

## **Is the franchising model attractive to independent small business operators?**

### **Stephen Bennett**

PhD Candidate

Asia-Pacific Centre for Franchising Excellence

Griffith University

Brisbane

Australia

Tel: +61 0414 783 026

Email: [Stephen.Bennett@student.griffith.edu.au](mailto:Stephen.Bennett@student.griffith.edu.au)

### **Lorelle Frazer**

Professor in Marketing

Asia-Pacific Centre for Franchising Excellence

Griffith University

Brisbane

Australia

Tel: +61 7 3382 1179

Fax: +61 7 3382 1190

Email: [L.Frazer@griffith.edu.au](mailto:L.Frazer@griffith.edu.au)

### **Scott Weaven**

Senior Lecturer in Marketing

Asia-Pacific Centre for Franchising Excellence

Griffith University

Gold Coast

Australia

Tel: +61 7 5552 9216

Fax: +61 7 5552 8085

Email: [S.Weaven@griffith.edu.au](mailto:S.Weaven@griffith.edu.au)

Presented at the 23<sup>rd</sup> Annual  
International Society of Franchising Conference  
Manchester Grand Hyatt  
San Diego, U.S.A.  
February 12-14, 2009

## **Is the franchising model attractive to independent small business operators?**

### **Abstract**

A shortage of suitable franchisee applicants has been identified by franchisors as a major hindrance to franchise sector growth in Australia. However, there has been little investigation into this issue within organisational choice research. This represents an *important gap* in the literature. In order to explore the issue of franchisee shortage, it was necessary to determine why individuals chose to enter franchising as a franchisee or why they chose to become small independent business operators.

Interviews with 10 franchisees and 10 independent small business operators were conducted in Brisbane, Australia. The interviews investigated the characteristics of franchisees and independent small business operators, and looked for differences between the two groups. Whilst their risk profiles were similar, franchisees were less likely to conduct much research prior to making a business choice.

Franchisees considered ongoing support, the provision of training and a proven system with established processes to be very important. Alternatively, independent small business operators preferred to exercise absolute control over their businesses, relying on knowledge and skills gained in prior employment and valuing their independence. Franchising appeared to offer the dual benefits of facilitating entry into business in an unfamiliar industry for inexperienced operators as well as providing a vehicle for growth and expansion for investors with previous corporate management experience. Opportunities for franchisors to attract independent business operators include addressing the negative image attached to franchising and demonstrating that the franchise system is not restrictive for entrepreneurs.

### **Keywords:**

Self employment, independent, small business operator, multiple unit ownership

## **Is the franchising model attractive to independent small business operators?**

### **Introduction**

The Australian franchising sector has achieved consistent growth since the 1980s with franchising activity representing 12 percent of the country's GDP (IBIS, 2006). There are 1100 business format franchisors operating a total of 71400 franchise units in Australia (Frazer, Weaven & Wright 2008). Given Australia's small population of 21.5 million, the density of franchising activity is higher than more mature franchising sectors such as the United Kingdom or United States of America (Reynolds 2004). However, in a recent national survey of franchisors it was found that Australian systems may be unable to expand at the rate they desire, due to difficulties in obtaining franchisee finance and a shortage of suitable franchisee applicants (Frazer et al., 2006). Furthermore, previous research shows that the shortage of suitable franchisees is not a recent phenomenon (Knight, 1986b, McGuire, 1971), In Australia, franchising accounts for only 3.7 percent of small business activity (Frazer et al., 2008). There is some evidence that independent small business operators will consider franchising as a model of business operation. In a recent Australian study franchisors indicated that 43 percent of their franchisees previously operated their own small businesses (Frazer et al., 2008). Hence, a solution for overcoming the current shortage of suitable franchisee operators may be found by recruiting current owners of independent small businesses.

As little is known about the differences between franchisees and independent small business operators (Knight, 1986b, Sardy and Alon, 2007), the purpose of this research was to use an exploratory approach to reveal common and dissimilar characteristics of these two groups. Analysis of the data might then ascertain whether franchisors may be able to increase recruitment from amongst small business operators. Hence we pose the following research question:

*What are the characteristics of franchisees and independent small business operators?*

The paper is organised as follows. Firstly, literature pertaining to motivations for franchising and choice of business model from franchisor and franchisee perspectives is reviewed. Next, the choice of qualitative methodology is defended and explained prior to presenting the data analysis, which culminates in a business choice model. Finally, conclusions are made through an interpretation of the findings and discussion of the implications of the research for both practice and management.

## **Literature review**

Several theories have been used to explain the incidence of franchising, the two most compelling being capital constraint and agency theory. *Capital constraint* (resource scarcity) occurs where there is a scarcity in capital resources, management talent or local market knowledge (Combs and Castrogiovanni, 1994). The theory is normally applied to young organisations that do not have sufficient capital or managerial talent to grow (Norton, 1998). Franchising is said to provide these organisations with the resources needed to accelerate growth to assist in reaching a minimum efficient scale of operation, build brand name and capital reserves (Caves and Murphy, 1976, Martin, 1998, Oxenfeldt and Kelly, 1968-69). However, (Rubin, 1978) discounts the validity of the capital constraint explanation citing financial portfolio theory. In particular, franchising is said to be an inefficient means of raising capital, as risk in one unit is entirely undiversified. Indeed, many franchisors offer their franchisees finance (Frazer and Weaven, 2004), suggesting that they do not rely entirely on franchisee capital to expand.

Capital constraint theory suggests that as franchisors grow, they will repurchase franchised units, because they will have fewer capital constraints (Combs and Castrogiovanni, 1994). Until recently this did not appear to be the case in Australia, but recent data on the sector indicates a growth in company unit ownership, possibly providing support for this ownership redirection hypothesis (Frazer et al., 2006). Regardless of any capital constraints, a franchise system will always be subject to agency issues (Combs et al., 2004).

*Agency theory* is an attempt to define a relationship where one party (the principal/franchisor) delegates work to another (the agent/franchisee), who performs the work (Jensen and Meckling, 1976). Agency relationships pose two problems. The first is the issue of *information asymmetry* (hidden information) where the principal is not cognisant of whether a prospective franchisee has the desired characteristics that the principal is seeking (Axelrad and Rudnick, 1987, Spake et al., 1999). The second issue is *moral hazard* (hidden action) and occurs post contractually when a franchisee fails to perform at the expected level (Brickley et al., 1991, Eisenhardt, 1989b, Mathewson and Winter, 1985, Rubin, 1978, Thomas et al., 1990). Franchisors attempt to overcome these two problems by implementing incentive-based contracts (Lafontaine and Slade, 1998). Choosing plural forms of operation (a mixture of franchised and company

owned units) is often adopted by franchisors and minimises the possibility of free riding by franchisees (Blair and Lafontaine, 2005).

In considering *efficiency incentives*, it is important to note that most agency models define efficiency from the principal's point of view (Bergen et al., 1992). In franchising, they relate to the incentive that a franchisee has, to maximise the value of his/her franchise, which in turn increases the value of the whole system to the franchisor's benefit. The two main incentives are proportion of risk and the ability of the franchisee to claim residual profits (Fama and Jensen, 1983). In agency theory, the assumptions are that agents are motivated by self-interest, are rational actors, and are averse to taking risks (Eisenhardt, 1989b). Therefore, principals can motivate agents through controlling their incentives (Gomez-Mejia and Balkin, 1992). The franchisor is not as concerned with risk, as risk is spread over the entire franchise network. Proportionally, a franchisee takes a far greater risk because most, if not all, of his/her capital is tied up in the franchise, so there is a major incentive to protect and enhance the investment (Demski and Feltham, 1978, Harris and Raviv, 1978, MacCrimmon and Wehrung, 1986).

By being able to claim residual profits, which in a non-franchised organisation would return to the principal, the franchisee (agent) is motivated to maximise both profits and the present value of the franchise (Combs and Castrogiovanni, 1994). As effective management is the only way of recovering their investment (with an acceptable long run return) (Alchian and Demsetz, 1972, Carney and Gedajlovic, 1991, Norton, 1998), the franchisor can spend less effort in monitoring the management of the franchisee and more on improving their relationship.

From the franchisor's perspective, capital constraint and agency theory help to explain why franchisors undertake franchising, and efficiency incentives suggest why franchisees are motivated to maximise their efforts. However, from the *franchisee's perspective* the literature shows that franchising offers franchisees the advantage of belonging to a large chain, while at the same time being an independent business person (Hunt, 1997). Training, assistance, independence, an established brand image, national promotion, and reduced risk were also thought to be important (Mendelsohn, 2004). Additionally, several benefits of franchising have been identified and include lower development costs, established name, lower operating costs, less involvement, greater independence, better investment and training (Izreali, 1972, Weaven and Frazer, 2006).

Furthermore, prior research asked individuals why they joined a franchising system as a franchisee, and it was found that although franchisees wanted to run their businesses independently, they believed that the availability of intra-system support, a proven concept, brand name and reduced risks of failure made franchising more attractive than fully independent business operations (Baron and Schmidt, 1991). Similarly, another survey of franchisees found that the benefit of a known trade name, the higher independence and job satisfaction enjoyed, as well as easier business development were the primary reasons to be a franchisee (Knight, 1986a). Franchisees often choose the franchise option in order to become their own boss, and to run a business making their own decisions while profiting from a proven business concept (Elango and fried, 1997, Peterson and Dant, 1990). Moreover, the decision to join a franchise may be a subset of a larger decision to exit employment or seek self-employment (Kaufmann and Stanworth, 1995).

On the other hand, motivations for individuals entering a small independent business include the need for independence, locus of control, goal setting and egoistic passion (Shane et al., 2003; McClelland, 1965; Locke et al., 1984; Murphy and Riggio, 2003). The above attributes reflect individuals who love their work passionately and believe they are in control of their own destiny. Additionally, independent small business operators need to achieve, possess self-efficacy, are high risk takers and have a tolerance for ambiguity (Shane et al., 2003; Robbins et al., 2001; McClelland, 1965; Janis and Mann, 1977; Rowe and Boulgarides, 1992). Achievement is defined as having mastery of skills, self-efficacy is the belief in one's competence to perform specific tasks, high risk takers are thought able to make more rapid decisions with less information, while individuals tolerant of ambiguity are described as analytical thinkers who desire more information and consider additional alternatives. Moreover, goal setting is interrelated with self-efficacy, because the higher an individual's self-efficacy, the more challenging their goals will be (Locke et al., 1984). Although conflict exists between being a high risk taker and having a tolerance of ambiguity, it appears that these attributes come into ascendancy at different times.

The literature review notes that there are some common traits between franchisees and independent small business operators. However, limited academic attention has been given to what might *induce* independent small business operators to become franchisees (Kaufmann, 1999). Whereas Kaufmann (1999) and (Mazzeo, 2004) compared the

decision making process between franchisees and independent operators, the current study compares their characteristics. Similarly, Kaufmann and Stanworth (1995) studied prospective franchisees, whereas our research compares both currently operating franchisees and small independent business owners. Therefore, it is necessary to investigate and compare the characteristics of both franchisees and small independent business operators to determine what, if anything, would encourage independent small business operators to consider becoming a franchisee.

## **Methodology**

This research used a qualitative approach as it was exploratory in nature and it aimed to define the research question (Hancock and Algozzine, 2006; Neuman, 2006). Qualitative research typically asks ‘what’ questions (Yin, 2003), as in the current study. Hence it was appropriate to use semi-structured interviews because this approach allowed the researchers to follow up unanticipated and important issues that emerged during the interviews (Smith and Osborn, 2003). Also, because the research topic involved a number of issues pertaining to choice of business ownership, and as it was essential to ‘unpack’ how and why the participants behaved in the manner they did, a qualitative approach was chosen (Miles and Huberman, 1994).

The sample was made up of 20 individuals operating in the retail (food and non food) sector, comprising 10 franchisees and 10 independent small business operators located in Brisbane, Australia. It was believed that by confining the sample to retail operations located within a single region, extraneous factors would be reduced, resulting in a better comparison between the two business models (Malhotra et al., 2004). Convenience sampling was used to select suitable subjects for the research (Sekeran, 2003) and, where possible, respondents were matched to provide balance in the samples. For instance, both a bakery franchise and an independent bakery were included. The sample size falls within generally acceptable limits (Perry 1998).

The participants were provided with an information sheet about the research and asked to sign a consent form prior to the commencement of the interviews. Interviews were taped, with participant’s consent and later transcribed. Interviews ranged from 20 to 60 minutes in length, depending on the willingness of participants to engage and to take time away from their operations. NVivo7 qualitative analysis software (QSR, 2006) was used to enhance reliability, by maintaining stringent observance of a prearranged

and controlled approach to recording, transcribing, writing and interpreting data (Rao and Perry, 2003). This helped to reduce random error and therefore provide consistent results (Zikmund, 2003).

### Data analysis

A profile of the participants and their characteristics will now be provided. The respondents were either franchisees or independent small business owners, encompassing mobile units and fixed sites, and including local operations through to national systems. Start-up costs ranged from AUD\$10 000 to AUD\$1 million and the majority of respondents (15) had been operating their businesses for a minimum of three years. Respondents were selected for their ease of accessibility, and because they fitted the desired research profile of operation in the retail sector. Table 1 lists the main themes that were explored in the interviews.

**Table 1**  
**Themes explored**

|  |   |
|--|---|
| <p><b>Personal and Business Profile</b><br/>Age of owner<br/>Business qualifications<br/>Length of time in current business<br/>Current income level<br/>Previous work experience<br/>Investment costs<br/>Multiple unit ownership</p> | <p><b>Family background</b><br/>Parents' work/business history<br/>Education level of parents<br/>Involvement of life partner<br/>Involvement of children/other family<br/>Succession planning</p>  |
| <p><b>Preparation for Business</b><br/>Time spent seeking business opportunity<br/>Depth of opportunity evaluation<br/>How current business was developed</p>  | <p><b>Attitudes</b><br/>Reasons for choice of business model<br/>Willingness to repeat business choice<br/>Understanding of franchising<br/>Perceptions of franchising<br/>Perception of risk<br/>Short term plans<br/>Vision of future</p> |

In this research, respondents from both business models tended to *enter* business when they were quite mature, with most starting their businesses when aged from 30 to 50 years. Participants had been operating their businesses from 1 to 20 years. *Ambitions* were varied and ranged from seeing out the lease on their business premises for one small independent operator to a multi-unit franchisee owner wanting to downsize his holdings and work as a training specialist for his franchisor. Another multi-unit franchisee was seeking expansion opportunities in a different franchise system which would compliment his current business operation. Alternatively, four respondents stated

that they had no ambitions because of their age or were happy with their current situations.

Business *qualifications* included formal degrees in accounting and business studies, as well as training provided by franchisors, trade qualifications, and general business courses. Five respondents stated they had no business qualifications at all, indicating that a lack of business education does not act as a deterrent. All the independent business operators indicated they would repeat their business choice, whereas only six of the ten franchisees were prepared to do so. Moreover, five of these six franchisees currently held multiple units in their systems. They also had corporate experience prior to entering the franchising sector reflecting the superior management skills required of multiple unit owners. Perhaps even more interesting was the revelation that several of the multiple unit franchisees were considering expanding their business network even further, not by opening more franchised units but by purchasing or starting up independent businesses in complementary industries. For instance a franchisee who was operating two bakery outlets was in the process of opening his own independent Chinese food restaurant with the intention of running all three businesses concurrently. In these cases franchising appeared to be useful as a stepping stone to higher levels of business involvement. A profile of the participants is provided in Table 2.

A major focus of the study was to explore the amount of *preparation* and research that participants devoted to the decision making process prior to entering their current business. The interviews revealed that four of the independent operators were possibly influenced by a funnelling process, whereby their qualifications or experience directed them towards certain business opportunities. Half of the respondents (equal number of franchisees and independent operators) had been seeking a business opportunity and spent from one month to more than a year in their searches. Five franchisees stated that they had not undertaken any evaluation of business opportunities prior to purchasing their current business compared to only one small independent operator not doing so. This finding suggests that there may be an element of spontaneity in business selection by prospective franchisees, as illustrated by one franchisee stating: ‘Actually I went along with a friend who was interested in a franchise system, and I thought while I was listening to the presentation I might be interested in doing this myself.’ However, some respondents evaluated other business opportunities as part of their research although the franchisees were less rigorous in their investigations, perhaps relying on the reputation

or size of the franchise system as a substitute for their own endeavours. When asked which alternative investment choices he had investigated one franchisee stated: ‘XXX Printing was one; I also had a look at a XXX Bakery and I even rang XXX Pizza, but I did not go into too much detail, just superficial enquiries’.

**Table 2**  
**Participant profile**

| <b>Gender</b>                     | <b>Number of franchisees</b> | <b>Number of independents</b> | <b>Total Number</b> | <b>Total Percent</b> |
|-----------------------------------|------------------------------|-------------------------------|---------------------|----------------------|
| Male                              | 8                            | 9                             | 17                  | 15%                  |
| Female                            | 2                            | 1                             | 3                   | 85%                  |
| <b>Total</b>                      | 10                           | 10                            | 20                  | 100%                 |
| <b>Age on entry into business</b> |                              |                               |                     |                      |
| 18 – 30 years                     | 2                            | 2                             | 4                   | 20%                  |
| 31 – 40 years                     | 4                            | 2                             | 6                   | 30%                  |
| 41 – 50 years                     | 3                            | 5                             | 8                   | 40%                  |
| 51 – 60 years                     | 1                            | 1                             | 2                   | 10%                  |
| <b>Total</b>                      | 10                           | 10                            | 20                  | 100%                 |
| <b>Marital Status</b>             |                              |                               |                     |                      |
| Married                           | 8                            | 9                             | 17                  | 85%                  |
| Separated/divorced                | 2                            | 1                             | 3                   | 15%                  |
| <b>Total</b>                      | 10                           | 10                            | 20                  | 100%                 |
| <b>Educational level achieved</b> |                              |                               |                     |                      |
| High School                       | 4                            | 2                             | 6                   | 30%                  |
| TAFE                              | 1                            | 4                             | 5                   | 25%                  |
| University                        | 5                            | 4                             | 9                   | 45%                  |
| <b>Total</b>                      | 10                           | 10                            | 20                  | 100%                 |

Table 3 compares the number of business opportunities participants evaluated prior to purchasing their current business.

**Table 3**  
**Evaluation of businesses opportunities prior to purchase**

| Research effort               | Franchisees | Independent Operators |
|-------------------------------|-------------|-----------------------|
| Funnelled into an opportunity | 0           | 4                     |
| No effort                     | 5           | 1                     |
| Explored 1 opportunity        | 3           | 3                     |
| Explored 2 – 5 opportunities  | 2           | 2                     |
| <b>Total</b>                  | 10          | 10                    |

The participants' perceptions of the differences between franchising and independent small business operation was determined by the respondent's business model. Franchisees believed that franchising provides the advantages of a proven system, training and support: "We felt that a franchise network gave us the support and structure in our first business to really focus on building the business". In contrast, small independent operators saw franchising as taking away control and restricting their independence, such as this independent newsagent:

'Franchising is good. I am sure that there are a lot of good ones out there but it seems that every time you turn around someone is trying to franchise a business idea and put their hand out for a lot of money which may not give value for your dollar. A lot of franchises are really untested and people want to charge \$200 000 (for a concept) that has not been proven.'

Hence, perceptions of franchising appeared to be related to what participants were seeking and what they valued most in a business venture. The perceived level of risk taking varied from person to person and appeared to be influenced by previous employment and business experiences, rather than by their choice of business model. Further, opinions of franchising ranged from five franchisees and one independent operator having a positive opinion, with two franchisees and four independents being neutral and two franchisees and three independents having negative opinions. The latter results may have been in consequence of self-serving bias, which is the attribution of success internally and failure externally (Duval and Silvia, 2002).

Participants chose the respective business models of franchising or independent operations because they were attracted to a specific offering in franchising systems and processes or they were wary of franchising and wanted to be in control of their business, which supports earlier research (Kaufmann and Stanworth, 1995).

Additionally, table 4 shows the varying reasons categorised by business model that motivated participants to enter into business.

**Table 4**  
**Purchasing motivations of participants by business model**

| Motivation  | Franchisee | Independent |
|---|------------|-------------|
| Made redundant  |            | 1           |
| Price and closeness to home                             |            | 1           |
| It was a ready made business                            | 1          |             |
| Impressed with particular business                      | 6          | 1           |
| A spontaneous decision                                  | 1          |             |
| Knew a current franchisee                               | 1          |             |
| Following family tradition                              |            | 1           |
| Wanted to do own thing                                  |            | 1           |
| Previous industry experience                            |            | 2           |
| Had enough of franchising – wanted to be independent    |            | 1           |
| Love of job   |            | 1           |
| Local business – felt its performance could be improved |            | 1           |
| Complemented hobbies                                    | 1          |             |
| <b>Total</b>  | 10         | 10          |

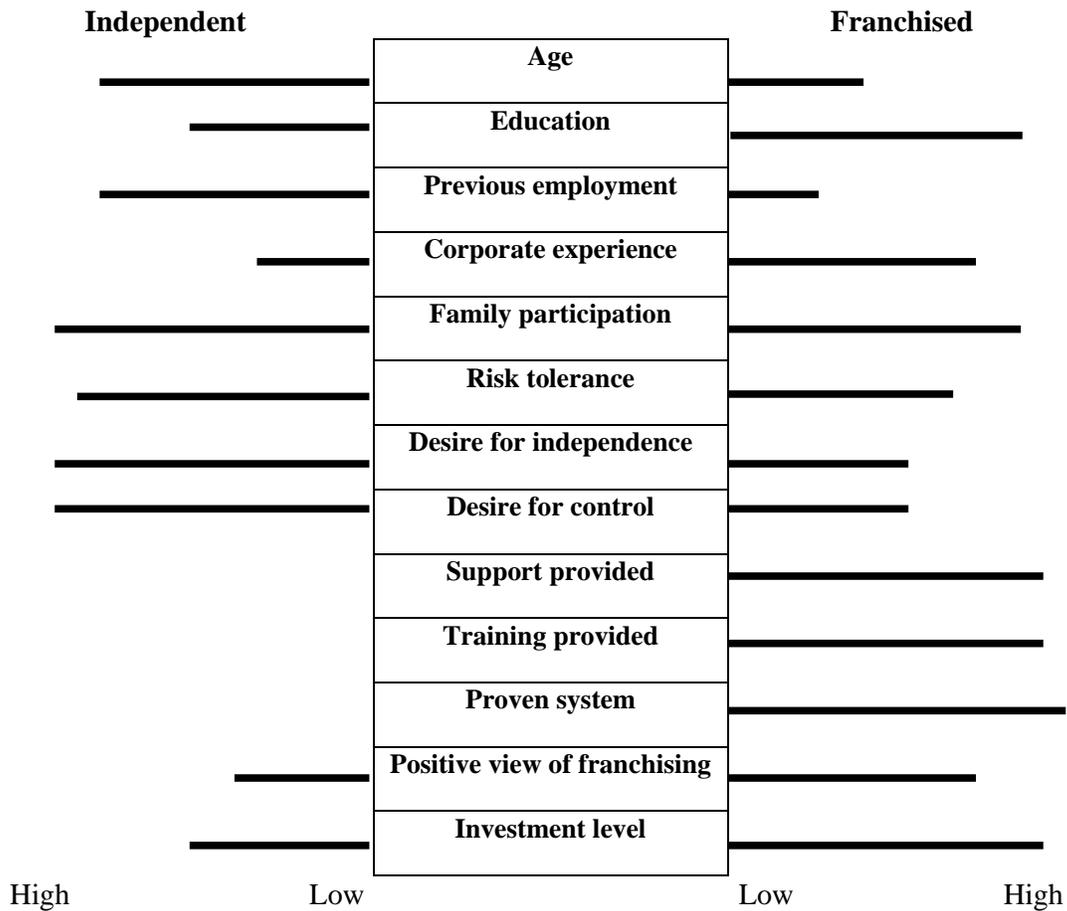
The majority of participants believed that a stage in their lives was an influence on their business choice. These influences included employment redundancy, being unhappy in their current position, seeking less stressful careers and seeking an easier life style. Alternatively, a few respondents changed because it was something they wanted to do, and others were opportunistic, taking advantage of an opportunity that happened to arise. Respondent’s previous work experience revealed that five participants had been involved in prior businesses, owning or managing franchise units, or small independent businesses, and a further five had corporate experience. Three had experience in administration and sales, while the previous work experience of the remainder included professionals, tradesmen, blue collar worker, government employee and a student. One of the franchisees provided this motivation for switching from a corporate career to franchising: “I had young children, I was in a career that was taking too much away from home and it was a highly stressed job and I basically needed a change ...I wanted to work for myself instead of answering to other people”.

Investigation of parents' work experience revealed that only one participant followed in the same career as his father. However, seven of the participants had parents who were owner managers of their own businesses, and four of the respondents had parents who were in managerial positions. The education levels achieved by the participants were generally higher than those attained by their parents with more than two thirds of respondents achieving a University or Technical College qualification. The franchisees in this sample tended to be more highly qualified than the independent operators. Marital status and life partner participation inquiries revealed 18 of the respondents were married and two were divorced. Fully 14 of the participants had a life partner involved in the running of the business. Further, while 12 of the respondents had children, only two were considering succession planning with their children. These relationship patterns were consistent across the two business models.

Further, the data revealed that franchisees were just as prepared to initially establish a business as were independent operators as some of the franchisees had purchased greenfield sites rather than existing franchise units. Eighteen of the respondents were able to articulate a vision for their futures which included a continuation of what they were currently doing, expanding their current businesses, and changing business models, while the remaining two people were waiting for their leases to expire in order to depart the business.

The characteristics, backgrounds and attitudes described above may be summarised in the business choice model illustrated in Figure 1.

**Figure 1  
Business Choice Model**



**Conclusions**

The mature starting ages of both franchisees and independent business operators appears to reflect their desire to start their own business after gaining sufficient capital, as well as knowledge and confidence in their industry of choice. Analysis of business qualifications suggests that apart from two specifically qualified participants, the less business-qualified respondents were attracted to franchising, and they had business qualifications that were limited to franchisor training. This supports previous research showing that individuals with limited business or industry experience can transition easily into franchising (Carson et al., 2001). In contrast, the majority of independent operators had prior business experience or trade qualifications related to their current field of endeavour.

The interviews revealed that more independent operators were satisfied with their choice of business than those operating as franchisees. However, reticence by four franchisees to repeat their business choices could be interpreted as personal failings and preferences,

more than dissatisfaction with franchising. Further, of time spent by the ten respondents who were actually seeking a business opportunity eight spent six months or less and only two more than a year. This indicates that franchisor recruitment processes need to be ongoing, or else franchisors could miss possible recruitment opportunities.

The depth of business evaluations taken by the respondents shows that very little research into alternatives was undertaken by franchisees, whereas independent operators tended to explore various opportunities or were funnelled into a business opportunity because of their academic qualifications such as accounting or pharmacy. This suggests that franchisees are eager to make a choice and when analysed in conjunction with time taken, tend to be spontaneous. From this, it appears that franchisors should be aware of the higher level of research and information that alternative investors are likely to require.

There appeared to be a low level of understanding about franchising among the respondents, particularly by the independent business operators, suggesting that the mode of conducting business is not as important as actually conducting business. This implies that the respondents chose the business model that they perceived to be the best way to run their respective businesses, and in the case of independent operators, where they could leverage prior knowledge and skill into the new business. This in turn discouraged them from seeking greater understanding of franchising, because they were averse to paying someone else to teach them what they believed they already knew.

There are minor differences in perceived risk taking between franchisees and independent business operators with some franchisees prepared to open Greenfield sites. However, the research revealed that any differences appear to be dependent upon the individual's past experience, their current environment and future expectations. For example, one respondent who had previously been made redundant purchased an independent business because he perceived it to be less risky than an alternative franchise unit. This choice indicated a low tolerance of risk, because of the need to secure his future by purchasing a safe established business. Alternatively, another independent displayed a preparedness to take high risks by backing his own judgement, when he gave away a highly paid job and mortgaged his home, to purchase a business that he believed could be made more successful under his management.

Participant's perceptions of franchising appeared to reflect the business model in which they currently operated. Negative opinions appeared to be the result of lack of

understanding about franchising and past experiences, as indicated by one independent business operator who had been influenced by negative media reporting about franchising. This finding indicates that franchisors need to overcome any negative perceptions about franchising which can appear in media reporting.

Participant's reasons for choosing a particular business model appear to have depended on the actual offering, their need for control and potential minimisation of the effort required to start a business. For example, a number of franchisees liked what franchisors were offering by way of products and systems, and the fact that franchising was a ready made business. Alternatively, complete control and ownership were seen as important considerations by small independent business operators. Further, respondent's reasoning can be understood by the motivations for purchasing their respective businesses, as exemplified by several respondents who were impressed with the offering or were attracted by its closeness to home, inexpensive cost or wanting 'to do their own thing.' These findings suggest, as previously noted by (Kaufmann, 1999), that the business model is a secondary choice after industry sector.

The majority of respondents were influenced into purchasing their businesses by a particular stage in their lives. These ranged from but were not limited to redundancy, seeking a less stressful environment and dissatisfaction with their current jobs. Hence, franchisors may have access to individuals who are dissatisfied with their current situations and who have the potential to be suitable franchisees. The findings also suggest that franchisors therefore need to be constant and innovative in their recruitment processes.

There appears to be some connection between parent work history and respondents' work choices, with several parents having had ownership/management experience, confirming earlier findings that a father's self-employment status is an important determinant of offspring's self-employment outcomes. Further, the majority of respondents had a vision for their futures, indicating a degree of commitment, ambition and a desire to continue operating. Additionally, in support of the above result, most of the respondents had been in business for three or more years.

Participants had generally achieved higher levels of education than their parents, with almost half achieving University level, confirming the increasing demand for better education being placed on each successive generation. The gender findings of one in ten

small independent businesses being owned by a female, and two in ten franchise units being owned by females, differ from previous research where it was found that female participation in small business was greater than in franchising (ABS, 2003). Furthermore, the findings indicate that copreneurial business relationships (18 married) and life partner involvements (14 partners working in the business) were common across both business models. In conclusion, the finding that only two respondents were planning for their children's succession into the business and one planning for internal staff succession suggests that participants are conducting their businesses as investments and/or for retirement funding, with no desire for any family involvement after they sell the business or retire.

### **Practical/Managerial Implications**

The findings of this exploratory research have implications for all stakeholders with an interest in franchising. Potential franchisee candidates with business experience and skills are currently operating as independent small business operators. To take advantage of this pool, franchisors need to overcome the poor perceptions of franchising as a business model, which prevails in this group of potential candidates. Further, the limited time spent by most respondents in evaluating business opportunities before purchasing, supports findings that emerged in previous research whereby it was found that franchisors need to differentiate their offerings and conduct targeted advertising to maximise recruitment (Bennett et al., 2006).

Franchisors who are seeking individuals with specific trade skills may well achieve improved recruitment results by advertising in relevant trade magazines. However, this advertising will need to be frequent, innovative and imaginative, in order to attract potential franchisee candidates while they are evaluating business opportunities. Further, because of the limited evaluation of opportunities undertaken by participants, the style of advertising to be used could be likened to fly fishing where the angler casts his/her rod frequently, with attractive lures, into a different spot in the river with each cast. Furthermore, the decision to purchase a franchise or open a business is not necessarily planned and may be opportunistic. Additionally, there also appears to be an opportunity for internal recruitment by franchisors, to attract then recruit individuals with previous corporate management experience. Because of the less positive view of franchising perceived by individual operators, franchisors need to demonstrate that whilst franchising

is a supportive business model, it does not necessarily mean that it is too restrictive for entrepreneurs who crave control over their destinies.

As this research was exploratory in nature and used a small sample from a single industry sector in one Australian city, its findings are not meant to be generalised to the entire global franchising sector. However, many of the issues may have resonance in other countries where the shortage of suitable franchisees also poses a challenge for system growth. This research will be used as a basis for a larger Australian study which will gather additional data from franchisors and prospective franchisees in order to develop a more coherent and comprehensive understanding of the vital differences between the competing motivations for franchising versus independent business ownership.

## References

- | Abs (2003) Australian Bureau of Statistics, 2003 Women in Trade: viewed 20th September 2005 [www.abs.gov.au](http://www.abs.gov.au).
- Alchian, A. & Demsetz, H. (1972) 'Production, information Costs and economic organisation'. *American Economic Review*, vol. 62, pp.777-795.
- Axelrad, J. & Rudnick, L. (1987) *Franchising: a planning and sales compliance guide*, Chicago, Commerce Clearing House Inc.
- Baron, E. & Schmidt, R. (1991) 'Operational aspects of retail franchisees'. *International Journal of retail and distribution management*, pp. 13-19.
- Bennett, S., Frazer, L. & Weaven, S. (2006) How can suitable franchisees be more successfully recruited? *ANZMAC 2006: Advancing Theory, Maintaining Relevance*.
- Bergen, M., Dutta, S. & Walker, O. (1992) 'Agency Relationships in Marketing: A Review of the Implications and Applications of Agency and related theories'. *Journal of Marketing Channels*, vol. 56, No. 1, pp1-24.
- Blair, R. D. & Lafontaine, F. (2005) *The Economics of Franchising*, New York, Cambridge University Press.
- Brickley, J., Dark, F. & Weisbach, M. (1991) 'An Agency Perspective on franchising'. *Financial Management*, 20, No. 1, pp.27-35.
- Carney, M. & Gedajlovic, E. (1991) 'Vertical Integration in Franchise Systems: Agency Theory and resource Explanation'. *Strategic Management Journal*, vol. 12, no. 8, pp. 607-629.
- Carson, D., Gilmore, D., Perry, C. & Gronhaug, K. (2001) *Qualitative Marketing Research*, London, Sage.
- Caves, R. & Murphy, W. (1976) 'Franchising: Firms, Markets and Intangible Assets',. *Southern Economic*, Vol. 42, no. 4, pp. 572-586.
- Combs, J. & Castrogiovanni, G. (1994) 'Franchisor Strategy: A proposed model and empirical test of franchise versus company ownership'. *Journal of Small business Management*, vol. 32, no. 2, pp.105-14.
- Combs, J., Ketchen, D. & Hoover, V. (2004) 'A strategic groups approach to the franchising-performance relationship'. *Journal of Business Venturing*, vol. 19, no.6, pp. 877-897.
- Demski, D. & Feltham, G. (1978) 'Economic Incentives in Budgetary Control Systems'. *Accounting Review*, vol. 53, pp. 336-359.

- Duval, T. & Silvia, P. (2002) Self-awareness, probability of improvement, and self the self-serving bias. *Journal of Personality and Social Psychology*, vol. 82, No.1, pp.49-61.
- Eisenhardt, K. (1989b) 'Building theories from case study research'. *Academy of Management Review*, vol. 14, no. 4, pp. 532-550
- Elango, B. & Fried, V. (1997) 'Franchising research: A literature review and synthesis'. *Journal of Small Business management*, vol. 35, no. 3, pp. 68-82.
- Fama, E. & Jensen, M. (1983) 'Separation of Ownership and Control'. *Journal of Law and Economics*, vol. 26, no.2, pp. 301-325.
- Frazer, L. & Weaven, S. (2004) *Franchising Australia, a survey of franchising practices and performance*, Brisbane, Australia, Griffith University.
- Frazer, L., Weaven, S. & Wright, O. (2006) *Franchising Australia 2006 Survey*. Brisbane, Griffith University.
- Gomez-Mejia, L. & Balkin, D. (1992) 'The determinants of faculty Pay: An Agency theory Perspective'. *Academy of Management Journal*, vol. 35, no.5, pp. 921-955.
- Harris, M. & Raviv, A. (1978) 'Some Results on Incentive Contracts with Application to Education and Employment, Health Insurance, and law Enforcement'. *American Economic Review*, vol. 68, no.1, pp.20-30.
- Hunt, S. (1997) 'Franchising: Promise, problems, prospects. *Journal of Retailing*, vol. 53, no. 3, pp. 71-83.
- Ibis (2006), IBIS World Industry Report.
- Izreali, D. (1972) *Franchising and the total distribution system*, London, U.K., Longman.
- Jensen, M. & Meckling, W. (1976) 'Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure'. *Journal of Financial Economics*, vol. 3, July, pp. 305-360.
- Kaufmann, P. (1999) Franchising and the choice of self-employment. *Journal of Business Venturing*, vol. 14, no. 4, pp. 345-362.
- Kaufmann, P. & Stanworth, J. (1995) 'The Decision to Purchase a Franchise: A study of prospective Franchisees'. *Journal of Small Business Management*, vol. 33, No. 4, pp. 22-31.
- Knight, R. (1986a) 'Franchising form the franchisors and franchisee points of view'. *Journal of Small Business Management*, pp.1-15.
- Knight, R. (1986b) The independence of the franchisee entrepreneur. *Journal of Small Business management*, vol. 22, no. 2 , pp. 53-61.
- Lafontaine, F. & Slade, M. (1998) 'Incentive Contracting and the Franchise Decision' NBER working papers, no. 6544, National Bureau of Economic Research Inc.
- MacCrimmon, K. & Wehrung, D. (1986) *Taking Risks, the Management of Uncertainty*, New York, Free Press.
- Martin, R. (1998) 'Franchising and risk Management'. *American Economic Review*, vol. 78, no. 5, pp. 954-968.
- Mathewson, G. & Winter, R. (1985) 'The Economics of Franchise Contracts'. *Journal of Law and Economics*, vol. 27, no. 3, pp. 503-526.
- Mazzeo, M. (2004) Retail Contracting and Organizational Form: Alternatives to Chain Affiliation in the Motel Industry. *Journal of economics and Management Strategy*, vol. 13, no. 4, pp. 599-615.
- McGuire, E. (1971) 'Franchised Distribution', Conference Board Report no. 523, New York, p. 33.
- Mendelsohn, E. (2004) *The guide to Franchising, 7th edn.*, London, Cassell.

- Norton, S. (1998) 'An Empirical Look at Franchising as an Organisational Form'. *Journal of Business*, vol. 16, NO. 2, pp. 197-218.
- Oxenfeldt, A. & Kelly, A. (1968-69) 'Will Successful Franchise Systems Ultimately Become wholly-owned Chains?'" *Journal of Retailing*, vol. 44, no. 4, pp. 69-83.
- Peterson, A. & Dant, R. (1990) 'Perceived advantages of the franchise option from the franchisee perspective: Empirical insights from a service franchise'. *Journal of Small business Management*, July.
- QSR (2006) *NVivo 7 Workbook*, Melbourne, QSR.
- Rao, C. & Perry, C. (2003) 'Convergent interviewing to build theory in under researched areas: Principals and an investigation of Internet usage in inter-firm relationships'. *Qualitative Market Research*, vol. 6, no. 4, pp. 236-247.
- Rubin, H. (1978) 'The theory of the firm and the structure of the franchise contract'. *Journal of law and Economics*, vol. 21, no.1, pp. 223-33.
- Sardy, M. & Alon, I. (2007) Exploring the differences between franchisee entrepreneurs and nascent entrepreneurs. *International Entrepreneur Management*, vol. 3, pp. 403-418.
- Sekeran, U. (2003) *Research Methods for Business: A skill-building Approach*, 4th. Ed, Wiley, USA.
- Shane, S., Locke, E. & Collins, C. (2003) Entrepreneurial Motivation. *Human Resource Management Review*, vol. 13, NO.2, pp. 257-279.
- Smith, J. & Osborn, M. (2003) *Qualitative Psychology: A practical guide to methods*, London, Sage.
- Spake, D., D'Souza, G., Crutchfield, T. & Morgan, R. (1999) 'Advertising Agency Compensation': An Agency Theory Explanation *Journal of Advertising*, vol. 28, no. 3, pp. 53-72.
- Thomas, W., O'Hara, M. & Musgrave, F. (1990) 'The Effects of Ownership and Investment on the performance of Franchise Systems'. *American Economist*, vol. 34, No. 1, pp.54-61.
- Weaven, S. & Frazer, L. (2006) 'Investment incentives for single and multiple unit franchisees'. *Quarterly Market research: an International Journal*, vol.9. no. 3, pp.225-242.
- Zikmund, W. (2003) *Business research Methods*, Manson USA, Thomson Learning.

|