
CONSENSUS IN FRANCHISE ORGANIZATIONS: A COOPERATIVE ARRANGEMENT AMONG ENTREPRENEURS

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EXECUTIVE SUMMARY

Entrepreneurs enter into cooperative arrangements such as franchise systems (Baucus, Baucus and Human 1993; Norton 1988), network partnerships (Larson 1991, 1992), and constellations of firms (Shepherd 1991) to gain a competitive advantage over rivals (Baird, Lyles and Orris 1992; Larson 1992). They expect to reduce production and inventory costs, speed product development, expand markets, or secure technology, while enjoying congenial business relations with partners (Larson 1992). Entrepreneurs may not reap advantages attributed to cooperative arrangements, however, if dissension arises concerning the means of competition or desired ends.

Strategic management researchers associate competitive advantage in part with consensus on the means of competition (e.g., Bourgeois 1980; Dess and Davis 1984), whereas entrepreneurship researchers accentuate the importance of common ends (e.g., goals and values) in cooperative arrangements (Ambrose and Koepke 1984; Larson 1991; Mohr and Spekman 1994; Shepherd 1991; Starr and MacMillan 1990). Competitive advantage refers to the superior capabilities of the firm over rivals (Porter 1980) and means of competition involve resource allocations (Dess and Davis 1984; Porter 1980). Desired ends include business goals, as well as standards of fairness and trustworthiness (Larson 1991). Strategy researchers report that consensus among managers on methods of competing relates to higher firm performance (Bourgeois 1980; Dess and Davis 1984), but they have not shown that within-firm results generalize to cooperative relations.

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We believe consensus on means and ends may command a particularly important influence on the competitive advantage of franchises, network partnerships, and constellations of loosely tied entrepreneurs. Franchising pioneers like Bill Rosenberg (Dunkin Donuts) and Frank Carney (Pizza Hut) created a context of trust and respect with franchisees (Tannenbaum 1993a), but the physical separation, disparate challenges, and incongruous goals of franchisors and franchisees (Norton 1988; Phan, Butler, and Lee 1996) now produce widespread dissension. Franchise partners join separate professional associations, such as the International Franchise Association and American Franchise Association, potentially dividing loyalties. Franchisees initiate class-action lawsuits and conduct grassroots lobbying, whereas franchisors arbitrate disputes through professional associations and advisory boards (Galen and Touby 1993; Tannenbaum 1993a). The litigious nature of the U.S. society may accentuate dissension among franchise partners, but franchise systems worldwide may soon exhibit similar tendencies.

Similarly, network partnerships, defined as close collaborative alliances between entrepreneurs and a limited set of resource partners (Larson and Starr 1993), begin as arms-length, adversarial transactions and evolve into relationships based on trust. They require reciprocity, collaboration, complementary interdependence, and mutual understanding of partners' business styles and motives (Larson 1992). Constellations refer to clusters of complementary firms organized into coordinated partnerships with lead firms; they require firms to develop precise roles and known rules of operation (Lorenzoni and Ornati 1988). Entrepreneurs reaching consensus with their franchise, network, or constellation partners on means and ends may secure the advantages of cooperation and outperform rivals; those lacking consensus likely face recurring conflicts, disappointing performance, and the eventual dissolution of partnerships.

Entrepreneurship researchers have not yet examined consensus on means and ends of cooperative arrangements among franchisees, or other entrepreneurs, and they have not tested linkages between consensus and competitive advantage. Prior authors have described competitive advantages of selecting a franchise over an independent business (Ayling 1988; Baron and Schmidt 1991; Knight 1986) and conditions giving rise to franchise arrangements (Norton 1988). They have studied the formation of partnerships (Larson, 1991, 1992), described the normative operations of constellations (Shepherd 1991), and enumerated impressive benefits of such arrangements (Baird et al. 1992; Larson 1991). Yet, normative guidelines for forming partnerships overlook the hazards stemming from dissension in such relationships (Mohr and Spekman 1994).

We examine perceived consensus on indicators of the means of competition (e.g., priorities in resource allocations), and analyze how consensus on means and ends (e.g., goals and values) relates to competitive advantage and performance in franchise systems, the most pervasive and fastest growing form of cooperative venture among entrepreneurs. Franchises represent an ideal context for our study, because widespread disputes occur among franchisees and franchisors, especially as franchisors modify strategies to offset the effects of rising competition (Barrett 1992). The lack of consensus in franchise relationships has triggered extensive investigations by states, Congress, and the FTC to protect franchisees from misrepresented products or cannibalized retail outlets (Marsh 1992).

We report statistically significant differences between franchisees' emphasis on competitive methods and those they attribute to their franchisor. These differences occur in franchisee-franchisor relations despite evidence that consensus relates positively with the franchise's competitive advantage, business performance in retail operations, and franchisees' satisfaction. We believe dissension arises as franchisees initially move from a knowledge disadvantage relative to franchisors to a knowledge advantage associated with the accumulation of local experience. Early in the relationship, franchisees need advice and franchisors police franchisees to comply with standards for operations, as accepted theories imply (e.g., Brickley, Dark and Weisbach 1991). Over time, franchisees gain local knowledge about their markets, exercise entrepreneurial initiative, and adopt their own standards for quality and conduct. Dynamic attributes of franchise relationships requires further investigation, but theories promoting monitoring and policing actions by franchisors may better describe relationships with new or renegade franchisees, rather than with franchisees like those in our sample.

Our study contributes to the entrepreneurship literature by integrating cooperative arrangements research with consensus studies in strategic management. We frame franchise relationships as one form of cooperative arrangement among entrepreneurs, and believe our study of franchises should shed light on

relationships between consensus and performance in other cooperative arrangements. We operationalize competitive advantage using dimensions critical for competing in the fast food industry, the context of our investigation, demonstrating how entrepreneurship researchers may move beyond loose (unmeasured) treatments of the concept. We begin with explanations of franchise arrangements and dissension in cooperative arrangements, then present our hypotheses. A description of our methods and results follows, along with a discussion of the implications of our study for franchisors, franchisees, and researchers.

FRANCHISING AS A COOPERATIVE ARRANGEMENT

Franchising represents a hybrid form of organization, existing between markets and hierarchies (Larson 1992; Norton 1988; Williamson 1975). Franchisees act as entrepreneurs—as described by Bygrave and Hofer (1991), Begley and Boyd (1987), and Carland et al. (1984)—owning for-profit business ventures, innovating to create new local organizations, and seeking growth in financial performance and via additional franchise units. As Larson and Starr (1993) describe, however, atomistic models of entrepreneurs inadequately capture the context in which actors such as franchisees operate. Franchisees exist in a network of relations. They procure resources needed to compete (e.g., accumulated business knowledge, distribution channels, and national marketing) through network partners (Larson 1991; Phan, Butler and Lee 1994). Franchisees share a common business formula with other entrepreneurs, and the franchisor orchestrates the system similar to the way lead firms control product development, image, and marketing strategy in constellations (Shepherd 1991).

Entrepreneurs enter into franchise arrangements, making a substantial investment to a franchisor. They purchase assets such as prepackaged business format, formal training, marketing strategy, operating procedures, and communications with their franchisor (Bond and Bond 1992). Franchisees assume their investment in a cooperative arrangement will afford them a competitive advantage over unaligned retailers in the form of a proven business formula and nationally recognized trademark touted to buffer local outlets from market forces (Pilling 1991).

A critical component of securing the competitive advantage attributed to franchise relationships involves the means by which franchisees and the franchisor compete. Franchisors establish contracts specifying key decisions regarding how to run the franchise, such as hours of operation, products or services, standard prices for products or services, and so forth. They establish extensive training programs to transfer knowledge to franchisees about retail outlet operations (Justis and Chan 1991). Franchisors then monitor franchisees' performance and motivate franchisees through ownership incentives to adopt uniform methods and quality standards (Norton 1988). Indeed, franchisors' efforts to police franchisees and induce compliance to high standards typify common conceptions of franchising (e.g., Brickley, Dark, and Weisbach 1991).

Franchise arrangements operate according to Williamson's (1991) mixed motive model with contractual and also relational obligations, because franchisors cannot foresee or stipulate all dimensions of ongoing relationships. Partners comply with formal contracts but depend on cooperation to advance common methods and goals, for instance, sharing information on innovations benefiting all franchise partners (Gassenheimer, Baucus and Baucus 1996). To encourage franchisees to adopt norms of cooperation and consensus, franchisors write contracts so franchisees keep the bulk of profits. Franchisors typically receive 2% to 6% of the franchisee's revenues for the use of the trademark; they use local ownership to increase consensus about means and ends among franchisees (Brickley, Dark and Weisbach 1991).

DISSENSION AMONG FRANCHISORS AND FRANCHISEES

A threat exists to franchisors' trademarks if consensus erodes, dissension rises, and franchisees allow quality to deteriorate. We define consensus as agreement and mutual supportiveness of franchisees and franchisors about the means of competing and desired ends, whereas dissension indicates strife among partners and possible contentious behavior. We occasionally encounter a Burger King, Wendy's, or McDonald's outlet that does not adhere to the same standards for products or services as other outlets in the franchise system, revealing possible dissension.

Franchisees foster dissension by ignoring franchisors' goals in pursuit of their own entrepreneurial interests, possibly misrepresenting costs and revenues, or by withholding royalties. They may disagree about competitive methods, refuse to participate in innovative marketing strategies, deviate from the franchisor's formula, resist changes needed to keep the system competitive, or "buy franchise units expecting to get rich and not work" (Galen and Touby 1993, p. 69). Franchisors provoke dissension with partners by encroaching on franchisees' markets, unfairly terminating franchisees, failing to disclose information, misrepresenting costs or revenues, fabricating successes, or waffling on promises for services (Galen and Touby; Tannenbaum 1993a,b,c).

Dissension may also arise around seemingly legitimate initiatives to spur growth or maintain a competitive advantage. Franchise contracts, with royalties tied to growth, can compel franchisors to pursue growth in number of units and revenues per unit at levels that erode franchisees' profits (Phan et al. 1996). PepsiCo angered franchisees by offering products in kiosks and carts in diverse locations such as convenience stores, stadiums, and airports (Ruffenach 1990; Tannenbaum 1993c), whereas Subway Sandwich Shops fueled growth by hiring "development agents" to recruit franchisees, pick store sites, and negotiate leases. Dissension arose when franchisees received less than competent advice and did not approach break-even performance—many complained they purchased low-paying jobs with long hours (Marsh 1992).

Responsibility lies with the franchisor, as the umbrella organization, to promote consensus with franchisees concerning appropriate means of competition and desired ends. Southland Corporation, for instance, rebated a percentage of royalty payments to franchisees complying with requirements for store appearance and customer service (Tannenbaum 1991). Franchisors also offer training programs, national meetings, and newsletters to secure consensus on means and ends with franchisees (Bond 1989).

Franchisors try to monitor and motivate franchisees to adhere to performance standards, but their efforts may overlook discrepancies until serious problems arise. Franchisors' efforts oftentimes prove less than successful. Franchisor-franchisee disputes increased 16% from 1980–1990, whereas arbitration suits rose sixfold (Stern and Abelson 1991), suggesting that franchisors have difficulty gaining consensus.

RESEARCH HYPOTHESES

Entrepreneurship researchers recognize the impact of consensus in cooperative arrangements such as franchises, network partnerships, and constellations. Much of the economic literature describes franchising in a principal-agent framework. The franchisor (principal) owns a nationally recognized trademark with an existing reputation in the market, whereas franchisees (agents) retail products or services in local markets with the expectation that

they will not damage the trademark. Researchers describe franchise contracts—with uniform operating methods, ownership incentives, monitoring provisions, and termination causes—as decreasing distance or increasing consensus among franchisors and franchisees (Norton 1988; Phan et al. 1996). Too, researchers describe network partners as instituting implicit or explicit ground rules through a steady exchange of information (Larson 1991), while firms in constellations work within precise roles and known rules of operations (Lorenzoni and Ornati 1988).

Consensus and Dissension

We view consensus and mutual supportiveness among partners, such as franchisees and franchisors, as contributing to successful performance in cooperative arrangements. Larson (1991) describes a trial period in the formation of cooperative arrangements in which entrepreneurs experiment, attempt to build relationships, and establish norms for routine interactions. Entrepreneurs “demonstrate performance ability and their style of conducting business (e.g., fairness and straightforwardness); they evaluate the partner’s trustworthiness, easing communication” (p. 176). They achieve trust through adherence to a shared interpretation of fairness and, with trust as a foundation, cooperation replaces adversarial relations.

Yet, researchers report evidence of dissension among entrepreneurs, especially in franchise relationships. They portray franchisees as myopic, idealistically believing they possess the willingness to work and necessary abilities to successfully operate a franchise (Norton 1988). Franchisees enjoy more independence than salaried managers (Knight 1986) but manifest less initiative, self-reliance, competitiveness, and need for achievement than they (franchisees) believe successful franchising requires (Withane 1991).

Researchers offer evidence of franchisees’ and franchisors’ incongruous goals (Phan et al. 1996; Spinelli and Birley 1996) and franchisors’ failure to fulfill their responsibilities to franchisees. Franchisors encourage franchisees to pursue growth beyond profit-maximizing levels for retail outlets (Phan et al. 1996). Their action may lead franchisees to describe franchisor-franchisee relations as poor, with less than half of respondents saying they would likely recommend franchising (Withane 1991), and more than one-third reporting dissatisfaction with services (Knight 1986). The evidence suggests franchisees face a dilemma created in large part by franchisors. They lose by reducing quality, harming the franchise trademark, and lowering long-run performance of their outlets; yet, they may view contentious action as the only viable means for protecting their retail operations and investments.

Legal governance mechanisms and the litigious nature of the U.S. society likely intensify dissension. Contracts typically guide franchisor-franchisee relations, rather than values and norms. Franchise contracts tend to emphasize franchisors’ rights more than their obligations and they include language more consistent with discrete market transactions than ongoing relations, possibly provoking dissension and litigation (Leblebici and Shalley 1996). Too, franchisees may view their ownership of retail units as giving them the right to exercise entrepreneurial initiative rather than conform to franchise norms. Thus, we expect franchisees to report dissension with franchisors on the means of competition.¹

¹ Data limitations prevent us from empirically investigating the degree of consensus on desired ends. We provide preliminary insights concerning consensus on ends, based on an analysis of two items in our survey and prior research results.

H1: Franchisees likely perceive dissension to exist with franchisors on means of competition used in retail operations.

Dissension likely exists, but we still must address the critical question of whether consensus among partners positively impacts performance in cooperative arrangements such as franchises. Researchers suggest that relationships exist among measures of consensus and performance. Gassenheimer et al. (1996, p. 7) wrote "responsibility lies with franchisors to help franchisees internalize goals and encourage franchisees to work together to achieve common goals, leading to higher system performance and franchisee satisfaction." Tjosvold and Weicker (1993) claim that cooperative arrangements require shared goals, so partners can fully discuss issues, accurately communicate information, and exchange resources and assistance. Leblebici and Shalley (1996), furthermore, explicitly link dissension and resulting litigation to the performance of franchise arrangements.

Evidence from strategic management studies of top executives suggests that consensus on means of competition relate to the cooperative's ability to create a competitive advantage and perform well. Firms create competitive advantages based on cost leadership, or differentiation of their products or services (Porter 1980). Empirical studies indicate that firms exhibiting consensus on means tend to follow one of Porter's generic strategies (Dess and Davis 1984), and firms establishing consensus on means perform better than those with little consensus (Bourgeois 1980); however, these results were obtained from within-firm analyses, and we do not know the extent to which they generalize to cooperative arrangements across firms.

Researchers of cooperative arrangements offer preliminary evidence that consensus-performance relationships exist in franchise systems (e.g., Phan et al. 1996; Gassenheimer et al. 1996; Larson 1992). Phan et al. (1996) link the erosion of franchisees' profits to incongruous franchisor-franchisee growth goals, whereas Gassenheimer et al. (1996) show actions taken by one partner—despite apparent harm to other partners—negatively impact franchise system performance and franchisees' satisfaction. Participants in Larson's comparative case analysis of network partners link the failure of cooperative arrangements to changes in reputation, status, and business performance. "If we had a major breakdown in our relationship . . . within 30 days that would be well known throughout the industry" (1992, p. 85). The respondent believed sales would suffer if the network partnership broke down. Empirical results suggest that consensus on means and ends leads to establishment of a competitive advantage and enhanced performance, thus we propose the following three hypotheses:

H2: Perceived consensus on the means of competition and desired ends relates positively to the establishment of a competitive advantage in franchise systems.

H3: Perceived consensus on the means of competition and desired ends relates positively to the performance of franchisees' retail operations.

H4: Perceived consensus on the means of competition and desired ends relates positively to franchisees' satisfaction.

METHODS

Sample

We mailed questionnaires, January 1991, to franchisees in 19 fast food franchise systems such as Hardees, International House of Pancakes, Pizza Hut, Taco Johns, and Wendy's. We selected the restaurant industry since: (1) it generates the largest volume of franchise

sales, accounting for \$64 billion in revenues (Michael 1996); (2) it experiences intense competition, compelling fast foods franchisors to strive for consensus among franchisees; and (3) franchisors undertake changes in strategies (e.g., offering products in kiosks and convenience stores) that may provoke dissension (Barrett 1992). We chose to examine one industry rather than a diverse sample to enhance internal validity and control for background variables, such as differences in competitive methods, technology, and contracts across industries. Thus, our sample allowed us to focus on perceived consensus on the means of competing and desired ends in the fast foods industry. We address the generalizability of our results in the discussion section.

Our mailing list from Keller Corporation contained addresses for 3400 fast food retail outlets but did not control for franchised versus company-owned units, multiple-unit ownership, or attrition. Secondary sources (e.g., Bond 1989; Entrepreneur Group 1987) have reported approximately 66.2% of outlets as franchisee-owned, so we estimate that our mailing list contained 2251 (3400×66.2) franchised outlets. Of these, Bates (1995) reported attrition rates as high as 35% with an additional 6% of franchisees selling their units, whereas the International Franchise Association (IFA) determined that 3% of franchise units fail and another 14% change ownership (IFA 1995). The IFA serves as an advocate for the industry, so their numbers likely represent conservative estimates of attrition and turnover in the industry. Using the IFA's numbers, however, we approximated the number of extant franchise units in our mailing list at 1868 (2251×0.83).

Kaufmann and Dant (1996) describe franchising as predominantly a multi-unit phenomenon, with 88% of the franchisors surveyed allowing multi-unit franchisees in their systems. Published data on the average number of retail outlets owned per franchisee do not exist, so we called franchisors in our sample. Eight of 14 franchisors we reached provided information. Franchisors reported an average of 4.49 units per franchisee, ranging from 2.22 units per Pizza Inn franchisee to 9.24 units per Hardees franchisee—corresponding to Bradach's (1995) results. For instance, Hardees reported that 285 franchisees operate 2633 retail units in their system, whereas 292 Taco Bell franchisees own 1809 restaurant units, and 2744 McDonald's franchisees operate 8750 outlets. We estimated our sampling frame at 416 franchisees ($1868/4.49$), from which we collected 195 usable responses with 162 representing franchisees. Thus, we report a response rate of 38.9% ($162/416$).

We believe we obtained a representative sample of franchisees in the fast food industry, but we used the "last wave" method to test for nonresponse bias and establish the representativeness of our sample. *T*-tests, available from the authors, showed early and late respondents did not differ significantly ($p < .05$) on major demographic characteristics, such as number of units operated, years of experience in the franchise system, and number of hours franchisees work per week. No significant differences existed between early and late respondents' assessments of items measuring consensus on goals, values, performance, satisfaction, and discretion. We conducted interviews with a small set of franchisees, not in our sample, showing them summary data about individuals in our sample and attitudes reported by respondents. Interviewees described our data and results as reflective of their industry. Our last-wave and interview analyses led us to conclude that our sample generalizes to nonrespondents and accurately represents fast food franchisees; however, we discuss problems associated with conducting survey research with franchisees and limitations of our study in the conclusion section.

In 1991, entrepreneurs in our sample averaged 10.8 years experience with their franchise system, so franchisees' responses reflect reasonably well established relationships.

They operated 4.6 franchise units on average—ranging from 1 to 88 units—and represented relationships in approximately 745 franchise units across the United States (162×4.6). Respondents had extensive involvement in their business ventures, working approximately 55 hours per week and receiving 86.4% of their total annual income from the franchise arrangement. These franchisees represented one of the best sources of information available on relationships with franchisors.

Significant differences among franchisees and the 33 company managers in our data base supported our treatment of franchisees as entrepreneurs and our decision to exclude managers from remaining analyses. The 162 franchisees in our sample were older (44.29 vs. 36.15 average years) and possessed greater experience in franchise systems than managers of company-owned units (10.76 vs. 6.24 average years), corroborating results of prior studies. Knight (1984) showed entrepreneurs had more industry experience than franchisees, whereas we report franchisees possessed more experience than managers. Franchisees owned units farther from the franchisor's regional headquarters than managers' units (638.46 vs. 375.10 miles), as Norton (1988) reported, affirming our belief that franchisees enjoy more autonomy than managers. Franchisees also perceived less of a competitive advantage for the franchise system than managers, possibly revealing greater autonomy in franchisees' opinions. Our analysis led us to conclude that franchisees differed from company managers and displayed entrepreneurial attributes.

Research Instrument

Our questionnaire included multiple item measures for each construct. We selected items, supported by the literature and in pretest discussions with franchisees, representing consensus on the means of competition, desired ends, discretion, competitive advantage, franchisee satisfaction, and franchise system performance. We used perceptual measures, despite potential method covariance, because our study explored franchisees' attitudes, reflecting agreement or strife with their franchisor. We discuss method covariance issues in our limitations section.

Measures

Consensus on Means of Competition

We used Dess and Davis's (1984) measures to assess the perceived consensus among franchisees and their franchisor on the means of competing. Pretest interviews with franchisees led us to modify some items so they applied directly to competitive methods in the fast food industry.

Franchisees first rated the degree to which their franchisor emphasized each of the 15 items shown in Table 1, using a 5-point scale (1 = no emphasis, 5 = major constant emphasis). They then responded to the same 15 items in terms of the degree of emphasis they (the franchisee) placed on each dimension, using the same 5-point scale. We compared values for franchisees' ratings on each item with those perceived to reflect franchisors' priorities to assess the consensus franchisees believe exist on the means of competition (H1).

Difference scores, computed by subtracting the franchisor's priority from the franchisee's, indicated the degree of consensus on each item. Our measure of consensus/dissension included both the magnitude and direction of differences in responses, because algorithms

TABLE 1 Items and Factor Loadings for Consensus on Means of Competition

	Product/Brand Development Factor 1	Efficiency Factor 2	Customer Service Factor 3
Refining existing products	0.78	0.10	0.21
New product introductions	0.76	0.15	0.09
Building brand identification	0.67	0.16	0.03
Innovating in marketing	0.62	0.36	0.10
Improving product quality	0.51	0.00	0.28
Reducing labor or supply costs	0.04	0.84	0.18
Reducing inventory costs	0.10	0.83	0.14
Improving production processes	0.19	0.56	0.18
Procuring quality supplies	0.31	0.49	0.24
Pricing below competitors	0.36	0.41	-0.05
Improving service quality	0.13	0.16	0.81
Speedier service to customers	0.07	0.32	0.75
Improving employee training	0.09	0.06	0.74
Eigenvalues	4.14	1.62	1.28
Percent of variance explained	31.8	12.5	9.8
Coefficient alpha	0.74	0.71	0.73

Two items deleted from the analysis (speedy and predictable delivery of supplies and cleanliness of facilities), factor loadings shown after varimax rotation.

used to construct factor scales depend on covariation among variables; if we used magnitudes alone, we would reduce the available information, alter correlations, and distort factor structures. Difference scores of zero reflected consensus (complete agreement), whereas negative or positive scores revealed the franchisee's perceived dissension with his/her franchisor.

Dess and Davis (1984) factor-analyzed items measuring the means of competition, showing that the items represented three strategies: low cost, differentiation, and focus. Similarly, we conducted a factor analysis using difference scores for the 15 items to simplify our data and determine whether our items constituted distinct strategies used by fast food franchises. We used principal component analysis to examine correlations among items and assumed uncorrelated (orthogonal) common factors, as recommended by Kim and Mueller (1978). Varimax rotation increased the interpretability of factor structures, yielding 3 factors with eigenvalues greater than one (Table 1), together accounting for 54.1% of the variance. We omitted two items from the factor analysis: one item (cleanliness of facilities) loaded only on a 4th factor, and a second item (speedy and predictable delivery of supplies) loaded on the 4th factor and one other.

We constructed three linear scales of items weighted by factor loadings to test hypotheses two, three, and four in regression analysis. These scales included items with factor loadings of 0.40 or greater, slightly above Kim and Mueller's (1978) recommended cutoff of 0.30. Our factor scales exhibited correlations of between $r = 0.32$ and $r = 0.44$, even though we assumed an orthogonal solution. Factor scales produce zero correlations only in situations with no sampling or measurement error, and when items load on just one common factor—conditions never found in practice (Kim and Mueller 1978). Factors one, two, and three yielded coefficient alphas of 0.74, 0.71, and 0.73, respectively, remaining above the 0.70 cutoff recommended by Nunnally (1978).

The first factor, **product/brand development**, reflected consensus on the means of developing new products, refining existing products, improving product quality, innovating in marketing, and building brand identification. **Efficiency**, the second factor, involved efforts to

reduce inventory, labor, or supply costs, improve production processes, procure quality supplies, and price the firm's products below competitors'. A third factor, **customer service**, consisted of items aimed at improving service quality and speed of service, and improving employee training (presumably so employees provide better service).

Consensus on Desired Ends: Goals and Values

Two items measured perceived consensus on desired ends among franchisees and franchisors. We asked respondents to indicate whether they shared "compatible business goals" and "similar values" with their franchisor using a 7-point scale (1 = strongly disagree; 7 = strongly agree). We combined these two items in a scale, with a correlation of 0.78 between the items.

Competitive Advantage

Competitive advantage consisted of four items, assessing franchisees' agreement with statements that, "My franchisor's marketing efforts make my products more recognizable," "My costs are lower than my local competitors'," "My franchisor's physical distribution support system is better than my competitors," and "My franchisor aggressively innovates in new products." Franchisees used a 7-point scale (1 = strongly disagree, 7 = strongly agree) to rate each dimension of their franchise's competitive advantage. We summed the four scores to create a fairly reliable composite measure of competitive advantage (coefficient alpha = 0.74).

Business Performance

Franchisees reported whether they "expected sales to grow rapidly," "expected greater profits in the next five years," and "felt confident their expectations would be fulfilled," using a 7-point scale (1 = strongly disagree; 7 = strongly agree). We summed scores on these three items to create a very reliable scale measuring business performance for franchisees' retail operations (coefficient alpha = 0.90).

We asked franchisees to provide objective performance data for sales and income, but few complied. Franchisors and franchisees rarely make performance data available and published sources of such data do not exist (Tannenbaum 1993c), so we had to rely on perceptual data.

Franchisee Satisfaction

Franchisees used a 7-point scale (1 = strongly disagree, 4 = neutral, 7 = strongly agree) to indicate their agreement with statements such as "I would recommend my franchisor to a potential franchisee," "Given the opportunity, I would switch to another franchisor or business venture," "Overall, I am very satisfied with my franchisor," and "Overall, my expectations have been met with regard to my franchisor." We combined these four items into a satisfaction scale, with a coefficient alpha of 0.90.

Control Variables

The degree of perceived consensus on means and ends may vary depending on franchisees' discretion and the length of time the franchisee has worked in the system, so we controlled for effects of these variables in our analysis. Franchisees assessed their degree of discretion by indicating their agreement with eight statements using a 7-point scale (1 = strongly disagree, 4 = neutral, 7 = strongly agree). The items included statements such as, "My franchisor makes everyone meet the same performance standards," "Many decisions in this business are not covered by formal procedures," and "Any major decision I make must have the franchisor's approval." We combined the eight items into a single measure of discretion (coefficient alpha = 0.71). Franchisees also reported the years they had been with the franchise organization, ranging 1 to 32 years.

Data Analysis

T-tests allowed us to examine whether dissension existed in franchisee-franchisor relationships, testing H1. We estimated paired differences on the 15 items measuring means of competition emphasized by the franchisee and those they attributed to their franchisor. Significant differences revealed the existence of possible dissension, whereas a comparison of means indicated the relative importance of items and which party many franchisees believed held the higher standards of conduct, franchisors or franchisees.

Bourgeois's (1980) conceptual discussion of consensus on means and ends led us to analyze consensus on means and ends separately, then in combination to determine the relative impact of each concept. Decision-making may involve ends-means or means-ends sequence. The determination of ends precedes means in planning models, but means occasions the generation of ends in incremental models. Too, Bourgeois (1980) described man as fundamentally teleological (i.e., pursuing goals); but he also quoted a lament about our society blindly pursuing the perfection of means (e.g., technology) without considering desired ends. Means and ends seem to represent separate concepts, but the relative impact of each on performance remains important.

We employed regression analysis to examine linkages between the three factors measuring consensus on means of competition, desired ends, and our three dependent variables—competitive advantage, business performance, and satisfaction. We entered discretion and years in the system (squared), then the three factors for competitive methods, our measure of desired ends, or the combination of means and ends in regression equations.

RESULTS

Table 2 shows correlations for all variables in our analysis. Competitive advantage related fairly strongly to consensus on desired ends and all three factors for means of competing in the fast food industry. Franchisees' satisfaction produced strong correlations with consensus on desired ends, efficiency, customer service, and competitive advantage. Business performance yielded strong relationships with consensus on desired ends and efficiency, as well as with competitive advantage and satisfaction. The highest correlation among independent variables used in the same equation ($r = 0.56$) remained well below the 0.80 level researchers commonly employ as a cutoff for dismissing multicollinearity problems (Lewis-Beck 1980). To examine possible multicollinearity problems associated with linear combinations of

TABLE 2 Correlation Matrix

Items	Correlations							
	1	2	3	4	5	6	7	8
1. Years in system (squared)	---							
2. Perceived discretion	-0.13	—						
3. Consensus on desired ends: goals and values	-0.08	0.46 ^a	—					
4. Product/brand development	0.03	0.07	0.22 ^a	—				
5. Efficiency	-0.09	0.36 ^a	0.56 ^a	0.44 ^a	—			
6. Customer service	-0.03	0.47 ^a	0.43 ^a	0.32 ^a	0.43 ^a	—		
7. Competitive advantage	-0.21 ^a	0.50 ^a	0.50 ^a	0.30 ^a	0.44 ^a	0.33 ^a	—	
8. Satisfaction	-0.10	0.48 ^a	0.75 ^a	0.21 ^a	0.52 ^a	0.36 ^a	0.64 ^a	—
9. Business performance	-0.48 ^a	0.28 ^a	0.37 ^a	0.04	0.32 ^a	0.22 ^a	0.38 ^a	0.46 ^a

^a $p < 0.01$.

independent variables, we regressed all independent variables on each other. While R-squareds approaching 1.0 reveal the existence of multicollinearity problems (Lewis-Beck 1980), our analysis yielded R-squareds of 0.23 to 0.44, suggesting that multicollinearity did not represent a problem in our study.

Table 3 contains means, standard deviations, and *t*-tests for our analysis of perceived consensus among franchisees and franchisors on the means of competition. Franchisees reported significant differences ($p < .05$) between their attitudes and those they attributed to their franchisors on 13 of 15 items, indicating the existence of dissension on competitive methods. Thus, support existed for hypothesis one (H1): franchisees perceived dissension to exist with franchisors on the means of competing in retail operations. Franchisees believed they emphasized each of the 13 items more than their franchisor. They placed the highest priorities—reporting mean values of 4 or greater on a 5-point scale—on cleanliness of operations, improved product quality, reduced labor and supply costs, procuring quality supplies, providing speedier service, improving employee training, and improving service quality. Sur-

TABLE 3 Comparison of Measures of Consensus on Means of Competition

	Franchisee		Franchisors		<i>t</i> -Value Probability
	Mean	SD	Mean	SD	
Cleanliness	4.44	0.67	3.96	0.87	0.000
Improved product quality	4.01	0.92	3.73	0.95	0.001
Pricing below competitors	2.89	1.12	2.66	1.14	0.034
Reducing labor and supply costs	4.19	0.81	2.93	1.21	0.000
Procuring quality supplies	4.06	0.83	3.66	1.03	0.000
Speedy and predictable delivery	3.85	0.97	3.39	1.15	0.000
New product introductions	3.13	1.05	3.15	1.07	0.857
Refining existing products	3.33	1.10	3.09	0.97	0.010
Building brand identification	3.64	1.14	3.61	1.12	0.752
Reducing inventory costs	3.64	1.13	2.48	1.15	0.000
Innovating in marketing	3.58	1.07	3.13	1.13	0.000
Improving production processes	3.55	0.98	2.95	1.08	0.000
Speedier service to customers	4.32	0.72	3.65	1.18	0.000
Improving employee training	3.96	0.79	3.68	1.04	0.001
Improving service quality	4.39	0.64	3.86	0.99	0.000

n ranges from 154 to 158.

Means represent average values based on a 5-point Likert scale (1 = no emphasis; 5 = major constant emphasis).

TABLE 4 Regression Analysis: Consensus on Desired Ends: Goals and Values

	Competitive Advantage	Satisfaction	Business Performance
Constant	16.75 ^a (2.36)	8.48 ^a (2.53)	13.31 ^a (2.26)
Years in system (squared)	-0.004 ^b (0.002)	-0.0005 (0.002)	-0.01 ^a (0.002)
Perceived Discretion	0.28 ^a (0.06)	0.18 ^a (0.06)	0.12 ^b (0.05)
Consensus on desired ends: goals and values	0.61 ^a (0.12)	1.51 ^a (0.13)	0.46 ^a (0.12)
R ²	39.19	58.70	33.89
F value	32.44 ^a	72.03 ^a	25.80 ^a

^a*p* < .01.

^b*p* < .05.

Standard errors shown in parentheses.

Degrees of freedom equal (3 & 151) for the competitive advantage equation and (3 & 152) for regressions for satisfaction and business performance.

prisingly, in an industry characterized by high competition, franchisees rated pricing below competitors as the least important consideration. Franchisees also believed they and their franchisor place fairly equal emphasis on new product introductions and building brand identification.

Secondary analyses of subsamples, not shown, revealed possible curvilinear relationships between dissension and franchisees' experience in the franchise system. We split the sample into quartiles to separate out franchisees with the least experience (1 to 5 years) and those with the most experience (16+ years). *T*-test for franchisees with the least experience yielded significant differences on only eight items; analyses of franchisees with the greatest experience also produced significant *t*-values on just eight items. Franchisees with 6 to 15 years of experience reported significant differences in attitudes on 14 of 15 items. Smaller *n* sizes (about 44) could explain the occurrence of few significant *t*-values for franchisees in each tail of our distribution but would not explain the continued strong dissension for franchisees in the middle two quartiles.

H2, H3, and H4 predict that consensus—on the means of competition and desired ends—relates positively to a competitive advantage for the firm, higher business performance of retail operations, and higher franchisee satisfaction. Results of our regression analysis, shown in Tables 4 and 5, provided partial support for all three hypotheses.

Consensus on desired ends (goals and values), reported in Table 4, explained much of the variance in competitive advantage ($R^2 = 39.19\%$), franchisee satisfaction (58.70%), and business performance (33.89%). Consensus on desired ends exhibited statistically significant regression coefficients in all 3 equations. Thus, strong support existed for our hypotheses (H2, H3, H4) predicting relationships between consensus on desired ends and competitive advantage, business performance, and franchisees' satisfaction.

Consensus on competitive methods in the fast food industry, shown in the top half of Table 5, explained much of the variance in competitive advantage ($R^2 = 40.23\%$) and franchisee satisfaction (39.44%), and a slightly smaller amount of the variance in business performance (31.25%). Consensus on product/brand development related significantly and positively to competitive advantage, whereas consensus on the means of pursuing efficiency exhibited significant positive associations with satisfaction and business performance. Perceived consensus on customer service did not yield significant relationships with performance variables, even though it constituted a key factor describing competition in this industry.

TABLE 5 Regression: Consensus on the Means of Competition and Combined Means-Ends Analysis

	Competitive Advantage	Satisfaction	Business Performance
Consensus on the means of competition			
Constant	26.47 ^a (1.56)	31.27 ^a (2.01)	19.86 ^a (1.54)
Years in system (squared)	-0.003 (0.002)	-0.0004 (0.002)	-0.01 ^a (0.002)
Perceived discretion	0.38 ^a (0.06)	0.38 ^a (0.08)	0.16 ^b (0.06)
Consensus on means for product/brand development	0.44 ^a (0.14)	0.14 (0.18)	-0.09 (0.14)
Consensus on the means of pursuing efficiency	0.30 (0.16)	0.88 ^a (0.21)	0.32 ^a (0.16)
Consensus on the means of providing customer service	-0.05 (0.002)	0.08 (0.27)	0.21 (0.20)
R ²	40.23	39.44	31.25
F value	18.44 ^a	17.97 ^a	12.45 ^a
Consensus on the means and desired ends			
Constant	19.20 ^a (2.60)	11.36 ^a (2.80)	14.62 ^a (2.55)
Years in system (squared)	-0.004 (0.002)	-0.001 (0.002)	-0.01 ^a (0.002)
Perceived Discretion	0.32 ^a (0.06)	0.23 ^a (0.07)	0.12 (0.06)
Consensus on means for product/brand development	0.45 ^a (0.14)	0.17 (0.15)	-0.09 (0.13)
Consensus on the means of pursuing efficiency	0.04 (0.17)	0.19 (0.19)	0.13 (0.17)
Consensus on the means of providing customer service	-0.14 (0.20)	-0.16 (0.22)	0.14 (0.20)
Consensus on desired ends: goals and values	0.51 ^a (0.15)	1.39 ^a (0.16)	0.37 ^b (0.14)
R ²	45.00	61.02	34.39
F value	18.55 ^a	35.75 ^a	11.88 ^a
R ² change	4.77	21.59	3.14
F change	11.81 ^a	75.88 ^a	6.51 ^b

^a*p* < 0.01.^b*p* < 0.05.

Standard errors shown in parentheses.

Degrees of freedom equal (5 & 134) for the competitive advantage equation and (5 & 136) for regressions for satisfaction and business performance.

We examined the combined impact of consensus on means and ends in the bottom half of Table 5. Explained variances increased significantly for competitive advantage ($R^2 = 45.0\%$), franchisee satisfaction (61.02%), and for business performance (34.39%). Years in the system, perceived discretion, consensus on product/brand development, and customer service yielded stable coefficients across analysis, showing no signs of multicollinearity. Consensus on the means for pursuing efficiency yielded markedly lower, nonsignificant coefficients, revealing the existence of multicollinearity with consensus on ends. Coefficients on consensus on desired ends remained stable across Tables 4 and 5, however, suggesting that consensus on ends represented the stronger correlate with competitive advantage, satisfaction, and business performance. These results provided partial support for H1, H2, and H3, because consensus on some methods of competing related positively to competitive advantage, business performance, and franchisees' satisfaction.

Our measure for discretion yielded statistically significant relationships with competitive advantage and satisfaction in both Tables 4 and 5. Franchise systems performed better and franchisees gleaned more satisfaction from their partnership when greater freedom existed in operating decisions. Years in the franchise system (squared) related negatively to business performance in our analysis of consensus on means and ends (Tables 5 and 6), and related negatively to competitive advantage in the analysis of consensus on ends. Franchisees with greater tenure in the franchise system had lower perceptions of their future business performance and their franchise's competitive advantage, possibly reflecting growing pessi-

mism, less ambition, or that they managed older, less attractive retail outlets than relatively new franchisees.

CONCLUSION

Our results show statistically significant differences between franchisees' emphasis on competitive methods and those they attribute to their franchisor. These differences may represent major conflicts or minor rifts—the reader must decide. We conclude, though, that dissension occurs in franchisee-franchisor relations despite evidence that consensus relates positively with the franchise system's competitive advantage, business performance in retail operations, and franchisees' satisfaction. We discuss contributions of our research, acknowledge limitations of our study, and offer suggestions for future research. Our results impact franchisees and franchisors, an issue we address in our implications section.

Contributions

We extend research in strategic management by showing linkages between perceived consensus among franchisees and franchisors on competitive methods or desired ends and competitive advantage, business performance, and franchisee satisfaction. Strategy researchers report statistically significant connections between consensus on the means of competing and performance measures (e.g., Bourgeois 1980) and less important linkages between consensus on desired ends and performance measures. Consensus on desired ends consistently yielded positive relationships with performance measures in our analysis. Our results show that within-firm analyses of consensus in the strategic management literature do not perfectly generalize to franchise relationships or other cooperative ventures.

Our study continues a trend away from atomistic models of entrepreneurship, contributing to theories of cooperative arrangements that explain the formation of new organizations, procurement of resources, and growth through network relationships (Larson 1991; Larson and Starr 1993; Shepherd 1991). Franchisees exist in a network, possibly beginning their relationship with franchisors at a knowledge disadvantage about the business formula and operating methods. Franchisees may need advice and franchisors may need to police franchisees to comply with expected standards for operations, as accepted theories of franchising imply (e.g., Brickley, Dark, and Weisbach 1991). Over time though, franchisees may exercise entrepreneurial initiative and gain local knowledge about their markets; they adopt their own standards for conduct, possibly exceeding those of their franchisor—as our results suggest.

The dynamic character of franchise relationships requires additional investigation, but we believe theories promoting monitoring and policing actions by franchisors better describe relations with new or renegade franchisees, rather than with franchisees like those in our sample. Indeed, novice field representatives may feel reticent to advise or monitor franchisees with 10 years of experience and 4.6 retail units—averages for our sample. Franchisors may perform better by recognizing franchisees' experience and commitment (reflected in their high standards) and by encouraging communication about goals, values, and methods.

Our results show that consensus among franchisees and franchisors on methods and desired ends relates positively with performance, but we cannot infer causality. Consensus on means and ends may result in higher business performance, more satisfied franchisees, and a competitive advantage for the franchise system. Alternatively, franchisees performing well, satisfied with the relationship, and benefiting from a strong competitive advantage may

assume they share common means and ends with their franchisor. Perceptual measures, combined with our static research design, prevent us from interfering causal relationships—an issue for future studies using other methodologies.

Our study contributes to the franchising literature, illuminating franchisee-franchisor relations and the nature of competition in the fast food industry. Overall, consensus does not exist among franchisees and franchisors. Consensus on means for product/brand development relates positively to the franchise system's competitive advantage, whereas consensus on the means of pursuing efficiency exhibits a positive relationship with business performance and franchisees' satisfaction. These results affirm descriptions of franchise systems as requiring a nationally recognized brand name and efficient back-office operations, with customer service occurring locally. Customer service should reflect characteristics of franchisees and their local markets, reducing the importance of consensus on this dimension. Indeed, franchisees likely resent interference concerning their personalized treatment of customers, making them less satisfied with franchisor-franchisee relations and less confident in the franchisors' ability to compete.

Limitations

We suspect the influence of consensus on means and ends remains important in other contexts, but cannot assume how far our results generalize to other industries, cooperative ventures, or across countries. Network partnerships and constellations involve entrepreneurs operating at physically separate locations, facing disparate challenges, with many displaying entrepreneurial attributes. They require cooperation among partners (Larson 1992), with consensus-enhancing and dissension-damaging performance. The specific means, goals, and values on which members can disagree and those on which they must agree likely vary across industries and cooperative ventures, however, with differences in contracts across countries mitigating disputes and the need for legal remedies (Leblebici and Shalley 1996). In sum, the potential for dissension exists in the fundamental disposition of network relationships, but our results may not perfectly generalize. We encourage researchers to test consensus-performance relationships in other industries, cooperatives, and countries.

Potential method covariance exists in our study, because we use perceptual measures. Linkages among perceived consensus, discretion, satisfaction, and competitive advantage may reflect common biases, but we do not believe the use of perceptual measures presents a serious limitation. Our study explores franchisees' attitudes concerning agreement with their franchisor, a subjective concept. It shows a lack of perceived consensus among franchisees and franchisors likely affects interactions—attitudes undoubtedly do. Measures obtained separately from franchisors and franchisees would reduce method covariance but would not capture franchisees' attitudes about their franchisor, reflecting perceived consensus or dissension. We do not believe franchisees reported skewed responses—associated with excessively combative or compliant attitudes—because questionnaire items exhibited normal distributions. Relationships between consensus on means and ends and our three dependent variables also varied greatly, whereas we would expect to see fairly consistent linkages if method covariance posed a serious problem.

We encourage researchers to broaden measures of desired ends to include more specific goals and values and gather data from multiple participants in cooperative ventures. An opportunity exists to explore the magnitude of dissension, major conflicts or minor rifts. Researchers can improve on our analysis of consensus and dissension by clarifying franchisees' and franchisors' roles, improving the specification of contracts and relationships over time,

and then identifying dimensions on which parties must agree or can disagree. They should also continue to attempt to obtain objective measures of performance, such as sales, income, and profit margins. Franchisees resist sharing this information, but they may agree if researchers can provide them with results relevant to critical issues affecting their business.

We caution researchers about difficulties in gathering survey data from franchisees—plus the tentative nature of our conclusions and recommendations. We encountered serious problems in distinguishing franchised restaurants from company-owned outlets, estimating the impact of multi-unit ownership, and separating out failed units. Franchising has increasingly become a multi-unit phenomenon (Kaugmann and Dant 1996), with franchisors in our sample reporting 2.22 to 9.24 retail outlets per franchisee. These numbers appear to be increasing as franchisors tap into known pools of existing franchisees to sell new units (Bradach 1995). Further, researchers have not yet established reliable estimates of the attrition rate for franchise outlets, but failures may run as high as 35% with an additional 6% of franchisees selling their units (Bates 1995). We also confronted indifference from franchisees and explicit policies against sharing information about franchisor-franchisee relations. Thus, our experiences suggest that other researchers can anticipate major obstacles in conducting survey research among franchisees. Researchers need to take additional steps to emphasize the importance of the research, offer incentives, gain entry by other means, or consider methods other than survey research. These issues may present greater problems for researchers examining relationships in the fast food industry, with its increasing competition, so researchers may want to explore franchisees' willingness to share information in less competitive industries.

Implications

We addressed the question of whether dissension exists in franchise relations—the answer is yes. Too, we show that consensus relates positively to performance—but not universally so. Consensus on means and ends represent important considerations, but franchisors should examine their methods to identify dimensions on which franchisees must agree and those allowing room for dissension. Franchisees value discretion and may revolt if unduly constrained, especially if franchisors impinge on decisions made by experienced franchisees about how to compete at the local level. Franchise systems may operate more successfully and franchisors may experience fewer disputes when franchisees have latitude regarding some competitive methods. Franchisors' efforts to allow greater discretion and create consensus may also prevent government from imposing new franchising laws and regulations, including those aimed at expanding franchisees' right to sue their franchisor (Tannenbaum 1994).

Our results also suggest that franchisees should concentrate their dissension on methods relevant to competing in local markets. Franchisees clearly disagree with franchisors about the means of competing, as our results show, but their discontent may stem from confusion about the disparate role of franchisors and franchisees—an issue for future research. Franchisors have an obligation to pursue product or brand development and efficiency in back-office operations, whereas franchisees' responsibilities pertain to competing effectively in local markets. Disputes likely occur when partners trespass in the other's domain.

Finally, franchisors and franchisees should acknowledge the importance of forming consensus on desired ends within the franchise system, a major finding in our study. Franchise systems represent cooperative ventures among entrepreneur and corporate types. Great potential exists for dissension, owing to the physical separation of franchisees and franchisors, entrepreneurial characteristics of franchisees, and the disparate roles and challenges of each

party. Franchise partners can easily forget that franchising originally involved values such as trust and respect, and they may overlook the need for common goals. In the absence of common goals and values, though, parties usually settle disputes through arbitration and lawsuits—they face the potential dissolution of their cooperative ventures.

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