent variables. The model investigated in this study consisted of seven latent variables corresponding to the seven constructs of the franchisee-franchisor relationship model: motivation, evaluation, brand name, the quality of the relationship, performance, satisfaction, and commitment. Each of the seven latent variables was measured by at least three manifest indicator variables.

This study follows Bentler's (1989) convention of identifying latent variables with the letter "F" (for Factor), and labelling manifest variables with the letter "V" (for

Variables). Figure 5.1 uses these conventions in identifying the seven constructs investigated in this study, as well as the indicators that measure these constructs. The figure shows that the motivation construct (F1) is measured by manifest variables V1 through V3; the evaluation construct (F2) is measured by manifest variables V4 through V6, and so forth.

The measurement model assessed in the first stages of this analysis was not identical to the model in Figure 5.1, because the model in that figure posits certain unidirectional causal relationships between the latent constructs. The measurement model, on the other hand, posits no unidirectional paths between latent variables. Instead, in a measurement model, a covariance is estimated to connect each latent variable with every other latent variable. In a figure, this would be indicated by a curved, two-headed arrow connecting each F variable to every other F variables. In other words, a measurement model is equivalent to a confirmatory factor analysis model in which each latent construct is allowed to covary with every other latent construct.

The measurement model was estimated using the maximum likelihood method, and the chi-square value for the model was significant, $\chi^2(168, N = 210) = 429.39, p < .001$. Technically, when the proper assumptions are met, these chi-square statistics may be used to test the null hypothesis that the model fits the data. In practice, however, the statistics are very sensitive to sample size and departures from multivariate normality, and will very often result in the rejection of a well-fitting model. For this reason, it has been recommended that the model chi-square statistics be used as a goodness of fit index, with a smaller chi-square value (relative to the degree of freedom) indicative of a better model fit (Joreskog and Sorbom, 1989).

Table 5.12 gives the standardized pattern coefficients, the t -values, the indicators' reliabilities, and the construct reliabilities useful for assessing the quality of the measurement model. Overall, measurement quality was assessed using confirmatory factor analysis (Gerbing and Anderson, 1992). The overall fit supports the measurement model. The χ^2 fit statistic was 429.39 with 168 degree of freedom ($p < .001$); the root mean squared error of approximation (RMSEA) was .087; the comparative fit index (CFI) was .886; the goodness-of-fit index (GFI) was .841, the normed fit index (NFI) was .838, the non-normed fit index is .857, and the χ^2/df ratio is 2.55. Although the chi-square statistic is significant, the measurement model was deemed acceptable, given the other supportive indices (Anderson and Gerbing, 1988). Many researcher interpret GFI or AGFI scores in the .80 to .89 ranges as representing reasonable fit; scores of .90 or higher are considered evidence of good fit (Doll et al., 1995).

Table 5.13 shows the overall fit indices for the various factor models using the entire sample ($N = 210$). As one progresses from the most restricted model (one general factor) to the least restricted model (seven oblique factors), all of the indices show incremental improvements in overall fit. The gains are largest when moving from the one general factor model to the seven-factor (covary) model representation. Increases in certain indexes (e.g., GFI, CFI, NFI, and NNFI) are particularly notable because these do not necessarily increase with a less restricted nested model.

Goodness of fit indices for the measurement model are presented in Table 5. 13. This table shows that recommended alternatives to chi-square include the comparative fit index (CFI; Bentler, 1990), the goodness of fit index (GFI; Joreskog and Sorbom, 1993), and the root mean square error of approximation (RMSEA; Hair et al., 1995). The CFI

assess the comparative reduction in noncentrality proposed by the hypothesized model, particularly in terms of the percentage of variance in the covariance matrix accounted for by the measurement model. The CFI constraint observed values in the range (0, 1), with higher values indicating better model fit (Bentler, 1992). The RMSEA is an average difference per degree of freedom expected to occur in the population (Hair et al., 1995), with lower values indicating a better model fit (Pedhazur and Schmelkin, 1991).

Although the GFI tends to favor more complex models (i.e., those with more parameters to be estimated), the CFI does not penalize for the parsimoniousness of a model, and the NFI is an index of the fit between a saturated model and a null model (i.e., a restricted model against which other less restricted models are compared in a nested sequence of models) (Mulaik et al., 1989). The CFI has been found to be unaffected by sample size (Bentler, 1990; Marsh et al., 1988). Given the differences in parsimony of the a priori and respecified models, the CFI can ensure that conclusions were not biased in favor of more saturated models, and the NFI represents the difference in lack of fit between saturated and null models (Mulaik et al., 1989).

For the measurement model, Day et al. (1998) suggested that the adjusted indices are $PFI = .855$, $CFI = .855$, $RMSR = .16$. A reasonably successful fit to the data was found. . As fit indices, the chi-square statistic (and associated p value), the goodness-of-fit index (GFI; Joreskog and Sorbom, 1989), the normed-fit index (NFI; Bentler and Bonett, 1980), the non-normed fit index (NNFI; Bentler and Bonett, 1980), and the comparative fit index (CFI; Bentler, 1990) were examined. However, the properties of these indices varied along several dimensions, which is why several were examined.

The psychometric properties of the latent constructs were examined individually through estimates of composite reliability and variance extracted. These estimates (Table 5.12) are based on the standardized parameter estimates from the measurement model. The motivation, evaluation, brand name, quality of the relationship, performance, satisfaction, and commitment constructs all have estimated composite reliabilities above .70 and variance extracted estimates above .50, indicating both good internal consistency and that the variance captured by each construct is larger than the variance due to measurement error (Fornell and Larcker, 1981). The variance extracted estimates of the evaluation, brand name, quality of the Relationship, performance, and job satisfaction constructs demonstrated acceptable reliabilities (.530, .618, .586, .535, and .510, respectively), but less satisfactory motivation and commitment estimates (.487 and .488, respectively). Fornell and Larcker (1981) point out, however, that the variance-extracted statistic is a more conservative estimate than is composite reliability. As such, an argument could be made for the acceptable psychometric properties of each respective latent construct, especially for research purposes.

Table 5.11
Information Needed to Compute Composite Reliability and Variance Extracted Estimates

Constructs and Indicator	Standard Loading	Reliability ^a	Error Variance ^b
Motivation			
Growth Potential	.624	.389	.611
Reduce risk	.715	.511	.489
Proven System	.725	.525	.475
Evaluation			
On-going Service	.833	.694	.306
Amount of Fees	.585	.343	.657
Effectiveness of Supports	.801	.642	.358
Brand Name			
Brand Equity	.910	.829	.171
Brand Loyalty	.742	.551	.449
Brand Effects	.717	.514	.486
Quality of the Relationship			
Recognize Franchisee	.907	.822	.178
Working Relationship	.602	.363	.637
Franchisor Satisfaction	.780	.608	.392
Performance			
Sales Performance 1	.757	.573	.427
Sales Performance 2	.781	.610	.390
Income	.636	.404	.596
Satisfaction			
Contract Fair	.777	.604	.396
Satisfied with Support Program	.744	.553	.447
Satisfied with Relationship	.613	.376	.624
Commitment			
Agree with Franchise Contract	.795	.632	.368
Operational Commitment	.730	.533	.467
Loyalty to Franchisor	.509	.259	.741

Note. All standardized loading were significant at $p < .001$.

^a Calculated as the square of the standardized factor loading.

^b Calculated as 1 minus the indicator reliability.

Table 5. 12
Measurement Properties for Study Constructs

Constructs and Indicator	Standardized Loading	<i>t</i> ^a	Reliability ^b	Variance Extracted Estimate
Motivation			.730^b	.487
Growth Potential	.624	9.47	.451	
Reduce risk	.715	11.22	.496	
Proven System	.725	11.42	.514	
Evaluation			.789^b	.530
On-going Service	.833	14.03	.683	
Amount of Fees	.585	8.76	.297	
Effectiveness of Supports	.801	13.26	.610	
Brand Name			.835^b	.618
Brand Equity	.910	14.81	.875	
Brand Loyalty	.742	11.46	.587	
Brand Effects	.717	10.99	.326	
Quality of the Relationship			.813^b	.586
Recognize Franchisee	.907	16.12	.829	
Working Relationship	.602	9.14	.285	
Franchisor Satisfaction	.780	12.89	.592	
Performance			.770^b	.535
Sales Performance 1	.757	11.16	.601	
Sales Performance 2	.781	11.57	.657	
Income	.636	9.08	.368	
Satisfaction			.756^b	.510
Contract Fair	.777	12.73	.575	
Satisfied with Support Program	.744	12.01	.542	
Satisfied with Relationship	.613	9.39	.412	
Commitment			.725^b	.488
Agree with Franchise Contract	.795	12.60	.655	
Operational Commitment	.730	11.31	.515	
Loyalty to Franchisor	.509	7.26	.330	

Note. All standardized loading were significant at $p < .001$.

^aAll *t* tests were significant at $p < .001$

^bDenotes composite reliabilities

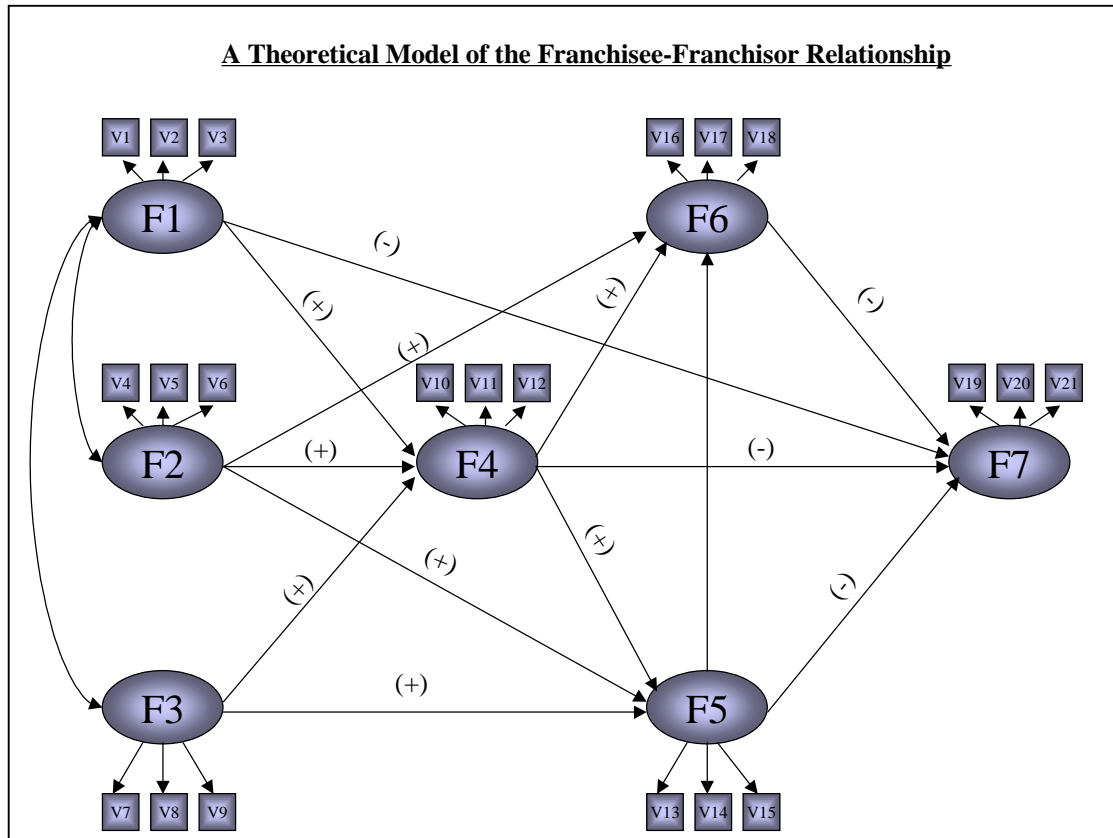
Table 5. 13**Fit Indices for Competing Models**

Model	χ^2	<i>df</i>	χ^2/df	GFI	CFI	NFI	NNFI	RMSEA
Null Model	2496.33	210	11.88					
G-Factor Model	818.62	189	4.33	.727	.731	.680	.702	.126
Seven Factor(Fix)	520.24	170	3.06	.813	.847	.792	.811	.101
Seven Factor (Covary)	429.39	168	2.56	.841	.886	.838	.857	.087

Note : G-Factor model is one general factor model.

Fix model is constrained model.

Covary model is unconstrained (correlated) model.



F1: Motivation F2: Evaluation F3: Brand Name F4: Quality Relationship F5: Performance
 F6: Satisfaction F7: Commitment

Figure 5.1

A Theoretical Model of the Franchisee-Franchisor Relationship

5.4 Scale Development: Reliability and Validity Analyses

One of the most important advantages offered by latent variables analysis is the opportunity that they provide to assess the reliability and validity of a study's variables (Hatcher, 1994). In the present study, confirmatory procedures were used to test the measurement properties of all constructs prior to examining the hypothesized structural models (Anderson and Gerbing, 1988). Broadly speaking, reliability refers to the consistency of measurement. On the other hand, validity refers to the extent to which an instrument measures what it is intended to measure. In this study, the result of a CFA using CALIS (SAS Institute Ins., 1989) assessed items reliability, composite reliability, variance extracted estimates, convergent validity, and discriminant validity.

The reliability of indicator variables are defined as the square of the correlation between a latent factor and their indicator (Hatcher, 1994). This reliability indicates the percent of variation of the indicator that is explained by the factor that it is supposed to measure (Long, 1983). Items within each scale were summed to arrive at a respondent's scale score. The Cronbach's alpha (Cronbach, 1951) was calculated to determine the internal consistency of each scale. Reliability measures and information pertaining to the scales, presented in Table 5.4 through Table 5.10, show the reliabilities ranged from .737 to .888, and thus are adequate for research purposes (Nunnally, 1978).

Composite reliability and variance extracted estimates were the primary statistics used to assess the properties of the hypothesized constructs (Fornell and Larcker, 1981). The composite reliabilities statistics estimate the internal consistency of a latent

construct, similarly to a coefficient alpha (Fornell and Larcker, 1981). Because the hypothesized personality structure was based on a previous exploratory factor analysis using correlations obtained among variables (Gough, 1987), a reliability estimate similar to the coefficient alpha is considered appropriate (Bollen and Lennox, 1991).

Fornell and Larcker (1981) also stress the importance of examining composite reliabilities and the variance extracted. Bagozzi and Yi (1988) suggest two criteria; composite reliability should be greater than or equal to .60, and variance extracted should be greater than or equal to .50. For this study, all seven composite reliabilities were greater than .70 and five of the variance extracted were greater than or equal to .50 except for two that were less satisfactory (see Table 5.12). Furthermore, the variance extracted in each measure exceeded the respective correlation estimate between factors, which provided evidence of discriminant validity (Fornell and Larcker, 1981).

The variance-extracted statistic estimates the proportion of variance explained by a construct, compared to the variance due to random measurement error. As such, it serves as an estimate of the convergent validity of a construct's indicator variables. Table 5.12 provides the estimates for each construct, in addition to the standardized loadings and the reliabilities of each construct indicator. All indicators were statistically significant ($t > 7, p < .001$).

Convergent validity and discriminant validity are usually associated with the use of the multitrait, multimethod (MTMM) approach to validation (Campbell and Fiske, 1959), in which multiple constructs are each assessed using more than one assessment method. Convergent validity is demonstrated when different instruments are used to measure the same construct, and the scores from these different instruments are strongly

correlated. A strong correlation suggests that both instruments are measuring what they are intended to measure (Hatcher, 1994). In this study, convergent validity is assessed by reviewing the t tests for the factor loadings. The standardized factor loadings from this study and t tests for these loadings are presented Table 5.12. The results indicated that the t values for these twenty-one indicators ranged from 7.26 to 16.12. These t values are all significantly different from zero at $p < .001$ (because all indicators' t values exceeded the critical t of 3.29 for $p = .001$), which satisfies the criteria for convergent validity.

Discriminant validity is demonstrated when different instruments are used to measure different constructs, and the correlations between the measures of these constructs are relatively weak. The MTMM approach provides a relatively strong test of discriminant validity (Hatcher, 1994). Unfortunately, these tests could not be repeated for the present franchisee-franchisor relationship model, as multiple methods were not used to assess the different constructs. Nonetheless, some evidence regarding discriminant validity may be obtained from this analysis.

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

between the pair of factors being tested (Anderson and Gerbing, 1988; Bagozzi, 1980, p.142).

With the chi-square difference test, the discriminant validity of two constructs was assessed by eliminating the standard measurement model in which all factors were allowed to covary, creating a new measurement model identical to the previous one, except that the correlation between two factors of interest was fixed at 1, and the chi-square difference statistic was computed for the two models.

In this study, for correlations among the exogenous variables, F1 (motivation) and F2 (evaluation) were selected. These two constructs were so strongly correlated that it was reasonable to question whether or not two different constructs were being measured at all. The summary table indicates the chi-square for the models (Table 5.13). The difference in chi-square was 90.85. To determine whether this value is statistically significant, since there were 2 *df* associated with the chi-square difference test, the critical values of chi-square were 9.21 at $p = .01$, 13.82 at $p = .001$. The observed chi-square difference value was 90.85, therefore the difference between the two models was clearly significant at $p < .001$.

Fornell and Larcker (1981) suggest that discriminant validity can be assessed by determining whether the variance extracted estimates for two constructs are greater than the square of the parameter estimate between them (ϕ^2). In this study, the correlation between F2 and F5 was .542, and the square of this correlation was .293 (see Appendix B p. 211). Variance extracted estimates were calculated earlier, and appear in Table 5.12. The variance extracted estimates were .530 for F2 (Evaluation), and .535 for F5 (Performance). Because the variance extracted estimates for both F2 and F5 were larger

than the square of the interfactor correlation, this test supports the discriminant validity of the two factors.

The discriminant validity of the scales were assessed using confirmatory factor analysis procedures (Anderson and Gerbing, 1988). The results of each pair-wise construct comparison suggested that the seven-factor solution was better than the single factor solution (Table 5.13).

Overall, the fact that all *t* tests were significant showed that all indicators were effectively measuring the same construct (Anderson and Gerbing, 1988). As evidence of convergent validity, the measurement factor loadings were all significant (*t* values between 7.26 to 14.03); the construct reliabilities were large (ranging from .725 to .835), and the average variance extracted (AVE) (Fornell and Larcker, 1981) indicated that in each case, the variance captured by the construct was greater than the variance due to measurement error (AVEs ranging between .487 to .618) (Table 5. 12).

Each multiple-item indicator was considered simultaneously to provide for the fullest test of convergent and discriminant validity. Therefore, the measures were adequate for further analysis.

5.5 Structural Models

Because the sample size was modest, manifest structural model were evaluated, rather than latent structure models using the CALIS procedure in SAS. The issue of sample size remains an active debate in the structural equation modeling literature (Brannick, 1995; Kelloway, 1995, Williams, 1995). With smaller samples ($N < 150$) there is a danger of obtaining nonconvergent solutions, even for more highly specified

models (Anderson and Gerbing, 1988). With large samples ($N > 400$), trivial discrepancies can lead to rejection of a satisfactory model since absolute indices of fit are prone to influence by sample size (Bollen, 1989; Loehlin, 1992).

The measurement model assessed whether all items in a given scale represented the same latent factor. Then only those items were aggregated that reflected a common construct in order to derive unidimensional composite scales for the structural model tests (Anderson and Gerbing, 1988). To evaluate the structural model, Bollen's (1990) recommendation for interpreting multiple indices of model fit was followed. CALIS fit statistics were reviewed, such as the chi-square test and root-mean-square residual (RMSR). To supplement these indices, the normed fit index (NFI; Bentler and Bonett, 1980) was examined, because, unlike the chi-square test, it has been shown to be less biased in small samples (Bentler, 1989). The goodness-of-fit index (GFI; Joreskog and Sorbom, 1993) was also considered, as well as the comparative fit index (CFI; Bentler, 1990), both of which are relatively stable in samples smaller than 250 (Hu and Bentler, 1995).

Path analysis was performed to test the theoretical model presented Figure 1 (Appendix A, p. 196). All analyses were conducted using the SAS System's CALIS procedures. These analyses used the maximum likelihood method of parameter estimation, and all analyses were performed on the variance-covariance matrix.

5.5.1 Initial Theoretical Model

The adequacy of a structural model is determined by a chi-square test. This test evaluates how well the covariance matrix implied by the model fits the covariance matrix

of the observed data. However, because the chi-square test is heavily influenced by sample size (Bollen and Long, 1994), several fit indices have been proposed as aids to model fitting (Joreskog and Sorbom, 1989; Bentler, 1992).

Although estimation of this model revealed a significant model chi-square value, $\chi^2 (5, N = 210) = 20.06, p = .0012$, other fit statistical values exceeded .90, except for AGFI, indicating the good fit of the model. Modifications were attempted that would improve the model's fit. The most appropriate fit index is the Comparative Fit Index (CFI) because it has a small sampling variability, and it is unaffected by sample size (Bentler, 1990). For validity purpose, fit indices with values of less than .90 have not been considered acceptable (Bentler, 1990; Hays et al., 1994).

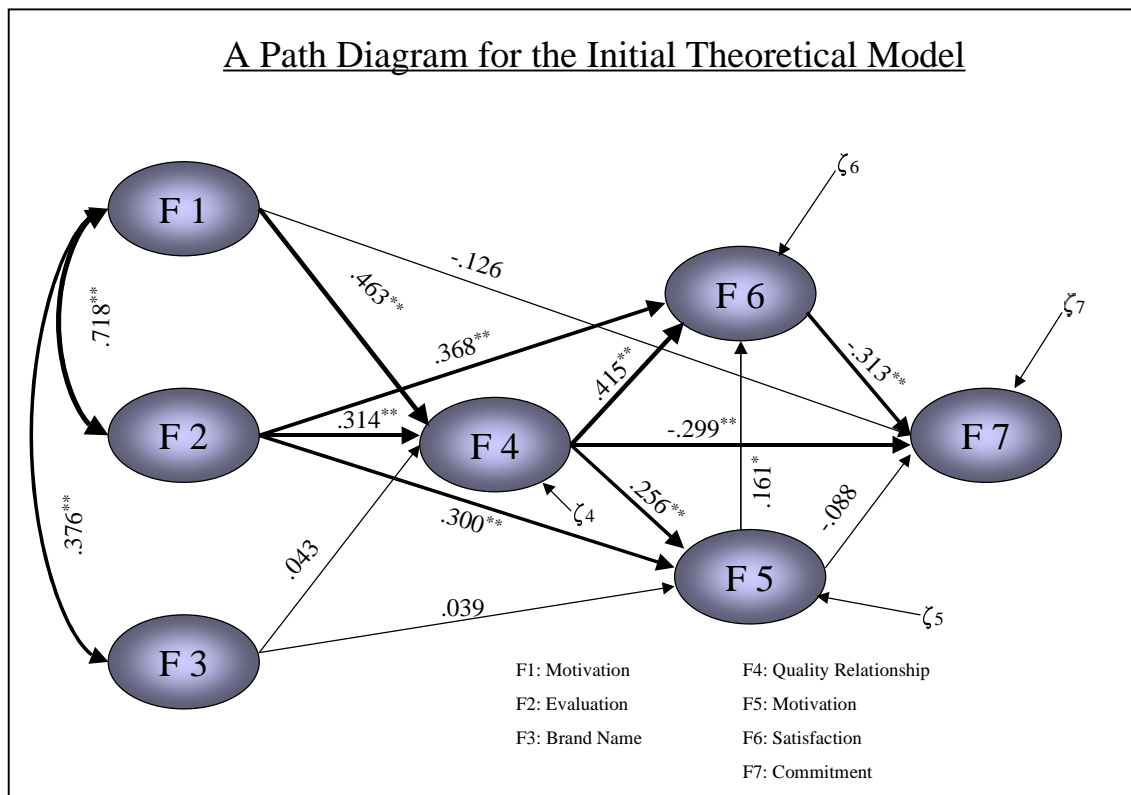
Figure 5.2 displays standardized path coefficients for the theoretical model. Fitting the hypothesized model to the data resulted in acceptable goodness of fit indices. First, the path coefficients were reviewed to see if any of the paths in the initial model should be deleted.

The t values for all path coefficients proved to be statistically significant at $p < .05$, except for from Brand Name to Quality of the Relationship, Brand Name to Performance, Performance to Commitment, and Motivation to Commitment. All standardized path coefficients exceeded .30 (except for from Quality Relationship to Performance) in absolute magnitude, indicating that they were meaningful in size (Billings and Wroten, 1978). However, a review of the model's residuals revealed that the distribution of normalized residuals was asymmetrical, and that one normalized residual was relatively large (in excess of 2.0). The largest normalized residual was 2.27 for the Motivation – Satisfaction Relationship. This same relationship also demonstrated

a significant Lagrange Multiplier test (Bentler, 1989) (10.37, $p < .001$) indicating that the model could be significantly improved by adding a path from Motivation to Satisfaction. Model modifications can be assisted by the use of two tests, the Wald test, and the Lagrange Multiplier test (Hatcher, 1994). Although these post-hoc modifications are heavily influenced by chance (MacCallum, Roznowski and Necowitz, 1992), they could provide insight to variations in the original model (Hays et al., 1994).

Therefore, the model was revised by adding paths from Motivation to Satisfaction and from Brand Name to Commitment. Some of the existing paths were eliminated from the initial model. The resulting model was termed “the revised model.” Adding such a path would be consistent with the prediction from cognitive dissonance theory (Festinger, 1957), in that individuals often adjust their attitudes so that their attitudes will be consistent with their behaviors.

Because its addition and deletion could be justified on theoretical grounds, paths from Motivation to Satisfaction and from Brand Name to Commitment were added to the initial model, and paths from Brand Name to Quality of the Relationship, Brand Name to Performance, Performance to Commitment, and Motivation to Commitment, were deleted from the initial model. The resulting model, called “the revised model,” was then re-estimated.



Note: * $p < .05$, ** $p < .01$

Figure 5.2

A Path Diagram for the Initial Theoretical Model

5.5.2 Revised Model

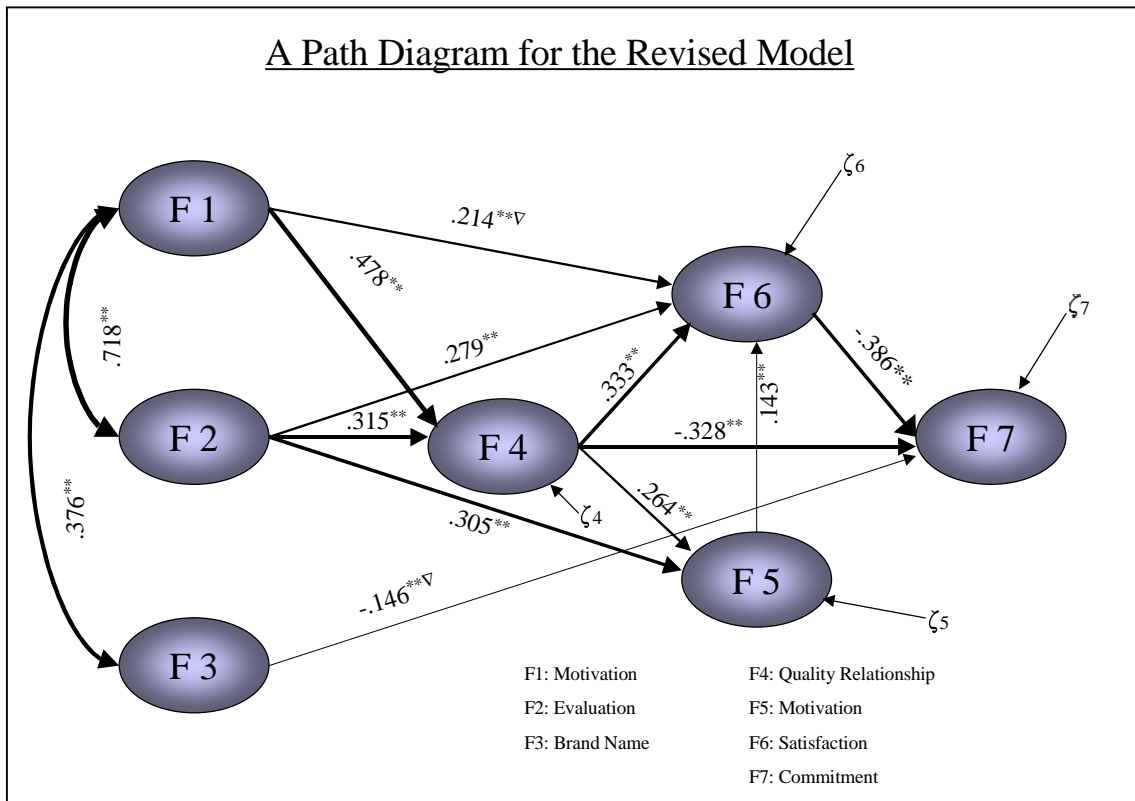
The goodness of fit indices for the revised model are also presented in Table 5.14. By comparing the chi-square statistic for the revised model, it was possible to perform a chi-square difference test to determine whether the addition of the new path resulted in a significant improvement in the model's fit. This difference test was computed as $20.06 - 7.85$. With $df = 2$, the chi-square difference statistic of 12.21 was significant ($p < .01$), indicating that the revised model provided a superior fit to the data (Table 5.14). Under some circumstances, a significant model chi-square suggests a good model fit. Furthermore, other indices for fits of this model all exceeded .95, indicative of a best fit.

Goodness of fit indices in Table 5.14 show that the revised model provided a very good fit to the data. The model chi-square statistic was nonsignificant, $\chi^2 (7, N = 210) = 7.85$, $p = .346$, and the GFI, AGFI, CFI, NFI, and NNFI all exceeded .95, and RMR below .05. The analysis revealed R^2 values of .545 for Quality of the Relationship, .269 for Performance, .670 for Satisfaction, and .521 for Commitment (see Table 5.14).

Path coefficients for the revised model are presented in Figure 5.3. All coefficients were significant at $p < .01$ or lower.

It is argued here that the revised model should be accepted as the "final model" identified by this investigation. Even the revised model demonstrated a nonsignificant model chi-square test, only this statistic does not provide a valid test of model fit in most applied situations, therefore it should be viewed more as a general goodness of fit index rather than as a statistical test (Joreskog and Sorbom, 1989). In support of the revised model, the GFI and CFI and NFI and NNFI were closer to 1, indicating a good-to-superior fit between the model and the data.

The results for the overall path model are presented in Figure 5.3. They indicate that the model shows a good fit to the data.. Since the goodness-of-fit indices exceed .95, and χ^2 is nonsignificant at the .001 level, the overall structure of the path model is supported, and the individual path coefficient can be meaningfully interpreted (Hair et al., 1995).



Note: * $p < .05$, ** $p < .01$
 ∇ The signs of this path were not as hypothesized.

Figure 5.3

A Path Diagram for the Revised Model

Table 5. 14**Goodness of Fit Indices for the Various Models**

Model	χ^2	<i>df</i>	<i>p</i>	GFI	AGFI	CFI	NFI	NNFI
Null Model	809.07	21						
Initial Model	20.06	5	.0012	.974	.855	.981	.975	.920
Revised Model ^a	7.85	7	.3464	.989	.956	.999	.990	.997

Note: *N* = 210. GFI = Goodness fit index; AGFI = Adjusted goodness fit index; CFI = Comparative fit index; NFI = Normed fit index, NNFI = Non-normed fit index.

^a Identical to the initial model, except that a path from the Brand Name to the Quality of the Relationship, Brand Name to Performance, Motivation to Commitment, and Performance to Commitment was deleted, and a path from Motivation to Satisfaction, Brand Name to Commitment was added.

Squared Multiple Correlations

Variables	Error Variance	Total Variance	R-squared ^a
F4	.798	1.754	.545
F5	1.625	2.224	.269
F6	.463	1.403	.670
F7	.929	1.941	.521

Note: ^a All values were significant at *p* < .01.

5.5.3 Analysis of Hypotheses

The hypotheses were tested using CALIS path analysis. Path analysis was used so that the overall causal model could be tested and the direct and indirect effects of the exogenous variables could be specified. This analysis included a test of the overall path model as well as individual tests of the hypothesized relationships between constructs. The structural equations for the path model were estimated using the maximum likelihood (ML) method.

The results offered strong support for the hypothesized model relationships. The results of the tests of the hypothesized relationships between constructs are presented in Table 5.15. These show, as hypothesized, that commitment was negatively affected by satisfaction (*Hypothesis 6*), and the quality of the relationship (*Hypothesis 4c*). Commitment was negatively affected by brand name, which was a result that was not as hypothesized. As hypothesized, satisfaction was positively affected by performance (*Hypothesis 5a*), quality of the relationship (*Hypothesis 4b*), and evaluation (*Hypothesis 2a*). Satisfaction was positively affected by motivation, which was not as hypothesized. Also as hypothesized, performance was positively affected by the quality of the relationship (*Hypothesis 4a*), and evaluation (*Hypothesis 2c*). Finally as hypothesized, the quality of the relationship was positively affected by evaluation (*Hypothesis 2b*), and motivation (*Hypothesis 1a*). Four hypothesized paths were not supported. Brand name in a section did not significantly affect either the quality of the relationship (*Hypothesis 3a*) or performance (*Hypothesis 3b*) and performance also did not significantly affect commitment (*Hypothesis 5b*). Finally, motivation did not significantly impact on commitment (*Hypothesis 1b*).

Hypothesis 1.a: A higher level of franchisee motivation leads to a higher quality of the relationship between the franchisee and the franchisor.

As indicated by the standardized path coefficient of .478 and the t value of 7.13 ($p < .01$), as shown in Appendix B (pp. 213 – 214), the hypothesis was supported by the data. The findings indicated that motivation to be a franchisee does affect the quality of the relationship between the franchisee and the franchisor. Therefore, a higher motivation to be franchisee should result in higher quality of the relationship.

Hypothesis 1.b: Franchisee motivation is negatively related to the franchisee's commitments.

The standardized coefficient of -.147 and t value of -1.81 were not significant at $p < .05$ level. This hypothesis was not supported by the data.

Hypothesis 1.c: Franchisee motivation for choosing a franchise is positively correlated to the perceived quality of the franchisor's support.

The correlation among the exogenous variables of .718 and a t value of 9.46, significant at $p < .01$ level, indicated that franchisee motivation is strongly related to the perceived quality of the franchisor's support.

Hypothesis 1.d: Franchisee motivation for choosing a franchise is positively correlated to the perceived brand value of the franchisor.

The correlation among exogenous variables of .376 and t value of 7.59, significant at $p < .01$ level, indicated that franchisee motivation is positively related to the perceived brand value of the franchisor.

Hypothesis 2.a: The quality of franchisor support is positively related to the franchisee's job satisfaction.

The standardized path coefficient for the relationship of H_{2a} equals .279 and the *t* value of 4.52, significant at $p < .01$ level, indicate that the perceived higher level in the quality of franchisor support has a positive effect on job satisfaction. Thus, a higher evaluation should result in higher job satisfaction for the franchisee.

Hypothesis 2.b: A perceived higher level in the quality of franchisor support leads to a higher quality of the relationship between the franchisee and the franchisor.

The path coefficient of .315 and the *t* value of 4.70 were significant at $p < .01$., indicating that this hypothesis was supported by the data. The findings indicate that the perceived level in the quality of the franchisor's support has an effect on a quality relationship between the franchisee and franchisor.

Hypothesis 2.c: The quality of franchisor support is positively related to the franchisee's performance.

The standardized path coefficient of .305 and the *t* value of 3.88, significant at the $p < .01$ level, indicate that the perceived level in the quality of the franchisor's support has a positive effect on a quality relationship between the franchisee and franchisor.

Hypothesis 3.a: Brand value is positively related to the quality of the relationship between the franchisee and the franchisor.

The path coefficient of .043 and a t value of .86 are not significantly different from zero. Brand name was not found to be related to a quality relationship between the franchisee and franchisor.

Hypothesis 3.b: Brand value is positively related to the franchisee's job performance.

The path coefficient of .039 and a t value of .62 are not significant at the .05 level, indicating that brand name does not affect franchisee's job performance.

Hypothesis 4.a: A higher level of quality in the franchisee-franchisor relationship leads to a higher level of franchisee job performance.

The path coefficient of .264 and a t value of 3.36 were significant at $p < .01$. This supports the theory (LMX) that a quality relationship between the franchisee and franchisor has a significant direct effect on the franchisee's job performance.

Hypothesis 4.b: A higher level of quality in the franchisee-franchisor relationship leads to a higher level of franchisee job satisfaction.

The path coefficient of .333 and a t value of 5.54 were significant at $p < .01$. This supports the theory (LMX) that a quality relationship between the franchisee and franchisor has a significant direct effect on the franchisee's job satisfaction.

Hypothesis 4.c: The quality in the franchisee-franchisor relationship is negatively related to the franchisee's commitment.

The path coefficient of $-.328$ and a t value of -4.63 were significant at $p < .01$. This supports the theory (LMX) that a quality relationship between the franchisee and franchisor has a significant direct effect on the franchisee's commitment to quit.

Hypothesis 5.a: Franchisee's job performance is positively related to the franchisee's job satisfaction

The path coefficient of $.143$ and a t value of 3.07 were significant at $p < .01$. The findings concerning H_{5a} suggest job performance positively affects the franchisee's job satisfaction.

Hypothesis 5.b: Franchisee's job performance is negatively related to the franchisee's commitment.

The path coefficient of $-.088$ and a t value of -1.53 are not significant at the $.05$ level, indicating that job performance does not affect the franchisee's commitment to quit.

Hypothesis 6: Franchisee's job satisfaction is negatively related to the franchisee's commitment.

The path coefficient of $-.386$ and a t value of -4.11 were significant at $p < .01$. The findings concerning H_6 suggest that job satisfaction negatively affects the franchisee's commitment. Thus, increased perceptions of job satisfaction decrease the franchisee's commitment to quit.

Other Results

SEM produced other significant results. First, the path from motivation to satisfaction suggests a significant positive relationship (.213, $p < .01$). And, the path from brand name to commitment suggests a significant negative relationship (-.146, $p < .01$).

Table 5. 15**Summary of Hypotheses Tests**

	Hypothesis	Results
H1a.	A higher level of franchisee motivation leads to a higher quality of the relationship between the franchisor and franchisee.	Supported
H1b.	Franchisee motivation is negatively related to the franchisee's commitment.	Not Supported
H1c.	Franchisee motivation for choosing a franchise is positively correlated to the perceived quality of the franchisor's support.	Supported
H1d.	Franchisee motivation for choosing a franchise is positively correlated to the perceived brand value of the franchisor.	Supported
H2a.	The quality of the franchisor's support is positively related to the franchisee's job satisfaction	Supported
H2b.	A perceived higher level in the quality of the franchisor's support leads to a higher quality relationship between the franchisor and franchisee.	Supported
H2c.	The quality of the franchisor's support is positively related to the franchisee's job performance.	Supported
H3a.	Brand value is positively related to the quality of the relationship between the franchisor and the franchisee.	Not Supported
H3b.	Brand value is positively related to the franchisee's performance.	Not Supported
H4a.	A higher level of quality in the franchisor-franchisee relationship leads to a higher level of the franchisee's performance.	Supported
H4b.	A higher level of quality in the franchisor-franchisee relationship leads to a higher level of the franchisee's job satisfaction.	Supported
H4c.	The quality in the franchisor-franchisee relationship is negatively related to the franchisee's commitment.	Supported
H5a.	Franchisee's performance is positively related to the franchisee's job satisfaction.	Supported
H5b.	Franchisee's performance is negatively related to the franchisee's commitment to the relationship.	Not Supported
H6.	Franchisee's job satisfaction is negatively related to the franchisee's commitment to the relationship	Supported

5.5.4 Direct and Total Effects

The structural model in SEM deals with the hypothesized relationships, direct or indirect, between the measured variables and the constructs (Hoyle and Smith, 1994). Empirical support for the links among constructs can be examined in two ways; as direct effects, and as total effects. The first way involves tests of significance for simple links with no intervening constructs. These tests of direct effects provide a more straightforward means of assessing whether the data supports the proposed relationships between pairs of constructs.

Table 5.16 shows that the results of both the hypothesized direct effects leading to commitment is significant; thus, commitment reflects a negative direct influence from satisfaction, the quality of the relationship, and not the hypothesized effects from brand name. Shifting backward in the flow of influence, satisfaction reflects a positive direct influence from motivation, evaluation, the quality of the relationship, and performance. And also, performance receives a direct effect from the quality of the relationship and evaluation, as proposed. The quality of the relationship has direct positive effects from motivation and evaluation, but not, as proposed, from brand name.

The statistical support for the direct links in the model appears substantial, given that each of the four endogenous constructs have significant influences from at least one antecedent construct. In addition, all of the constructs preceding commitment significantly affect at least subsequent the endogenous construct.

The second way to examine the empirical support for the proposed links employs the more complex total effects furnished by CALIS. These total effects combine the indirect effects with the direct effects presented Table 5.16. Indirect effects for a pair of

constructs occurs when additional, alternative paths of influence run through constructs that intervene between this pair. The total effects therefore present a more comprehensive indication of the influence of one construct on another than do the direct effects (Bollen, 1989).

In the present study, the indirect effects combine with the direct effects to form 15 significant total effects for the links that were hypothesized by the model. The revised model contained additional direct paths from one exogenous construct to commitment. The correlation between motivation and commitment resulted in significant relationships; the results of the multivariate test of this path were clear-cut. While all three of the exogenous variables were hypothesized to have an indirect effect on commitment, only one (motivation) was hypothesized to have direct effects but brand name have direct effects on commitment. Evaluation was not tested for direct effects because no relationships could be given as to how they might affect commitments independent of their impact on the quality of the relationship, performance, and satisfaction.

Although satisfaction has a strong influence on commitment, a large part of this effect is indirect through motivation, evaluation, and the quality of the relationship. The total influence (direct and indirect paths) of satisfaction on commitment was $-.454$, but the indirect effect (through motivation and the quality of the relationship) was $.360$; thus, these two constructs act as partial mediators of the effect of satisfaction on commitment. Although motivation is significant in structural model, its influence on commitment is minor when compared to satisfaction and the quality of the relationship. Finally, it is interesting to note that the quality of the relationship and satisfaction have total effects that rival those of commitment, and exceed that of motivation or evaluation. Collectively,

these antecedent variables exert a considerable influence (via their indirect effects, as shown in Table 5.16) in explaining variations in commitment.

The proposed model makes a number of implicit mediation predictions, such as satisfaction completely mediates the effects of the quality of the relationship, performance, and evaluation on commitment.

Table 5.16**Total Effects of Exogenous on Endogenous Variables**

	F1	F2	F3	F6	F5	F4
F4	.531	.335	.	.	.	.
F5	.158	.465	.	.	.	.297
F6	.388	.417	.	.	.113	.332
F7	-.360	-.305	-.248	-.454	-.052	-.496

Indirect Effects of Exogenous on Endogenous Variables

	F1	F2	F3	F6	F5	F4
F4	.	.	.	.	.	.
F5	.158	.100	.	.	.	.
F6	.176	.153	.	.	.	.034
F7	-.360	-.305	.	.	-.052	-.151

Table 5. 17 Scales Means, Standard Deviations, and Covariance

Variable	Mean	Std Dev
F1	4.47	1.19
F2	3.90	1.25
F3	5.85	.82
F4	4.18	1.32
F5	4.36	1.49
F6	4.40	1.19
F7	3.06	1.40

Covariance of Structural Model

	F1	F2	F3	F4	F5	F6	F7
F1	1.425						
F2	1.069	1.554					
F3	0.368	0.291	0.674				
F4	1.115	1.088	0.333	1.754			
F5	0.836	0.891	0.248	0.919	2.224		
F6	1.012	1.063	0.265	1.151	0.939	1.408	
F7	-0.999	-0.958	-0.403	-1.212	-0.938	-1.103	1.949

5.6 Summary

This chapter first examines the results of the statistical analyses performed on the restaurant franchisee survey. Profiles of the franchisees are developed. Next the empirical portion of the scale developed for the measures of each variable is presented and confirmatory factor analysis is employed to test the measurement models. Reliability and validity issues are examined. The process used in developing the final structural model is explained. SEM is used to test the hypothesized relationships of the theoretical model and the final model is presented with an analysis of direct and total effects. This analysis revealed that eleven of the fifteen hypothesized relationships were statistically significant. However, the path linking motivation to satisfaction and from brand name to commitment, which was not hypothesized in the initial theoretical model, was found significant. Thus, in addition to a direct effect of brand name on commitment, motivation was found to have an indirect effect on commitment through its effect on job satisfaction. The following chapter will discuss the major findings of these results, as well as their implication and limitations. It also suggests the directions for the future research.

CHAPTER 6

DISCUSSION AND CONCLUSIONS

This study applied social exchange theory to the franchisee-franchisor relationship setting, explored the factors affecting the quality of the relationship between franchisee and franchisor, and its impact on franchisee's performance, satisfaction, and commitment. This chapter will discuss the major findings of the study, the implications of those findings for franchising management applications, the implications for future research and the limitations of the study. The major findings of this study include topics relating to the measurement of concepts as well as the relationships among these concepts.

6.1 Major Findings

Both the concepts of the quality of the relationship and the commitment to the franchisor-franchisee relationship have gained prominence in franchising today. It is well recognized that the quality of the relationship plays a central role in initiating and managing the franchising relationship. However, remarkably little research has been done on the predictive effects of the relationship of franchising constructs to franchisee's perceived value. Consequently, we still know little about the mechanism through which a

quality relationship or relationship promoting practices enhance franchisee perceived value.

This study set out to develop a conceptual model that explains how relationship quality can affect franchisee's performance, job satisfaction, and commitment. The results of this study strongly support the hypothesized model, revealing the positive influence of franchisee motivation, and evaluation on the quality of the relationship between the franchisee and franchisor and also on performance, satisfaction and the negative influence of the quality of the relationship, performance, and satisfaction on the commitment. This study found that these constructs were substantially interrelated and were influenced by personality variables.

Of the 15 hypotheses put forward, only 4 were not fully supported, or were partially supported. The results show, for the first time, that the LMX paradigm can be applied to the franchise relationship situation. However, the relative effects of various structural linkages varies from those found in previous studies of the motivation to be a franchisee and franchisee satisfaction. Furthermore, the extended framework throws considerable light on the drivers of the evaluation of franchisor's support, the perception of the franchisor's brand name, and the quality of the relationship, as well as on the strong linkage between the quality of the relationship and satisfaction, and the quality of the relationship and commitments. Although some of the hypotheses were not supported (e.g. brand name), the inclusion of the motivation to be a franchisee variable, the evaluation of the franchisor's support variable, and quality of the relationship between the franchisee and the franchisor variable add a richness to our understanding of the determinant of the franchisee's performance, job satisfaction, and commitment.

The derived structural model confirms that franchisee's job satisfaction has a direct influence on the commitment, as hypothesized. The motivation to be a franchisee and the evaluation of the franchisor's support can be assessed with some confidence; the direct effect of the quality of the relationship was secondary to commitments. Only when the various indirect effects (via the quality of the relationship) are taken into account does satisfaction have a dominant influence. Results also point to the important role played by the level of the quality of the relationship between the franchisee and franchisor. In addition, because franchisees are usually the owners and managers of their businesses, the association between job satisfaction and performance may be an inherently strong relationship.

The findings in this study concerning commitment to remain in the franchise relationship are also noteworthy. They suggest positive rewards for the franchise organization whose policies are aimed at developing effective interpersonal relations with their franchisees and providing a business environment conducive to work satisfaction. These actions may encourage a sense of belonging and identification with the values and goals of the organization, as well as decreasing potentially costly turnover. Franchisors are concerned with selecting and retaining franchisees who will not only perform well as team players, but also who will remain with the franchise system. Franchisees may not only remain with the franchise system, but also work toward its success. To this end, franchisors should pay attention to providing work experiences associated with confirming expectations, organizational support, dependability, and fair treatment. All of these factors have been found to be helpful in fostering long-term affective commitment (Mowday, Porter, and Steers, 1982).

This study's findings suggest that there may be robust franchisee's perception factors associated with the way in which situational factors are interpreted. It is suggested that this study's findings make theory-driven methodological and substantive contributions to understanding the franchisee-franchisor relationship.

6.2 Limitations

As with any study, the present study has its limitations, including the limitations of time and financial considerations, and the nature of the research design.

First, perhaps the most potentially troubling limitation is that all constructs were based on data from self-reported sources. Thus, common-method bias might have inflated the parameter estimates among constructs. Typically, this may affect the measurement of attitudes in self-reported surveys, which contain both dependent and independent variables (Williams, Cote, and Buckley, 1989; Williams and Brown, 1994). Although not entirely ruling out bias due to common method variance, the data does suggest that these effects may not be significant in this study.

A second limitation in this study is that the validity of the data collected is a consequence of the respondents' understanding of the questions and willingness to answer them honestly. Even though the questionnaire was pretested and the respondents were promised anonymity, invalid data may be collected in any mail survey because the questions were misunderstood.

Third , the survey sample was predominantly made up of Caucasian males; thus, the generalizability of the results may be limited. However, time and financial constraints precluded a broader-based examination of the topic.

Fourth, because a complete listing of all franchisees is not currently available, tentative generalization about the population were based on a selected representative sample, broader generalization of the results would require a truly random sample of a defined population.

Fifth, the author collected data from only one side of the dyad. To what extent the franchisor's and franchisee's perceptions of relationship quality would converge is unknown. Therefore, it would be desirable to further investigate the bilateral value perception process and how the franchisor's value perceptions and the franchisee's value perceptions are related. In this study, only investigated the franchisees in the restaurant industry were investigated. This restricts the applicability of the results to a single industry. Both the relationship scale and the model need to be validated in other industries before generalizations can be made about other industries.

Lastly, one must be cautious in interpreting these findings due to non-response bias. The potential problem with non-response is the possibility that non-respondents will differ from respondents with respect to the survey variables, in which case the survey estimates will be biased.

6.3 Main Contribution of the Study and Suggestion for Further Research

The results of this study offer both theoretical and practical contributions to the improvement of the restaurant franchising industry. First, the final model supplies a franchisor with valuable information for establishing an effective management strategy to improve the relationship between franchisor and franchisee and to prevent turnover. This study provides an analysis of the predictors of a quality relationship between the franchisor and the franchisee. The final model will increase an understanding of the relationships between the predictors of a quality relationship, the franchisee's performance, the franchisee's satisfaction, and the franchisee's commitment to the relationship. Second, the predictors identified for this study will provide a useful tool for restaurant franchising companies to use in examining franchise satisfaction. Once the franchisor understands the variables leading to franchisee's satisfaction, changes can be implemented to reduce conflict and improve the overall performance of the franchisee.

The strength of this study is that a deliberate attempt was made to utilize well-regarded instruments that are extensively used in research. Past franchise-related studies have been plagued with definitional and measurement problems, which gives limited confidence in the results. For the scale that was developed, confirmatory factor analysis was used for construct validation, and reliabilities of all multi-item indices were examined to ensure the consistency of scores.

Apart from its methodological strengths and limitations, the present study makes a number of important contributions. This study is the first to examine the

interrelationships among the motivation to be a franchisee, the evaluation of franchisor's support, the perception of franchisor's brand name, the quality of the relationship, the franchisee's job performance, job satisfaction, and commitment to the relationship. Moreover, the results extend individual findings of past research in the franchise literature and provide initial support for a model of the consequences of franchisee satisfaction.

Future research using a more comprehensive measure of quality of the relationship would be useful and might include the measurement of franchisors in the relationship between franchisee and franchisor. Given the fact that the results of this study leave a significant amount of variance unexplained in the organizational outcomes, more comprehensive research on each of these constructs independently may also be beneficial. Lastly, research should also focus on the franchisor's personality and attitudes towards the franchisee, since it is the strategic partnership of these two parties which ensures effective franchise operations.

Another issue that could be addressed in future research would be to include actual turnover as the ultimate outcome of interest. This raises other questions regarding the appropriate time-frame to consider, as well as using a dichotomous, single-indicator variable in an otherwise completely latent model. It is also important to recognize that recent estimates indicate that the relationship between turnover commitments and actual turnover is only about .36, corrected for measurement error (Hom, Caranikas-Walker, Prussia, and Griffeth, 1992). The study has also shown that intention to quit is the single best predictor of actual turnover in organizations.

The present study contributes to a better understanding of the role of personality in organizational settings by means of several key findings. The first of these findings stems from the results of the measurement model test. The confirmatory factor analysis results of the hypothesized measurement model indicate a generally good fitting solution.

The findings from the structural model test also provide interesting insights into the role of perception of the franchise system in predicting work-related outcomes. The results of the study clearly support the notion that the quality of the relationship between the franchisee and franchisor play a pivotal role in enhancing relational outcomes. In a business era where building a lasting franchisee-franchisor relationship is critical, the knowledge that the motivation of the franchisee and the evaluation of the franchisor's support can affect these relationship is indeed useful to practitioners and academics. In general, it could be said that the data were consistent with the hypothesized relationships.

6.4 Summary and Conclusions

This study is likely to make conceptual contributions to the literature. First, it potentially adds to a better understanding of the formation of the franchisee's perceived value. As summarized, there are two general ways through which the quality of the relationship affects the franchisees perceived value: (1) The quality of the relationship directly increases job satisfaction and performance; and (2) The quality of the relationship reduces the franchisee's commitment to quit.

This study also attempted to offer a relatively complete definition of the quality of the relationship including the three dimensions of motivation, evaluation, and brand

name. This conceptual definition clearly captures the mutuality aspect of a franchisor-franchisee relationship. The measures for this construct performed acceptably on reliability and validity tests. Further, the validity of this construct and its scale were indicated by the fact that all paths emitting from this construct were supported. The criterion construct of the franchisee's commitment was explained by the franchisee's perception of the quality of the relationship, of the franchisee's perception of the level of performance, and perception of job satisfaction.

This study develops a model that describes what factors are the most important to the franchisee, how a high quality relationship differs from a low quality relationship, and how this relationship affects outcomes. This study is based on seven antecedent behavior constructs drawn from the literature of the franchisee-franchisor relationship. The test of the model provides strong empirical support for the pattern of influences it portrays. In particular, these findings confirm the social exchange construct that is theorized by LMX, which can also apply to the relationship between franchisor and franchisee.

REFERENCES

- Aaker, D. A. (1991). Managing Brand Equity, New York: Free Press.
- Aaker, D. A. and Keller, K. L. (1990). Consumer Evaluations of Brand Extensions. Journal of Marketing, 54 (January), 27-41.
- Agres, S. J. and Dubitsky, T. M. (1996). Changing needs for Brands. Journal of Advertising Research, 36(1), 21- 31
- Anderson, E. E. (1984). The Growth and Performance of Franchise Systems: Company vs. Franchisee Ownership. Journal of Economics and Business, 36, 421-431.
- Anderson, R. L., Condon, C. , and Dunkelberg, J. (1992). Are Franchisees Real Entrepreneurs? Journal of Business & Entrepreneurship, 4(1), 97-105.
- Anderson, J.C. and Gerbing, D.W. (1988). Structural equation modeling in practice: A review and recommended two-step approach. Psychological Bulletin, 103, 411-423.
- Arrow, K. J. (1969). The economics of agency. Reprinted in J. Pratt and R. Zeckhauser, eds., Principals and agents: The Structure of Business, Boston. MA: Harvard Business School Press, 1985, pp. 37-51.
- Ayling, D. (1988). Franchising in the U.K. Quarterly Review of Marketing, Summer, 19-24.
- Bagozzi, R. P. (1980). Causal Models in Marketing. New York: John Wiley.
- Bagozzi, R. P. and Phillips, L. W. (1982). Representing and Testing Organizational Theories: A Holistic Construal. Administrative Science Quarterly, 27, 459-489.

- Bagozzi, R. P. and Yi, Y. (1988). On the Evaluation of Structural Equation Models. Journal of Academy of Marketing Science, 16 (Spring), 74-94.
- Bagozzi, R. P. and Heatherton, T. F. (1994). A General Approach to Representing Multifaceted Personality Constructs: Application to state Self-esteem. Structural Equation Modeling, 1, 35-67.
- Banerji, S and Simon, C. J. (1992). Franchising versus Ownership. Working paper, University of Chicago.
- Baron, S. and Schmidt, R. (1991). Operational aspects of retail franchises. International Journal of Retail and Distribution Management, 19 (2), 13-19.
- Baucus D. A., Baucus M. S. , and Human S. E. (1993). Choosing a Franchise: How Base Fees and Royalties relate to the Value of the Franchise. Journal of Small Business Management, April, 91-104.
- Bauer, T. N. and Green, S. G. (1996). Development of leader-member exchange: A longitudinal test. Academy of Management Journal, 39 (6), 1538-1567.
- Bates, T. (1995). Analysis of Survival Rates among Franchise and Independent Small Business. Journal of Small Business Management, April, 26-36.
- Bearden, W. O. and Teel, J. E. (1983). Selected Determinants of Consumer Satisfaction and Dissatisfaction and Complaint Reports. Journal of Marketing Research, February, 21-28.
- Bentler, P.M. (1980). Multivariate Analysis with Latent Variables: Causal Modeling. Annual Review of Psychology, 31, 419-456.
- Bentler, P.M. (1985). Theory and Implementation of EQS: A Structural Equation Program. Los Angeles: BMDP Statistical Software.

- Bentler, P.M. (1989). EQS Structural Equations Program Manual. Los-Angeles, CA: BMDP Statistical Software.
- Bentler, P.M. (1990). Comparative Fit Indexes in Structural Models. Psychological Bulletin, 107, 238-246.
- Bentler, P.M. (1992). EQS Structural Equations Program Manual. Los-Angeles, CA: BMDP Statistical Software.
- Bentler, P.M. and Bonett, D.G. (1980). Significance tests and goodness-of-fit in the analysis of covariance structures. Psychological Bulletin, 88, 588-606.
- Bentler, P.M. and Chou, C.P. (1987). Practical issues in structural modeling. Sociological Methods and Research, 16, 78-117.
- Bergen, M., Dutta, S. and Walker, O. C. (1992). Agency relationships in marketing: A review of the implications and applications of agency and related theories. Journal of Marketing, 56 (July), 1-24.
- Berry, L. L., Zeithaml, V. A., and Parasuraman, A. (1985). Quality Counts in Services, Too. Business Horizons, 28 (May/June), 44-52.
- Billings, R. S. and Wroten, S. P. (1978). Use of path analysis in industrial/organizational psychology: Criticism and suggestions. Journal of Applied Psychology, 63, 677-688.
- Blair, R. D. and Kaserman, D. L. (1982). Optimal Franchising. Southern Economic Journal, October, 494-504.
- Blau, P. M. (1967). Exchange and Power in Social Life. New York: Wiley.
- Bluedorn, A. C. (1978). A Taxonomy of Turnover. Academy of Management Review, July, 647-651.

- Bluedorn, A. C. (1982). A Unified Model of Turnover from Organizations. Human Relations, 36, 135-153.
- Bojanic, D. C. (1996). Consumer Perceptions of Price, Value and Satisfaction in the Hotel Industry: An Exploratory Study. Journal of Hospitality & Leisure Marketing, 4 (1), 5-22.
- Bollen, K. A. (1989). A New Incremental Fit Index for General Structural Equations Models. Sociological Methods and Research, 17, 303-316.
- Bollen, K. A. (1990). Overall fit in Covariance Structure Models: Two types of Sample Size Effects. Psychology Bulletin, 107, 256-259.
- Bollen, K. A. and Lennox, R. (1991). Conventional Wisdom on Measurement: A Structural Equation Perspective. Psychology Bulletin, 110, 305-314.
- Bollen, K. A. and Long, J. S. (1994). Testing-Structural Equation Models. Newbury Park, CA: Sage
- Borys, B. and Jemison, D. B. (1989). Hybrid Arrangement as Strategic Alliances: Theoretical Issue. Academy of management, 14 (2), 234-250.
- Bradach, J. L. (1992). The Organization of the Franchise Relationship: The Role of the Franchise Consultant. In Proceedings Annual Meeting of the Society of Franchising edited by Kaufmann.
- Bradach, J. L. (1997). Using the plural form in the management of restaurant chains. Administrative Science Quarterly, 42 (2), 276-303.
- Bradach, J. L. and Eccles, R. G. (1989). Price, Authority and Trust: From Ideal Types to Plural Forms. Annual Review of Sociology, 15, 97-118.
- Bradach, J. L. and Kaufmann, P. (1988). Franchisee or Independent Business person: Some Observations on the Decision Process. Research at the Marketing/Entrepreneurship

- Interface, University of Illinois, Chicago, 38-48.
- Brannick, M. T. (1995). Critical Comments on Applying Covariance Structure Modeling. Journal of Organizational Behavior, *16*, 201-213.
- Brickley, J. A., and Dark, F. H. (1987). The Choice of Organization Form: The Case of Franchising. Journal of Financial Economics, *18*, 401-420
- Brickley, J. A., Dark, F. H., and Weisbach, M. S. (1991). An agency perspective on franchising. Financial Management, *20* (1), 27-35.
- Broniarczyk, S. M. and Alba, J. W. (1994). The Importance of Brand in Brand Extension. Journal of Marketing, *31* (May), 214-228.
- Brown, J. R. (1981). A cross-channel comparison of supplier-retailer relations. Journal of Retailing, *57* (Winter), 3-18.
- Brown, J. R. and Day, R. L. (1981). Measures of Manifest Conflict in Distribution Channels. Journal of Marketing Research, August, 263-274.
- Brown, J. R., Lusch, R. F., and Nicholson, C. Y. (1995). Power and Relationship Commitment: Their Impact on Marketing Channel Member Performance. Journal of Retailing, *71* (4), 363-392.
- Burton, S., Lichtenstein, D. R., Netemeyer, R. G., and Garretson, J. A. (1998). A Scale for Measuring Attitude toward Private Label Products and an Examination of Its Psychological and Behavioral correlates. Journal of the Academy of Marketing Science, *26*(4), 293-306.
- Byrne, B. M. (1986). Specification Searches in Covariance Structure Modeling. Psychological Bulletin, *100*, 107-120.
- Byrne, B. M. (1989). A Primer of LISREL: Basic Applications and Programming for Confirmatory Factor Analytic Models. New York: Springer-Verlag.

- Byrne, B. M. (1994). Structural Equation Modeling with EQS and EQS/Windows: Basic Concepts, Applications, and Programming. Thousand Oaks, CA:Sage
- Byrne, B. M., Shavelson, R. J., and Muthen, B. (1989). Testing for the Equivalence of Factor Covariance and Mean Structures: The Issue of Partial Measurement Invariance. Psychological Bulletin, *105*, 456-466.
- Cadotte, E. R., Woodruff, R. L., and Jenkins, R. L. (1987). Expectations and Norms in Models of Customer Satisfaction. Journal of Marketing Research, *24* (August), 305-314.
- Campbell, D. T. and Fiske, D. W. (1959). Convergent and Discriminant Validation by the Multitrait-multimethod Matrix. Psychological Bulletin, *56*, 81-105.
- Candilis, W. O. (1978). The Growth of Franchising. Business Economics, 15-19.
- Carmines, E. G. and Zeller, R. A. (1979). Reliability and Validity Assessment. No. 7 in series: Quantitative Applications in the Social Science, Sage Publication, Beverly Hills.
- Carmines, E. G. and Zeller, R. A. (1988). Reliability and Validity Assessment. Beverly Hills: Sage.
- Carney, M., and Gedajlovic, E. (1991). Vertical Integration in Franchise System: Agency Theory and Resource Explanations. Strategic Management Journal, *12*, 607-629.
- Carsten, J. M. and Spector, P. E. (1987). Unemployment, Job Satisfaction, and Employee Turnover: A Meta-Analytic Test of the Muchinsky Model. Journal of Applied Psychology, *72*, 374-381.
- Casciari, M. A., and Drizner, P. S. (1996). A Case Study: Who is the Employer. Franchising World, May/June, 28-30.
- Castleberry, S. B. and Tanner, J. F. (1986). The Manager-Salesperson Relationship: An Exploratory Examination of the Vertical-Dyad Linkage Model. Journal of Marketing

- Research, 30 (August), 63-77.
- Castrogiovanni G. J., Bennett, N. , and Combs J. G. (1995). Franchisor Types: Reexamination and Clarification. Journal of Small Business Management, January, 45-54.
- Castrogiovanni G. J., Justis, R. T., and Julian S. D. (1993). Franchise Failure Rates: An Assessment of Magnitude and Influencing Factors. Journal of Small Business Management, April, 105-114.
- Caves, R. E., and William, F., and Murphy, H. (1976). Franchising: Firms, Markets, and Intangible assets. Southern Economic Association, 42, 572-586.
- Chintagunta, P. K. and Jain, D. (1992). A Dynamic Model of Channel Member Strategies for Marketing Expenditures. Marketing Science, 11 (2), 168-189.
- Churchill, G. A. and Suprenant, C. (1982). An Investigation into the Departments of Consumer Satisfaction. Journal of Marketing Research, November, 491-504.
- Churchill, G. A., Ford, N. M. Jr., and Walker, O. C. Jr. (1974). Measuring the Job Satisfaction of Industrial Salesmen. Journal of Marketing Research, 11 (August), 254-260.
- Churchill, G. A., Ford, N. M. Jr., and Walker, O. C. Jr. (1976). Organizational Climate and Job Satisfaction in the Salesforce. Journal of Marketing Research, 13 (November), 323-332.
- Churchill, G. A., Ford, N. M. Jr., and Walker, O. C. Jr. (1979). Personal Characteristics of Salespeople and Attractiveness of Alternative Rewards. Journal of Business Research, 7 (1), 25-50.
- Churchill, G. A., Ford, N. M. Jr., Hartley, S., and Walker, O. C. Jr. (1985). Determinants of Sales Performance: A Meta-Analysis. Journal of Marketing Research, 22 (May), 103-118.
- Clegg, C. W. (1983). The Psychology of Employee Lateness, Absence, and Turnover. Journal of Applied Psychology, 68, 88-101.

- Clopton, S. W. (1984). Seller and Buying Firm Factors Affecting Industrial Buyers' Negotiation Behavior and Outcomes. Journal of Marketing Research, 21(February), 39-53.
- Cobb-Walgren, C. J., Ruble, C. A., and Donthu, N. (1995). Brand equity, brand preference, and purchase intent. Journal of Advertising, 24 (3), 25-41.
- Combs, J. G., and Castrogiovanni, G. J. (1994). Franchisor Strategy: A Proposed Model and empirical Test of Franchise vs. Company Ownership. Journal of Small Business management, April , 37-48.
- Cook, K. S. (1986). Social Exchange Theory. SAGE Publications.
- Cotton, J. and Tuttle, J. (1986). Employee Turnover: A Meta-Analysis and Review with Implications for Research. Academy of Management Review, 11(1), 55-70.
- Crant , J. M. (1996). The Proactive Personality Scale as a Predictor of Entrepreneurial Commitments. Journal of Small Business Management, July, 42-49.
- Crimmins, J. C. (1992). Better Measurement and Management of Brand Value. Journal of Advertising Research, 32 (July/August), 11-19.
- Cronbach, L. J. (1951). Coefficient Alpha and the Internal Structure of Tests. Psychometrika, 16, 297-334.
- Crosby, L. A., Evans, K. R., and Cowles, D. (1990). Relationship Quality in Services selling: An Interpersonal Influence perspective, Journal of Marketing, 54(July), 68-81.
- Curran, J. and Stanworth, J. (1983). Franchising in the modern economy towards a theoretical understanding. International Small Business Journal, 1, 53-60.
- Dansereau, F., Graen, G. B., and Haga, W. J. (1975) A vertical dyad linkage approach to leadership within formal organizations: A longitudinal investigation of the role making process. Organizational Behavior and Human Performance, 13, 46-78.

- Dant, R. P. (1995). Motivation for Franchising: Rhetoric vs. Reality. International Small Business Journal, 14 (Winter), 10-32.
- Dant, R. P., Kaufmann, P. J., and Paswan, A. K. (1992). Ownership Redirection in Franchised Channels. Journal of Public Policy & Marketing, 11(1), 33-44.
- Dant, R. P., Paswan, A. K., and Kaufmann, P. J. (1996). What We know about Ownership Redirection in Franchising: A Meta-Analysis. Journal of Retailing, 72, 429-444.
- Dant, S. P. (1996). Ownership Structure in Franchising: the Effects of Transaction Costs, Production Costs and Strategic Considerations. The International Review of Retail, Distribution and Consumer Research, 52-75.
- Day, D. V., Bedeian, A. G., Conte, J. M. (1998). Personality as Predictor of Work-Related Outcomes: Test of a Mediated Latent Structural Model. Journal of Applied Social Psychology, 28, 2068-2088.
- Deluga, R. J. (1998). Leader-Member Exchange Quality and Effectiveness Ratings. Group & Organization Management, 23 (2), 189-216.
- DelVecchio, S. K. (1996). Predicting sales manager control: A comparison of control-system and leadership approaches. Journal of Applied Business Research, 12 (4), 100-114.
- DelVecchio, S. K. (1998). The quality of salesperson-manager relationship: The effect of latitude, loyalty and competence. The Journal of Personal Selling & Sales Management, 18 (1), 31-47.
- Dev, C. and Brown, J.R. (1991). Franchising and Other Operating Arrangements in the Lodging Industry: A Strategic Comparison. Hospitality Research Journal, 23-41.
- Dienesch, R. M. and Liden, R. C. (1986). Leader-member exchange model of leadership: A critique and further development. Academy of Management Review, 11, 618-634.

- Doll, W. J., Raghunathan, T. S., Lim, J., and Gupta, Y. P. (1995). A Confirmatory Factor Analysis of the User Information Satisfaction Instrument. Information System Research, 6(2), 177-189.
- Duarte, N. T., Goodson, J. R., and Klich, N. R. (1993). How do I like thee? Let me appraise the ways. Journal of Organizational Behavior, 14, 239-249.
- Duarte, N. T., Goodson, J. R., and Klich, N. R. (1994). Effects of Dyadic Quality and Duration on Performance Appraisal. Academy of Management Journal, 37, 499-521.
- Dubinsky, A. J. and Hartley, S. W. (1986). A Path-Analytic Study of a Model of Salesperson Performance. Academy of Marketing Science, 14 (1), 36-46.
- Dunchon, D., Green, S. G., and Taber, T. D. (1986). Vertical dyad linkage: A longitudinal Assessment of Antecedents, Measures, and Consequences. Journal of Applied Psychology, 71, 56-60.
- Dunegan, K. J., Duchon, D., and Uhi-Bien, M. (1992). Examining the Link between Leader-Member Exchange and Subordinate Performance: The Role of Task Analyzability and Variety as Moderators. Journal of Management, 18, 59-76.
- Eden, D. (1990a). Pygmalion without interpersonal contract effects: Whole groups gain from raising manager expectation. Journal of Applied Psychology, 75, 394-398.
- Eden, D. (1990b). Acute and Chronic Job Stress, Strain, and Vacation Relief. Organizational Behavior and Human Decision Process, 45 (April), 175-193.
- Eden, D. (1992). Leadership and Expectations: Pygmalion Effects and other self-fulfilling Prophecies in Organizations. Leadership Quarterly, 3, 271-305.
- Eden, D. and Shani, A. B. (1982). Pygmalion goes to boot camp: Expectancy, leadership, and trainee performance. Journal of Applied Psychology, 67, 194-199.

- Edens, F. N, Self, D. R., and Grider, D. T. (1976). Franchisors Describe Ideal Franchisee. Journal of Small Business Management (July), 39-47.
- Ekeh, P. P. (1974). Social Exchange Theory. Harvard University Press, Cambridge, MA.
- Elaine, E. and Lord R. G. (1997). Implicit Theories, Self-schemas, and Leader-Member Exchange. Academy of Management Journal, 40 (4), 988-1010.
- Elango, B. and Fried, V. H. (1997). Franchising research: A literature review and synthesis. Journal of Small Business Management, 35 (3), 68-81.
- Ellen, W., Brodt, S. E., Korsgaard, A. and Werner, J. M. (1998). Managers as initiators of trust: An exchange relationship framework for understanding managerial trustworthy behavior. Academy of Management, 23 (3), 513-530.
- Engel, J. F., Kollat, D. T., and Blackwell R. D. (1973). Consumer Behavior, Second Edition. Chicago, Holt, Rinehart, and Winston.
- Engel, J. F., Blackwell, R. D., and Miniard, P. W. (1990). Consumer Behavior, 6th Edition, The Dryden Press, Chicago, IL.
- Engle, E. M. and Lord, R. G. (1997). Implicit theories, self-schemas, and leader-member exchange. Academy of Management Journal, 40 (4), 988-1010.
- English, W., Josiam, B., Upchurch, R. S., and Willemw, J. (1996). Restaurant Attrition: A Longitudinal Analysis of Restaurant Failures. International Journal of Contemporary Hospitality Management, 17-20.
- Erickson, E. H. (1950). Childhood and Society. New York: Norton.
- Ewing, M. T., Fowlds, D. A., and Shepherd, Ian R. B. (1995). Renaissance: A case study in brand revitalization and strategic realignment. The Journal of Product and Brand Management, 4 (3), 19-27.

- Farquhar, P. H. (1989). Managing Brand Equity. Marketing Research, 1, 24-33
- Felstead, A. (1994). Shifting the frontier of control: Small firm autonomy within a franchise. International Journal of Small Business, 12 (2), 50-62,
- Festinger, L. (1957). A Theory of Cognitive Dissonance. Stanford, CA:Stanford University Press.
- Fiol, C. L. and Lyles, M. A. (1985). Organizational Learning. Academy of Management Review, 10 (40), 803-813.
- Flint, D. J., Woodruff, R. B., and Gardial, S. F. (1997). Customer Value Change in Industrial Marketing Relationships: A Call for New Strategies and Research. Industrial Marketing Management, 26, 165-173.
- Fornell, C. and Larcker, D. F. (1981). Evaluating Structural Equation Models with unobservable Variables and Measurement Error. Journal of Marketing Research, 18, 39-50.
- Forward, J. , and Fulop, C. (1993). Elements of a Franchise: The Experiences of Established Firms. The Service Industry Journal, 13 (4), 159-178.
- Forward, J., and Fulop, C. (1996). Large Established Firms' Entry into Franchising: an Exploratory Investigation of Strategic and Operational Issues. The International Review of Retail, Distribution and Consumer Research, 34-51.
- Frazier, G. L. (1983a), On the Measurement of Interfirm Power in Channels of Distribution. Journal of Marketing Research, May, 158-166.
- Frazier, G. L. (1983b), Interorganizational Exchange Behavior in Marketing Channels: A Broadened perspective. Journal of Marketing, 47, 74-75.
- Frazier, G. L., Gill, J. D., and Kale, S. H. (1989). Dealer Dependence Levels and Reciprocal Actions in Channels. Journal of Marketing, 53 (1), 50-70.

- Frick, J. G. (1996). Restrictions on the termination of franchise agreements: a foreigner's view. Commercial Law Journal, 101 (1), 81-99.
- Fulop, C. and Forward, J. (1997). Insight into franchising: A review of empirical and theoretical perspectives. The Service Industries Journal, 17 (4), 603-625.
- Gaski, J. F. (1984). The Theory of Power and Conflict in Channels of Distribution. Journal of Marketing, 48 (Summer), 9-29.
- Gaski, J. F. (1986). Interrelationships Among a Channel Entity's Power Sources: Impact of Reward and Coercion on Expert, Referent, and Legitimate Power Sources. Journal of Marketing Research, February, 62-77.
- Gaski, J. F. and Nevin, J. (1985). The Differential Effects of Exercised and Unexercised Power Sources in a Marketing Channel. Journal of Marketing Research, May, 130-142.
- Gerbing, D. W. and Anderson, J. C. (1992). Monte Carlo Evaluations of Goodness of Fit Indices for Structural Equations Models. Sociological Methods and Research, 21, 132-160.
- Gergen, K. J., Greenberg, M. S., and Willis, R. H. (1980). Social Exchange: Advances in Theory and Research. Plenum Press, New York.
- Goodman, J. (1980). Franchisor-franchisee conflicts of interest as perceived by selected non-food franchisees. Ph. D. Dissertation Abstracts International, NY: New York University.
- Gough, H. G. (1987). The California Psychological Inventory Administrator's Guide. Palo Alto, CA: Consulting Psychologist Press.
- Graen, G. B., Orris, J. B., and Johnson, T. w. (1973). Role assimilation processes in a complex organization. Journal of Vocational Behavior, 3, 395-420.
- Graen, G. B. and Cashman, J. (1975). A role-making model of leadership in formal organizations: A developmental approach. In J. G. Hunt & L. L. Larson (Eds.),

- Leadership frontiers:143166. Kent State University Press.
- Graen, G. B., and Schiemann W. (1978). Leader-Member Agreement: A Vertical Dyad Linkage Approach. Journal of Applied Psychology, 63 (April), 206-212.
- Graen, G. B., Liden, R. C., and Hoel, W. (1982). The Role of Leadership in Employee Withdrawal Process. Journal of Applied Psychology, 67, 868-872.
- Graen, G. B., Novak, M. A., and Sommerkamp, P. (1982). The Effects of Leader-Member Exchange and Job Design on Productivity and satisfaction: Testing a Dual Attachment Model. Organizational Behavior and Human Performance, 30 (August), 109-131.
- Graen, G. B., Scandura, T. A., and Novak, M. A. (1986). When Manager Decide not to Decide Autocratically: An Investigation of Leader-Member Exchange and Decision Influence. Journal of Applied Psychology, 71 (4), 579-584.
- Graen, G. B., and Scandura, T. A. (1987). Toward a psychology of dyadic organizing. Research in Organizational Behavior, 9, 175-208.
- Graen, G. B., and Uhi-Bien, M (1995). Relationship-based approach to leadership: Development of leader-member exchange (LMX) theory of leadership over 25 years: Applying a multi-level multi-domain perspective. Leadership Quarterly, 1, 1-23.
- Graen, G. B., Wakabayashi, M., Graen, M. R., and Graen, M. G. (1990). International Generalizability of American Hypotheses about Japanese Management Progress: A Strong Inference Investigation. Leadership Quarterly, 1, 1-23.
- Grewal, D., Monroe, K. B., and Krishnan, R. (1998). The effects of price-comparison advertising on buyers' perceptions of acquisition value, transaction value, and behavioral commitments. Journal of Marketing, 62 (2), 46-58.
- Gronroos, C. (1983). Strategic Management and Marketing in the Service Sector. Boston: Marketing Science Institute.

- Guiltinan, J. P., Rejab, I. B., and Rodgers, W. C. (1980). Factors Influencing Coordination in a Franchise Channel. Journal of Retailing, 56 (3), Fall, 41-58.
- Hair, J. F., Anderson, R. E., Tatham, R. L., Black, W. C. (1995). Multivariate Data Analysis with Readings. Englewood Cliffs, NJ: Prentice Hall.
- Harvey, R. J., Billings, R., and Nilan, K. J. (1985). Confirmatory Factor Analysis of the Job Diagnostic Survey: Good News and Bad News. Journal of Applied Psychology, 70 (3), 461-468.
- Hatcher, L. (1994). A Step by Step Approach: To Using the SAS System for Factor Analysis and Structural Equation Modeling. Cary, NC: SAS Institute Inc.
- Hayduk, L. (1987). Structural Equation Modeling with LISREL. Baltimore, MD: John Hopkins Press.
- Hayek, F. A. (1989). The Collected Works of F. A. Hayek. Chicago, IL: University of Chicago Press.
- Hays, R. D., Marshall, G. N., Wang, E. Y., and Sherbourne, C. D. (1994). Four-year Cross-lagged Associations between physical and Mental Health in the Medical Outcomes Study. Journal of Consulting and Clinical Psychology, 62, 441-449.
- Heath, A. (1976). Rational Choice & Social Exchange. Cambridge University Press, London.
- Herold, D. M. (1977), Two-Way Influence Processes in Leader-Follower Dyads. Academy of Management Journal, 20 (2), 224-237.
- Hing N. (1995). Franchisee Satisfaction: Contributors and Consequences. Journal of Small Business Management, April, 12-25.
- Hing N. (1996). Maximizing Franchisee Satisfaction in the Restaurant Sector. International Journal of Contemporary Hospitality, August, 24-31.

- Hite, C. F., Hite, R. E., and Minor, T. (1991). Quality Uncertainty, Brand Reliance, and Dissipative Advertising. Academy of Marketing Science, 19 (2), 115-122.
- Hoffman, R. C., and Preble, J. F. (1991). Franchising : Selecting a Strategy for Rapid Growth. Long Range Planning, 24 (4), 74-85.
- Hom, P. W., Caranikas-Walker, F., Prussia, G. E., and Griffeth, R. W. (1992). A Meta-Analytical Structural Equation Analysis of Model of Employee Turnover. Journal of Applied Psychology, 77, 890-909.
- Hough, J. L. (1986). Power and Authority and their Consequences in Franchise Organizations: A Study of the Relationship between Franchisors and Franchisees. London. Ph. D. University of Westminster.
- Hoyle, R. H. (1995). Structural Equation Modeling: Concepts, Issues, and Applications. Thousand Oaks, CA: Sage.
- Hoyle, R. H. and Smith, G. T. (1994). Formulating Clinical Research Hypotheses as Structural Equation Models: A Conceptual Overview. Journal of Consulting and Clinical Psychology, 62, 429-440.
- Hu, L. and Bentler, P. M. (1995). Evaluating Model Fit. In R. H. Hoyle (Ed.), Structural Equation Modeling: Concepts, Issues, and Applications. Thousand Oaks, CA: Sage.
- Huddleston, P. and Cassill N. L. (1990). Female Consumers' Brand Orientation: The Influence of Quality and Demographics. Home Economic Research Journal, 18 (3), 255-262.
- Hughes, M. A., Price, R. L., and Marrs, D. W. (1986). Linking Theory Construction and Theory Testing: Models with Multiple Indicators of Latent Variables, Academy of Management, 11 (1), 128-145.
- Hunt, S. D. (1972). The Socioeconomic Consequences of the Franchise System of Distribution. Journal of Marketing, 36, 32-38.

- Hunt, S. D. (1973). The Trends Toward Company-Operated Units in Franchise Chains. Journal of Retailing, 49 (2), Summer, 3-12.
- Hunt, S. D., and Nevin, J. R. (1974). Power in a Channel of Distribution: Sources and Consequences. Journal of Marketing Research, XI (May), 186-193.
- Hunt, S. D., and Nevin, J. R. (1975). Tying Agreements in Franchising. Journal of Marketing, 39 (July), 20-26.
- Hunt, S. D., and Nevin, J. R. (1976). Full Disclosure laws in Franchising: An Empirical Evaluation. Journal of Marketing, 40 (April), 61.
- Hunt, S. D. (1977). Franchising: Promises, Problems, Prospects. Journal of Retailing, 53(3), Fall, 71-84.
- Iaffaldano, M. T. and Muchinsky, P. M. (1985). Job satisfaction and job performance: A Meta-analysis. Psychological Bulletin, 97, 251-273.
- International Franchise Association. (1995). Franchise Fact sheet. Washington D.C.: International Franchise Association.
- International Franchise Association. (1996). Franchise Opportunities Guide. Washington D.C.: International Franchise Association.
- International Franchise Association Educational Foundation (1992). Franchising in the Economy 1988-1990, Washington D. C.: IFAEF
- International Note (1995). Franchising Systems Around the Globe: A Status Report. Journal of Small Business Management, April, 80-88.
- James, L. R., Mulaik, S. A., and Brett, L. M. (1982). Causal analysis: Assumptions, models, and data. Beverly Hills, CA:Sage.

- Jensen, M. C. and Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. Journal of Financial Economics, 3, 305-360.
- Jesitus, J. (1998). Franchising survey finds soaring satisfaction levels. Hotel and Motel Management, 213 (9), May 18, 48-50.
- Joreskog, K. G. and Sorbom, D. (1989). LISREL 7: A Guide to the Program and Applications. Chicago: SPSS Inc.
- Joreskog, K. G. and Sorbom, D. (1993a). LISREL 8: Structural Equation Modeling with the SIMPLIS Command Language. Hillsdale, NJ. SSI Inc.
- Joreskog, K. G. and Sorbom, D. (1993b). New Features in LISREL 8. Chicago: SSI Inc.
- Joreskog, K. G. and Sorbom, D. (1996). LISREL 8: User's Reference Guide. Chicago, IL SSI Inc.
- Julian, S. D., Castrogiovanni, G. J. (1995). Franchisor Geographic Expansion. Journal of Small Business Management, April, 1-11.
- Justis, R. T. and Judd, R. (1986). Master franchising: a new look. Journal of Small Business Management, 24 (3), 16-21.
- Justis, R. T. and Judd, R. (1989). Franchising. South-western Publishing Co., Cincinnati, Ohio.
- Justis, R. T. and Chan, P. S. (1991). Training for Franchise Management. Journal of Small Business Management, July, 87-91.
- Justis, R. T., Olsen, J. E., and Chan, P. S. (1993). Using marketing Research to Enhance Franchisee/Franchisor Relationship. Journal of Small Business Management, 31, 121-127.
- Kamakura, W. and Russell, G. (1993). Measuring Brand value with Scanner Data. International Journal of Research in Marketing, 10 (March), 9-22.

- Kaufmann, D. (1990a). New York Franchise Act Celebrates 10th Anniversary. New York Law Journal, September 5, 1.
- Kaufmann, D. (1990b). Franchising is alive and well, so let's kill it. New York Law Journal, September 25, 2.
- Kaufmann, P. J. and Stern, L. W. (1988). Relational exchange norms, perceptions of unfairness and retained hostility in commercial litigation. Journal of Conflict Resolution, 32 (3), 534-552.
- Kaufmann, P. J. and Leibenstein, H. (1988). International Business Format Franchising and Retail Entrepreneurship: A Possible Source of Retail Know-How for Developing Countries. Journal of Development Planning, 18, 165-182.
- Kaufmann, P. J. and Rangan, V. K. (1990). A Model for Managing System Conflict During Franchise Expansion. Journal of Retailing, 66 (2), 155-173.
- Kaufmann, P. J., and Dant, R. P. (1996). Multi-Unit Franchising : Growth and Management Issues. Journal of Business Venturing, 11, 343-358.
- Kaufmann, P. J., and Stanworth, J. (1995). The Decision to Purchase a Franchise: A Study of Prospective Franchisees. Journal of Small Business Management, October, 22-31.
- Kee, H. W. and Knox, R. E. (1969). Conceptual and Methodological Considerations in the Study of Trust and Suspicion. Conflict Resolution, 14 (3), 357-366.
- Keller, K. L. (1993). Conceptualizing, Measuring, and Managing Customer-based Brand Equity. Journal of Marketing, 57 (January), 1-22.
- Keller, K. L. (1998). Strategic Brand Management: Building, Measuring, and Managing Brand Equity. Upper Saddle River, NJ: Prentice Hall

- Kelloway, E. K. (1995). Structural Equation Modeling in Perspective. Journal of Organizational Behavior, 16, 215-224.
- Kerin, R. A. and Sethuraman, R. (1998). Exploring the brand value-shareholder value nexus for consumer goods companies. Academy of Marketing Science, 26 (4), 260-273.
- Khan, M. A. (1992). Restaurant Franchising, New York, NY, Van Nostrand Reinhold.
- Kirmani, A. and Wright, P. (1989). Money Talks: Perceived Advertising Expense and Expected product quality. Journal of Consumer Research, 16 (December), 344-353.
- Klein, B. (1980). Transaction Cost Determinants of 'Unfair' Contractual Arrangements. American Economic Review Papers and Proceedings, 70, 356-362.
- Klein, B., and Saft, L. F. (1985). The Law and Economics of Franchise Tying Contracts. Journal of Law & Economics, 28, May, 345-361.
- Klein, H. J. and Kim J. (1998). A field study of the influence of situational constraints, leader-member exchange, and goal commitment on performance. Academy of Management Journal, 41 (1), 88-95.
- Knight, R. M. (1983). A Comparison of Franchisees and Independent Entrepreneurs. Frontiers of Entrepreneurial Research, 167-179.
- Knight, R. M. (1984). The Independence of the Franchise Entrepreneur. Journal of Small Business Management, 22 (2), 53-61.
- Knight, R. M. (1986). Franchising from the Franchisor and Franchisee points of view. Journal of Small Business Management, 24 (3), 8-15.
- Korman, A. K. (1968). Task Success, Task Popularity, and Self-esteem as Influences on Task Linking. Journal of Applied Psychology, 52, 484-490.

- Korman, A. K. (1970) Toward an Hypothesis of Work Behavior. Journal of Applied Psychology, 54, 31-41.
- Kozlowski, S. and Doherty, M. L. (1989). Integration of Climates and Leadership: Examination of a Neglected Issue. Journal of Applied Psychology, 74, 546-553.
- Krueger, A. B. (1991). Ownership, Agency, and Wages: An Examination of Franchising in the Fast Food Industry. The Quarterly Journal of Economics, February, 75-100.
- Lafontaine F. (1992). Agency Theory and Franchising: Some Empirical Results. RAND Journal of Economics, 23 (2), Summer, 263-283.
- Lafontaine F, and Kaufmann P. J. (1994). The Evolution of Ownership Patterns in Franchise Systems. Journal of Retailing, 70 (2), 97-113
- Lagace, R. R. (1990). Leader-Member Exchange: Antecedents and Consequences of the Cadre and Hired Hand. Journal of Personal Selling & Sales Management, 10 (February), 11-19.
- Lal, R. (1990). Improving Channel Coordination through Franchising. Marketing Science, 9, 299-318.
- Leach, P. (1994). The Stoy Hayward Guide to Family Business, 2d ed. London, England: Stoy Hayward / Horwath International.
- Leblebici, H. , and Shalley, C. E. (1996). The Organization of Relational Contracts: The Allocation of Rights in Franchising. Journal of Business Venturing, 11, 403-418.
- Lehtinen, J. R. and Lehtinen, U. (1982). Service Quality: A Study of Quality Dimensions. Unpublished working paper. Helsinki: Service Management Institute.
- Levitt, T (1986). The Marketing Imagination, New York: The Free Press.

- Lewis, M. C. and Lambert, D. M. (1991). A Model of Channel Member Performance, Dependence and Satisfaction. Journal of Retailing, 67 (2), 205-222.
- Liden, R. C. and Graen, G. (1980), Generalizability of the Vertical Dyad Linkage Model of Leadership. Academy of Management Journal, 23 (3), 451-465.
- Liden, R. C., Wayne, S. J., and Stilwell, D. (1993). A longitudinal study on the early development of leader-member exchanges. Journal of Applied Psychology, 78, 662-674.
- Lillis, C. M., Narayana C. L., and Gilman J. L. (1976). Competitive Advantage Variation over the Life Cycle of a Franchise. Journal of Marketing, 77-80.
- Locke, E. A. (1968). Toward a theory of task motivation and incentives. Organization Behavior and Human Performance, 3, 157-189.
- Locke, E. A. (1976). The Nature and Consequences of Job satisfaction, in Handbook of Industrial and Organizational Psychology, M.D. Dunnette, ed., Chicago: Rand McNally Publishing Company.
- Loehlin, J. (1992). Latent Variables Models. Erlbaum, Hillside, NJ.
- Loken, B. and John, D. R. (1993). Diluting Brand Beliefs: When Do Brand Extensions Have Negative Impact? Journal of Marketing, 57 (3), 71-84.
- Long, J. S. (1983). Confirmatory Factor Analysis: A Preface to LISREL. Beverly Hills, CA: Sage.
- Louviere, J. and Johnson, R. (1988). Measuring Brand Image with Conjoint Analysis and Choice Models. Measuring and Managing Brand Equity: A Conference Summary, report No. 88-104, Lance Leuthesser, ed., Cambridge, MA: Marketing Science Institute, 20-22.
- Lusch, R. F. (1976). Sources of Power: Their impact on intrachannel conflict. Journal of Marketing Research, 13, (November), 382-390.

- Lusch, R. F. (1977). Franchisee Satisfaction : Causes and Consequences. International Journal of Physical Distribution, 7 (3), 128-140.
- Lusch, R. F. and Brown, J. R. (1996). Interdependency Contracting, and Relational Behavior in Marketing Channels. Journal of Marketing, 60 (October), 19-38.
- MacCallum, R. C. and Browne, M. W. (1993) The Use of Causal Indicators in Covariance Structure Models: Some Practical Issues. Psychological Bulletin, 114, 533-541.
- MacCallum, R. C., Roznowski, M., and Necowitz, L. B. (1992). Model Modifications in Covariance Structure Analysis: The Problem of Capitalization on Chance. Psychological Bulletin, 111, 490-504.
- Mahajan, V., Rao, V., and Srivaetava, R. (1990). Development , Testing, and Validation of Brand Equity Under Conditions of Acquisition and Divestment. Managing Brand Equity: A Conference Summary, Report No. 91-110, Eliot Maltz, ed., Cambridge, MA: Marketing Science Institute, 14-15.
- Mancuso, J., and Boroian, D. (1993). How to Buy and Manage a Franchise. Simon & Schuster, New York.
- Markland, R. E., and Furst, R. W. (1974). A Conceptual Model for Analysing Discrete Alternative Franchising Portfolios: Design and Validation. Operational Research Quarterly, 25, 267-281.
- Marsh, H. W., Balla, J. R., and McDonald, R. P. (1988). Goodness-of-fit Indexes in Confirmatory Factor Analysis: The Effect of Sample Size. Psychological Bulletin, 103, 391-410.
- Martin, E. (1996). Franchise. Colorado Business, March, 32-39.
- Martin, R. E. (1988). Agency Theory and Franchising: Some Empirical Results. RAND Journal of Economics, 23 (2), Summer, 263-283.

- Maslyn, J. M., Farmer, S. M., and Fedor, D. B. (1996). Failed upward influence attempts: Predicting the nature of subordinate persistence in pursuit of organizational goals. Group & Organization Management, 21 (4), 461-480.
- Mathewson, G. F. , and Winter, R. A. (1985). The Economics of Franchise Contracts. Journal of Law & Economics, 28, October, 503-526.
- Mayo, D., Robicheaux, R., and Ferrell, E. (1989). Franchisee satisfaction: Its Relationship to the Contractual Agreement, unpublished manuscript.
- McIntyre, F., Gilbert, F. and Young, J. (1994). Franchising: A Strategic Perspective. 8th Conference of the Society of franchising, Nevada.
- Miller, J. A. (1977). Studying Satisfaction, Modifying Models, Eliciting Expectations, Posing Problems, and Making Meaningful Measurements. Conceptualization and Measurement of Consumer Satisfaction and Dissatisfaction, H. Keith Hunt, ed. Bloomington, IN: School of Business, Indiana University, 72-91.
- Minkler, A. P. (1990). An Empirical Analysis of a Firm's Decision to Franchise. Economic Letters, 34, 77-82.
- Mishra, D. P., Heide, J. B., and Cort, S. G. (1998). Information asymmetry and levels of agency relationships. Journal of Marketing Research, 35 (3), 277-295.
- Mobley, W. H. (1982). Employee Turnover causes, Consequences and Control. Reading, Mass.: Addison-Wesley.
- Mobley, W. H., Griffith, R. W., Hand, H. H., and Meglino, B. M. (1979). Review and Conceptual Analysis of the Employee Turnover Process. Psychological Bulletin, 86 (3), 493-521.
- Moorman, R. H. (1993). The influence of cognitive and affective based job satisfaction measures on the relationship between satisfaction and organizational citizenship behavior. Human Relations, 46 (6), 759-777.

- Morrison, K. A. (1995). Why Do Firms Franchise? A test of Two Theoretical perspectives. Journal of Small Business and Entrepreneurship, 12 (1), 84-100.
- Morrison, K. A. (1996). An Empirical Test of a Model of Franchisee Job satisfaction. Journal of Small Business Management, July, 27-41.
- Morrison, K. A. (1997). How franchise job satisfaction and personality affects performance, organizational commitment, franchisor relation, and commitment to remain. Journal of Small Business Management, 35 (July), 39-67.
- Mowday, R. T., Steers, R. M., and Porter, L. W. (1979). The Measurement of Organization Commitment. Journal of Vocational Behavior, 14, 224-247.
- Mowday, R. T., Porter, L. W, and Steers, R. M. (1982). Employee-Organizational Linkage: The psychology of commitment, absenteeism, and turnover. New York: Academic Press.
- Mumbleman J. (1996). The Franchise Relationship Channel. Franchising World, January/February, 20-24.
- Mulaik, S. A., James, L. R., Van Alstine, J. V., Bennett, N., Lind, S., and Stilwell, D. (1989). Evaluation of Goodness-of-fit indices for Structural Equation Models. Psychological Bulletin, 105, 430-445.
- Muller, C. C. (1998). Endorsed Branding. Cornell Hotel and Restaurant Administration Quarterly, 39(3), 90-96.
- Mueller, C. W. and Price, J. L. (1990). Economic, Psychological and Sociological determinants of Voluntary Turnover. The Journal of Behavior Economics, 19 (3), 321-335.
- Murray, M. (1986). Decisions: A comparative critique. DePaul University: Pitman Publishing.
- Meyer, J. P. and Allen, N. J. (1991). A Three-Component Conceptualization of Organizational Commitment. Human Resource Management Review, 1, 61-98.

- Meyer, J. P., Allen, N. J., and Smith, C. A. (1993). Commitment to Organizations and Occupations: Extension and Test of a Three-Component Conceptualization. Journal of Applied Psychology, 78 (4), 538-551.
- Nevin, J. R., Hunt, S. D., and Ruekert, R. W. (1980). The Impact of Fair Practice Laws on a Franchise Channel of Distribution. MSU Business Topics, Summer, 27-37.
- Norton, S. W. (1988). An Empirical Look at Franchising as an Organizational Form. Journal of Business, 61 (2), 197-217.
- Nunnally, J. (1978). Psychometric Theory, New York: McGraw-Hill.
- Oliver, R. L. (1974). Expectancy Theory Predictions of salesmen's Performance. Journal of Marketing Research, 11 (August), 243-253.
- Oliver, R. L. (1977). Effect of Expectation and Disconfirmation on Post-Exposure Product Evaluation: An Alternative Interpretation. Journal of Applied Psychology, 62 (April), 480-486
- Oliver, R. L. (1979). Product Dissatisfaction as a Function of Prior Expectation and Subsequent Disconfirmation: New Evidence. New Dimensions of Consumer Satisfaction and Complaining Behavior. Eds. Ralph L. Day and H. Keith Hunt. Bloomington: Indiana University, 66-71.
- Oliver, R. L. (1980). A Cognitive Model of Antecedents and Consequences of Satisfaction Decisions. Journal of Marketing Research, 17, November, 460-469.
- Oliver, R. L. (1981). Measurement and Evaluation of Satisfaction Processes in Retail Setting. Journal of Retailing, 57 (Fall), 25-48.
- Oliver, R. L. (1989). Processing of the Satisfaction Response in Consumption: A Suggested Framework and Research Propositions. Journal of Consumer Satisfaction, Dissatisfaction and Complaining Behavior, 2, 1-16.

- Oliver, R. L. (1993). A Conceptual Model of Service Quality and Service Satisfaction: Compatible Goals, Different Concepts. Advances in Service Marketing and Management: Research and Practice, Vol. 2, Teresa A. Swartz, David E. Bowen, and Stephen W. Brown, eds. Greenwich, CT.: JAI Press.
- Oliver, R. L. (1996). Varieties of Value in the Consumption Satisfaction Response. Advances in Consumer Research, 23, 143-147.
- Olson, J. C. (1976). Price as an Informational Cue: Effects on Product Evaluations. Working Series in Marketing Research, College of Business Administration. The Pennsylvania State University, paper No.43 (May).
- Onkvisit, S. and Shaw, J. (1989). Service Marketing: Image, Branding, and Competition. Business Horizons, 32 (1), 13-19.
- Oxenfeldt, A. R., and Kelly, A. O. (1968). Will Successful Franchise Systems Ultimately Become Wholly-Owned Chains? Journal of Retailing, 44 (4), 69-83.
- Oxenfeldt, A. R., and Thompson, D. N. (1968). Franchising in Perspective. Journal of Retailing, 44 (4), 69-83.
- Ozanne, U. B. and Hunt, S. D. (1971). The economic Effects of Franchising. U. S. Senate, Select Committee on Small Business, Committee Print, 92d Cong., 1st sess. Washington, D. C.: U. S. Government Printing Office.
- Parasuraman, A., Zeithaml, V., and Berry, L. (1985). A Conceptual Model of Service Quality and Its Implications for Future Research. Journal of Marketing, 49 (Fall), 41-50.
- Parasuraman, A., Zeithaml, V., and Berry, L. (1988). SERV-QUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality. Journal of Retailing, 64 (Spring), 12-40.

- Padmanabhan, K. H. (1988). Channel Control : Do Successful Franchise systems Ultimately Become Wholly-Owned Chains? The Journal of Midwest Marketing, 3(2), Fall, 17-36.
- Parsa, H. (1994). Exploratory Investigation of Organization Power, and its Impact on Strategy Implementation and firm Performance: A Study of the Hospitality Franchise Systems. Doctoral dissertation, Virginia Tech, VA
- Paulus, P. B. (1983). Basic Group Process. Springer-Verlag. New York.
- Pedhazur, E. J. and Schmelkin, L. P. (1991). Measurement, Design, and Analysis: An Integrated Approach. Hillsdale, NJ: Lawrence Erlbaum.
- Peterson, A. and Dant, R. (1990). Perceived Advantages of the Franchise Option from the Franchisees Perceptive: Empirical Insights from a Service Franchise. Journal of Small Business Management, 28 (July), 46-61.
- Ping, R. A. (1990). Responses to dissatisfaction in buyer seller relationships: Exit, voice, aggression, loyalty, and neglect. Doctoral dissertation, University of Cincinnati, Ohio.
- Porter, L. W. and Steers, R. M. (1973). Organizational, Work, and Personal Factors in Employee Turnover and Absenteeism. Journal of Applied Psychology, 80 (August), 151-176.
- Porter, J. L. and Renforth, W. (1978). Franchising Agreements: Spotting the Important Legal Issues. Journal of Small Business Management, 16 (October), 27-31.
- Porter, L. W. and Lawler, E. E. (1968). Managerial attitudes and performance. Homewood, IL: Irwin.
- Porter, L. W. and Steers, R. M., Mowday, R. T., and Boulian, P. (1974). Organizational Commitment, Job Satisfaction, and Turnover Among Psychiatric Technicians. Journal of Applied Psychology, 59 (5), 603-609.

- Price, J. L. and Muller, C. W. (1986). Handbook of organizational measurement. Marshfield, Massachusetts: Pittman Publishing.
- Purvin, R. (1994). The Franchise Fraud. New York: John Wiley & Sons, Inc.
- Quelch, J. A. and Ash, S. B. (1981). Consumer Satisfaction with Professional Services. Marketing of Services. Eds. James H. Donnelly and William R. George. Chicago: American marketing association, 82-85.
- Regulation of the Franchising Industry (1994a). Hearing before the Federal Trade Commission House Energy/Transportation and Hazardous Materials, 104th Cong., 2d Sess. (testimony of C. White).
- Regulation of the Franchising Industry (1994b). Hearing before the North American Securities Administrators Association House Energy/Transportation and Hazardous Materials Federal trade commission, 104th Cong., 2d Sess. (testimony of Steve Maxey).
- Richardson, P.S., Dick, A. S., and Jain, A. K. (1994). Extrinsic and Intrinsic Cue on Perceptions of Store Brand Quality. Journal of Marketing, 58 (October), 28-36.
- Rindfleisch, A. and Heide, J. B. (1997). Transaction cost analysis: Past, present, and future applications. Journal of Marketing, 61 (4), 30-54.
- Rizzo, J. R., House, R. J., Lirtzman, S. E. (1970). Role Conflict and Ambiguity in Complex Organizations. Administrative Science Quarterly, 15, 150-163.
- Robinson, L. M. (1979). Consumer Complaint Behavior: A Review with Implications for Further Research, New Dimensions of Consumer Satisfaction and Complaining Behavior, ed. Ralph L. Day and Hunt, H. K. Bloomington, Ind.: Indiana University.
- Rosenberg, L. J., and Stern, L. W. (1970). Toward the Analysis of Conflict in Distribution Channels: A Descriptive Model. Journal of Marketing, 34, 40-46.

- Rosenloom, B. (1973). Conflict and Channel Efficiency: Some Conceptual Models for the Decision maker. Journal of Marketing, 37, July, 26-30.
- Rosse, J. G., and Kraut, A. I. (1983). Reconsidering the Vertical Dyad Linkage Model of Leadership. Journal of Occupational psychology, 56, 63-71.
- Rubin, P. H. (1978). The Theory of the Firm and the Structure of the Franchise Contract. The Journal of Law and Economics, 21, 223-231.
- Russell, D. W., Kahn, J. H., Spoth, R., and Altmaier, E. M. (1998). Analysing Data from Experimental Studies: Illustration of a Latent Variable Structural Equation Modeling Approach. Journal of Counseling Psychology, 45, 18-29.
- Sanghavi, N. (1991). Retail franchising as a growth strategy for the 1990s'. International Journal of Retailing and Distribution Management, 19 (2), 4-9.
- SAS Institute Inc. (1989). SAS/STAT User Guide, Version 6, Fourth Edition, Volume 1. Cary, NC: SAS Institute Inc.
- Scandura, T. A., and Graen, G. B. (1984). Moderating Effects of Initial Leader-Member Exchange Status on the Effects of Leadership Intervention. Journal of Applied Psychology, 69 (3), 428-436.
- Scandura, T. A., Graen, G. B., and Novak, M. A. (1986). When managers decide not to decide autocratically: An investigation of leader-member exchange and decision influence. Journal of Applied Psychology, 71, 579-584.
- Schriesheim, C. A., Neider, L. L., and Scandura T. A. (1998). Delegation and Leader-member Exchange: Main Effects, Moderators, and Measurement Issues. Academy of Management Journal, 41 (3), 298-318.

- Schul, P. L. (1980). An Empirical Investigation of the Conflict Behavior Process in Franchise Channels of Distribution. Dissertation Abstracts International.
- Schul, P. L., Little, T. E., and Pride, W. M. (1985). Channel Climate: Its Impact on Channel Members' Satisfaction. Journal of Retailing, 61 (Summer), 9-38.
- Schuler, R. S. (1975). Role Perceptions, Satisfaction, and Performance: A Partial Reconciliation. Journal of Applied Psychology, 60 (December), 683-687.
- Schwab, D. L. and Cummings, L. L. (1970). Theories of performance and satisfaction. Industrial Relations, 9, 408-430.
- Schwab, D. L. and Cummings, L. L. (1976). A Theoretical Analysis of the Impact of Task Scope on Employee Performance. Academy of Management Review, 1 (June), 23-35.
- Scott S. G. (1998). Hearing it through the grapevine: The influence of source, leader-relations, and legitimacy on survivors' fairness perceptions. Personnel Psychology, 51(1), 25-54.
- Seid, M. S. (1988). Letter published in The Info Franchise Newsletter, 12, Info Press Inc.
- Seid, M. H. (1993). Franchising Thrives in the '90s. Stores, 68-79.
- Sen, K. C. (1991). Payment Design in Franchising. Doctoral Dissertation, Washington University in St. Louis. MO
- Sen, K. C. (1993). The Use of Initial Fees and Royalties in Business-format Franchising. Managerial and Decision Economic, 14, 175-190.
- Shane, S. and Spell, C. (1997). Exchanging new franchisor survival: A model and empirical test. In Winning Strategy for Franchising: Current Research and Future Directions, Proceedings of the 11th Conference of the Society of Franchising. Orlando, Florida, 1-40.

- Shane, S. and Spell, C. (1998). Factors for New Franchise Success. Sloan Management Review, 39 (3), 43-50.
- Sharkey, B. (1989). The People's Choice. Adweek's Marketing Week, 30 (November 27), 6-10.
- Sherman, A. J. (1991). Franchising and Licensing: Two Ways to Build Your Business Amacom, American Management Association.
- Shelton, J. P. (1967). Allocative Efficiency vs. X-efficiency: Comment. American Economic Review, 57, December, 1252-58.
- Shivell, K., and Banning, K. (1993). Running a Successful Franchise. McGraw Hill, Inc. NY.
- Shore, L. M. and Martin, H. J. (1989). Job Satisfaction and Organizational Commitment in Relation to Work Performance and Turnover Commitments. Human Relations, 42, 625-638.
- Simpson, J. T. (1990). An empirical investigation of the impact of governance of marketing channels of distribution. Ph. D. thesis, University of Alabama, Tuscaloosa, AL.
- Smith, P. C., Kendall, L. M., and Hulin, C. L. (1969). The Measurement of Satisfaction in Work and Retirement: A Strategy for the Study of Attitudes. Chicago: Rand McNally.
- Spinelli, S., and Birley, S. (1996). Toward a Theory of Conflict in the Franchise System. Journal of Business Venturing, 11, 329-342.
- Stanworth, J. (1977). A Study of Franchising in Britain. London, England: University of Westminster.
- Stanworth, J., Stanworth, C., Granger, B., and Blythe, S. (1989). Who Becomes an Entrepreneur? International Small Business Journal, 8 (1), 11-22.

- Stanworth, J., and Kaufmann, P. J. (1994). Towards a Dynamic Model of Franchisee Motivation, in Understanding and Accepting Different Perspectives: Empowering Relationships in 1994 and Beyond, Skip Swerdlow, ed., Minneapolis, Minnesota: University of St. Thomas, Institute for Franchise Management, Paper No. 10.
- Stanworth, J., and Kaufmann, P. J. (1996). Similarities and Differences in UK and US Franchise Research Data: Towards a Dynamic Model of Franchisee Motivation. International Small Business Journal, 14 (3), 57-70.
- Stephenson, P. R., and House, R. G. (1971). A Perspective on Franchising. Business Horizons, 14, 35-42.
- Stern, P. and Stanworth, J. (1994). Improving small business survival rates via franchising: the role of the banks in Europe. International Small Business Journal, 12 (2), 15-25.
- Swan, J. E. and Trawick, I. F. (1980). Satisfaction Related to Predictive vs. Desired Expectations and Experiences in Evaluating Professional Service Quality. Refining Concepts and Measures of Consumer Satisfaction and Complaining Behavior. Bloomington, IN: Indiana University, 7-12.
- Takahashi, T. and Nasser, F. (1996). The Impact of Using Item Parcels on Hoc Goodness of Fit Indices in Confirmatory Factor Analysis: An Empirical Example. Paper Presented at the Annual Meetings of the American Educational Research Association, New York.
- Tanaka, J. S. (1987). "How big is enough?": Sample size and Goodness of fit in Structural Equation Models with Latent Variables. Child Development, 58, 134-146.
- Tanner, J. F., and Castleberry, S. B. (1986). The Manager-Salesperson Relationship: An Exploratory Examination of the Vertical-Dyad Image Model. Journal of Personal Selling & Sales Management, 6 (November), 29-37.

- Tanner, J. F., and Castleberry, S. B. (1990). Vertical Exchange Quality and Performance: Studying the Role of the Sales Manager. Journal of Personal Selling & Sales Management, 10 (Spring), 17-27.
- Thomas, W. L., O'Hara, MJ., and Musgrave, F. W. (1990). The Effects of Ownership and Investment on the Performance of Franchise Systems. American Economist, 34 (1), 54-61.
- Thompson, R. S. (1992). Company Ownership vs. Franchising: Issues and Evidence. Journal of Economic Studies, 19 (4), 31-42.
- Thompson, R. S. (1994). The Franchise Life Cycle and the Penrose Effect. Journal of Economic Behavior and Organization, 24 (2), 207-218.
- Tikoo, S. (1996). Assessing the franchise option. Business Horizons, 39 (3), 78-83.
- Tse, D. K. and Wilton, P. C. (1988). Models of Consumer Satisfaction Formation: An Extension. Journal of Marketing Research, 15 (May), 204-212.
- Turban, D. B. and Jones, A. P. (1988). Supervisor-subordinates similarity: Types, effects, and mechanisms. Journal of Applied Psychology, 73, 228-234.
- Turban, D. B., Jones, A. P., and Rozelle, R. M. (1990). Influences of supervisor liking of a subordinate and the reward context on the treatment and evaluation of that subordinate. Motivation and Emotion, 14, 215-233.
- Varadajan, R. (1986). Horizontal cooperative sales Promotion: A Framework for Classification and Additional Perspectives. Journal of Marketing, 50, 61-73.
- Vecchio, R. P. and Gobdel, B. C. (1984). The vertical dyad linkage model of leadership: Problems and prospects. Organizational Behavior and Human Performance, 34, 5-20.

- Walker, B. J., and Etzel, M. J. (1973). The Internationalization of U.S. Franchise Systems: Progress and Procedures. Journal of Marketing, 37, 38-46.
- Wayne, S. J. and Ferris, G. R. (1990). Influence tactics, affect, and exchange quality in supervisor-subordinate interactions: A laboratory experiment and field study. Journal of Applied Psychology, 75, 487-499.
- Wayne, S. J., Shore, L. M., and Linden, R. C. (1997). Perceived organizational support and leader-member exchange: A social exchange perspective. Academy of Management Journal, 40(1), 82-111.
- Walker, O. C., Churchill, G. A., and Ford, N. M. (1972). Reactions to Role Conflict: The Case of the Industrial Salesman. Journal of Business Administration, 3 (Spring), 25-36.
- Walker, O. C., Churchill, G. A., and Ford, N. M. (1977). Motivation and Performance in Industrial Selling: Present Knowledge and Needed Research. Journal of Marketing Research, 14 (May), 156-168.
- Wayne, S. J. and Ferris, G. R. (1990). Influence tactics, affect, and exchange quality in supervisor-subordinate interactions: A laboratory experiment and field study. Journal of Applied Psychology, 75, 487-499.
- Wayne, S. J. and Green, S. A. (1993). The effects of leader-member exchange on employee citizenship and impression management behavior. Human Relations, 46, 1431-1440.
- Wayne, S. J. and Liden, R. C. (1995). Effects of impression management on performance ratings: A longitudinal study. Academy of Management Journal, 38, 232-260.
- Weinrauch, J. D. (1986). Franchising an Established Business. Journal of Small Business Management, 24 (3), 1-7.

- Weiss, D. J., Dawis, R. V., England, G. W., and Lofquist, L. H. (1967). Manual for the Minnesota Satisfaction Questionnaire (Minnesota Studies in Vocational Rehabilitation: XXII). Minneapolis: University of Minnesota, Industrial Relational Center Work Adjustment Project.
- Westbrook, R. A. (1987). Product/Consumption-Based Affective Responses and Postpurchase Processes. Journal of Marketing Research, 24 (August), 258-270.
- Westbrook, R. A. and Reilly, M. D. (1983). Value-Percept Disparity: An Alternative to the Disconfirmation of Expectations Theory of Consumer Satisfaction. Advances of Consumer Research, 10, 256-261.
- Williams, L. J. (1995). Covariance Structural Modeling in Organizational Research: Problems with the Method verse Applications of the Method. Journal of Organizational Behavior, 16, 225-233
- Williams, L. J. and Brown, B. K. (1994). Method Variance in Organizational Behavior and Human Research: Effects on Correlations, Path Coefficients, and Hypothesis Testing. Organizational Behavior and Human Decision Process, 57, 185-209.
- Williams, L. J., Cote, J. A., and Buckley, M. R. (1989). Lack of Method Variance in Self-Reported Affect and Perceptions at Work: Reality or Artifact? Journal of Applied Psychology, 74, 462-468.
- Williams, R. G. (1994). The Development of Franchising in Germany. International Journal of Management, 11 (1), 609-619.
- Williamson, O. E. (1975). Markets and Hierarchies: Analysis and Antitrust Implications. New York: The Free Press.
- Williamson, O. E. (1979). Transaction-Cost economics: The Governance of contractual relations. Journal of Law and Economics, 22, 233-261.

- Williamson, O. E. (1981). The economics of organization: the transaction cost approach. American Journal of Sociology, 87, 548-577.
- Williamson, O. E. (1983). Organization form, residual claimants, and corporate control. Journal of Law and Economics, 26, 351-366.
- Williamson, O. E. (1985). The Economic Institutions of Capitalism: Firms, Markets, and Relational Contracting. New York: The Free Press.
- Williamson, O. E. (1991). Comparative economic organization: the analysis of discrete structural alternatives. Administrative Science Quarterly, 36, 269-296.
- Wimmer, B. S. and Garen, J. E. (1997). Moral hazard, asset specificity, implicit bonding, and compensation: The case of franchising. Economic Inquiry, 35 (3), 544-554.
- Withane, S. (1991). Franchising and Franchisee Behavior : An Examination of Opinions, Personal Characteristics and Motives of Canadian Franchisee Entrepreneurs. Journal of Small Business Management, January, 22-29.
- Woll, M. (1968). Sources of Revenue to the Franchisor and Their Strategic Implications. Journal of Retailing, 44 (4), Winter, 14-20.
- Yammarino, F. J. (1997). Models of leadership for sales management. The journal of Personal Selling & Sales Management, 17 (2), 43-56.
- Young, R. F. and Greyser, S. A. (1983). Managing Cooperative Advertising: A Strategic approach. Lexington, MA: D.C. Heath.
- Zeithaml, V. A. (1988). Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence. Journal of Marketing, 52 (July), 2-22.
- Zeithaml, V. A., Parasuraman, A., and Berry, L. L. (1985). Problems and Strategies in Service Marketing. Journal of Marketing, 49 (Spring), 33-46.

Zeithaml, V. A., Berry, L. L., and Parasuraman, A. (1988). Communication and Control Processes in the Delivery of Service Quality. Journal of Marketing, 52 , 35-48.

Zeithaml, V. A, Berry, L. L. and ., Parasuraman, A. (1990). Delivering Quality Service Balancing Customer Perceptions and Expectations. New York: The Free Press

Zeithaml, V. A, Berry, L. L. and ., Parasuraman, A. (1991). The Nature and Determinants of Customer Expectations of Service. Marketing Science Institute, working paper No. 91-113, Marketing science Institute, Cambridge, MA.

Zeller, R. E., Achabal, D. D., and Brown, L. A. (1980). Market Penetration and Locational Conflict in Franchise Systems. Decision Sciences, 11, 58-80.