PLURAL
FRANCHISE ORGANIZATIONS

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Table of Contents

PART A

I Introduction

1 Background

This dissertation has been inspired by a discussion that I had with my supervisor Thomas Ehrmann back in 2002 when we talked about the book "Franchise Organizations" by Jeffrey Bradach. Having studied Bradach's writing on a phenomenon which he called the plural form, I criticized his study as being too anecdotal and too heavily reliant on qualitative data of five case studies. The reply I received was both short and encouraging: "Go ahead, improve the issue." Consequently, this thesis contains my written work that has been undertaken since this conversation.

Borrowing an analogy from this world's wild life serves well to introduce the plural form phenomenon and thereby the topic of this book: Out in the world's oceans, tunas and dolphins initially compete for food. As they hunt for smaller fish, tunas encircle their targets and then attack right towards the center. Breaks in the circle though regularly allow many prey to escape. Because of their ability to communicate, dolphins on the other hand are more efficient hunters, though smaller group sizes permit to attack only smaller swarms of fish. Stunningly now, tunas and dolphins frequently join each other for hunting, thereby combining their individual strengths and alleviating initially existent weaknesses. While the mass of tunas does the ground work, the fewer dolphins coordinate the armada and close the breaks in the circle. Necessarily though, the groups have to handle additional complexity of a dual structure and they have to agree on sharing the common surplus in food.

Taking a closer look at today's franchise chains, their organizational setting and hence their inherent operational challenges to be successful are very similar as for the case of dolphins and tunas. As typical hybrid forms, franchise chains combine organizational methods like "price" and "hierarchy" with organizational institutions like "markets" and "firms", making a broad spectrum of organizational constellations available (Ouchi 1980, Williamson 1991). For plural forms specifically, those running a "firm" have decided to use both "prices" and "hierarchy" separately for carrying out identical task. Others in contrast may run one organizational form being a mixture of both prices and hierarchy. While both approaches resemble hybrid organizational settings – neither running a pure method –, only the first is clearly plural.

One example of plural structure is firms having a sales force as part of their sales department and

cooperating with independent salesmen as freelancers at the same time (Dutta et al. 1995). Others, like in automobile manufacturing, produce a pre- or final-product by themselves and buy the same parts from external suppliers (Walker/Weber 1984). The central objects of this research are franchise chains, hiring fixed-paid managers to run company-owned units and simultaneously contracting with almost independent franchises to operate franchise stores. According to the above framework of organizational forms, the first are controlled by the powers of hierarchy, but the latter are motivated by the power of the price system. Whatever the initial motivation, just like in the case of tunas and dolphins, mixing organizational methods within one network will only be beneficial to its members if the chances and risks of forming a hybrid structure are well understood both by the franchisor and the franchisees prior to the arrangement, if workflows are well coordinated i.e. operational complexity is kept low during the arrangement; and if surpluses created are distributed fairly among the participating members after (each period of) the cooperation.

2 Plural form research questions

In the world of franchise systems, a full spectrum of alternatives is common for organizing a decentrally located production and distribution of goods. Depending on its share of company ownership, pure franchising and plurally structured systems as the extreme poles of the range are used in this survey. Actually, only a minority of all chains operates free of any company operation – the vast majority of "franchise" chains is actually plurally structured. Looking at such highly heterogeneous profiles, my initial motivation of this dissertation was to explain why so many franchisors use plural forms instead of pure franchising, approaching this task both from a theoretical and a practical position. According to existing research work, plural structures theoretically grant the principal the freedom to reduce organizing cost (Rubin 1978, Brickley/Dark 1987, Norton 1988, Minkler 1990, 1992, Brickley et al. 1991, Lafontaine 1992, Thompson 1992), to increase system growth (Oxenfeldt/Kelly 1969, Ozeanne/Hunt 1971, Hunt 1973, Caves/Murphy 1976, Lillis et al. 1976, Hunt 1977, Lafontaine 1991, Thompson 1994) and to avoid location specific risks (Martin 1988, Chaudhuri et al. 2001), though all of these strategies, at the end of the day, are highly opportunistic, exploiting the principal-agent dependency to the disadvantage of franchisees. A very different reason for plural forms in contrast is presented by researchers like Gallini/Lutz (1992), Bradach (1998), Lewin-Solomons (1997, 1998, 1999), Lafontaine/Shaw (1999) or Sorenson/Sørensen (2001), stating that the parallel use of at least two distinct organizational forms under one common trademark and

management may realize beneficial synergies, making the sum of the distributional arms more valuable than their added individual values. Resulting from his extensive qualitative research on major restaurant chains like KFC, Pizza Hut, Hardee's and Jack in the Box, Bradach (1998) finds plural structures to provide a uniquely effective way to leverage the strengths and mend the weaknesses of franchise systems, enhancing an organization's capacity for self-correction and renewal. Why, someone could ask then, are there still pure franchise and wholly company-owned chains around? In other words, it has remained unexplained why competing chains of the same industry are still managed under sharply distinct organizational doctrines. To name just two examples, McDonald's, the mother of all franchise systems, has been plurally organized since long ago, while heavily growing sandwich maker Subway is so clearly a full franchise organization that it promotes its fully franchised structure literally everywhere – even on each of their napkins. Furthermore, numerous systems again have fully integrated structures (i.e. are company-owned), like for instance many chains in the food retailing industry. Thus the answer towards the existence of plural forms has to be a more complex one than that presented by Bradach, taking not only the advantages but also the disadvantages of plural forms into account. With a large data base of almost 1.000 US chains, this thesis presents empirical evidence on hypotheses that have been tested before by qualitative research only. To explain the full organizational spectrum – and plural forms are just one part of it - I will therefore combine the benefits and costs encountered in hybrid forms with the synergies and complexities generated through plural forms, thereby presenting for the first time those aspects leading to fully franchised, plurally organized and fully company-owned chains.

3 Content overview

Split into four papers, this thesis merges the theoretical work of many researchers determined to franchising with extensive empirical data of franchise chains whose track records reach back as far as 24 years in their individual firm history. A general outcome of this thesis, insights into the plural form and the structuring of chains have been gained that are and should be of interest to franchisors, franchisees and scientific researchers. Mainly by researching a wide range of secondary empirical data, the propositions of Bradach and others towards the existence, the benefits and the detriments of plural forms have been clarified. In so far, this dissertation intends to pass on current research knowledge to franchising practitioners so that they may use it to form a more competitive, successful and lasting enterprise.

Section B-I

The starting paper “Why do franchisors combine franchises and company-owned units?” explores the strategic motivation of franchisors to combine franchised and company-owned stores when structuring their distribution networks. In the United States, such plurally organized chains have already outnumbered purely franchised competitors. Based on a review of existing research work, I explain how plural franchise chains theoretically outperform purely franchised or wholly company-owned systems through realizing cost reduction, quality enhancement, growth stimulation and optimized control of business risk. I then challenge these theoretical explanations with longitudinal data of 925 US-franchise systems surveyed by the Entrepreneur Magazine. While there is little or no support for those strategies – cost, growth and risk improvement – that tend to benefit the franchisor at the expense of franchisees, the data reveal strong support for the quality arguments. By combining a plural form structure with high franchise fees and low royalty rates, franchisors signal outsiders to be a reliable and cooperative principal. By simultaneously operating company-owned stores and independent franchise outlets, chains successfully force themselves into cooperational and less opportunistic behavior towards their franchisees and (thus) manage to attract more and better members to join the system.

Section B-II

The second paper “Franchisee versus Company Ownership – An Empirical Analysis of Franchisor Profit” proceeds in examining ownership structures of franchise chains and in evaluating their impact on franchisor profit. Specifically I compare pure forms of franchising with those that use both company-owned and franchised outlets within one chain – i.e. the plural form. As explained in the previous paper, such plural arrangements are supposed to provide franchisors with lower costs, higher growth, greater total-quality, and reduced business risk. Empirical results of this study indicate the superiority of company-owned businesses over franchised units in generating franchisor profits. Moreover plurally organized systems compensate for losses from franchising with profits from company units and outperform purely franchised competitors in overall profitability. Stunningly, despite a financial inferiority of franchise outlets, franchisors of our sample do not convert plural structures into wholly-owned chains. Much more when organizing the chain, franchisors face an (skewed) inverse u-shaped profitability curve with both pure franchising and pure company-ownership lying at the (undesirable) extremes and with a performance peak somewhere in between.

Section B-III

Analyzing the frictions inherent in a franchisor-franchisee relationship, the third paper "Beneficially constraining franchisor's power" analyzes various forms of power and explains their asymmetrical allocation in the franchising mode. Since typical contracts assign both coercive and non-coercive means of power to the principal's side, agents are left with a comparably small range of countervailing anti-power. Initially agents are therefore vulnerable to opportunistic principal behavior and will rationally anticipate this threat upon signing a contract. In this paper I demonstrate how franchisors restore those shifts in power that seem to disorder the desired balance by performing contractual, financial and organizational adjustments. The nature of these measures suggests that franchisors should cooperate with agents despite their freedom to behave opportunistically. According to empirical data, the better a franchisor is able to credibly alleviate a franchisee's fear of being exploited by principal opportunism, the stronger the growth generated in the entire franchise system that embraces both the company-owned and the franchise arms.

Section B-IV

Finally, in "A franchisor fecision matrix for structuring the chain" a dynamic life-cycle model explains the development of franchise chains and the existence of pure franchise and wholly company-owned chains next to plural forms. Research of more than three decades theorized franchising to exist because of its Hybridal Form Benefits (HFB). Compared to full hierarchy, these benefits are thought to result from reduced agency costs, surpassed resource scarcity and enabled risk sharing. Lately, the focus has shifted to an enquiry into the parallel use of franchise and company-owned outlets – the plural form – to provide the chain with Plural Form Synergies (PFS). More so than wholly franchised or entirely integrated systems, plural forms may align the interests of diverse actors, signal profitability, enhance innovation speed and increase inter-firm competition. Due to costs specific to each form, net HFB (HFB^{net}) and net PFS (PFS^{net}) evolve as organizational decision variables! For the first time, I therefore analyze both HFB and PFS, I review their influence on the process of structuring the chain and develop a decision matrix to aid franchisors improve their distributional setting. Accordingly, if neither positive HFB^{net} nor PFS^{net} are realized, full ownership is efficient. In a state of positive HFB^{net} only, the chain should be fully franchised. If only PFS^{net} are positive, the chain will be structured either plurally or fully company-owned depending on the impact of possibly negative HFB^{net}. For a positive HFB^{net} and PFS^{net} lastly, plural forms prevail.

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PART B

I Why do franchisors combine franchises and company-owned units?

Overview

- This empirical work explores the strategic motivation of franchisors to combine franchised and company-owned stores when structuring their distribution networks. In the United States, such plurally organized chains have already outnumbered purely franchised competitors.

- Based on a review of existing research work, we explain how plural franchise chains theoretically outperform purely franchised or wholly company-owned systems through realizing cost reduction, quality enhancement, growth stimulation and optimized control of business risk..

- We then challenge these theoretical explanations with the historic data of 925 US-franchise systems, covering almost twenty years of franchise development.

- While we find little or no support for those strategies – cost, growth and risk improvement – that tend to benefit the franchisor at the expense of franchisees, our data reveal strong support for the quality arguments. By combining a plural form structure with high franchise fees and low royalty rates, franchisors signal outsiders to be a reliable and cooperative principal. By simultaneously operating company-owned stores and independent franchise outlets, chains successfully force themselves into cooperational and less opportunistic behavior towards their franchisees and (thus) manage to attract more and better members to join the system.[1]

[1] Earlier drafts of this paper have been published in the proceedings of EMNet 2003 (Ehrmann/Spranger 2004), in the Zeitschrift für Betriebswirtschaft (Ehrmann/Spranger 2005a), in the proceedings of ISOF 2006 and in the SSRN Working Paper Series: http://ssrn.com/abstract=807346.

1 Introduction

Concerning the organization of distribution networks, there is a wide variety of possible solutions to choose from for those selling a product or a service. The extreme positions of this spectrum are marked by a fully company-owned distribution system on the one hand, for instance via an employed sales force, and distribution through external, independent subjects on the other hand. Franchising, being a cooperative venture between the owner of a business concept and its decentralized franchisees, takes up a middle position in so far as franchisees are independent business entities but are bound to the franchisor on a fixed contract basis. Moreover franchisors commonly operate company-owned stores side by side with these franchised locations. In contrast to the extreme forms of distribution outlined above, franchising is therefore characterized as a hybrid form of distribution.[2] From a principal-agent perspective, the choice, between company-owned and franchised stores and thus the character of the entire distribution system, depends on the contractual appropriateness of the specific solution (from the spectrum of possibilities) as well as on the franchisor's ability to monitor distinct in- and output variables.

Three scenarios exist, depending on whether the franchisee's input does in fact significantly influence the store's output and whether the factors determining the input can be controlled accurately. As long as the agent's additional input (like personal work effort) is without major influence on an outlet's extra output (like in supermarkets), principals will refrain from using franchising and employ company managers instead (Maness 1986). Even when the agent gains influence on the outlet's output by increasing personal input, principals will continue to prefer company-owned stores as long as the agent's input factors remain transparent and observable. The franchisor may simply manage such agents by demanding the desired input-output ratio. At the point when it becomes impossible or inefficient to monitor and thus to control the agent's input, the franchisor will use franchising instead and assess the agent's quality by measuring output variables like outlet revenue (Lafontaine/Slade 1996).[3] However the setting, if we assume homogeneity among the areas and locations of distribution, we should observe that such networks are concentrating on either one of the

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[2] In other words, franchising is a "hybrid" arrangement because most franchisors use a rather independent channel (franchisees) and a rather dependent arm (company-owned stores) for distribution. Even if the system was fully franchised, it is still somewhat "hybrid" because, other than fully independent operating distributors, each franchisee's freedom is limited by the guidelines of the franchise contract.

[3] A full framework including a combined hybrid form benefits and plural form synergies is presented in Ehrmann/Spranger (2005d).

contractual modes in the long run. Hence researchers like Shelton (1967) expect plural chains to change into fully franchised systems during maturity, while for instance Oxenfeldt/Kelly (1968) again assume the dominance of wholly company-owned mode.[4]

As we will demonstrate at the beginning of this paper, a vast majority of existing chains still operates both franchise and company-owned stores even when their business model has matured. Ever since the work of Bradach (1997) a coexistence of diverse distribution modes has been called the plural form.[5] Tellingly, the plural forms observed in this paper's database of 925 US-franchise systems are stable over time and do not reveal tendencies to switch towards a one-mode-only setting.

Thus the purpose of this paper is to theoretically and empirically explore the strategic motivation of franchisors to combine franchised and company-owned stores when structuring their distribution networks. In the following we therefore present the status-quo situation on theories explaining the favorability of plural forms. In short, these arguments include aspects of costs, quality, growth, and risk management. Having operationalized the various arguments we continue with checking the practical validity of each aspect along extensive empirical data. The paper concludes with an interpretation of our empirical results and an outlook to further research required.

2 The plural structure of franchise chains

2.1 The origin of the plural form

Hybrid firm structures are a combination of distinct parameters of firm organization. Today, the hybrid phenomenon is widespread in the area of business science. By combining organizational methods like "price" and "hierarchy" with organizational institutions like "markets" and "firms", the results form a broad spectrum of organizational constellations (Ouchi 1980, Williamson 1991). For plural forms specifically, those running a "firm" have decided to use both "prices" and "hierarchy" separately for carrying out identical task. Others in contrast may run one organizational form being a mixture of both prices and hierarchy. While both approaches resemble hybrid organizational settings – neither running a pure method –, only the earlier is also plural.

One example of plural structure is firms having a sales force as part of their sales department and cooperating with independent salesmen as freelancers at the same time (Dutta 1995). Others, like in

[4] See Ehrmann/Spranger (2005d) for an in-depth discussion on life cycles of franchise chains.

[5] A synonym is "dual form", a term used for instance by Gallini/Lutz (1992), Pénard/Raynaud/Saussier (2002) and Windsperger (2003).

automobile manufacturing, produce a pre- or final-product by themselves and buy the same parts from external suppliers (Walker/Weber 1984). What attracted our research interest are franchise chains hiring fixed-paid managers to run company-owned units and simultaneously contracting with almost independent franchises to operate franchise stores. According to the above framework of organizational forms, the first are controlled by the powers of hierarchy, but the latter are motivated by the power of the price system.

The arguments that are brought forth to explain the parallel use of prices and hierarchy within one institutions are threefold. Firstly Hennart (1993) and Ehrmann/Spranger (2005b) argue that mixing the two methods will minimize the cost for organizing the system as each form's costs increases progressively when moving towards the pure modes. Secondly Brickley/Dark (1987) and others[6] portray the plural form to be the outcome of many case-by-case decisions, each attempting to find the perfect organizational solution for very individual environmental settings. Bradach (1997) and Lewin-Solomons (1998) finally argue that operating the plural form will enable the principal to realize synergies and thus to generate savings that exceed the plural form's costs arising from additional organizational complexity. Hence they suppose a plurally organized system to outperform any purely structured forms like wholly franchised or entirely company-owned arrangements as long as the managing principals know how to exploit the full synergetic potential of plurality.

From a more global perspective, these three approaches only differ in their diverse understanding of the important parameters that franchisors have to take into account when judging over organizational strategy. Hennart and researchers around Brickley/Dark apply aspects of costs, growth and risk to determine the efficiency of plural forms. Bradach and Lewin-Solomons on the other hand find the plural form to improve trust and cooperation among all system members, which consequently increases the system's total quality.

2.2 The design of the plural form

Empirically, this paper is based on a sample covering more than 20 years of organizational development for 925 US-franchise systems. Since 1979, the Entrepreneur Magazine has published a yearly survey called the Franchise500, listing the 500 most successful franchise systems each year. Our dataset contains those 500 chains ranked among the Franchise500 in the 2003's statistic, of

[6] These are Brickley/Dark/Weisbach (1991), Caves/Murphy (1976), Lafontaine/Slade (1996) and Walker/Weber (1984).

which 88 have been already listed since the first issue back in 1979. Additionally, we include 425 chains that were evaluated in 2003 but were not listed among the best 500 for that year. In their yearly industry overview, the International Franchise Association[7] (IFA) refers to roughly 1500 franchisors and to about 320 000 chain outlets in the USA in 2003. Thus the data used for this analysis represents approximately 62% of all franchisors and 86% of all franchised and company-owned outlets.

Moreover the proportions of branches compiled in our dataset correspond to the numbers of the IFA's most recent Profile-of-franchising that examined 1316 US-franchise systems to the end of 2000.[8]

Table 1. Descriptive statistics of the dataset

Parameter	N	Mean	Std. Dev.	Minimum	Maximum
Total outlets	925	430	1.854	1	30.220
Number of franchise units	925	380	1.617	0	22.043
Number of company units	800	58	403	0	8.262
Percent franchised	781	84	26,1	0	100
Royalty rate in %	822	5,4	2,6	0	23
Franchise fee in T$	905	27	26	0	500
Minimum investment in T$	923	273	936	1	10.000
Maximum investment in T$	923	560	1.385	2	10.000
Years in business	925	23,1	16,6	1	139
Years of franchise experience	925	15,5	12,1	1	79

The organizational setting of our dataset, summarized in table 1 above, corresponds to results of other studies in revealing a high degree of heterogeneity among the sample chains: In a survey analyzing 581 French franchise systems, Pénard/Raynaud/Saussier (2002) report the following means (and standard deviations): number of all outlets 74 (158), percentage franchised: 67 (68), royalty rate in percent: 4,4 (3,9), franchise fee in T$: approx. 15 (13), years in business: 24 (29) and years of franchise experience: 14 (12). For a sample of 4842 chains of the USA and of Canada[9], Lafontaine/Shaw (2001) present the following statistics: number of all outlets: 207 (788), percentage franchised: 78 (71), years in business: 17 (15), years of franchise experience: 11 (10).

[7] See www.franchise.org (04/15/2004).

[8] International Franchise Association (2000).

[9] The data Lafontaine/Shaw (2001, p. 50) use for their extremely large sample includes chains that have started and/or ceased operation during the period covered (1980 to 1997). While 1461 firms represent single observations for one year, only 41 systems have been in business during the entire period researched.

With a primary focus on diverse strategic approaches to structure the chain, combining the studies of Pénard/Raynaud/Saussier (2002) and Lafontaine/Shaw (2001) with our data, chains franchise approximately 84% to 67% of their outlets, while they retain about 16% to 33% under direct company ownership.

In order to gain insights on the dynamics of franchise development, in a second step we looked at those 362 chains in our dataset more closely, of that complete data is available for a ten-year period from 1992 to 2002. Depending on whether the franchisor increased/decreased the share of franchisees by more than 3% or not over this time, we obtained three groups with distinct organizational developments for a defined number of years. The results are as follows: 32% of all systems raised their share of franchising from 69% to 86% on average, while only about 15% dropped it from 90% to 76%. 53% of all systems though kept structures stable and settled with approximately 97% of all stores under franchise agreements.

Both this static and the dynamic view of the franchise industry demonstrate the presence and the stability of plural form arrangements for the applied data as well as the organizational heterogeneity that exists in the franchisor community. These results match with findings of other studies[10] concerned with the organizational structuring of franchise chains. Hence we feel motivated to bring some light to this rather diffuse matter first by analyzing the theoretically based motivations for franchisors to use the plural form. In a second step we will then charge these theories with the figures of our dataset in order to end up with a more sound approach to reason the existence of plural forms.

3 Franchisor motivations to apply the plural form

3.1 Cost aspects

Agency costs

Whenever information is distributed asymmetrically between a principal (a franchisor) and his agents (franchisees and outlet managers) both face agency costs upon entering into a contractual relationship. Depending on whether such asymmetry has occurred before, occurs while or after the signing of the contract, organization science defines the uncertainty to concern either the quality of

[10] Compare the studies of the IFA, Pénard/Raynaud/Saussier and Lafontaine/Shaw mentioned above.

the project and the partner, the behavior of the parties, or the results of the partnership.[11] While a franchisor may review the agent's qualification ex-ante through intense selection processes and the outcome of the contract ex-post for instance by checking the agent's revenues, it is often difficult to efficiently monitor and to direct the agent's behavior ex-interim of the partnership. In order to guarantee a specified level of uniformity and system quality to customers and other agents though, it is absolutely vital to win each agent's compliance with the rules of the system. Choosing the appropriate organizational structure, i.e. actively mixing company-owned outlets with franchise units, is one approach for the franchisor to reduce such costly behavior uncertainty.

Plural form arrangements theoretically lower the franchisor's monitoring costs, the losses suffered from agent free-riding and the costs of inefficient investments. The first aspect is concerned with the different mentalities and motivations of managers of company-owned stores and franchisees. Managers are generally employed on a fixed-wage basis and thus have little or no opportunity to maximize their monetary output (i.e. their salary) by increasing input factors such as their work effort. If unmonitored by the principal, the manager will therefore tend to optimize his personal input-output-ratio by working less than agreed upon while he would still wish to receive the full salary. Therefore the franchisor will have to engage himself in costly monitoring, in actions to keep agents from shirking, and even in reducing their salaries or, as an extreme measure, in terminating the work contract.

Franchisees on the other hand accept a significant personal risk when investing in a franchise unit. By joining the chain, they knowingly accept the option to improve their earnings by influencing both revenues and costs through increasing their personal work effort. Franchisees therefore have no rational incentive to shirk on their personal input factors and thus will not have to be monitored as intensely as managers of company units. For maximizing their personal input-output-ratio though, they may cheat on factors like service or product quality. By investing less in products or services and thus offering a quality below the standards of the chain, they will generate additional rents simply by free-riding on the reputation of the entire chain and to the detriment of every compliant chain member. Franchisors therefore will have to keep franchisees from cheating on quality standards as such behavior is beneficial for the agent (lower cost) in the short term – but highly detrimental to other system members, to the extent that it may ultimately damage the chain's good

[11] For this analysis we concentrate on the uncertainty of the franchisor towards his agents and not vice versa.

reputation.[12]

With an equally unfavorable result, franchisees may tend to oppose franchisor initiatives that aim to increase the value of the brand but do little to improve the single franchisee input-output-ratio. For instance, national marketing serves the franchisor to create brand value. For the single franchise member though, the benefits received are marginal and delayed, making expenditures for general chain actions partly inefficient (from his narrower perspective). Thus whenever the franchisor initiates actions with spillover effects, he would at the very least probably face costly negotiations with the franchise community. At the worst, the latter may even turn down the franchisor's proposal because it diminishes each franchisee's entrepreneurial freedom so that such action causes opportunity costs for the franchisor.

As proposed by Brickley/Dark (1987), franchisors being free to choose the organizational form, that suits the location specifics best for every individual case, will reduce these costs of monitoring, free-riding and of inefficient investment. It is therefore possible (and even rational) for franchisors to apply plural structures to minimize principal-agent-costs that are higher for pure forms like wholly franchised or entirely company-owned systems.

Information costs

With their decentrally located production and distribution of goods and services, franchisors need to collect knowledge about consumer preferences for each local market. As argued by Minkler (1992, p. 243), the need and costs to acquire such local knowledge will grow with increasing "unfamiliarity, heterogeneity and volatility of local markets" and with a decreasing half-life of the information collected. Receiving the residual income, franchisees reveal a much stronger motivation to collect, report and use such local information than fixed-paid managers of company-owned units. By converting local market information into business opportunities, franchisees are able to increase their input-output-ratio and their profits. A popular example of using such insights is the offering of fish burgers. A McDonald's franchisee simply noticed that most of his customers (in a catholic neighborhood) would regularly prefer fish over meat on Fridays. In the absence of franchisees, principals would have to pay for market research as well as for supervising its successful applica-

[12] Franchisee free-riding for instance commonly works by purposely reducing a unit's individual quality below the required standards of the chain. While revenues are, at least in the short term, secured by the common trademark, the franchisee's costs will decline and hence profits will increase immediately.

tion by company-units. However, much of such knowledge will originate from daily business and therefore be implicit to the franchisee. In this case, paid-for information will be of lower quality and take more time to implement via the company-owned arm of distribution.

With this in mind, Minkler (1992) has demonstrated that plurally organized franchise chains may optimize their effort to search and use local knowledge by installing franchisees where the gathering of information is necessary, costly and important for the unit's success. At the same time, principals should subsequently set up company-owned stores adjacent to these franchise units in order to transfer the collected information and to profit from it. According to Minkler (1992), franchisors should therefore explore new markets via franchising. Then, as the system expands and local headquarters emerge, monitoring the stores and supervising the process of information transfer within one area becomes less expensive for the franchisor. At this point, the franchisor should exploit the same market by increasing the number of company stores to efficiently use the information collected by the franchisees in order to promote the chain's revenue and profit.[13] It is therefore possible that franchisors apply plural structures to reduce the costs of gathering and exploiting local market knowledge – a process that becomes increasingly important as the chain expands into new and diverse markets.

Making cost aspects operational

Both approaches discussed above emphasize the increasing importance of plural forms as chains get larger and become more matured (Posselt 1998). These aspects are measurable by the number of all outlets (SIZE) and the years of business experience (BUSEXP) of each chain. SIZE and BUSEXP will hence be related to the organizational structure of the system, indicating whether savings on organization costs motivate franchisors to use plural structures.

It is plausible that costs for organizing the franchise arm of the system remain rather stable over the lifecycle of the chain. Running company-owned units though should become less expensive per outlet during maturity as local headquarters are established and thus monitoring distances and costs decrease. Consequently, franchisors focusing on agency costs should begin to substitute franchise outlets for company-owned ones as the number of all outlets and the years of business experience

[13] Of course, this is only a winning strategy as company-owned units are more profitable to the franchisor in terms of return on investment than franchised units. See Ehrmann/Spranger (2005b) for a more detailed discussion on the distinct profit profiles of both arms of distribution in a franchise chain.

increase.[14] The same is true from the information-cost perspective. In order to exploit the potential of local information, franchisors should open more and more company-owned units adjacent to each franchise store as the chain expands.

Therefore we suppose both variables BUSEXP and SIZE to be negatively correlated to the share of franchise units of the chain. In hypotheses, these aspects read as follows:

H1a "BUSEXP": The older the franchise system, the larger (smaller) should be the share of company-owned (franchise) units.

H1b "SIZE": The larger the number of all outlets, the larger (smaller) should be the share of company-owned (franchise) units.

3.2 Growth aspects

Overcoming resource constraints and increasing strategic flexibility

One important factor for the success of franchise chains is their capability to grow quickly, in terms of outlet multiplication, and thus establishing a widely visible and valuable brand name in a relatively short time. Due to their expansion strategies, franchise chains like McDonalds's (ranked 7), Kentucky Fried Chicken (54), Pizza Hut (55) and Starbucks (98) belong to the 100 most valuable brands worldwide.[15] Generally, the two most common factors limiting fast growth are financial and human capital resource shortages. Differing from fully integrated firms, franchise chains alleviate these constraints by contracting with franchisees that, per definition, provide the necessary funds (Caves/Murphy 1976, Mathewson/Winter 1985) as well as the required management talent (Thompson 1994) upon joining the chain.

Another important aspect when building a strong brand name is to be present at as many locations as possible. This may force the franchisor to open stores at highly exposed places such as train stations or airports that prove beneficial for increasing consumer recognition but undesirable from an economical standpoint, for instance because of way above average rents or high operating costs. As such locations will hardly be sold to a rational franchisee, the plural franchisor could still decide to

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[14] Again, a prerequisite for this strategic move is the soundness of the logic explained in footnote 14.

[15] See www.interbrand.com 2004 Survey, (06/22/05).

operate them as company stores. Additionally, identifying and employing managers for company units is easier than finding and contracting with franchisees.

By running part of the business by himself, the plural franchisor gains an extra amount of flexibility. Therefore it is plausible to franchisors to use the franchising alternative to increase a system's growth by overcoming resource shortages such as those of financial and human nature. Simultaneously the principal may want to control the chain's expansion by keeping an acceptable amount of strategic flexibility through the operation of company-owned units.

Making growth aspects operational

Alleviating resource constraints and increasing strategic flexibility at the same time are meant to fuel the expansion especially of rather young franchise systems. We therefore relate growth in terms of added units across a ten-year-period (GROWTH) to the organizational structure of the chain. As both the need for resources and a quick rollout are reduced as the chain matures – resources become more readily available – one would expect the incentives to structure plurally to decrease, too. Hence we suppose the variable GROWTH to be negatively correlated to the share of franchise units of the chain. As a hypothesis, this aspect reads as follows:

H2 "GROWTH": The stronger the ten-year growth of the franchise system, the larger (smaller) should be the share of company-owned (franchise) units.

The arguments presented so far, concerning the cost and growth of a franchise system, primarily favor the position of the franchisor. Generally, the plural form seems to be a helpful instrument for solving typical principal-agent problems as described above. Even opportunistic behavior, which at the extremes is to the disadvantage of the franchisee, is acceptable in terms of these arguments. Taking a turn towards a more cooperational view of the plural form, the following aspect accepts the organizational structure to improve the total quality of a franchise chain to benefit both the franchisor and the franchisees.

3.3 Quality aspects

In contrast to the reasoning of those who apply cost and growth arguments, others focus on the ability of the plural form to ease and improve the rather difficult franchisor-franchisee relationship. In

general terms, they propose that plural forms are a key instrument to overcome detrimental principal-agent inefficiencies – and that plural forms will ultimately lead to an improved level of total chain quality.

The aspects discussed below in greater detail assume the plural form to overcome unfavorable information asymmetries by signaling internal franchisor information to the franchisee (Gallini/Lutz 1992); to align and therefore harmonize the interests of initially divergent actors (Lewin-Solomons 1999); to promote innovation processes and to speed up internal change (Sorensen/Sørensen 2001); and finally to create a more competitive inter-firm climate where benchmarking each distribution arm results in higher performances for both (Bradach 1997).

Signaling

Franchisors of young and small chains may find it difficult to convince potential franchisees about the profitability and the chances of a business idea because the firm lacks decent financial track and thus success records. Being a rational investor, any franchisee will consequently be reluctant to invest in a project whose true quality is difficult (or impossible) to observe up-front. According to findings of Gallini/Lutz (1992), franchisors can overcome this deficiency by owning some of their outlets themselves. In a similar way, a venture capitalist will require entrepreneurs to put a decent share of their money at risk before seeking third-party equity. Thus by owning and operating stores, a franchisor increases his stake in the processes of production and distribution. Winning more and better franchisees by eliminating a franchisee's uncertainty on the franchise project's quality therefore could be an important motivation to engage in company ownership. Vice versa, a franchisor who is not confident about the prospects of his business idea would abstain from running stores himself and hence from risking equity. According to this reasoning, principals of fully franchised chains transfer the entire risk of suffering financial loss on to their franchisees.

Logically, the higher the uncertainty and the more financial resources the franchisees are asked to invest, the more the franchisor needs to emphasize company-ownership in order to overcome any invisible psychological barriers. Referring to a franchisor's dependence on royalty rates does not compensate for the risk of operating company stores, just like fully depending on a venture's financial returns does not make up for an entrepreneurial hostage in the project. It is therefore possible that franchisors, especially those with little business experience and/or high risk exposure, may try to overcome potentially detrimental quality uncertainty by applying plural form structures, thereby

assuring franchisees, banks, venture capitalist and other outsiders of the profitability of the franchise idea.

Leveling principal-agent interests

A second problem the plural form is supposed to solve is borne by initially diverse interests of the system members: the different return structures required by the franchisor and his franchisees. The franchisee on the one hand receives the residual of revenues minus costs, which motivates to increase sales while keeping costs as low as possible. The franchisor on the other hand demands royalties for granting the right to use the chain's trademark from all of his franchisees. Generally these royalty rates are a fixed percentage of the franchisee's revenue.

In the absence of company ownership therefore, a rational franchisor pursues a strategy that maximizes outlet revenue first, while the objective of keeping costs low is only secondary. Rational franchisees though will find such a strategy personally inefficient, since the agent enjoys only part of the added revenue (paying royalties), but has to bear all additional costs.

As a solution to this dilemma, the franchisor could include the outlet's costs when calculating the royalty payments. Despite its theoretical attractiveness, deriving royalties out of franchisee profits is difficult because of two aspects: First, the franchisee would need to provide fully transparent financials and accounting to the franchisor. According to Lewin-Solomons (1999), franchisees reject such transparency due to the operational autonomy granted to the individual franchisee. And second, even if agents provide the necessary information, they would then feel motivated to cheat on higher than actual cost for the purpose of reducing royalty payments to the franchisor. Thus altering the computation of royalty rates will not bury franchisor opportunism initially set in motion by incongruent principal-agent interests.

The plural form, as Lewin-Solomons (1999) proposes, may be a much more efficient instrument to solve this problem. The more franchisors engage in company operations, the more they will align interests of the chain management with those of their franchisees. Thus a plurally structured franchisor should voluntary abstain from exercising measures inefficient to franchisees. Otherwise he would come to share a part of that inefficiency (the inside effect). Simultaneously, franchisees of plurally structured chains understand company-ownership as a pledge to reduce behavior uncertainty and to harmonize the interest between the principal and his agents (the outside effect). It is

therefore likely that principals are motivated to run units themselves in order to level originally diverse interests, to eliminate the potential for opportunistic action and thus to increase the franchisee's trust in a cooperative franchisor management.

Promoting innovation

Thirdly, organizational structure is supposed to increase system quality by improving the innovation potential of the chain. As market competition increases and cycles of innovation spin even faster, identifying and exploiting innovation opportunities becomes one important success factor. According to March (1989), successful innovation requires combining the improvement and the efficient use of existing resources and technologies ("Exploitation") with the search and development of new and promising ones ("Exploration"). Firms that fail to match these processes will operate either below maximum efficiency ("doing things wrong") or below maximum effectiveness ("doing the wrong things"). March (1989, p.71) therefore concludes that "maintaining an appropriate balance between exploration and exploitation is a primary factor in system survival and prosperity".

Moreover, franchise systems having decentralized production and distribution of goods or services, will need to keep a balance of centralized standardization and adaptation to local market specifics when introducing new products to its customers.

As demonstrated by Sorenson/Sørensen (2001), the characteristics of plural structures greatly support the franchisor for establishing, running and benefiting from the right mix of exploration and exploitation. Managers of company-owned units receive their income mainly for monitoring operations and for incrementally improving existing routines. Thus company managers have little motivation to initiate new products or services or to improve business processes. Their remuneration does just not vary with generating extra-revenue for the outlet. Hence employed store managers will mainly serve to exploit the system status quo.

Franchisees, on the other hand, are supposed to contribute their entrepreneurial skills and their knowledge of the local market to the chain. As their residual income is highly dependent on extra revenue, they are much more encouraged to research and to test product or process innovations. Franchisees thus will add the aspect of exploration, i.e. testing new opportunities within the limits of a standardized franchise concept.

In addition, the franchisor, being personally engaged to research and development functions, may

introduce new products via the corporate channel. Doing this, he will greatly benefit from the critical judgment of his franchisees (Ehrmann 2002). The latter may again, with permission of the franchisor, test new products in their units. Thus innovation in plural franchise chains becomes a continuous process of action and counteraction between the franchisor, the corporate and the franchise channel.

This complementary interplay, which stimulates both exploration and exploitation as described by March (1989), has first been identified as a major benefit of the plural form by Bradach (1997). Just like automobile manufacturers who preserve their innovational competence and realize outsourcing profits by buying and producing ("Make-and-buy") identical pre-products (Walker/Weber 1984, p.389), franchisors may optimize both exploration/exploitation-streams for the benefit of system quality by running franchise and company-owned stores in one chain. Advanced research by Lewin-Solomons (1997, p.43) finds those franchise chains to turn out to be the innovation champions whose share of franchisees "is high enough to make franchisees feel important, but low enough that the chain [still] has a significant stake in the innovation process". Sorenson/Sørensen (2001) even empirically support a positive correlation of franchisor/franchisee success and the mixing of corporate- and franchisee-owned distribution facilities. It is therefore possible that franchisors operate plural structures to balance exploration and exploitation within one system in order to improve its innovational performance.

Benchmarking

A fourth positive aspect of a plural structure finally lies in its potential to benchmark franchisee performance against that of company-managers, a process supposed to increase positive intra-firm competition of rival distribution channels.

Principals of purely franchised chains lack appropriate instruments to generate detailed performance data due to the franchisee's autonomy which allows it to conceal a unit's financial details. Hence franchisors are unable to check performance against an unbiased third party, making it more complex to detect and to solve strategic performance barriers impacting on the franchised arm of the system. As Bradach (1997) explains, company-owned stores may serve well as data source and thus as a partner to benchmark the performance of the franchisees.

For example, the franchisor can use the financial results of company units in order to define the contractual performance goals for its franchisees. Both Bradach (1997, p. 290) and Kauf-

mann/Lafontaine (1994, p. 447) report that franchisees easily meet such benchmarks. Boeckenholt/Wiens (2001) even claim that franchisees regularly manage to outperform company-owned stores in reported revenue by as much as 20%. The ambitious franchisor then takes results of the franchisees and makes them the newly defined benchmark for improving the company units' performance. From a customer focus, non-financial goals like unit cleanliness, customer friendliness, and employee turnover should also be part of the benchmark process. In addition to the principal's authority, a group identity either with the franchise or the corporate channel of the system should empower both franchisees and managers of company-owned units to beat both performance and quality benchmarks of the rivaling channel. It is therefore possible that franchisors apply plural structures to gain valuable data on operating the system and that they use this information initiating a beneficial interfirm competition for excellence in system quality.

Making quality aspects operational

As has been discussed in these paragraphs, the plural form may feature the signaling of franchisor trust about a franchise opportunity, the harmonizing of originally diverse principal-agent-interests, promoting innovational powers, and the raising of performance potentials through inner-firm competition. All of these aspects characterize cooperative behavior in a franchisor-franchisee-relationship and generally benefit all contracting parties. Thus they stand in sharp contrast to the previously listed arguments of optimizing a franchisor's costs and growth structures which open the door for franchisor opportunism in opposition to the dependent franchise partners. In total, these quality aspects identify a franchise system that is to be governed in a cooperative manner; this information is important to outsider investors or potential franchisees. Hence ambitious franchisors, competing for the best franchisees on the job market (Ehrmann 2002), may gain a comparative advantage over competitors by using the plural form and thus by signaling superior total quality.

In the absence of company-owned units, principals may also want to signal their willingness to abstain from single-sided opportunism. The means and effects of such measures differ greatly according to the ability of particular plurally structured chains. Such purely franchised systems will ease its agent's way into the network by keeping one time franchise fees relatively low. Simultaneously they will demonstrate dependence on the success of the business concept by demanding relatively high ongoing royalty fees from the agents. Franchisors of plurally organized chains will achieve identical signaling results simply by engaging in company ownership. Thus the latter will demand

comparatively high franchise fees to meet the cost of setting up each franchise unit. Thereafter though they will be able to keep royalty rates low, thus passing on higher returns to their franchisees over the time span of the contract.

For the upcoming analyses we therefore use the parameters FFAVG (average franchise fee) and RRAVG (average royalty rate) to determine indirectly whether quality aspects are correlated to organizational structure, i.e. the share of franchise units. Additionally we suppose those franchisors forced to demand a large investment for setting up a unit will rely more on signaling superior quality than those chains requiring mere small investments. Hence by using INVAVG (average investment for setting up one unit), we will test whether so-called high-investment systems following the described fee-structures are significantly more plurally organized than low-investment systems. As hypotheses, these aspects read as follows:

H3 "Franchise Fee": The higher the one-time franchise fee, the larger (smaller) should be the share of company-owned (franchise) units.

H4 "Royalty Rate": The lower the ongoing royalty rates, the larger (smaller) should be the share of company-owned (franchise) units.

H5 "Investment Volume": The larger the investment volume, the larger (smaller) should be the share of company-owned (franchise) units.

Furthermore we are interested in the effect that plural structures exert on the success of franchise chains. Every serious debate on plural structures would certainly suffer, should there be no significant positive or even a significant negative correlation between company ownership and a system's success.

The best instrument available[16] to measure success in franchising is to apply the Franchise500-evaluation of the Entrepreneur Magazine. Since 1981, this survey has determined the 500 most suc-

[16] Note that only a minority of chains included in our survey are public companies for which financial data or stock prices are freely accessible. Thus to the moment the Franchise500 ranking is the best alternative indicating the success of a large number of franchise chains.

cessful US-franchises each year.[17] Thus by including RANK (ranking of the chain in the year of 2003) in our analysis we intend to determine an influence of organizational form on a chain's success. Should the plural form serve to promote the success of a chain, we will define RANK as positively correlated to the share of franchising applied.[18] We therefore hypothesize:

H6 "Ranking": The better the ranking within the *Franchise500*, the larger (smaller) should be the share of company-owned (franchise) units.

3.4 Risk aspect

The forth and final approach to explain the benefits of plural forms has been developed by Martin (1988) and Chaudhuri/Ghosh/Spell (2001). It is based on the assumption that, according to its site characteristics, every location bears specific risks concerning its expected profitability profile. Most important, local factors like the geography of a site, the size of its catchment area or the income structure of the people living in it greatly determine the risk profile of each unit. Thus when assuming heterogeneity for the risk profiles of all units, a franchisor may activate a program of company-wide risk management by individually deciding which units to integrate and which to outsource, i.e. to pass on to franchisees. Consequently a risk-conscious principal will operate only those stores with an acceptable risk-return-structure. All units that fail to meet this criterion but that are still interesting locations for the portfolio will logically be franchised. Other than a system operating under growth maxims (see part 3.2), unprofitable (for the franchisor) but strategically promising locations would then be operated under franchise management instead of being integrated. Hence even a risk neutral franchisor is motivated to proceed as described since the costs for monitoring a location are positively correlated with its specific profitability risk (Martin 1988).

Just like asset managers adjust their portfolio's total risk by exchanging one asset for another less risky one (or vice versa), a franchisor may use both channels to optimize the entrepreneurial risk of the chain by constantly adjusting the mix of franchise and company-owned units. Upon joining such

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[17] According to the Entrepreneur Magazine, the evaluation process accounts for: "... financial strength and stability, growth rate and size of the system. We also consider the number of years in business and length of time franchising, start-up costs, litigation, percentage of terminations and whether the company provides financing. … Every company with verifiable data receives a cumulative score. The franchises with the highest 'cumes' become the Franchise500." See www.entrepreneur.com (03/20/2004).

[18] Larger numbers of the ranking indicate lower positions in the evaluated sample. Therefore we suppose the rank number to increase, i.e. to become worse, as the share of company-owned units (more franchising) is reduced.

a system, any rational franchisee though would have to demand extra rents in order to receive a fair compensation for the additional profitability risk. It is a fact that one of the largest, most successful and truly plurally organized franchise systems in the world, McDonald's, grants its franchisees such extra rents via its franchise fees and royalty rates (Ehrmann 2002, p. 1137; Kaufmann/Lafontaine 1994, p. 419) – an instance possibly indicating the plausibility of a risk optimizing strategy. Therefore plural structures may likely be applied to exercise a chain-wide risk management system to the benefit of the franchisor.

Making the risk aspect operational

When operating a chain under a strategy of active risk management, the franchisor automatically incorporates a very high degree of principal opportunism towards his agent. Integrating the good units, i.e. those with favorable risk-return profiles, while outsourcing the bad ones, i.e. all other, more risky sites, reduces the chances of any potential franchisee to realize fair returns on his investment. Having to decide between a franchisor operating under risk management and one rather (more) cooperative principal, the risk conscious franchisee would have to go for the second. Thus if a franchisor uses the plural form for risk management, he has no incentive to signal this instance to his agents up front. It is therefore impossible to assess the extent of the risk aspect directly. As the best alternative indicator available we account for the fact that the risk strategy with its clear opportunistic focus stands in diametric opposition to the cooperativeness expressed in the quality aspects above. Therefore we may overcome the problem of direct visibility by formulating the existence of the risk aspect as antithetical to the above quality arguments:

H7 "Risk": The larger the support for the above quality aspects, the less is the importance of the risk aspect.

Consequently the less a potential franchisee is able to acknowledge clear signals for a franchisor's motivation to act cooperational, the more he will have to anticipate underlying franchisor opportunism as exercised in the risk strategy.

4 Empirical testing of the plural form aspects

4.1 Characteristics of the data

Out of the 925 franchise systems in our dataset, 781 offer exploitable figures on their organizational setting to the end of 2002. We define organizational structure as the share of franchise units related to all units of the chain. Thus a λ=1 (LAMBDA) marks a purely franchised chain without company units, whereas λ=0.85 indicates a plural form consisting of 85% of franchise units and 15% of company-owned outlets. In order to clearly separate plurally structured chains from purely franchise ones, the sample is divided into three groups according to each firm's LAMBDA. Group one includes all chains with a $\lambda \leq 0.85$, group two those with $0.85 < \lambda < 1$ and group three finally contains all purely franchise chains with $\lambda = 1$. The one-way ANOVA analysis of table 2 below demonstrates the effect of this separation on the means and standard deviations of each single parameter: they disclose significant differences across all parameters, thus obviously isolating group three from group one chains.

Table 2. Oneway ANOVA on LAMBDA

	Group*	N	Mean	Stand. Dev.		df	Mean square	F	Sig.
Business experience (years)	λ ≤ 85%	147	25.52	18.46	Between groups	1	1113	4.214	0.041
(BUSEXP)	λ=100%	193	21.87	14.36	Within groups	338	264		
					Total	339			
Total outlets	λ ≤ 85%	147	520.50	1659.68	Between groups	1	2041887	1.232	0.268
(SIZE)	λ=100%	193	364.07	907.38	Within groups	338	1657524		
					Total	339			
Investment volume (T$)	λ ≤ 85%	147	853.91	1656.23	Between groups	1	19799297	11.692	0.001
(INVAVG)	λ=100%	193	366.80	946.10	Within groups	338	1693350		
					Total	339			
Franchise fee (T$)	λ ≤ 85%	144	32.31	15.93	Between groups	1	8027	51.381	0.000
(FFAVG)	λ=100%	183	22.33	8.92	Within groups	325	156		
					Total	326			
Royalty rate	λ ≤ 85%	140	5.13	1.74	Between groups	1	49	22.683	0.000
(RRAVG)	λ=100%	160	5.93	1.18	Within groups	298	2.15		
					Total	299			
Share of franchise	λ ≤ 85%	147	0.58	0.22	Between groups	1	14.92	716.128	0.000
(LAMBDA)	λ=100%	193	1.00	0.00	Within groups	338	0.02		
					Total	339			
10-year growth	λ ≤ 85%	147	359.20	1426.06	Between groups	1	3361393	3.271	0.071
(GROWTH)	λ=100%	193	158.50	512.40	Within groups	338	1027578		
					Total	339			
Rank 2003	λ ≤ 85%	114	153.39	171.02	Between groups	1	120629	4.152	0.043
(RANK)	λ=100%	175	195.19	170.10	Within groups	287	29057		
					Total	288			

* Group 1: λ ≤ 85%, Group 3: λ = 100%, Group 2 is excluded.

Having computed the correlations between all parameters (see appendix), the variables SIZE and GROWTH display a highly significant coefficient of 0.88. In order to avoid a detrimental colinearity between these parameters, SIZE is excluded from further analysis.[19] Due to the equally strong correlation of BUSEXP and SIZE (explicitly demonstrated in figure 1), eliminating the factor SIZE will not impair the results for testing H1.[20]

4.2 Regression model and empirical results

For testing the potential influences of costs, growth, quality, and risk aspects on the organizational structure of franchise chains, the following equation is applied:

$$\text{LAMBDA} = \alpha_0 + \alpha_1\text{BUSEXP} + \alpha_2\text{GROWTH} + \alpha_3\text{INVAVG} + \alpha_4\text{FFAVG} + \alpha_5\text{RRAVG} + \alpha_6\text{RANK}$$

Before performing a linear regression process, the dependent variable generally needs to be transformed to a metric scale with the consequence that it may, theoretically, take up any value ranging from $-\infty$ to $+\infty$. With our LAMBDA's ability of displaying either purely franchised or plurally structured companies (i.e. dichotomy), a binary-logic model is needed in turn for testing the above equation. Different from linear regression models, binary-logic models assume a non-linear relationship between the dependent and at least one independent variable and thus create an S-curve shaped distribution of the cases included. Commonly used to map life-cycles of products or industries, such S-shapes assume changes of the independent variables occurring at the extreme parts (highs and lows) of the curve not to significantly increase or decrease the expected probability. Using the coefficients of the logistic regression will then serve to aptly estimate the values of each independent variable of the model.[21] The regression results of the above equation are summarized in table 3 below.

[19] This procedure is owed to a helpful remark by J. Windsperger.

[20] Hence H1b is tested indirectly via the factor BUSEXP.

[21] See Backhaus et al. (2003) and Diaz-Bone (2000) for details on logistic regression models.

Table 3. Logistic regression variables in the equation

Step 1*	Coefficient B	Standard error	Wald	df	Sig.	Exp(B)
BUSEXP	-.006	.010	.404	1	.525	.994
INVAVG	-.001	.000	4.295	1	.038	.999
FFAVG	-.122	.023	28.103	1	.000	.885
RRAVG	.375	.115	10.622	1	.001	1.455
GROWTH	.000	.000	.484	1	.486	1.000
RANK	.003	.001	9.797	1	.002	1.003
Constant	1.303	.818	2.534	1	.111	3.679

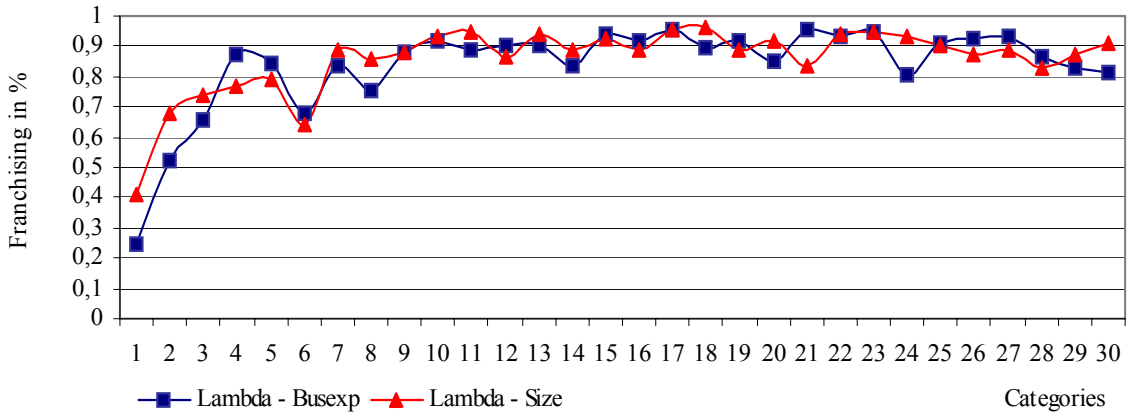
* Variables included in step 1: BUSEXP, INVAVG, FFAVG, RRAVG, GROWTH, RANK.
Cox & Snell $R^2 = 0.306$. McFadden $R^2 = 0.266$.

4.3 Interpreting the empirical results

The regression results do not reveal significant support for a negative correlation of BUSEXP and LAMBDA as supposed in H1a. Consequently (see above), H1b, which hypothesized a negative link of SIZE and LAMBDA, cannot be accepted either.

The rejection of both cost aspects as arguments for the existence of the plural form is very plausible when taking a dynamic viewpoint of a chain's organizational development. In what is known as ownership-redirection, Oxenfeldt/Kelly (1969) have questioned the chances of franchising to be a lasting organizational form. From their standpoint, franchising is only beneficial during the infancy of a system and subsequently becomes inferior to company ownership as the chain matures. Undergoing major scientific debate, their global research question has been well formulated by Dant/Paswan/Kaufmann (1996, p. 429): "Do franchisors use franchisees to open markets, develop consumer acceptance and preference for the franchisors' trademarks and then appropriate that brand equity by terminating or otherwise ending the franchisees' rights to continue to operate the business?"

Figure 1. Dynamic franchise development



Category	1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	30
Experience in years (in '04)	1	3	5	7	9	11	13	15	17	19	21	23	25	30	40	45+
Size in outlets (in '04)	2	7	13	23	32	46	61	81	105	137	173	231	313	472	1089	2700+

Consequently one should observe significant trends of franchises being integrated across the mature phases of a chain. Company ownership is thus supposed to gain importance as chains grow in size and age. In their studies neither Lafontaine/Kaufmann (1994), Lafontaine/Shaw (1999), nor Pénard/Raynaud/Saussier (2002) were able to support such developments empirically. Neither of them found the share of company-ownership to increase significantly during the late stages of a chain's life cycle.[22] As we can demonstrate for the sample used for the present analysis, franchise systems rather start as a fully integrated structure and do not begin to adopt franchising before 7 ½ years of business experience have passed. According to figure 1 above, the share of franchises (company-ownership) increases (decreases) continuously during the first years of business development. Starting at an age of about 11, the systems, having an average number of 50 outlets in total, stabilize their structural mix at 80-95% of franchises or at 5-20% of company units. These results clearly reject propositions of other researchers to go for pure franchising after an initial phase of plural structure.[23]

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[22] See Lafontaine/Kaufmann (1994), p. 110; Lafontaine/Shaw (1999), p. 1073 f. and Pénard/Raynaud/Saussier (2002), p. 21 f. See also the overview of studies researching the thesis of ownership redirection at Dant/Paswan/Kaufmann (1996), p. 431 f.

[23] Shane/Foo (1999, p.157) for instance state that " Franchisors typically establish company-owned outlets before they start to franchise [Yes] and then expand almost exclusively through franchised outlets when they start to franchise [No!]." As a result of this research and, much more, Ehrmann/Spranger (2005c), strong growth is clearly fueled by both arms – the franchise and the company-owned – and not just by one.

Regarding these findings, neither regression results nor figure 1 data allow us to accept the costs aspects formulated in H1. Despite their enthusiasm towards a straightforward approach explaining the characteristics of franchising, even Oxenfeldt/Kelly express their misgivings at the beginning of their analysis: "Frankly, we are not fully convinced that the hypothesis we propound is valid. Certainly the arguments by advocates of franchising have force, but we are not persuaded by them."[24]

The results depicted in figure 1 are equally important to support the testing of the hypothesized correlation of GROWTH and LAMBDA in H2. Similarly the regression fails to reveal a significant negative influence of system growth on the share of franchise units. Much more, the organizational structure adopted up to about 11 years of business experience is largely stable during further maturity and growth. Neither figure 1 nor those studies of other researchers, concerning the thesis of ownership redirection, are able to support the link. At the same time though, pure franchising neither is the key for strongest growth. It is of importance for further research that the factor GROWTH as used in this analysis covers the development in terms of added/closed units across a ten-year-period. With the standard duration of a franchise contract for this sample being 11.5 years however, the rejection of H2 may have to be adjusted once a period of growth exceeding the average term is available to researchers.[25]

The regression results most clearly support hypotheses H3 and H4 concerning the correlation between the plural form and a system's overall quality. As proposed, the chains demanding comparatively high franchise fees and low royalty rates are significantly more plurally organized than are those purely franchised systems. This adds empirical validation to the analytic approach of Gallini/Lutz (1992), who have argued that: " … a sufficiently large number of company-owned stores gives the high-demand franchisor enough stake in the product's success to deter the low-demand franchisor from misleading franchisees; the franchisor does not need to claim an additional stake through a royalty to convince them of the product's demand. The high-demand franchisor can offer the efficient contract, [theoretically] charging a [almost] zero royalty on sales and using the fixed fee to extract all profits from the franchisee."[26]

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[24] See Oxenfeldt/Kelly (1969), p. 69.

[25] Using longitudinal data, Ehrmann/Spranger (2005c) find that plurally organized chains grow stronger than purely franchised competitors. As they do not observe ownership redirection trends, in Ehrmann/Spranger (2005d) they relate this apparent paradox to changing out- and inside conditions that franchise chains face during the different stages of their corporate life cycle.

[26] See Gallini/Lutz (1992), p. 482-483.

Other than the principals of purely franchised systems, those operating a plural structure are able to offer a fee structure that minimizes ex-ante uncertainties concerning the quality of the project quality or the behavior of the franchisor. In addition, the results of table 3 strongly support a link between the chain's investment volume and its organizational structure as proposed in H5. It is plausible that high-volume franchisors, demanding large investments from potential franchisees, are more strongly affected by ex-ante uncertainties than low-volume chains. In other words, the higher the investment risk, the more the principal is urged to demonstrate abstinence from opportunistic behavior.

Results clearly reveal that high-volume franchise chains rely significantly more on company-ownership than low-volume systems. This aspect is especially noteworthy as the high-volume principal raises (and thus risks) more financial resources when increasing the share of company-owned units compared to a low-volume franchisor. Thus the signal sent out by plural forms increases in strength as investment volumes rise. We may therefore conclude that the power of plural structures exceeds that of an appropriate fee structure (low franchise fee and high royalty rates) of purely franchised systems. While the latter may signal a principal's dependence on future franchise profitability, only the plural form is able to convey additional quality characteristics such as the leveling of diverse interests, the promotion of innovation or transparency through benchmarking. The fact that high-volume franchisors operate a larger share of company units – simultaneously being forced to raise even greater financial resources – supports the plural form's effect of signaling overall system quality.

In addition, the regression results indicate a significant correlation between a chain's success – which is assessed by the ranking of the Entrepreneur Magazine[27] – and its organizational structure as formulated in H6. Chains with a higher share of company ownership are awarded significantly lower, i.e. better, ranks than pure franchise systems. Combined with the support of hypotheses H3, H4 and H5, we therefore conclude that plural franchisors with an appropriate fee structure do much better in signaling above-average total system quality – furthermore they are ultimately more successful at doing so than purely organized chains.

As we learn from the acceptance of the quality aspects, franchisors win by offering (or credibly signaling at least) a cooperative principal-agent relationship to (potential) franchisees. Franchisors

[27] See footnote 17 for the evaluation process used by the Entrepreneur Magazine.

on the other hand, who use the plural form for risk management, thereby exploiting their freedom of opportunistic action, clearly disrupt such forms of cooperation. A strategy which aims at integrating the good units while passing on all risky ones to franchisees jeopardizes the commercial success of each franchisee and finally the survival of the entire chain. With the restrictions that apply to indirect testing, we therefore propose to reject H7 due to the clear support of the quality aspects. The risk management approach as formulated by Martin (1988) portrays the franchisor as being an opportunistic principal. The results of our research though have clearly emphasized the benefits of a cooperative principal-agent relationship. According to this analysis, franchisors apply organizational structure in general and the plural form in particular to support franchisees instead of harming and exploiting them; cooperative principal behavior as described above seems to be an important factor for creating a system of high quality and thus for generating long-term success for all parties of the chain.

5 The plural form chosen for cooperative management

In the world of franchise systems, a full spectrum of alternatives is common for organizing the decentrally located production and distribution of goods. Depending on the share of company ownership, we identified pure franchising and plurally structured systems as the extreme poles of the range.[28] Only a minority of the chains researched operates free of any company operation – the vast majority of "franchise" chains are actually plurally structured, i.e. they use both company-owned and franchise units. It is this heterogeneous profile that motivated us to search for theories that explain why franchisors use plural forms instead of pure franchising, both from a theoretical and a practical position. According to existing research work, plural structures theoretically grant the principal the freedom to reduce organizing cost, to increase system growth and to avoid location specific risks. The subsequent empirical tests (though) did not reveal practical support for opportunistic strategies that use principal-agent dependency for the exploitation of the franchisee. Many more plural structures work in a way to credibly signal a franchisor's willingness to cooperate with franchisees, thus benefiting all parties of the chain. By running both company-owned and franchise units, franchisors are able to initiate positive effects – e.g. signaling trust, leveling diverse interests, accelerating innovation and establishing performance benchmarks – that serve to increase a sys-

[28] We used data on franchise systems; hence fully integrated chains were not included in our analysis.

tem's overall quality.

Due to the extended duration of franchise contracts, which naturally require repeated interaction between the principal and his agents, cooperative behavior is directly correlated to higher performance. The effect of any franchisor activity, opportunistic or cooperative, will simply multiply over time and shape the success of all partners. While cooperative behavior is economically rational if repeated interaction is anticipated from the start, subsequent reciprocity, i.e. the mutual strengthening of any action, paves the road for establishing a long-term cooperational relationship between the franchisor and his agents. Empirical results from the present study clearly support the link between performance and cooperational behavior. Franchisors that applied the plural form as described, received significantly better rankings than opportunistically acting competitors. Hence by combining company ownership with franchising, chains successfully force themselves into cooperative behavior and refrain from opportunism towards their franchisees. Doing so, they attract more and better members to join the system.

Probably because of its strategic importance for chain performance, we do not foresee a significant conversion of plural chains towards wholly company-owned or purely franchised systems. Much more, organizational continuity seems to be based on the specific advantages of the plural structure – and these advantages may vary over the life of a system. While signaling and leveling diverse interest are more essential during the infancy and growth stages, improving processes of innovation and benchmarking gain importance as the system becomes bigger, better known and more complex. With its ability to benefit both the franchisor and its partners across the early, the growth stages and up to maturity, the plural form proves to be a strategic instrument for achieving long-term success in the franchise industry.

Appendix

Table A. Cross correlations

		BUSEXP	SIZE	INVAVG	FFAVG	RRAVG	GROWTH	RANK	LAMBDA
Pearson Correlation	BUSEXP	1	.372	.096	.092	-.045	.251	-.076	-.145
	SIZE	.372	1	.034	-.017	-.081	.888	-.232	-.009
	INVAVG	.096	.034	1	.395	-.218	.044	.074	-.229
	FFAVG	.092	-.017	.395	1	.023	.002	.111	-.279
	RRAVG	-.045	-.081	-.218	.023	1	-.098	.031	.209
	GROWTH	.251	.888	.044	.002	-.098	1	-.187	-.052
	RANK	-.076	-.232	.074	.111	.031	-.187	1	.108
	LAMBDA	-.145	-.009	-.229	-.279	.209	-.052	.108	1
Significance (2-sided)	BUSEXP	.	.000	.078	.095	.439	.000	.199	.008
	SIZE	.000	.	.533	.754	.162	.000	.000	.872
	INVAVG	.078	.533	.	.000	.000	.421	.210	.000
	FFAVG	.095	.754	.000	.	.703	.971	.066	.000
	RRAVG	.439	.162	.000	.703	.	.090	.614	.000
	GROWTH	.000	.000	.421	.971	.090	.	.001	.342
	RANK	.199	.000	.210	.066	.614	.001	.	.066
	LAMBDA	.008	.872	.000	.000	.000	.342	.066	.
N	BUSEXP	340	340	340	327	300	340	289	340
	SIZE	340	340	340	327	300	340	289	340
	INVAVG	340	340	340	327	300	340	289	340
	FFAVG	327	327	327	327	287	327	276	327
	RRAVG	300	300	300	287	300	300	259	300
	GROWTH	340	340	340	327	300	340	289	340
	RANK	289	289	289	276	259	289	289	289
	LAMBDA	340	340	340	327	300	340	289	340

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II Franchisee vs. Company Ownership – An Empirical Analysis of Franchisor Profit

Overview

- In this paper, we examine ownership structures of franchise chains and evaluate their impact on franchisor profit. Specifically we compare pure forms of franchising with those that use both company-owned and franchised outlets within one chain – a phenomenon termed the plural form. Theoretically such plural arrangements are supposed to provide franchisors with lower costs, higher growth, greater total-quality, and reduced business risk.

- Empirical results of this study indicate the superiority of company-owned businesses over franchised units in generating franchisor profits. Moreover plurally organized systems compensate for losses from franchising with profits from company units and outperform purely franchised competitors in overall profitability.

- Despite a clear financial inferiority of franchise outlets, franchisors of our sample do not convert plural structures into wholly-owned chains. Much more when organizing the chain, franchisors face an (skewed) inverse u-shaped profitability curve with both pure franchising and pure company-ownership lying at the (undesirable) extremes and with a performance peak somewhere in between.[1]

[1] Earlier drafts of this paper have been published in the proceedings of EMNet 2005 and in the SSRN Working Paper Series: http://ssrn.com/abstract=763364.

1 Introduction

"As all of you know, the name of the game is not really franchising. The name of the game is company stores. ...It becomes obvious to you, if two hundred company-owned units out of 1600-1700 overall units produce 60 percent of the net after tax profit, the real name of the game is owning the stores yourself"[2]

Economic transactions within firms are organized either by hierarchy or by price mechanisms – or by a mixture of both. Concerning the matter of franchising, only a minority of today's leading franchise chains relies on pricing systems alone. The vast majority operates a minor but still significant number of company-owned stores (the hierarchy) side by side with their franchisees (the price system). Since Bradach/Eccles (1989) examined such special hybrid arrangements, mixes of company and franchise units within the same system, have been known as plural forms. In contrast to early research propositions by Oxenfeldt/Kelly (1968), Hunt (1973), Caves/Murphy (1976) and Martin (1988), plurally organized franchise chains have not significantly altered their structure into entirely franchised or company-owned systems. Thus plural forms appear to be a stable organizational phenomenon. Upon these findings, organization science began to explain the widespread use of plural forms by researching its advantages over pure franchise systems (Bradach 1997, Ehrmann/Spranger 2004). Compared to pure hierarchy (full vertical integration) or pure price systems (pure franchise chain), plural forms are firstly supposed to lower overall agency (i.e. monitoring) cost and the cost of searching for and implementing local and highly specific information.

Secondly, it is argued that plurality improves system and process quality by the following effects: By signaling internal franchisor information to the franchisee, thus overcoming inefficiencies arising from asymmetrical information; by preventing conflicts among contracting parties through aligning divergent interests of principals (franchisors) and potential agents (potential franchisees); by combining a franchisee's innovational power with the hierarchy of the company-owned distribution arm, leading to accelerated innovation and internal change; and, finally, by creating a competitive environment where benchmarking franchisees against managers of company-owned units increases overall system performance.

Thirdly, plural forms are supposed to facilitate chain growth. While the franchise part alleviates

[2] Hooker, J. (1970): p. 171.

resource constraints – such as capital and managerial talent – the company-owned units provide a high degree of flexibility for quickly developing new local markets.

Lastly the plural form is understood as a tool of company-wide risk management that enables the principal to select franchising or ownership depending of specific local risk factors. In total, research has found that plural structures outperform pure forms of franchising and of company-ownership because of their positive effects on a chain's organizational costs, quality, growth and risk management (Ehrmann/Spranger 2004).

Following Oxenfeldt/Kelly (1968), we are not fully convinced that these aspects suffice to entirely explain the continued existence and stability of the plural form. Certainly, as Oxenfeldt/Kelly (1968, p. 69) state, "the arguments advanced by advocates of organizational science have force", but, just like Oxenfeldt/Kelly, we are not fully persuaded by them because in their aim to solve the plurality puzzle, they focus on single aspects rather than analyzing franchise chains as one profit producing entity. We therefore ask: Is it possible that the organizational structure impacts on a franchise chain's profit situation? If this is the case, which then is the structure that maximizes franchisor profit?

Generally, the franchisor's streams of income result from specific or residual claims towards his agents and differ depending on the chosen mode of distribution. Franchisees on the one hand pay an initial franchise fee upon joining the system, an ongoing royalty amount, and an advertising fee as a percentage of the outlet's sales volume. Thus the franchisor's claims towards franchisees are of a precisely specified nature. Company units on the other hand provide profit resulting from the positive difference between sales revenue and operating cost. Hence the franchisor's claim towards company-owned units is of residual nature. From the perspective of the franchisor – which will be ours for the remainder of this paper – chain profit is defined as the difference of all revenues (i.e. franchisees' fees and amount of company sales) and all costs (i.e. franchising overhead and company units' specific costs). It is important to note that costs arising from operating the single franchise unit remain the franchisee's and are irrelevant for the franchisor's financials. From the principal's view, income streams of specific claims need to be challenged with those of residual claims in order to receive a meaningful statement regarding the profitability of distributional alternatives. Research on ownership redirection for instance has explicitly (Hunt 1973) or implicitly (Oxenfeldt/Kelly 1968) implied a superiority in performance of company ownership over franchising.

In order to shed more light on these issues, we will explore whether and how organizational struc-

tures impact the franchisor's income streams. Specifically we contrast profitability of company-owned units with franchise units and ask whether and why plurally organized systems may be more efficient than purely franchised competitors. Our present approach is both theoretical and practical: In section two we will first use the findings of capital finance theory on the impact of financial structure on a firm's market valuation. In the perfect world of Modigliani/Miller both company and franchise units should be equally efficient and therefore neither income streams nor firm value are affected by organizational changes. Traditional finance theory though accepts that structure influences profitability and therefore plays an important role in maximizing a firm's valuation. These opposing views are challenged with the results of a recent IFA (International Franchise Association) study and with data received from franchisors' annual reports. We conclude in section four by discussing the implications of our findings for future franchising.

2 Corporate finance for governance structures

Shaping the organizational setting of a chain means to choose between selling any new outlet to an independent franchisee or running it under company-ownership by hiring an experienced store manager. Hence structuring a franchise chain initially appears to be an issue of organizational choice only. Because each form is characterized by a specific mode of revenue and costs, from the controller's perspective the choice of the organizational form results in decisive consequences for the franchisor's corporate finances and thus concerns more than just organizational efficiency. The main differences between any franchise and company-owned unit stem from divergent ownership patterns. Whereas the franchisor will have to bear the costs of investment in every company unit himself, franchise units will ideally be financed through the investment of the franchisee. Accordingly, residual ownership of the first remains with the chain, but of the second lies in the hands of the franchisee. In case of bankruptcy, the franchisor is liable for the company units, while claims against the franchise unit stay with the franchisee. While the franchisor receives residual profits from company-owned operations, franchisees in turn pay fees for entering the system, for using the common brand name and infrastructure and they contribute to advertising funds. With these specific attributes, the choice between organizational alternatives is as much an issue of corporate governance as it is of the franchisor's corporate finances. According to Williamson (1988), using different organizational modes for running a system is comparable to the choice of the appropriate mode of financing a firm or a project. The difference is to be found in a rather sharp dichotomy – financing

the latter is done either by equity or by debt money.

Due to the characteristics of franchise and company-owned units, franchising means to finance the project (the new outlet) with money from outside (the investment is made by the franchise undertaking), while for company-ownership investment sources come from inside the system (the franchisor needs to invest himself). Accordingly, the franchisor's claims towards franchisees are specific (like a creditor's charges for debt) and those towards company-owned units are residual (like a creditors charges for equity). Thus when asking whether the choice of corporate governance influences the firm value, one could alternatively ask whether the capital structure of a firm, being a mix of equity and debt, does influence the value of the firm.

2.1 Modigliani/Miller for franchising

In their classical work, Modigliani and Miller (1958) propose aim to explain the effects of a firm's capital structure on its market value. By grouping firms "into 'equivalent returns' classes, such that the return on the shares issued by any firm in any given class is proportional to (and hence perfectly correlated with) the return on the shares issued by any other firm in the same class"[3], they separate the risk of capital structure from the income risk, as now all firms in the same class have identical return patterns. They conclude that in an economist's ideal world of complete and perfect capital markets and with full and symmetric information among all market participants, the total market value of all the securities issued by a firm is governed by the earning power and risk of its underlying real assets and is independent of how the mix of securities, issued to finance it, is divided between debt instruments and equity capital. Differences in market valuations of heterogeneously financed firms within the same class would then be eliminated through arbitrage by rational investors. Applying Modigliani/Miller's model of 'leveling-the-field' arbitrage dealing to the case of franchising, the irrelevance of financial (and thus organizational) structure on a chain's value becomes obvious.

With the investors' ability to add equivalent leverage by borrowing on personal account, levered (plurally organized) companies would ultimately be priced equally (i.e. no price premium would be charged) to unlevered (pure) competitors of the same return class.

As long as it is impossible to increase a chain's market value by exchanging company units for

[3] Modigliani/Miller (1958): p. 266.

franchise units, or vice versa, both forms have to be considered equally efficient for the franchisor.[4] Alternatively, these results could be translated into a discounted cash flow model for calculating a firm's fair price. Accordingly the market value of a firm results from discounting future earnings with the interest rate measuring the weighted average costs of capital. The only ways of increasing the value of a firm, is by increasing its returns and/or decreasing the underlying interest rates. As long as altering a firm's leverage will not affect the discounting interest rate of chains within one class, firm value will be independent of financial and in particular, for our case also of corporate governance structure.

2.2 Traditional Capital Structure Theory for Franchising

A second approach towards the influence of capital structure on firm value is taken by supporters of traditional capital structure theory. They criticize the Modigliani/Miller assumptions as being unrealistic.[5] Indeed, assuming a perfect capital market does not comply with information asymmetries between actors, with incomplete information or with costs of bankruptcy and trading (e.g. equity into debt). Obviously for instance it is neither costless nor frictionless to exchange franchise units for company-owned ones. Moreover franchisees seem to anticipate different risk structures of franchise chains according to their organizational setup. As Ehrmann/Spranger (2004, 2005a) demonstrate for a sample of US-franchisors, plurally organized chains attracted larger investment volumes and charge lower royalty rates than pure franchise chains. The latter on the other hand realize significantly smaller investments from franchisees and charge them a lower franchise fee but a significantly higher royalty rate. Apparently franchisees demand fee-based risk compensation from those franchisors that relied too heavily on "debt" ("equity") just as bond (stock) holders do with low (high)-equity firms.

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[4] To be consistent with the Modigliani/Miller proposal, we compared a fully integrated (fully company owned) with a plurally organized one. Of course the proof holds true also for the comparison of a wholly franchisee owned chain with a plurally organized one.

[5] These conditions are six fold: First Modigliani/Miller assume the existence of risk classes in which all firms share one identical pattern of income across changing states of the world. Second their model requires a frictionless perfect capital market, where asset trading actors are able to carry out arbitrage deals due to missing transaction costs and institutional restrictions. Third, taxes are neglected or perceived to be neutral, i.e. to be identical across taxpayers and for all income sources. Forth, investors are able to borrow or lend on the same terms as firms and fifth, there are no bankruptcy costs as in the state of failure all revenue is assumed to be given to the bondholders leaving them without serious financial damage. Finally firms are supposed to be unable of conveying information and thus influencing their market value by adjustment of their capital structure.

These results call for an analysis of the franchise organization process under the rules of traditional capital structure theory. In contrast to Modigliani/Miller, traditionalists propose a non-linear relationship between costs of debt and equity. Exchanging one form – organizational or financial – for another would then potentially minimize the costs of capital and thus maximize the firm's valuation. As long as a firm's total value is the sum of its total equity and debt, an all-equity financed firm may now lower its costs of capital and thereby increase its market value by substituting some equity for debt. As long as debt is the higher ranking collateral in case of bankruptcy, its risk of termination is then less than it is for equity. Consequently, for the franchisor, debt will be cheaper to accumulate than equity. While exchanging equity for debt, the franchisors are subsequently limiting their financial scope during recession. This exposes their creditors to an increasing risk of losing their claims in the aftermath of entrepreneurial downturns. Therefore beginning at some point α^* of leverage, creditors will start to compensate for such increased risks by adding a price premium on to their claim, which gradually equates the cost of debt and equity and makes additional degrees of leverage unfavorable. Correspondingly, leverage at α^* represents the minimum of the weighted average cost of capital and, everything else being equal, the maximum of the firm's valuation.

Applying this approach to the case of plural franchise chains suggest that mixing company and franchise units is more efficient than running a pure system. Since franchisors escort organizational changes with adjustments of their franchise fees and royalty rates, franchisees seem to anticipate leverage risks just like every other creditor does. With the specific costs and benefits of each organizational form, the overall organizational efficiency is supposed to increase when leveraging closer to the ratio α^*. According to traditional capital structure theory, if leverage is too low, say the chain is wholly company-owned, the firm's value increases by issuing more debt (to emphasize franchising) in exchange for equity. If leverage is too high – to much franchising compared to company ownership – the firm's value increases by issuing equity (emphasizing company ownership) in exchange for debt (Bailey 2003). Here it would be the franchisor's task to identify the chain-specific value-maximizing mix of company ownership and franchising.

2.3 Explaining the 'Swollen Middle'

In order to relate the existence of plural franchise chains to a maximization of firm value, evidence needs to be presented that mixing organizational methods (hierarchy and the price system) results in similar non-linear cost/benefit-effects as mixing debt and equity in traditional capital structure the-

ory. According to Hennart (1993), the costs of using the market or the hierarchy depend on each form's specific enforcement properties. When principals pay a fixed salary to the agent, they may impose behavior constraints in turn and hence exert control through hierarchy. Measuring an agent's production though, and rewarding him for the fulfillment of a predefined output, the principal imposes price constraints and thus exerts control through price mechanisms. Concerning the agent's reaction towards each form of constraint, each mode of control gives way to a distinct trade-off situation. Price constraints, on the one hand, maximize personal effort (minimizing shirking) but encourage cheating, either by offering unacceptable high prices or low quality. Behavior constraints on the other hand, work exactly the opposite way. They reward individuals for following directives and discourage them from cheating. In the absence of proper supervision though, they provide room for excessive shirking through the minimization of work effort. Consequently, the trade-off between price system and hierarchy is one involving low shirking and high cheating or high shirking and low cheating cost. Based on rationality, any given transaction should be exercised by a mix of price and hierarchy resulting in the lowest organizational costs.[6]

In case the relationship between the level of constraint and the specific amount of shirking and cheating costs is one of a linear nature, the choice of organizational form will tend towards one of the extremes. If it is easier, i.e. cheaper, to observe the agent's behavior than the outlet's output, behavior constraints are applied. If it is easier to control the output than the agent's behavior, price constraints prevail. So as long as organizing costs are linear, mixing behavior and price constraints into plural forms will never reduce the total organizing costs. Should, on the other hand, the sum of costs (benefits) increase (decrease) non-proportionally as the organization specializes into one method, substitution results in a hybrid form similar to the leverage α^* from above. At this point, the chain's organizational costs (benefits) are at their minimum (maximum) and thus firm value is at its maximum (Ouchi 1980). Depending on the specifics of cheating and shirking costs, the organizational mix is skewed more or less towards one of the extremes – resulting in hybrid forms that are dominated by behavior constraints or by price constraints.

There is evidence that franchisors may find a non-linear relationship between the efficiency of franchising and company ownership. Empirically, the mix of franchise to company-owned outlets ranges from 2:1 (Pénard/Raynaud/Saussier 2002), to 3:1 (Lafontaine/Shaw 2005) all the way to 9:1

[6] Organizing costs are the sum of cheating and shirking costs in this case. As will be explained, there can be non-financial factors other than cheating and shirking costs that determine the degree of efficiency.

(Ehrmann/Spranger 2004). Bradach (1997) and Lewin-Solomons (1998) have argued such non-linearity exists because franchisors realize synergies when applying the plural form. Ehrmann/Spranger (2004, 2005a) have summarized those effects that may cause plural structures to be more efficient than pure forms: Plural forms may reduce agency and information cost, they may foster growth by overcoming limited resource accessibility without losing flexibility and keep entrepreneurial risk under control. Furthermore these plural forms improve system quality by signaling internal information, by harmonizing divergent interests, by balancing innovation streams and by advancing intra-firm competition.

Although franchising research has just started to explore the importance of these aspects, it should positively impact the plural franchise firm's profitability if any, some or all of these aspects apply. Our empirical analysis therefore will examine the income streams of both company-owned and franchise units closely. H1 aims to compare the general productivity of both forms in terms of unit profit to the franchisor. In a second step, data is used to compare the overall profitability of plural chains with those of pure forms. As stated in H2, one mode (plural or pure) is supposed to outperform the other. What remains for testing in step three is the proposition of H3 that plurality (as it is supposed to apply to other hybrid forms) is a temporary phenomenon which will, sooner or later, dissolve into pure forms of market or hierarchy:

H1A: Company owned units are more profitable to the franchisor than franchise units.

H2A: Plural franchise chains are more profitable than purely franchised competitors.

H3A: Plural chains will evolve wholly-owned systems.

These hypotheses are contrasted by the following anti-theses:

H1B: Franchise units are more profitable to the franchisor than company units.

H2B: Pure franchise chains are more profitable than plural competitors.

H3B: Plural chains will evolve towards wholly-franchised systems.

3 Empirical Analysis of the Profitability of Plural Chains

3.1 Unit profitability

The underlying supposition of those promoting ownership-redirection tendencies is – as explicitly stated in the introductory quote of John Hooker – that a franchisor extracts more profit from company-owned stores than from franchise units. Otherwise franchisors have little incentive to buy back successful franchises once their contracts have expired (as those supporting ownership redirection expect to happen). Franchising would then turn out to be a transitory phenomenon, serving the franchisor for a variety of reasons: the acquisition of capital (Caves/Murphy 1976; Mathewson/Winter 1985) or managerial talent (Thompson 1994), the compensation of extraordinary risks (Martin 1988) or the integration of entrepreneurial spirit (Bradach 1997). In order to clarify the profitability schemes of both organizational modes, we model the income and cost structures of company-owned and of franchise units.

Under the franchise contract, the franchisor will primarily receive an initial franchise fee plus ongoing royalty and advertising payments based on the franchisee's sales. Further he may charge the franchisee for training and business development, for leasing property and equipment and for purchased raw materials and supplies from the franchisor (Justis/Feltes 1986). For company-ownership, the franchisor receives revenue due to the outlet's sales of products or services.

Concerning a franchisor's cost there are one-time as well as ongoing expenses. Examples of one-time costs are: developing new sites, investing in hard- and software, recruiting staff, etc. Ongoing costs are either variable, like those for input material and labor, or fixed, such as management salaries/benefits or rental and lease payments. Whereas franchisees will pay outlet specific costs, the franchisor bears all expenses accumulated by company-owned outlets. Thus the decision to franchise or to own is also a choice of two alternative income streams.

Out of their annual 10-k fillings with the US Securities and Exchange Commission we extracted data of seven large public US-restaurant retail chains displayed in table 1 below. In total, our sample contains ten of the best-known franchise chains in the restaurant business worldwide. With more than 76.500 franchise and company-owned outlets, they generate combined revenue of more than $28 billion.[7]

[7] Furthermore they represent six of the 2002 top-ten Technomic100 chains. No data was available of the 2002's No. 2 (Burger King) and No. 4 (Subway) because of private ownership. The data of Starbucks (No. 9) and Domino's (No.10) lacked the necessary breakdown of revenue and costs. See www.technomic.com.

Table 1. Unit Profitability of Seven Large Franchisors

Chain	McDonald's	Carl's Jr.	Hardee's	Denny's	Wendy's	Applebee's	YUM[1]
1. Year of annual report	2002	2003	2003	2002	2002	2002	2002
2. Company-owned units (CU)	9.000	440	730	547	1.320	357	7.523
3. Franchised & licensed units (FU)	22.108	547	1.499	1.010	4.933	1139	25.397
4. Franchising in %	71,07%	55,42	67,25%	64,87%	78,89%	76,14%	77,15%
5. Total system-wide revenue[2]	$15.406	$694	$628	$949	$1.979	$827	$7.757
6. CU sales	$11.500	$508	$562	$859	$1.700	$725	$6.891
7. Cost of CU sales	$9.907	$397	$500	$738	$1.380	$614	$5.790
8. CU margins	$1.593	$110	$62	$120	$320	$111	$1.101
9. Margin per single CU	$0.177	$0.250	$0.085	$0.220	$0.242	$0.311	$0.146
10. FU revenue	$3.906	$186	$66	$90	$279	$102	$866
11. Cost of FU revenue	$840	$163	$33	$29	--	--	$49
12. FU margins	$3.066	$23	$33	$61	$279	$102	$817
13. Margin per FU	$0.139	$0.042	$0.022	$0.061	$0.057	$0.089	$0.032
14. General & admin. expenses	$1.713	$43	$47	$50	$175	$81	$913
15. Other operating (inc.) expenses	$833	$34	$38	$82	$86	$2	($30)
16. Operating income CU[3]	$857	$76	$35	$74	$265	$91	$899
17. Operating income FU[3]	$1.256	-$20	-$24	-$24	$73	$39	$136
18. Total operating income	$2.113	$56	$11	$50	$338	$130	$1.035
19. Operating income per CU	$0,095	$0,173	$0,047	$0,135	$0,201	$0,255	$0,120
20. Operating income per FU	$0,057	-$0,036	-$0,016	-$0,024	$0,015	$0,034	$0,005
21. Margin ratio CU: FU	1,28	6,03	3,86	3,62	4,28	3,47	4,55
22. Operating income ratio CU: FU	1,68	-4,78	-2,98	-5,61	13,52	7,50	22,36

[1] YUM operates KFC, Pizza Hut, Taco Bell, A&W and Long John Silver's. Figures are for the entire company.

[2] dollars in millions

[3] (14) and (15) are deducted proportionally to (4).

For each chain, we first calculated the difference of revenue and direct costs for each form (rows 6-7 and 10-11) and received the gross margin that each segment contributed to the gross profit. Secondly, we subtracted common cost (14 and 15) according to the form's share of outlets. Finally we divided both margin (8 and 12) and operating income (16 and 17) positions of both segments by the number of company-owned and franchised outlets to receive the contribution that each single outlet made to the company's overall gross margin (9 and 13) and to the operating income (19 and 20). The results in rows 21 and 22 exhibit both the gross margin ratios as well as the operating income

ratios for company-owned to franchised units. For each chain analyzed, the single company-unit added far more to both the gross margin and to the total operating income than the single franchise unit. The operating income ratio of Carl's Jr., Hardee's and Denny's are negative. Hence franchisors of our sample profited from self-run units but lost part of it again due to franchise operations. Three limitations apply to the analysis in table 1:

First, our sample does not claim to represent the entire spectrum of all quick service restaurants, as for instance size and business experience of our sample chains are greater than the industry average.[8] Nevertheless by analyzing just eleven out of the 100 largest restaurant brands, we covered 36 % of all revenue and 33 % of all outlets of this population.[9]

Second, we are fully aware of the difficulty associated with specifying general and other operating expenses (14 and 15 in table 1), although all other specific costs, per definition, have been already deducted in rows 7 and 11. We therefore included gross margins and the gross margin ratio and find the latter also supporting the thesis of company-ownership superiority.

Finally we have ignored so far that company units are financed by the franchisor, calling for substantial amounts of franchisor capital. Franchise units in turn are financed by franchisees and do not stress the franchisor's resources. Return-on-investment-figures, which fill this gap, cannot be derived from the data because chains do not report detailed asset information. To overcome this weakness, we estimate the cost of capital for company-owned operations in table 2 below. Evidently, even if costs of capital are included in the model, the superiority of company operations over franchising remains valid for any chain but McDonald's (see table 2). To be perfectly accurate, financing rates would have to be raised by surcharges to the general market rates according to each company's individual credit rating. As surcharges of usually 50 to 120 basis points (according to the credit rating category) do not change the results of table 2, such speculative calculations have been omitted for the purposes of this analysis.

[8] Compare the industry average of size, age and degree of franchising as displayed in studies by Lafontaine/Shaw (2005), Pénard/Raynaud/Saussier (2002) and Ehrmann/Spranger (2004, 2005a).

[9] See www.technomic.com figures of 2002.

Table 2. Capital Cost of Company Operations

Chain	McDonald's	Carl's Jr.	Hardee's	Denny's	Wendy's	Applebee's	YUM[1]
23. Average investment per CU1 [2]	$ 1,050	$ 0,991	$ 0,935	$ 1,385	$ 1,222	$2,455	$0,970
24. S&P credit rating[3]	A-1	B-	B-	CCC+	A-2	---	BB+
25. Long-term interest rate (10 yrs $TSR)[4]	4,61%	4,01%	4,01%	4,61%	4,61%	4,61%	4,61%
26. Cost of capital per CU2	$0,048	$0,040	$0,037	$0,064	$0,056	$0,113	$0,045
27. Adj. margin per CU	$0,129	$0,211	$0,048	$0,156	$0,186	$0,198	$0,102
28. Adj. income per CU	$0,047	$0,133	$0,010	$0,071	$0,144	$0,142	$0,075
29. Adj. margin ratio CU: FU	0,93	5,07	2,17	2,57	3,29	2,21	3,16
30. Adj. operating income ratio	0,82	-3,68	-0,62	-2,96	9,73	4,18	13,99

[1] Source: Entrepreneur Magazine 2002
[2] Dollars in millions
[3] www.standardandpoors.com
[4] www.federalreserve.gov, 2002: 4.61%, 2003 4.01%.

Concerning the findings on unit profitability, operating company-owned units is clearly more profitable in terms of maximizing the franchisor profit than engaging in franchise activities. Within the limits of our sample, we therefore accept H1A (and reject H1B) and continue with examining the profitability patterns of more heterogeneously organized and smaller firms in the next section.

3.2 Chain profitability

In order to identify and measure the key profit drivers in franchising, the IFA surveyed financial data of 65 member chains and published these findings in the 2001 Financial Benchmarking Study. Since survey participants volunteered for the study and were not selected according to statistical sampling methods, the data collected may not be a representative cross-section of all IFA member chains. Despite this limitation, the analysis contains valuable insights into the profitability patterns of franchisors, consisting both of plurally organized and of purely franchised chains. Table 3 displays the descriptive statistics of the sample chains.

Table 3. Descriptive Statistics 2001 IFA Study

Characteristics						
	< 10 years	10 to 19 yrs	20 to 29 yrs	>30 yrs		Total
Age of Company	15%	29%	30%	26%		100%
Years of Franchising	34%	36%	15%	15%		100%
Total Franchise Revenue	< $2 Mil.	$2 to $5 Mil.	$5 to $20 Mil.	> $20 Mil.		
	24%	28%	31%	17%		100%
Number of FU	< 100 FU*	100 to 200 FU	200 to 300 FU	> 300 FU		
	32%	24%	23%	21%		100%
Franchise Type	Maintenance	Food	Business Serv.	Personal Serv.	Retail	
	22%	23%	20%	22%	13%	100%
Organizational Structure	5% or more Company-owned		95% or more Franchise focused			
	23		42			65
		35%		65%		100%
Median Number of CU*		130		0		
Median Number of FU		112		215		
Degree of Franchising λ*		46%		100%		

* CU = Company Units, FU = Franchise Units, λ = FU/(CU+FU)

In total, the IFA sample covers a substantial part of the very broad spectrum of franchise systems. Only a minority of the chains is relatively young (15% < 10 years in business, 34% < 10 years of franchise experience) and small (24% < $2m in franchising revenue, 32% < 100 franchise units). Furthermore, different industries are well represented by the sample. Only the ratio of plural to purely franchised systems does not fully correspond to the figures of much larger samples (see the studies listed in part 2.3 above). Still with 23 chains being plurally structured (46% franchising on average) and 42 systems being fully franchised, the two groups are sufficiently different concerning their organizational structure.

Franchisor profitability is calculated in a way similar to the approach taken in the previous section. As a first step, the participants calculated gross profit of all franchise operations as the residual of revenue (including franchisees' fees and royalties[10]) and costs of goods sold. After deducting employee and general/administrative expenses for operating the franchise activities, the franchising

[10] International Franchise Association (2003): p. 25.

profit is received. Then franchisors were asked to determine the profit from company-owned operations separately from that of franchising. Finally both profit streams, less the amount of other income, determines the extent of profit before tax. Note that in table 4 analysis, the IFA choose to express the profit before tax figure as percentage on the chain's franchise revenues only – and not on all revenue of franchise and company-owned operations.

Table 4. Profitability Breakdown Chart[11]

	All 65 Companies			**All 65 Companies Adjusted***			
	5% or more CU	**95% or more FU**		**5% or more CU**		**95% or more FU**	
			CU	130		0	
			FU	112		215	
Franchise Revenues	100%	100%		100%		100%	
- Cost of Goods Sold	14.5	10	-	14.5		10	
= Gross Profit	85.5	90.0	=	85.5		90	
- Employee Expenses	56.2	34.9	-	56.2		34.9	
- General & Administ. Exp.	68.5	39.6	-	68.5		39.6	
= Profit from Franchising	- 39.1	15.5	=	-39.1		15.5	
+ Profit from CU**	91.0	.6		91.0		.6	
+/- Other Income/Ex- penses	-14.1	-2.9		-6.6	-7.5	0	-2.9
Profit Before Taxes**	37.8%	13.2%		84.4%	46.6%	0.6%	12.6%
			Sum	37.8%		13.2%	

* weighted with degree of organization λ **as percentage of franchise revenues

Examining each channel's economics, we separated the sample of 65 chains into those chains with 5% or more of company units out of all outlets and those with less than 5% when calculating the profitability ratios equally for tables 1 and 2. Hence the sum of profit from franchising and company ownership is adjusted by other income/expenses[12] weighted with the proportions of company-ownership and of franchising. Again we allocated each outlet's contribution, here, to the franchise revenue and not to the overall revenue.[13]

[11] ibid: p. 24.

[12] According to the shares of company-ownership and franchising displayed in table 3.

[13] International Franchise Association (2003): p. 25f.: Franchise Revenue for the "5% or more CU"-Group ("95% or more FU"-Group) in this sample is made up by the following components: Royalties: 59.4% (62.9%), Initial Franchise

As clearly revealed in table 4, plurally organized chains display a distinctly different income pattern from that of pure franchisors. In terms of franchise revenue, franchisors with 5% or more of company ownership earned almost as much profit from owned locations as they received in total franchise revenue. These figures are contrasted by losses that plurally organized chains encounter through their franchising business. Pure franchise chains on the other hand operate their franchising activities with profit. Contrasting the total profit before taxes of both organizational alternatives though, purely franchised chains achieve just one-third of the profit before taxes in proportion to the franchising revenue achieved by the group of plurally structured systems. Thus the central result of this analysis is that plural franchise chains of this sample realize negative profits from their franchise activities, but offset these losses with highly profitable company-owned outlets. Overall, plural arrangements from this IFA survey are more beneficial for maximizing the franchisor's profit than purely franchised competitors.

Regarding the data's consistency, proper allocation of revenues and cost to each organizational type may pose an accountancy problem to franchisors. Plural chains, for instance, will most likely incur higher expenses due to operating locations by themselves. The large difference in general/administrative and employee expenses of both sample groups might indicate that costs of company operations had not been allocated correctly and thus were wrongly deducted from the franchising revenue. Even though the IFA advised all participants to separate the cost of each form, some doubt about the reliability of the data remains. Additionally the IFA purposely[14] refrained from analyzing the efficiencies of company operations, but requested members to summarize a complex income stream within one single profit figure which in turn is then related to franchise revenue.

Within these limitations though, the data supports hypothesis H2A (rejecting H2B). Accordingly plurally organized chains of the sample suffer losses from franchising but compensate for these with high profits in company operations. Purely franchised systems on the other hand are profitable with their franchise business, but finish overall with just about one third of the profitability of plurally organized competitors. Although profits of both modes are not comparable on an absolute basis (due to relating company-owned profit to franchise revenues), these findings support the non-linearity of organization costs as acknowledged by Hennart (1993) and presented in part 2.3 above.

Fees: 11.4% (18.4%), Other Franchise Fees: 0.8% (2.1%), Product or Service Sales to Franchisees: 16.8% (10.7%) and Other Revenue: 11.6% (5.6%).

[14] International Franchise Association (2003): p. 24.

3.3 Chain development

What remain to be tested in a third step are the potential effects that the results of H1 and H2 may have on the evolution of franchise organizations. According to evidence from above, plural franchise chains outperform purely franchise-based competitors in unit profitability. Much more, plural systems profit from their company operations while they suffer losses from their franchise activities at the same time. Under a strategy of profit maximization, a rational franchisor running a mature system should ultimately turn franchises into company-operated outlets, coming up with a wholly-owned chain. Ownership redirection, as defined by Oxenfeldt/Kelly (1969) and reformulated by Dant/Paswan/Kaufmann (1996, p. 429) reads as follows: "Do franchisors use franchisees to open markets, develop consumer acceptance and preference for the franchisors' trademarks and then appropriate that brand equity by terminating or otherwise ending the franchisees' rights to continue to operate the business?"[15]

We test this thesis along a sample of the highest-ranking chains of the *Franchise500* report (table 5 below), which is annually published by the Entrepreneur Magazine. As the mean firm size decreases rapidly with lower rankings, concentrating on the first 300 systems hedges to some extent against fatal downward distortions.[16] To measure structural changes once franchise agreements expire, a second test includes firms with more than 10 years of franchise experience (which is the mean term of franchise contracts for the sample) both for 2001 and 2004. Since the data is not distributed normally, we use non-parametric tests for measuring potential correlations between age (FRANAGE) and structure (LAMD).

Three out of four tests revealed a slightly inverse relation between the firm's experience (FRANAGE) and the degree of franchising (LAMD), though strength decreased for the older-than-10-year fractions. Neither analysis however found the results to be significant on a confidence level of 5% or less. The sample therefore does not allow asserting the existence of a trend of converting franchisees into company-owned units.

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[15] The central word of this quote is "appropriate". Thus the authors presume that there is some value to be gained by integrating formerly franchisee owned units. This supports our results from above that company-owned units generally provide a higher return on investment to the franchisor than franchised outlets do.

[16] The strongly decreasing means of outlets were for the 1st quantile (1-100): 2981, the 2nd quantile (101-200): 267 and for the 3rd quantile (201-300): 171.

Table 5. Non-parametric Correlations of the Franchise300

		FRANAGE01* / LAMD01**		FRANAGE03 / LAMD03	
		ALL	>10 yrs	ALL	> 10 yrs
Kendall's tau_b	Correlation Coefficient	-0,38	0,20	-0,59	-0,009
	Sig. (1-tailed)	0,179	0,337	0,082	0,423
	N	300	222	284	235
Spearman's rho	Correlation Coefficient	-0,54	0,27	-0,80	-0,011
	Sig. (1-tailed)	0,174	0,347	0,089	0,432
	N	300	222	284	235
Descriptive					
Statistics	N (ALL / > 10 yrs)	300 / 222	300 / 222	284 / 235	284 / 235
	Mean (ALL / >10 yrs)	19,38 / 23,61	90,56 / 90,53	21,38 / 24,02	92,21 / 92,51
	Std. Dev. (ALL / > 10 yrs)	12,43 / 11,78	17,30 / 16,20	12,43 / 11,97	15,88 / 14,15

* Franchise experience in years. ** Degree of franchising λ = FU/(FU+CU)

Other studies of Lafontaine/Kaufmann (1994), Lafontaine/Shaw (1999) and Pénard/Raynaud/Saussier (2002) using much larger samples, were also not able to find empirical evidence for ownership redirection tendencies. Only recently, Dant/Kaufmann (2003, p. 63) presented data on 152 US-chains claiming "although franchisors value the benefits of the mix of ownership types and do maintain that mix over time, there is some evidence of a greater tendency to permanently convert existing franchised outlets to company-owned outlets as fast food systems mature and gain greater access to resources". We fully agree with the authors that 'tendency' sounds plausible for reasons of profit maximization to franchisors with a strong emphasis on franchising activities. But – and that is the issue of ownership redirection – there is no empirical evidence that franchisors are permanently and fully converting their franchisees to company-owned units. As of the data presented, there is no significant relation between the degree of franchising and the length of franchise experience. Both H3A and H3B are therefore rejected. Despite a superiority of company over franchise operations concerning franchisor profit there is no indication for moving organizational structure into either one of the extremes. Chains are rather keeping it stable in the "swollen middle" of plural forms.

4 Conclusions and Discussion

Researchers of organization science remain puzzled by the heterogeneity in organizational structuring that they encounter when looking at matured franchise chains. Plural forms have long been viewed as unstable and transitory phenomena, being finally dissolved in either one extreme of market (franchising) or hierarchy (company ownership). We have attempted to investigate whether and why such a moving to the extremes does not take place in reality. We applied an analogy of corporate governance and capital structure theory, stating that in a world other than the ideal of the Modigliani/Miller model, structure impacts the valuation of a firm or a project. Applying the logic of Hennart, we then hypothesized that exchanging franchising for company-owned operations (or vice versa) resolves in a non-linear relationship of net benefits – perhaps for the reason of cost reduction or revenue increase or a combination of both. Within the limits of the gathered data, we have further demonstrated that major franchise chains extract a higher operating income and return on investment per unit out of their company-owned operations compared to their franchised ones. To our surprise, some chains suffered losses per unit from their franchise activities. The analysis of the IFA data supported these findings by demonstrating that plural chains realized negative profits from franchise activities, but offset these losses with highly profitable company-owned outlets. Compared with the income of pure franchise chains, the plural arrangement proved to be almost three times as profitable – although the fair integration of capital costs did slightly alter, but not change this result. With this in mind – company operations are more beneficial for maximizing a franchisor's profit and plurally organized chains outperform purely structured competitors – we finally tested the thesis of ownership redirection on a sample of 300 franchise chains, but found no significant supportive results.

There are several conclusions to be drawn from these findings: First of all, in regard to the capital structuring analogy and in contrast to what Modigliani and Miller suggest, in the world of franchising, chain structure matters. As franchisors replace franchise units with company-owned ones, they improve their firm's profit situation. Second, this increase in benefit – financially and non-financially – seems to follow an inverse u-shape distribution, as otherwise evidence of ownership redirection would be significant.[17] Thus the ultimate substitution of franchise business appears to be detrimental to the chain. More generally, this point is brought up by Bradach (1997, p. 298) formu-

[17] Note that the studies named in section 2.3 suggest such a mountain to be skewed towards the franchising part of the curve.

lating that "each structure has strengths and weaknesses, and if an organization can use each to leverage the strengths and ameliorate the weaknesses of the other, then overall organization will be stronger than if either structure operates alone". As we have shown in this paper, generating franchisor profit seems to be a major strength of company operations and not one of franchising. By plurally organizing a formerly purely franchised system, a franchisor increases chain profit. While doing this, he gradually reduces the franchisee's influence and simultaneously gives up on multiple strengths of the franchising arm (e.g. franchising being an important source of acquiring resources like managerial talent and capital, cultivating entrepreneurial spirit and enhancing intra-firm innovation) – a move that we hypothesize to result in a net loss for the franchisor from some point on. This being the case we further conclude that there should exist some ratio λ^* just like a^* in capital structuring theory, at which the franchisor will have optimized the combination of strengths and weaknesses of both forms.

So how about John Hooker's 'name of the game'? As we have explained, he is right in so far as company units are important sources for franchisor profit. Pure franchise chains, disregarding this function, operate knowingly below their potential profit maximum and could win by emphasizing company operations. As in finance theory the optimal a^* depends on firm specific characteristics, λ^* will be individual for each chain and can hardly be determined from outside. Franchisors will first have to identify the strengths and weaknesses of both forms in regard to their firm specific characteristics.[18] Then they will need to balance them realistically against each other in accordance to their firm specific business strategy.

Although we lack the proof that too much company-ownership causes detrimental effects to profitability, empirical evidence suggests that successful franchise systems rather remain plurally organized than becoming wholly-owned chains. Thus Hooker is wrong when postulating full ownership to be the desirable option for today's franchisors. As we have demonstrated, the name of the game is neither owning the stores yourself nor going the franchising-only route. There is much more evidence that the name of the game is the plural form.

[18] See Ehrmann/Spranger (2005b) for a more detailed view on characteristics that may even call for a wholly company-owned or a purely franchised structure. In short, the choice of organizational form is influenced by the individual total of net hybrid form benefits and net plural form synergies of each system.

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III Beneficially constraining franchisor's power

Overview

- Typical contracts assign both coercive and non-coercive means of power to the principal's side, providing the agent with a comparably small range of countervailing anti-power. Initially agents are therefore vulnerable to opportunistic principal behavior and will rationally anticipate this threat upon signing a contract.

- In this paper we analyze various forms of power and explain their asymmetrical allocation in the franchising industry. We demonstrate how franchisors restore those shifts in power that seem to disorder the desired balance by performing contractual, financial and organizational adjustments.

- The nature of these measures suggests that franchisors should cooperate with agents despite their freedom to behave opportunistically. According to empirical data, the better a franchisor is able to credibly alleviate a franchisee's fear of being exploited by principal opportunism, the stronger the growth generated in the entire franchise system that embraces both the company-owned and the franchise arms.[1]

[1] Earlier drafts of this paper have been published in the proceedings of EMNet 2005 and in the SSRN Working Paper Series: http://ssrn.com/abstract=764126 under the title "Asymmetrical Power Distribution in Retail Channels and Co-operative Franchisors".

Introduction

Driven by our interest in the organization of franchise chains, this work elaborates on the allocation of power in franchise arrangements, thereby building on the insights gained from two earlier papers.[2] Both deal with "plural forms" – a term relating to the parallel use of company-owned and franchise outlets within the same organizational structure[3] –, and provide five findings to note before starting with this current research:

Firstly, the franchisor's income streams generated from either of the two distributional channels differ greatly. Whereas franchisees generally outperform the average company-manager in terms of generating sales, the standard franchisor extracts more profit – gross profit and in terms of return on capital – from each single company unit.[4] Secondly, plural franchise chains have proven more profitable than wholly franchised systems. Thirdly, despite these economic effects, plural chains do not strategically convert current franchisees back to full ownership, probably because the benefits of plural structures are greater than their costs.[5] It has been shown – the forth aspect – that instead of using dual structures to lower organizing costs, to improve short term growth or to optimize risk exposure (measures promoting the company-owned arm at the expenses of the franchisees), applying the plural form to improve a system's level of total quality benefits both franchisees and company-owned units. Thus being the fifth aspect, empirical data indicates that successful franchisors prefer to cooperate with both types of agents and refrain from exploiting the franchising part opportunistically. Other studies support this hypothesis by presenting evidence that franchisors willingly abstain from using their full range of power towards franchisees. Whether it is granting of quasi-rents to franchisees, computing royalty rates based on revenue instead of on profit or keeping contracts steady despite varying conditions (e.g. geographically, macro-economically, franchisee individually, etc.)[6] – these all indicate (voluntary) cooperative franchisor behavior despite a formal ability to make use of their opportunistic power towards agents.

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[2] These are Ehrmann/Spranger (2004, 2005a) and Ehrmann/Spranger (2005b).

[3] See Bradach (1997), Bradach (1998), Lewin-Solomons (1999).

[4] See Shelton (1967) for a discussion on franchise and company-owned outlet efficiency.

[5] Such positive aspects need not only to make the combined distributional channels better than just one form on its own, but they have also to compensate for those negative effects (e.g. an increase in complexity and monitoring costs) that arise when dealing with two instead of just one organizational instrument.

[6] See Ehrmann (2002): p. 1137-1144.

In order to provide a better understanding on how to best use the powers given to the contracting parties of franchise organizations, this paper addresses both franchisees and franchisors. While we explain with respect to the former, why it is important that franchisors hold substantial powers when running a franchise system successfully, from the perspective of the franchisors we propose how and why these powers must be applied accurately for the benefit of all system members.

Doing this, in the first section we will lay out the formal power structure of franchise systems, focusing on power asymmetries that favor the franchisor and leave the franchisee with a rather small amount of countervailing power. It will then be analyzed how, despite these power asymmetries, franchisors achieve to credibly convince franchisees that they will not have to suffer from detrimental opportunistic actions applied by the still powerful franchisor either ex-ante (section two) or ex-post (section three) of signing the contract. Questioning the consequences of what can be called (a more) cooperative principal behavior, in section four we will investigate the consequences of co-operativeness, hypothesizing that cooperative franchisors may be eventually more successful in the long term than their likely opportunistically acting competitors.

1 Power allocation in franchise chains

Instead of fully integrating their channels of distribution, (plural) franchisors sell some or all of the contractual rights for using a standardized concept to legally independent franchisees. Paying the fees[7], the franchisee is permitted to use the concept within the limits defined by the franchisor. He is simultaneously expected by contract not to change or adapt the concept without the franchisor's approval. Within such franchise arrangements, power – such as the ability of some individual or group to control or influence the behavior of another – can be exercised by both contracting parties towards each other. The franchisor's sources of power enable him to apply both coercive and non-coercive forces to achieve control over his franchisees. Due to French/Raven (1959) and Hunt/Nevin (1974) we know that coercive power is based on the franchisee's anticipation of possible punishment by the franchisor in case of non-compliance. The four means of non-coercive force on the other hand originate from the franchisor's ability to exert reward, legitimate, referent and expert power. For each case the magnitude of non-coercive power is determined by the franchisee's expectation of how effectively the franchisor is able to grant rewards for obedience, how intensely

[7] These are a one-time franchise fee due upon joining the system, ongoing royalty rates for using the trademark and marketing fees supporting efforts in national advertisement.

the franchisor deserves compliance for being the legitimate superior, how much the franchisee refers to the franchisor's goals as those that also benefit himself and how strongly the franchisee accepts the franchisor's expertise as being equitable. The sum of coercive and non-coercive forces determines the potential of the franchisor's gross power, which in turn is reduced to net power by the franchisee's ability to countervail the principal's force. According to Emerson (1962), controlled members such as franchisees may build up anti-power by reducing their motivation to follow the given goals, by seeking alternative gratification sources of those goals, by improving their ability to adjust the goals according to their own wishes, and by opposing the former alternative sources for achieving the principal's goals.[8] One practical example for increasing negotiating power vis-à-vis the franchisor lies in the forming of franchisee interest groups, a phenomenon highly visible especially at large franchise chains. In total, a franchisor's net power over his franchisees results from the sum of gross power corrected by the amount of franchisee countervailing power. As long as the total of such net power differs from zero, we assume the power structure of the franchisor-franchisee channel to be asymmetric.

As long as the franchisors need to control franchisees for sticking to the rules, thereby safeguarding the business model as well as the good (i.e. compliant) system members against detrimental actions by bad system members, the principal needs to maintain a net power setting greater than zero. Such asymmetrical allocation of power favoring the franchisor benefits the system as long as it is not abused for a single-sided exploitation of franchisees.

For the franchisor to use his powers effectively when building an environment of franchisee compliance, he needs to know that the strength of his gross power is determined rather by what power channel-members believe he is willing and able to exert, than by what he could really exercise. As Lusch/Brown (1982) have demonstrated, the more a subordinate channel member B (the franchisee) believes another superior channel member A (the franchisor) will use potential coercive instruments, the more power A has over B. Thus in order to establish an environment of compliance, the

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[8] These issues are more deeply discussed by Etgar (1976). Note that according to Gaski (1984), p. 25, the countervailing agent power is of different nature than the power exerted by the principal. "Countervailing power is channel member B's ability to inhibit channel member A's power over B's decision variables … Countervailing power does not refer to B's ability to control A's decision variables. That is B's power over A and represents a parallel structure. … B's ability to get A *not* to do something A would otherwise have done (countervailing power) is formally equivalent to B's ability to get A to do something A would *not* otherwise have done (power). The only operational difference is the target decision variable set." Within a broader economical context, Galbraith (1956), p. 111, therefore defines "countervailing power" as "restraints on power" – alternatively one could term it "countervailing of power" as well.

(presumed) existence of coercive power is important, exercising it though is not. Moreover empirical work by Hunt/Nevin (1974) suggests that the franchisee's satisfaction level increases as the principal prefers the use of non-coercive forces to coercive ones to run the organization. Gaski (1984) proposes that exercising power to influence a channel member's behavior decreases the satisfaction of that individual and thus increases the potential of intrachannel conflict. Unexercised power is supposed to work exactly the opposite way by increasing the member's satisfaction and by decreasing the likeliness of channel conflict. Practically, an increase in satisfaction will probably improve both the franchisee's morale and his cooperativeness, and will simultaneously reduce the likeliness of voluntary contract termination, the filing of lawsuits against the franchisor and demanding further protective legislation.[9] In total, seeking franchisee satisfaction should be a major task on the growth-oriented franchisor's to-do list. And indeed, franchisors widely refrain from first using coercive means of power as long as other, non-coercive forces are available. As outlined in a study of franchise channels by Frazier/Summers (1986, p. 175), principals seem to use coercion with great reluctance, "only when other types of influence strategies have failed to produce a satisfactory response on an important issue". Concerning the impact of an asymmetrical power structure on the effectiveness of a channel organization, their conclusion is twofold: First: "The positions of the manufacturer and its dealers tend to be more congruent when the manufacturer has high power based on the dealer's dependence in the interfirm relationship. Furthermore, the manufacturer is able to make more effective use of information exchange under these conditions. These factors tend to reduce the manufacturer's need to engage in overt influence attempts [both coercive and non-coercive] with its dealers."

And second: "Manufacturers with high power are better able to utilize non-coercive influence strategies (e.g. requests) effectively when overt influence attempts seem appropriate, and thereby avoid the use of coercion."[10]

As we understand from this analysis, even though the (presumed) existence of coercive forces in the hands of the franchisor – widely adding to an asymmetrical power structure – is vital to establish and to maintain compliance among subordinate channel members and thus to increase a system's organizational effectiveness, using non-coercive means instead will positively impact the agent's

[9] Hunt/Nevin (1974): p. 187.

[10] See Frazier/Summers (1986): 175.

satisfaction with the system. However, prior to joining a franchise system with asymmetrical power structure, even potentially compliant members have to anticipate the application of damaging power if the franchisor should decide to act opportunistically. Thus for franchisors to attract good franchisees it is crucial to credibly signal their restraint from exercising opportunistic action by abusing their dominant power, both ex-ante and ex-post of the agent signing the contract.

2 Managing the franchisee's ex-ante risk

The process that prospective franchisees are supposed to complete when considering joining a franchise system has been well documented by a variety of consulting sources.[11] Generally they advise franchisees to narrow the possible alternatives to a finalist group by matching the available business opportunities with their own preferences. Subsequently, and in order to decide on one system, the applicant should thoroughly research his targets' strengths, weaknesses, chances and risks by using public (e.g. rankings, awards) as well as disclosed (e.g. the Uniform Franchise Offering Circular (UFOC)) information and, important, by interviewing the franchisor as well as current and former franchisees. Resource consuming evaluation processes intend to match the agent's needs with those of the principal, to select the optimal work environment for the franchisee and to find an investment prospect where risks and opportunities are balanced according to the investor's profile and where the entrant's investment is well protected against avoidable (capital) loss.

Opportunistic franchisor behavior is one of the most prominent of such preventable risk factors as its impact on the franchise investment performance is extraordinarily detrimental. Therefore large parts of the system selection process are concerned with finding a franchisor that will neither abuse his principal power ex-ante nor ex-post of signing the franchise agreement.[12] The more franchisees feel exposed to investment uncertainty, the more a franchisor is challenged by the following two issues: Firstly, prospective franchisees will be deterred from joining the system ex-ante if one or more competitors are able to credibly offer a more secure work environment and a more promising investment opportunity, i.e. one in which the perceived risk to incur capital damage due to franchisor opportunism is smaller, everything else being equal. And secondly, existing franchisees could

[11] Most prominent are online sources like www.smallbusinessnotes.com, www.betheboss.com, www.aafd.org, www.franchise.org or www.entrepreneur.com (10/01/04).

[12] It is the primary intention of disclosure statements like the (UFOC) to provide detailed information on the franchise system and thus to protect the agent from disadvantageous surprises ex-post of signing the contract.

be motivated to leave the system as the perceived risk of being treated unfairly begins to outweigh the supposed upside potential from being a member of the chain.

Taken together, both scenarios cause more substantial harm to the franchisor's reputation if made public, further increasing the difficulty of winning new members to join the system and thus to maintain a durable strategy of system growth.

Statistics on intra-channel disputes demonstrate the importance of trust in franchise relationships. The National Franchise Mediation Program (NFMP) of the CPR Institute for Dispute Resolution aims to resolve franchisor-franchisee conflicts without the expense and hostility of litigation. As of 1993, it counts 96 cases filed by their 50 member chains in 1997 alone.[13] Deducting those seven disputes jointly filed, roughly 70% of the cases were filed by franchisees. Concerning the subjects of the disputes, problems over encroachment[14] (34%) dominated the list, exceeding alleged contractual (27%) and financial (15%) violations. Less frequent were disputes dealing with the non-renewal of agreements (10%), development rights (7%), lease claims (3%), the sale of a franchise business (2%) and customer service (2%). Assuming that the number of disputes settled over the NFMP resembles a small but representative fraction of all lawsuits filed between franchisors and franchisees in 1997, the prospective franchisee's concern about minimizing conflict potential seems justified. Moreover the higher the agent's investment, the greater will be the risk of capital loss in case of opportunistic franchisor behavior. Therefore it seems rational for franchisees to ask additional sureties from the franchisor against detrimental principal conduct as investment volumes and/or asset specificity increase.

Such commonly used securities can be of public relational, of contractual or of financial nature: The first group contains measures like participating in franchise system evaluations (e.g. the yearly Franchise500 by the Entrepreneur Magazine), publishing internal franchisee satisfaction surveys, joining interest groups like the NFMP, or submitting to the standards of the AAFD which promotes

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[13] Data is available at www.franchisemediation.org (01/10/04).

[14] According to www.franchiselaw.net (02/10/04), encroachment is defined as "the situation when a franchisor opens a company-owned unit or allows a franchisee to open a franchised unit near another franchisee's unit. If the franchisee with the first unit suffers economic harm as a result of the opening of the new unit, that franchisee may have a claim against the franchisor for encroachment. Encroachment can also be caused by a franchisor selling goods or services in a franchisee's territory through non-franchised channels of distribution." There is no reliable data on the numbers of franchisors granting exclusive territories to franchisees. Personal interviews with franchisees though support the thesis this is a rather rare option to be offered. Franchisors prefer to remain in charge of decisions concerning the exploitation of geographical entities.

the fair franchising seal.[15] All of these measures intend to visibly strengthen the franchisor's reputation as being a fair and non-opportunistic contracting partner by allowing for corporate governance transparency and open discussion on chain policy.

The second group of contractual measures includes concessions like installing a powerful franchisee advisory council-type organization that has a role in decision-making and to which the franchisor is contractually committed.[16] Cochet/Ehrmann (2005a) propose such franchisee councils to strengthen the enforcement of agent interests through threatening the deviant franchisor with collective franchisee punishment. Another powerful contractual instrument in the hands of the franchisor is to vary the length of the franchise contract. Due to the practical difficulty of enforcing franchise contracts by court decisions, longer terms will signal the franchisor's motivation not to appropriate the franchisee's rents opportunistically before the agent has received his projected return on investment. Finally a third instrument for the franchisor to signal cooperativeness is to offer financial support for franchisees that are about to invest into the system. By risking personal equity and thus holding a stake in the franchisee's venture, franchisors may signal their willingness to share some of the financial risk encountered by franchisees. The following quantitative analysis uses contractual and financial instruments to explore whether and how franchisors achieve to overcome franchisee's ex-ante uncertainty.[17] The hypotheses tested are the following:

H1: The length of franchise contracts are positively correlated with the investments asked of the franchisee.[18]

H2: The scope of franchisor financial support is positively correlated with the investments asked of the franchisee.[19]

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[15] The Fair Franchising Standards are controlled by the American Association of Franchisees and Dealers (www.aafd.com). Other regions have comparable guidelines like the ethic code of the European Franchise Federation (www.eff-franchise.com).

[16] See Selden (2000).

[17] Through the lack of appropriate data, public relational instruments could not be tested within this process.

[18] Such a concession keeps the franchisor from opportunistically appropriating franchisee rents through the arbitrary cancellation or non-renewal of contracts, thereby refusing the franchisee to amortize his investment and thus causing him financial harm.

[19] As stated above the franchisor is able to signal credibility into cooperational conduct by sharing part of the franchisee's investment risk with personal equity or by using his reputation and track record in order to acquire franchisee financial support through third party sources.

Out of the data provided by the Entrepreneur Magazine and covering 925 US-franchise chains from 1979 to 2003, 343 systems had length of contract information ("Terms") available and provided financial help ("Finance") through in-house ("In-house") or third-party ("Third-party") sources. To avoid statistical distortion through extreme values, the selected franchisors had to request an investment volume ("Intercept") of less than two million dollars.[20]

Table 1. Investment Volume and Financing Options

Coefficients (a)	Non-standardized coefficients		Standardized coefficients		
Model*	B	Standard error	Beta	T	Sign.
Intercept	370,550	88,207		4,201	,000
Terms	7,902	2,664	,152	2,966	,003
In-house	-28,877	12,036	-,132	-2,399	,017
Third-party	25,648	7,175	,199	3,575	,000
Lambda	-327,718	84,093	-,194	-3,897	,000

(a) Dependent variable: Investment volume in T€
* N= 343, R-Square= 0,166, F= 16,840, Sign. at 0.1% level.

Table 2. Investment Volume and Financing

Coefficients (a)	Non-standardized coefficients		Standardized coefficients		
Model*	B	Standard error	Beta	T	Sign.
Intercept	327,147	90,595		3,611	,000
Terms	10,706	2,685	,206	3,988	,000
Finance	18,383	7,243	,131	2,538	,012
Lambda	-332,631	86,814	-,197	-3,832	,000

(a) Dependent variable: Investment volume in T€
* N=343, R-Square= 0,109, F= 13,764, Sign. at 0.1% level.

For the purpose of analyzing organizational measures in section 4, we employ Lambda as the degree of franchising – this measure is arrived at by dividing the number of franchised outlets by the number of all (franchised and company-owned) units. Linear regression results are displayed in tables 1 and 2 above.[21] They reveal significant support for the hypothesized franchisor objective to contractually and financially compensate franchisees for increased investment risk. According to the data, the duration of the franchisee agreement is strongly and positively correlated with the re-

[20] Those chains sorted out by the $2M-cap represent only 4% of the entire sample of 925 but they account for 75% of the standard deviation in investment volumes.

[21] See Table A in the appendix for correlation results.

quired investment volume. This is meaningful for franchisees as two coercive means of franchisor power are affected when terms increase: extraordinary contract termination, and the denial of contract renewal.

Concerning the first issue of terminating the contract, franchisors are generally not supposed to unilaterally cancel the franchise agreement unless there was a breach of contract by the franchisee. The actual definition of a violation that suffices to end a franchise contract as well as the proper mode of applying it, is largely determined by national or local legislation practices, by the franchise ethic standards that apply and by the actual practicability to execute the written sanctions. In the United States, for instance, state laws regulate franchise relationships. Altogether 19 states have adopted restrictions on terminating franchise contracts. Canceling a franchise agreement without good cause is illegal due to these regulations. Such "good cause" includes incidents like the franchisee becoming insolvent or bankrupt, the franchisee voluntarily abandoning his operations, being convicted of a crime concerning the franchise operations or failing to substantially comply with his material obligations under the franchise agreement.[22] In a sample of 76 franchise chains researched by Brickley/Dark/Weisbach (1991), all contracts – both from states with and without termination rules – required a breach of contract for cancellation and allowed a period for correcting the causes of such violations.[23] Even the International Franchise Association (IFA) advises all members to establish a franchise relationship governed by "trust, truth and honesty"[24], which is severely impaired if a franchisor should act opportunistically and terminate contracts unilaterally and without good cause. Finally Bradach (1998) reports on the practical hurdles that franchisors encounter when asserting a breach of contract by the franchisee. For ultimately canceling a franchise contract through litigation, in the opinion of one of his franchisor interviewees: "You need a dead rat in the kitchen, and preferably three of four, if you want a chance of winning"[25]

Regarding the second issue of denying the renewal of a contract, some states require "good cause" similar to that needed for terminating the contract. Others oblige the franchisor to give advance written notice of non-renewal and impose restrictions such as repurchase of the franchisee's assets

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[22] www.franchiselaw.net (10/09/04).

[23] Excluded from the correcting period are criminal acts, bankruptcy and repeated contractual violations. See Brickley/Dark/Weisbach (1991): p. 114.

[24] IFA – The Code of Ethics, www.franchise.org (10/09/04).

[25] Bradach (1998): p. 35.

or the waiver of any non-competition restrictions.[26] In total, we agree with Bradach (1998) that both termination and non-renewal are formal and powerful instruments, but actual enforcement of them is limited by legislation, by ethic standards, or simply by not being practical. Despite these restrictions, the threat of contract termination and non-renewal constitute the franchisor's ultimate tools to align the agent's conduct or to ultimately cancel any individual membership for the sake of all other system participants. Hence increasing the length of contracts diminishes the power of these means, which is true especially for the non-renewal threat. Longer contractual terms therefore reduce the franchisee's risk of suffering capital damages due to a principal opportunistically appropriating an agent's rents.[27]

Concerning the hypothesized financial concession of H2, correlations are interestingly diverse between outside and inside financial sources. While investment volumes increase, franchisors reduce their range of in-house financing and simultaneously strengthen their effort to provide more financial support through third-party sources (table 1). For both sources taken together, the scope of financial support is correlated significantly and positively to an increase in investment volumes (table 2). Apparently, offering financial support through third-party sources is more relevant to franchisors than providing equity.[28] Although the franchisor personally does not face financial risk when arranging third-party financing contacts, the reputation of a fair franchisor requires the offering of such sources.

A common third-party financier is the governmental U.S. Small Business Administration (SBA). The SBA approach of backing loans made by commercial institutions with a governmental guarantee transfers the risk of borrower non-payment from the lender to the SBA. Thus the usual credit risk of commercial banks is substantially reduced as soon as institutions like the SBA step in. According to SBA guidelines though, franchisees are eligible for SBA-loans only as long as the appro-

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[26] www.franchiselaw.net (10/09/04).

[27] The reported reactions concerning lawmaker's idea to introduce restrictions of termination, demonstrate some of the importance of these tools for the franchisor. As Brickley/Dark/Weisbach (1991, p. 116) state: " The termination laws were opposed by major franchisors. The International Franchise Association (IFA), the primary lobbying group for franchisors, expended considerable resources opposing them … A major argument used by the IFA is that documenting good cause for the marginal franchisee 'would be difficult at best', hence the laws are equivalent to granting franchisees 'perpetual contracts'. The IFA argues that perpetual franchises make it difficult, if not impossible, to control quality within franchise system."

[28] 41,2 % of the 343 chains offer in-house financing, while 76,7% arrange contacts to third-party sources. These figures stand in contrast to those of the IFA in their Profile of Franchising (1998) study, where of 1226 chains 32% offered in-house financing, while only 10% have so called third party sponsored financing programs.

priate franchisor does not retain "power to control operations to such an extent as to be tantamount to an employment contract. The franchisee must have the right to profit from efforts commensurate with ownership."[29]

A franchisor appropriating a franchisee's rent through opportunistic action (e.g. by terminating the franchise relationship before the franchisee has been able to amortize his investment) would prevent the franchisee from realizing profit on his investment and would consequently lose eligibility to negotiate third-party financing like the described SBA-loans. Qualification for offering financial assistance through third-party institutions should therefore be regarded as a positive signal by any prospective, risk-conscious franchisee. Neutral screening is a means to create a trustworthy franchise business model and to reduce uncertainty in the franchisor's fair conduct.[30] The findings of tables 1 and 2 indicate that franchisors provide additional financial assistance as investment volumes increase substantially. With the degree of investment uncertainty correlated positively to the size of the investment volume, franchisors seem to signal cooperative conduct through offering additional financial support via independent third-party institutions.

In summary, both contractual and financial concessions work to ease ex-ante barriers that could otherwise deter potential franchisees from joining especially systems requiring a high investment volume. Simultaneously they measure the franchisor's ability to exercise coercive power against system members. As expressed in the IFA's position, set out in footnote 27, limiting franchisor power by means of termination makes the punishment or the expulsion of detrimental system members, and thus the maintenance of uniform quality standards, more difficult. Regarding the balance of power between a principal and an agent, in order to reduce the ex-ante uncertainty of franchisees, the franchisor consequently sacrifices part of his principal power. Doing this, he becomes more dependent on an increasingly powerful agent. As a result of this kind of shift in power, the franchisor retains a smaller range of means to protect the good members of the system from harmful actions by inferior system members. Due to the importance of the franchisor as the central guardian of system quality, we suspect this net-loss in power to be detrimental to the franchisor and to all good franchisees. Hence franchisors may substitute the loss of coercive power with a gain in non-coercive means also by effecting adequate organizational changes.

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[29] The United States Small Business Administration, www.sba.gov (10/10/04).

[30] The UFOC demands a description of any assistance available from the franchisor or its affiliates in financing the purchase of the franchise.

3 Managing the franchisee's ex-post risk

Just like any rational investor, a prospective franchisee will want to protect his investment against unwanted risks when joining a franchise chain.[31] As demonstrated in the results of H1 and H2, franchisors perform contractual and financial changes in order to create a more fair and trustworthy franchisor-franchisee relationship, which is supposed to guarantee restraint from franchisor ex-ante opportunism. The franchisor's forfeiture of coercive power, which is a consequence of these measures, is detrimental in two respects:

Firstly, both concessions – extending contractual terms, and using its reputation to acquire third-party financial sources – shield the agents from exploitation only as long as the franchisor intends to manage and to grow the system for a time exceeding the duration of the franchise contracts. Both measures are of little value if the franchisor plays a one-shot game by attracting franchisees through signals of trust and by bankrupting the system immediately once enough members are aboard. All rational franchisees should therefore seek protection against franchisor opportunism occurring ex-post of signing the contract as they are with safeguarding themselves from ex-ante opportunism. From the franchisor's perspective, granting additional financial support through third-party sources works fine for securing against ex-ante risk (see H2) only. After a franchisor's cash-out, a ruined reputation though will not hurt the principal much longer. Suffering from extra-debt related to increased in-house financing on the other hand would serve as a burden even after the franchisor has terminated the business. According to the reluctant use of equity displayed in the data, financial concessions are, however, not applied to demonstrate the safeguarding from a franchisor's opportunistic ex-post action.

Secondly, shifting away the power from the franchisor by means of contractual and financial adjustments results in substantial changes in a chain's economics. One extreme way of limiting franchisor power is by making more difficult the principal's ability to cancel a franchise contract through the introduction of legislation restricting termination of franchise contracts. Having introduced franchise termination laws, Brickley/Dark/Weisbach (1991) found that franchisor give up on an important instrument of controlling quality standards and, at the outmost, of punishing miscon-

[31] We are fully aware that there are more risk factors for franchisees to consider prior to joining a system than just being exploited by an opportunistically acting franchisor. Obviously we picked one issue out of a broad spectrum that seemed central for us. Risk factors like choosing the wrong business concept, the wrong vicinity for the outlet or just the wrong time for starting and many more still remain problematic even after the perfectly fair franchisor has been identified.

duct by withdrawing the franchise agreement. As the cost of controlling the behavior and the performance of system members increase, the franchise channel becomes less efficient and makes a prospective company-owned arm look more attractive.[32] According to Brickley/Dark/Weisbach (1991), such a strong unilateral restriction of franchisor power results in decreased system efficiency, in transfers of control away from the franchisor, and in significant wealth losses for the chain's shareholders.[33] Without taking appropriate counter-measures, the erosion of franchisor coercive power appears to destabilize the franchisor-franchisee relationship and to be detrimental to the franchisor and to the franchisees.

Apparently, successful franchise systems need to insure agents ex-ante and ex-post of signing the contract against opportunism by the principal. While the first is achieved via contractual and financial adjustments, any approach to insure agents against the second will simultaneously need to provide the franchisor with appropriate means to prevent a disadvantageous loss of overall power of the principal. According to the model developed by French/Raven (1959) and Hunt/Nevin (1974), a principal's net power is defined by the sum of his gross power minus an agent's countervailing power. The scope of coercive and non-coercive forces defines the strength of the gross power. As has been explained in section 2, non-coercive means are based on the franchisor's ability to exercise legitimate, expert, referent and reward power. In contrast to coercive means of power, all of them are generally positive to the system performance. As Ehrmann/Spranger (2004, 2005a) reveal, significant improvements of a system's total quality are achievable as a rather pure franchise system is transformed into one that is more plurally structured. Plural franchise systems profit from signaling internal information to outsiders, from aligning formerly diverse interests between its actors, from accelerating the processes of innovation, and from fostering competition between franchise and company-owned units. Moreover, all of these benefits concerning total quality strongly increase a franchisor's non-coercive power potential. Thus adjusting the organizational structure of franchised

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[32] Note the diametrical intentions that are behind a franchisors strategy to substitute franchisees with company-owned units as the first become economically less preferable (because of increased controlling costs as termination laws are adopted), and a franchisor managing growth by adding more company units than franchise ones in order to benefit from the advantages of a plural form structure!

[33] Other researchers have concluded that asymmetrical power distribution within cooperational arrangements stabilizes the entire system and therefore is one important success factor (Herrfeld 1998, Kuester 2000). Bonus/Wessels (1994) find power within franchise chains to be benefiting for all system members. Frazier/Summers (1986) and Sibley/Michie (1982) argue that vast franchisor power should not generally be abolished. It is rather the actual and individual usage of this power that determines the success of the franchisor-franchisee relationship.

and company-owned outlets and allowing for a more plurally organized franchise chain diminishes the risk of ex-post franchisor opportunism and results in a beneficial regaining of power by the franchisor.

Zooming in on this effect, the sources of shifts in power that apply to plural structures are fourfold: Firstly, every company-owned unit has to be set up by investments of the franchisor. Being a rational investor, the franchisor should avoid any self-investment if he has little confidence in the success of his business model. The existence of company-owned operations therefore increases the franchisor's financial dependence on the success of the business model. Operating company-owned units successfully serves as a signal of trust towards all agents. It substantially increases the franchisor's credibility[34] and expands its own important legitimate power. Secondly, through the ownership of some units, the franchisor's interests as a principal become more lined up with those of his agents.[35] By aligning initially non-congruent profit schemes, the franchisor accepts the financial concerns of his franchisees and thus enhances, in their view, the perceived degree of expert power. Thirdly, the franchisor of a plural structure may benefit by each organizational form's specific strengths to improve the innovation processes. While franchises are stronger in the exploration of opportunities, company-owned units prefer the exploitation of existing innovations.[36] Thus by balancing both aspects through mixing the organizational forms, the system's innovational power is raised. By accelerating innovation processes through the plural form, the franchisor simultaneously develops referent power. And finally, the plurally organized franchise chain creates a more competitive environment where benchmarking franchisees against managers of company-owned units leads to increased system performance.[37] By fostering such inner-firm competition, the franchisor gains on what Hunt/Nevin (1974) have called reward power.

In total, the franchisor will strengthen his potential of non-coercive power when rearranging a franchise chain's organizational structure and emphasizing the company-owned distribution channel. Thus it is possible to increase the non-coercive powers through organizational changes and thereby to compensate for a loss of coercive powers caused by contractual and financial concessions.

What needs to be explored empirically is whether franchisors use such organizational measures to

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[34] See Gallini/Lutz (1992), Michael (2000).

[35] See Lewin-Solomons (1999).

[36] See Sorenson/Sørensen (2001), March (1991).

[37] See Bradach (1997) and Bradach (1998).

insure agents against ex-post opportunism as they use contractual and financial means to eliminate the risk of ex-ante opportunism. As stated above, the franchisee's risk exposure towards franchisor opportunism is supposed to be positively correlated with the size of the requested investment volume. If franchisors use the plural form as an organizational instrument to provide insurance against ex-post opportunism, the degree of franchising should therefore be negatively correlated to the size of the investment volume.

H3: The share of company-ownership is positively correlated with the investments asked of the franchisee.

For this analysis, we characterize a chain's organizational set-up as the percentage of franchised units out of the number of all outlets under a chain's trademark (see "Lambda" in tables 1 and 2). For the year of 2003, the 343 chains of the data display a mean in Lambda of 92% and a standard deviation of 16%. The mean (standard deviation) for those (N=674) of the 925 chains of that organizational data was available for 2003 corresponded with 89% (19%).[38] In total, the regression results of tables 1 and 2 offer strong support for H3. For the sample applied, company ownership is significantly positively correlated to the magnitude of the required investments. As the above arguments suggest, the more franchisees are supposed to invest in a franchise business, the higher the risk they will face, and thus the more the franchisor has to engage in company-ownership himself.

Although we lack instruments to reveal sequential causalities of the selected parameters, the empirical results allow us to hypothesize over the pattern that evolves between the franchisor and his franchisees: When joining a franchise chain, agents request credible insurance against franchisor opportunism. As the franchisee's risks of suffering capital losses increases with rising investment volumes, the quantity of insurance given by the franchisor needs to augment concurrently. By providing additional financial sources and long-term contracts as investment volumes increase, franchisors demonstrate abstinence from ex-ante opportunism. In turn though, these securities cause a loss of coercive franchisor power which weakens the necessary power asymmetry between the principal and his agents. By establishing a plural form structure, and engaging into company ownership as investment volumes rise, franchisors subsequently (need to) insure agents against detrimental ex-

[38] Pénard/Raynaud/Saussier (2002) compute a mean Lambda of 67% (standard deviation 68%) for 521 chains from France. Lafontaine/Shaw (2005) receive a mean Lambda of 78% (71%) for 4842 U.S. and Canadian franchise chains.

post opportunism. Becoming more dependent on the system's success, they will also protect all good members of the chain from deleterious behavior by opportunistic agents. Equally important, franchisors restore the former power asymmetry by gaining non-coercive powers due to the quality effects provided by plural franchise systems. While reducing ex-ante uncertainty of franchisees can be achieved through contractual and financial measures, only the introduction of an appropriate organizational structure seems to be powerful enough to insure agents against fatal ex-post opportunism.[39] What remains to be analyzed is whether offering securities against opportunism and refraining from agent exploitation is a rewarding franchise strategy.

4 Consequences of cooperative franchisor management

Any assessment of a business strategy will be naturally biased by two factors: First the definition of "success" will be subjective according to the preferences of the evaluator. And second the availability of appropriate data will limit the choice of parameters along which success can be determined. Financial resources like balance sheets, income statements or stock prices are common means to evaluate the success of a business model.[40] With a minority of all franchise firms being publicly traded at stock exchanges, other parameters need to be identified to measure the success of franchising strategies. We therefore propose employing the number of outlets and their long-term development as indicators to reveal the success of a franchise chain.[41] 112 of the 925 chains contained in our sample display such information for the entire time since the survey of the Entrepreneur Magazine was started in 1979. Covering 24 years of franchise development, these 112 chains suffice to analyze the efficiency of distinct organizational franchise strategies.

A descriptive overview of the actual growth rates of these chains reveals very heterogeneous re-

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[39] Franchise consultants regularly perceive the successful running of company-owned units to identify a cooperative franchisor. On the other hand, buying back franchise units, especially prime sites, and reconverting them into company stores is viewed as indicating an opportunistic franchisor. Such franchisors use company stores as a tactical instruments for appropriating the highest returns of the chain – a behavior strongly warned off by consultants.

[40] In an attempt to investigate how termination laws affect the wealth of the franchisor and the franchisee, Brickley/Dark/Weisbach (1991) examined stock returns of Californian franchise firms around the introduction of these restrictions in California (p. 126-130). They obtained only 32 publicly traded companies of that appropriate data was available.

[41] It is widely accepted among researchers of franchising that increasing the number of outlets is a plausible parameter indicating success. Future research though will have to combine the number of outlets with the specific investment volume of each chain and relate the outcome to organizational structure. Due to this logic, opening one restaurant unit for about $1 million equals setting up 10 units for $100.000 each of a service concept franchisor. This aspect has been raised in a discussion with Rajiv Dant during EMNet 2005.

sults. On average, each chain of the sample accumulated more than 1200 stores and thus grew by nearly 500% over the period covered. The large standard variations (growth by stores: 3630, growth by percent: 2000%) indicate the diversity of the sample.[42]

As argued above, franchisors put into operation financial, contractual and organizational adjustments to their system in order to signal to their agents the franchisor's abstinence from opportunistic behavior. If these measures positively influence the development of the chain, those systems being governed rather by cooperative franchisors should achieve significantly stronger growth than those of less cooperative principals. According to the results in tables 1 and 2, a franchisor is perceived to offer a higher amount of cooperation the more plurally the chain is structured. Concerning the efficiency of cooperative franchisor behavior, we therefore hypothesize:

H4: The degree of franchising (Lambda) is negatively correlated with absolute outlet growth.

For the subsequent analysis of H4, the highly heterogeneous sample can be separated into three clusters of growth: The first set includes systems (N=31, 28%) of negative growth. From 1979 to 2003, these chains, on average, grew by –40% in number of outlets. The second cluster (N=50, 44%) contains chains of small to medium growth rates, growing by 157% in 24 years. The third set (N: 31, 28%) finally consists of systems that achieved extremely strong growth, surging by more than 1300% in outlets over the time covered.[43]

As displayed in figure 1 below, the three sets reveal very distinct organizational structures. While strong (SG) and medium (MG) growth chains (sets 2 and 3) are plurally structured with a very similar degree of franchising, negatively (NG) growing systems (set 1) operated far fewer company-owned units and almost completely relied on franchisees alone.[44]

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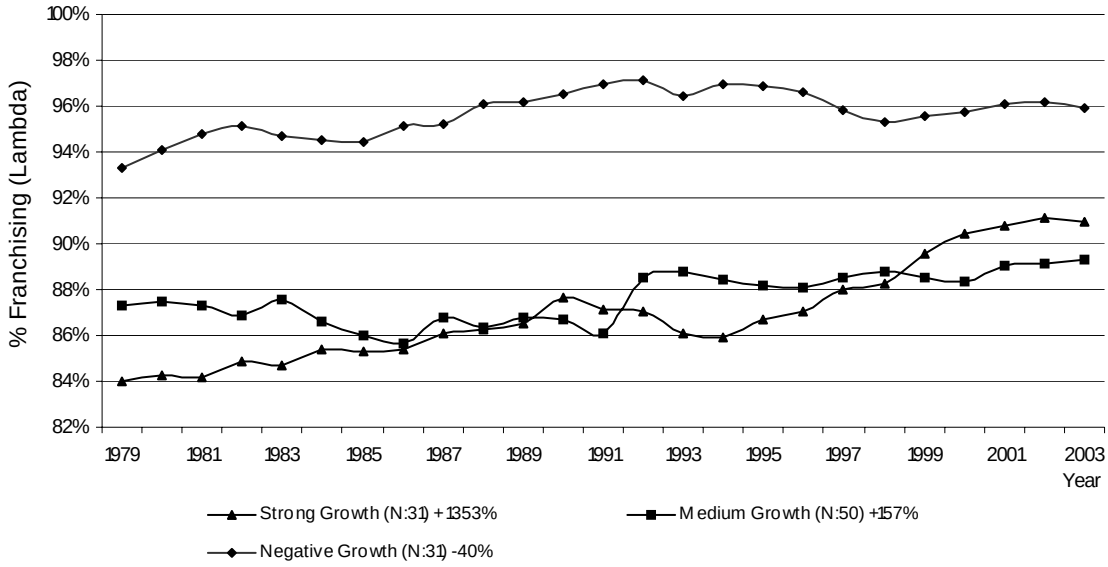
[42] Extreme values are: Growth in stores (Min –1302/Max 24432); Growth in percent (Min –89%/Max 16923%).

[43] Standard deviations are 3649% for the strong growth chains, 210% for the medium growth chains and 25% for the negatively growing chains.

[44] In 2003, SG-chains were franchised to 91% (standard deviation of 12%) and MG-chains to 89% (20%). NG-chains in contrast were franchised to 96% (6%) on average in that same year.

Figure 1. Absolute System Growth and Organizational Structure



Concentrating on the extreme examples of growth for sets 1 and 3, the results of the group statistics (table 3 below) and of the independent sample t-test (table B of appendix) reveal even more distinctions in parameters beyond the degree of franchising. Apparently, the strongly growing chains are not only more plurally organized, but they also charge their franchisees a higher initial investment and offer longer terms for franchise contracts than their negatively growing competitors. On average, SG-chains offer greater financial support to their franchisees, both for in-house and for third-party sources.

Table 3. Group Statistics

	Group*	N	Mean	Std. Deviation	Std. Error Mean
Lambda	SG	31	.909	.11640	.02091
	NG	31	.959	.05802	.01042
Investment	SG	31	1225.1	1964.82	352.89
	NG	31	575.5	832.27	149.48
Term	SG	24	16.35	5.212	1.064
	NG	28	12.57	5.397	1.020
In-house	SG	31	.84	1.594	.286
	NG	30	.37	.556	.102
Third-party	SG	31	1.90	2.399	.431
	NG	30	1.50	2.030	.371
Finance	SG	31	2.74	2.658	.477
	NG	30	1.87	1.925	.351

* SG: Strong Growth, NG: Negative Growth

The results of the independent sample t-test mark the differences of both extremes to be highly significant concerning Lambda, Investment Volume and Terms. Diversities in financial support (In-house, Third-party and Finance) are as expected (see the directions of t-values), but they lack statistically sound significance. Correlations between the parameters are also as projected. Results of the Kendall's Tau analysis are to be found in table C of the appendix.

The results of all of these tests clearly support H4. Plural franchise chains of the dataset grow significantly stronger, they request higher investment volumes and offer longer contracts than the rather purely structured systems. Interestingly, total outlet growth is fueled by an increase in franchise and in company-owned units and not by a substitution of one form for the other.[45] Other than the Brickley/Dark/Weisbach (1991) report for their sample, franchisors of the SG- and MG-chains successfully accompany contractual and financial concessions with beneficial organizational adjustments. As every new company-owned outlet requires the franchisor to invest in the system, he becomes more dependent on the chain's success as the plural form takes over. The more the franchisor requires the agent to invest in the system, the stronger is the signal that evolves from running company-owned units. Hence the franchisee's ex-post risk of being exploited opportunistically is substantially lower when joining a plurally organized chain instead of the purely structured system. The data researched in this paper suggests that franchisees respect the franchisors' signal for cooperation and reward such cooperative franchisor management by joining the chain in larger numbers.

The findings of this paper correspond to transaction cost theory. Due to empirical data of Dahlstrom/Nygaard (1999), intrachannel opportunism causes frictions stemming from costly bargaining, from monitoring and from maladaption. Bargaining costs result from negotiation between transacting parties (Milgrom/Roberts 1991), monitoring costs are expenditures to guarantee the fulfillment of contractual obligations to the best interest of the channel members (Lal 1990) and maladaption is costly because of deficient communication and poor coordination between contracting partners (Reve 1986). Those costly frictions can be reduced by improving the quality of formalization and interfirm cooperation. While the level of formalization is determined by the scope of written franchise contracts, its force is naturally limited by the inability of contracting partners to define rules ex-ante for every thinkable situation of a business relationship. For this reason interfirm cooperation is inevitably needed to accompany formalization, as it stabilizes and guides a partnership precisely

[45] Compare table C of the appendix for the highly significant correlations between Total Growth-Growth_FU, Total Growth_Growth_FU and Growth_FU-Growth_CU.

during those situations which formalized contracts are unable to specify. Reducing franchisor opportunism in franchise channels, both ex-ante and ex-post of signing the contract, is therefore highly efficient and, as demonstrated, an important determinant of strong chain growth.

5 Concluding remarks

The purpose of the preceding pages has been to examine solutions to conflicts arising from asymmetrical distribution of power between contracting partners of franchise systems. With a franchisor's net-power over his agents being greater than zero, franchisees initially anticipate uncertainty of being exploited opportunistically both ex-ante and ex-post of signing the franchise agreement. As has been demonstrated, franchisors meet rising agent uncertainty (which, for example, increases as the required investment volumes rises) by offering longer contractual terms as well as by providing additional monetary support to franchisees. Whereas the first instrument weakens the franchisor's scope to terminate or to deny renewal of contract before the franchisee's investment has been amortized, the second puts a franchisor's equity and reputation at stake if an agent is exploited opportunistically. Thus both contractual and financial concessions effectively alleviate franchisee's ex-ante barriers and make joining the system more attractive.

The franchisor though, by lowering ex-ante barriers, automatically sacrifices part of his ability to exercise coercive power over his agents, which is detrimental if the franchisor's role, of centrally guarding quality standards against harmful influence, is jeopardized. By increasing company ownership, franchisors are able to re-establish the former power asymmetry. The advantages of such organizational changes are twofold: Firstly, they gain non-coercive means of power through the quality effects of the plural form. Secondly, by becoming more dependent on the system's success, they need to rely more closely on cooperative interaction with all of their agents. Any emphasis of cooperative behavior thus greatly reduces the agent's risk of being exploited opportunistically.

Concerning a chain's economics, exchanging a franchisor's coercive means of power with non-coercive means results in truly buoyant economical benefits for the system. Chains that credibly signal cooperation generate significantly stronger growth, both for the company-owned and the franchise outlet arms as well as for the entire system. Thus to both franchisors and franchisees, the recommendations based on the findings of this paper are straightforward:

Franchisees on the one hand need to acknowledge that a strong franchisor in nothing to be afraid off in the first place (Frazier/Summers 1986; Sibley/Michie 1982). Franchisors hold centralized power

to achieve concerted effort from all channel members towards meeting a chain's primary challenges of adding new units to the system, of maintaining uniformity across all outlets, responding locally when appropriate and keeping the system flexible for adaptation to new threats or opportunities (Bradach 1998). Without the ability to exercise the utmost coercive power, the franchisor exposes the entire system, including all compliant members, to be vulnerable to manipulation by a minority of non-compliant agents.

Franchisors, on the other hand, need to anticipate and to manage the franchisee's uncertainty of being exploited opportunistically by the potential asymmetry of franchisor power. Therefore they should initially use coercion with the greatest reluctance and do so only when other means of exerting influence have failed to achieve a satisfactory result (Frazier/Summers 1986). Using non-coercive means while coercive force is available will increase both franchisee compliance (Lusch/Brown 1982) and the satisfaction level (Hunt/Nevin 1974). Additionally, cooperative management will relax intrachannel frictions and thus prevent costly litigation (Gaski 1984). With a cooperative signaling function, building a more plurally organized system does even more than just giving the franchisor additional non-coercive means in his arsenal. Taken together, the empirical results of this study suggest the cooperative aspects of the plural form reward the franchisor through superior outlet growth as systems mature.

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Appendix

Table A. Pearson Correlation Table N:343

Pearson Correlation	Factors***	Investment	Terms	In-house	Third-party	Finance	Lambda
Invesment	CC	1	,246**	-,248**	,297**	,164**	-,203**
	Sig.	.	,000	,000	,000	,002	,000
	N	343	320	343	343	343	343
Terms	CC	,246**	1	-,196**	,244**	,141*	-,022
	Sig.	,000	.	,000	,000	,011	,700
	N	320	320	320	320	320	320
In-house	CC	-,248**	-,196**	1	-,426**	,178**	,011
	Sig.	,000	,000	.	,000	,001	,832
	N	343	320	343	343	343	343
Third Party	CC	,297**	,244**	-,426**	1	,814**	-,026
	Sig.	,000	,000	,000	.	,000	,628
	N	343	320	343	343	343	343
Finance	CC	,164**	,141*	,178**	,814**	1	-,021
	Sig.	,002	,011	,001	,000	.	,695
	N	343	320	343	343	343	343
Lambda	CC	-,203**	-,022	,011	-,026	-,021	1
	Sig.	,000	,700	,832	,628	,695	.
	N	343	320	343	343	343	343

* significant at 5% level, ** significant at 1% level,
*** CC = Correlation Coefficient, Sig. = Sig. (2-tailed), N = number of systems

Table B. Independent Sample t-Test

		Levene's Test* for Equality of Variances		t-test for Equality of Means					
		F	Sig,	T	Df	Sig. (2-tailed)	Mean difference	95% Confidence Interval of the Mean	
	Equal vari-ances**							Lower	Upper
Lambda	A	10.334	.002	-2.11	60	.038	-.049461	-.09619	-.00273
	NA			-2.11	44.043	.040	-.049461	-.09654	-.00238
Invest-	A	3.751	.057	1.69	60	.095	649.52	-117.08	1416.12
	NA			1.69	40.430	.098	649.52	-124.79	1423.83
Term	A	.038	.847	2.56	50	.014	3.78	.815	6.75
	NA			2.56	49.260	.013	3.78	.822	6.74
In-	A	17.135	.000	1.53	59	.130	.47	-.144	1.08
	NA			1.55	37.410	.129	.47	-.143	1.08
Third-	A	3.754	.057	.71	59	.482	.40	-.737	1.54
	NA			.71	57.978	.481	.40	-.735	1.54
Finance	A	9.115	.004	1.46	59	.147	.88	-.317	2.06
	NA			1.47	54.709	.146	.88	-.313	2.06

* If the significance value for the Levene test is high (typically greater than 0.05), the results that assume equal variances for both groups apply. If the significance value for the Levene test is low instead, the results that do not assume equal variances for both groups are relevant.
** A = equal variance assumed; NA= equal variance not assumed

Table C. Correlation values N :112

Kendall-	Factors***	Total Growth	Lambda	Investment	Term	In-house	Third-Party	Finance	Growth_FU	Growth_CU
Total Growth	CC	1,000	-,112	,112	,207**	-,025	,078	,107	,898**	,212**
	Sig.	.	,097	,080	,007	,743	,283	,126	,000	,001
	N	112	112	112	95	108	108	108	112	112
Lambda	CC	-,112	1,000	-,201**	-,138	,096	,070	,124	-,036	-,422**
	Sig.	,097	.	,003	,088	,232	,355	,094	,594	,000
	N	112	112	112	95	108	108	108	112	112
Investment	CC	,112	-,201**	1,000	,366**	-,442**	,167*	-,010	,129*	,019
	Sig.	,080	,003	.	,000	,000	,021	,881	,044	,766
	N	112	112	112	95	108	108	108	112	112
Term	CC	,207**	-,138	,366**	1,000	-,291**	,248**	,122	,204**	,093
	Sig.	,007	,088	,000	.	,001	,003	,138	,007	,233
	N	95	95	95	95	95	95	95	95	95
In-house	CC	-,025	,096	-,442**	-,291**	1,000	-,228**	,171(*)	-,040	-,020
	Sig.	,743	,232	,000	,001	.	,007	,037	,595	,796
	N	108	108	108	95	108	108	108	108	108
Third-party	CC	,078	,070	,167*	,248**	-,228**	1,000	,811**	,091	-,135
	Sig.	,283	,355	,021	,003	,007	.	,000	,208	,065
	N	108	108	108	95	108	108	108	108	108
Finance	CC	,107	,124	-,010	,122	,171*	,811**	1,000	,117	-,149*
	Sig.	,126	,094	,881	,138	,037	,000	.	,096	,038
	N	108	108	108	95	108	108	108	108	108
Growth_FU	CC	,898**	-,036	,129*	,204**	-,040	,091	,117	1,000	,108
	Sig.	,000	,594	,044	,007	,595	,208	,096	.	,098
	N	112	112	112	95	108	108	108	112	112
Growth_CU	CC	,212**	-,422**	,019	,093	-,020	-,135	-,149*	,108	1,000
	Sig.	,001	,000	,766	,233	,796	,065	,038	,098	.
	N	112	112	112	95	108	108	108	112	112

** Correlation significant on 1% level; * Correlation significant on 5% level.
*** CC = Correlation Coefficient, Sig. = Sig. (2-tailed), N = number of systems

IV A Franchisor Decision Matrix for Structuring the Chain

Overview

- Early research work theorized franchising to exist because Hybridal Form Benefits (HFB) are achieved by the franchisor. Compared to the full hierarchy, franchising was held to reduce agency costs, to overcome resource scarcity and to enable risk sharing. Lately, the focus has shifted to an enquiry into the parallel use of franchise and company-owned outlets – the plural form – to provide the chain with Plural Form Synergies (PFS). More so than wholly franchised or entirely integrated systems, plural forms may align the interests of diverse actors, signal profitability, enhance innovation speed and increase inter-firm competition.

- Due to costs specific to each form, net HFB (HFB^{net}) and net PFS (PFS^{net}) evolve as organizational decision variables.We analyze both HFB and PFS, we review their influence on the process of structuring the chain and develop a decision matrix to aid franchisors improve their distributional setting.

- Accordingly, if neither positive HFB^{net} nor PFS^{net} are realized, full ownership is efficient. In a state of positive HFB^{net} only, the chain should be fully franchised. If only PFS^{net} are positive, the chain will be structured either plurally or fully company-owned depending on the impact of possibly negative HFB^{net}. For a positive HFB^{net} and PFS^{net} finally, plural forms prevail.[1]

[1] Earlier drafts of this paper haven been published in the proceedings of ISOF 2006 and in the SSRN Working Paper Series: http://ssrn.com/abstract=764147.

1 Introduction

The road international research on franchising has taken since the mid 1970s up to the present is roughly divisible into three consecutive stages. Departing from the Coaseian dichotomy (Coase 1937) of carrying out transactions either via markets or via firms, stage one attempted to explain the mere existence of the franchise phenomenon as a form somewhere in-between these extremes. Due to the passage of time, the available literature today have gone beyond those earlier developed theses. Compared to a fully hierarchically structured system, franchising has been argued to reduce agency costs (Rubin 1978, Brickley/Dark 1987, Norton 1988a, Minkler 1990, 1992, Brickley et al. 1991, Lafontaine 1992, Thompson 1992), to overcome resource scarcity for rapid market penetration (Oxenfeldt/Kelly 1969, Ozeanne/Hunt 1971, Hunt 1973, Caves/Murphy 1976, Lillis et al. 1976, Hunt 1977, Lafontaine 1991, Thompson 1994) and/or to enable the franchisor to share risks with his franchisees (Martin 1988, Chaudhuri et al. 2001).

In broader sense, franchising with both its market- and firm-like attributes is perceived to exist like any other hybrid form because of its higher efficiency in running the economic system (Arrow 1969) under specific environmental parameters (Williamson 1991). In other words, the Hybrid Form Benefits (HFB) are supposed to be greater than its Hybrid Form Costs (HFC). The drawback of these arguments though – that also marks the (preliminary) termination of the first stage of research – is that HFB, and thus their explanatory momentum, were thought to partly peter out as a system matures. In view of that, Oxenfeldt/Kelly (1969) and Hunt (1973) have early postulated – but openly doubted – that franchise chains would ultimately revert to wholly owned systems.

Stage two of the research on franchising has therefore dealt with empirically testing Oxenfeldt and Kelly's thesis of ownership redirection. As of their analyses, neither Lafontaine/Kaufmann (1994), Lafontaine/Shaw (1999), Pénard et al. (2002) nor Ehrmann/Spranger (2004, 2005a, 2005b, 2005c, 2005d) have found significant tendencies towards ownership redirection, not even for matured systems where initial franchise contracts had already expired and a renewal was up for decision. Moreover all of those researchers confirmed that the majority of franchisors consistently operate both franchise and company-owned units side by side, the extremes ranging from a franchisee-to-company-owned ratio of 2:1 (Pénard et al. 2002) up to almost 9:1 (Ehrmann/Spranger 2005b).

In what has become the third and current phase of analysis, researchers like Gallini/Lutz (1992), Bradach (1998), Lewin-Solomons (1997, 1998, 1999), Lafontaine/Shaw (1999), Sorenson/Sørensen (2001) and Ehrmann/Spranger (2004a) have since begun to examine the franchisor's motivation of

constantly employing what Bradach (1997) initially labeled the plural form, i.e. the parallel use of at least two distinct organizational forms under one common trademark and management. The usual argument of these scientists is that franchisors of plurally organized systems may, under certain conditions, realize Plural Form Synergies (PFS) which make the sum of the distributional arms more valuable than their added individual values. Accordingly the plural form is chosen as long as PFS exceed the associated Plural Form Costs (PFC). At the current status of this journey of research though, it has remained unexplained why competing chains of the same industry are still managed under sharply distinct organizational doctrines.

While, to name just two examples, McDonald's, as the mother of all franchise systems, has been plurally organized since long ago, the number one franchise system over the last four years[2], sandwich maker Subway, is so clearly a full franchise organization that it promotes its fully franchised structure literally everywhere – even on each of their napkins. Furthermore, numerous systems again have fully integrated structures (i.e. are company-owned), like for instance many chains in the food retailing industry. We believe the reason for this explanatory deficit is twofold.

Firstly, both Hybrid Form Benefits and Plural Form Synergies have not yet been combined into one single model. And secondly, the meaning of the constraint "under certain conditions", pointing to the cost of both forms, i.e. HFC and PFC, have so far been undervalued. To fill this gap, we will explain those aspects leading to fully franchised, plurally organized and fully company-owned chains over the course of this paper. Hence our review covers aspects of hybrid forms (section 2), reviews the influence of the so-called franchise life-cycle (section 3) and touches on plural form characteristics (section 4). These findings are then combined into one model (section 5), which is aimed at guiding the practitioner to choose the appropriate distribution structure: either hierarchically, or hybridally, or plurally. We then (section 6) relate our model to the dynamics of franchise life-cycles and explain how organizational forms may be sustained while changing entrepreneurial challenges may alter organizational imperatives over time. This writing concludes (section 7) with some applied implications that our analyses provide to general franchisor management.

[2] See the yearly Entrepreneur Magazine's ranking of franchise chains for 2006 at www.entrepreneur.com.

2 Hybrid form characteristics of franchising

Pure franchise chains organizationally combine decentralized ownership and control, at the final production and/or distribution level, with a centralized management of the somewhat general tasks, ideally fostering system growth, marketing the common brand name, supervising outlet uniformity, directing system-wide adaptation and capturing, concentrating and applying existing know-how. Other than hierarchically governed company-owned systems, pure franchise chains combine features of two organizing methods – prices and hierarchy – within one institution, i.e. the firm. Because of personal risk bearing via residual ownership, franchisees are bound to the chain by a firm-like franchise contract, but they are motivated and directed via market-like price constraints. Regarding the institutional continuum presented by Williamson (1991), pure franchise chains are located in-between the polar modes of pure markets and pure firms as hybrid organizational forms. For a permanent use of such forms, which we claim to be apparent due to the international spread of franchise chains, they must defeat rival arrangements in organizational efficiency. Implicitly developed in the early work of Coase (1937), such efficiency has been defined as generating minimal transactions costs (Williamson 1975) – a term later broadened to the economizing of organization costs (Hennart 1993). Considering the hybrid form's benefits against its costs should therefore suffice to decide which structure is the most appropriate for the chain.

2.1 Hybrid form benefits

Most efforts explaining franchisee ownership have built on the deficiencies of fixed wage contracts. One important issue of such contracts is how to control the suitability of conduct of the agent ex-post of signing the agreement, an action generally costly to the principal. By sharing the outlet profit with the agent via the franchisee's residual ownership, harmful behavioral options such as shirking or exercising further opportunistic actions are largely reduced. The franchisee simply will share in those costs that come with every universal act of damage. According to the reasoning of Rubin (1978, p. 226) and others (see above), franchising is supposed to be efficient because it reduces monitoring costs that would exist to "avoid [an agent's] shirking and excessive consumption of leisure" in company ownership.

Minkler (1990, 1992, p. 243) has extended this view by proposing that franchisors require specific local information such as consumer preferences, local supply and infrastructure etc., whose acquisition costs increase with "the unfamiliarity, heterogeneity and volatility of local markets". Although

we question Minkler's assumption that franchisees "know" more than managers of company-owned units, it is plausible that they are more willing to pass on detailed knowledge to the franchisor as they, other than line managers, benefit both directly (outlet revenue) and indirectly (brand name recognition) from enhanced business success. Following Minkler, franchising is supposed to be more efficient as the franchisor's expenses for acquiring local information, which otherwise would be spent on third-party research facilities or on incentives to managers of company-owned units, are reduced substantially.

Another prominent approach to explain the existence of franchising states that resource shortages, restricting rapid growth of purely company-owned systems, are alleviated by the provision of both expansion capital and managerial talent with the addition of every new franchisee who comes on board (Oxenfeldt/Kelly 1969, Ozeanne/Hunt 1971, Hunt 1973, Thompson 1994)[3]. Quickly reaching a critical firm size is important for two reasons: Firstly, fixed costs of system overhead for developing, standardizing, marketing and controlling a network of decentralized distribution units will only be acceptably competitive when shared among a large number of outlets (Caves/Murphy 1976). And secondly, with every new point-of-sale adding consumer recognition, increased brand name value will gradually raise the turnover of every single outlet and hence that of the entire chain (Carney/Gedajlovic 1991).

A third explanation of franchising has been presented by Martin (1988) and Chaudhuri et al. (2001) who propose that franchisors act like risk managers when choosing an organizational form for a prospect site. As locations with highly volatile sales are thought to be both more risky and expensive to monitor, supposedly they are more likely to pass these on to franchisees. On the other hand those more stable sites, which therefore need less frequent monitoring, are retained and managed as company-owned outlets. Ultimately, a franchisor's risk aversion could motivate him to withdraw from any direct risk of distribution by choosing a pure franchise arrangement, retaining not more than the duties of general management for himself.

Summarizing these arguments, franchising is thought to outperform full ownership as it reduces the franchisor's costs for monitoring agents and for gathering important local information. Furthermore

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[3] Rubin (1978) has questioned the efficiency of franchising as a means for capital acquisition. Since investing in a single outlet is supposed to be riskier than buying shares of a portfolio from all outlets in a chain, franchisors would have to reward this additional risk and thus raising capital by selling franchises would be inefficient. Rubin though does not account for the franchisee's extra effort which is vital to the system success and only realized via highly specific investments such as buying a franchise outlet (Lafontaine 1992).

franchising is supposed to increase system growth by providing scarce resources, namely capital and outlet management, and to decrease a franchisor's specific risk of distribution by actively preselecting sites due to their more favorable individual risk profiles. However, it has been acknowledged that these benefits are accompanied by certain costs of the franchise format.

2.2 Hybrid form costs

Due to their different reward mechanism, hybrid forms like franchising face organizational costs that differ from those of pure hierarchies. While managers of company-owned units receive a fixed salary in return for a contractually predefined amount of work input, franchisees are rewarded relative to their accomplished work output. Following Hennart (1993, p. 529), "each form therefore has its own biases". Under the hierarchy, where individuals like employees are paid to follow directives, they have a stronger incentive to shirk on their effort simply by working less than agreed upon.[4] Using price mechanisms in franchising results in the opposite bias, so that they (the franchisees) are driven to cheat on their true effort in order to reduce the principal's share of the output and maximize their own. The less both parties are properly supervised, the higher will be the enticement for shirking and cheating.

Franchisees are able to cheat on their work output in two ways: Firstly, by offering lower than standard quality they may free ride on the brand name's value and thus on behalf of all other system members. As Norton (1988b) has explained, such danger of free riding is especially high where repeat customers constitute only a small portion of all unit sales like on freeways, railway stations or tourist areas.

Secondly, franchisees may be reluctant to follow franchisor initiatives that may be promising from a system perspective while their positive value to each franchisee is uncertain or even completely lacking. Such resistance is most likely to occur toward investments with spillover effects for co-members of the chain. National promotion events financed by all franchisees for example benefit the entire chain while the single franchisee will only appropriate part of the return of his investment (Carney/Gedajlovic 1991). As for the imperative of strict uniformity across all outlets, both free riding on quality and reluctance to follow strategic conduct can be fatal to the franchisor and need

[4] Certainly there may exist highly motivated managers of company-owned units who do not exploit the potential of agent opportunism to its maximal scope. Ideally, our argument assumes the full spectrum available to the franchisee due to contractual incentives and control mechanisms.

to be dealt with via franchisee control and advisory or, in the worst case, through expensive and time-consuming litigation. The more customers are left unsatisfied as rebellious franchisees mess up their business, the more seriously the chain's reputation will suffer and the more acutely all the other agents of the system will be hurt.

3 Implications of the franchise life-cycle thesis

In regard to the benefits and costs of hybrid forms, determining ownership patterns in distribution networks should function rather predictably. The franchisor needs to consider the costs of hybrid form against its benefits[5], so that, following Carney/Gedajlovic (1991, p. 609) "it is this trade-off which leads the franchiser to own and operate their outlets in a discriminating way". Both general organization science (e.g. Ouchi 1980, Williamson 1991, Hennart 1993, Menard 2002) and franchise theory (e.g. Rubin 1978, Brickley/Dark 1987, Klein 1995) have supported this view over the last two decades.

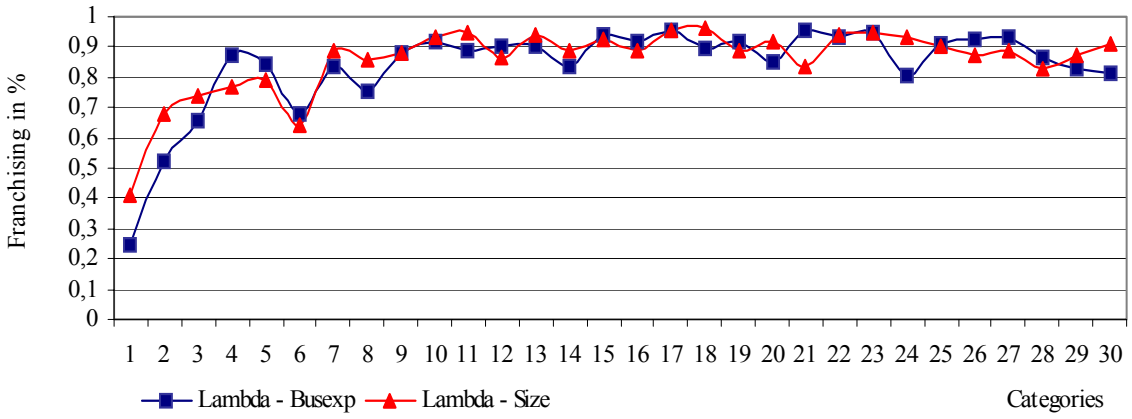
In conflict with such a process stands what researchers like Oxenfeldt/Kelly (1969), Hunt (1973) and Lillis et al. (1976) have presented within their model of a franchise life cycle. As chains expand in number of outlets, they state, former restrictions, goals, capabilities and opportunities are altered and finally structural changes must follow. A mature franchisor increasing the density of outlets in specific local markets will eventually face lower costs of monitoring and of gathering local information. In addition, growth will make previously scarce resources, like capital and managers, become more readily available and diminish the impact of operating an outlet at a rather risky location. Concerning the trade-off situation, net benefits of hybrid forms should continue to wane as the system approaches maturity, making franchising the less desirable option for mature chains. In what has become known as the thesis of ownership redirection, Oxenfeldt/Kelly (1969, p. 69) have formulated it as follows: "We will contend […] that most successful franchise systems will end up as almost wholly-owned chains; we will argue that franchising is advantageous to a successful franchisor mainly during the infancy and adolescence of the enterprise and even thereafter for the exploitation of marginal locations."

[5] In part this aspect has been discussed by Brickley/Dark (1987) and Carney/Gedajlovic (1991). They recommend weighing off agency costs from free-riding, inefficient investment and quasi-rent appropriation against monitoring benefits from franchising.

As a result, hybrid forms like pure franchising and plural structures should be of limited use during the growth period of a system, returning to nearly full company-owned arrangements at some point as the chain ages. Patterns where franchising dominates and company-ownership plays a minor but significant role should, according to this reasoning, be observable during a transition time of system expansion only. As displayed below, empirical results reveal a greatly different reality.

The data used to compile figure 1 portrays the development of 925 US-franchise chains of which the oldest have been tracked since 1979 by the Entrepreneur Magazine. On average the systems of our sample franchise 84% of their stores and run 16% of them under company-ownership in 2004. Comparable figures have been reported by Lafontaine/Shaw (2001) with 78% and, earlier, by the International Franchise Association (IFA) (1994) with 80% franchising. Clearly figure 1 does not indicate a shift towards an increased used of company ownership as systems gain business experience and expand in number of outlets.

Figure 1. Ownership redirection tendencies from 1981-2004



Category	1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	30
Experience in years (in '04)	1	3	5	7	9	11	13	15	17	19	21	23	25	30	40	45+
Size in outlets (in '04)	2	7	13	23	32	46	61	81	105	137	173	231	313	472	1089	2700+

These findings are also supported by studies of Lafontaine/Kaufmann (1994), Lafontaine/Shaw (1999) and Pénard et al. (2002). Neither of them has found evidence supporting ownership redirection. Even as initial franchise contracts expire and franchisors were able to buy back franchised outlets, ownership does not become more dominant (Ehrmann/Spranger 2005b). Rather than integrating their outlets during maturity, those firms reviewed maintain a large share of franchising, accompanied by a minor but significant portion of company-owned outlets. Remarkably, even pure finan-

cial reasoning would commend a majority share of company ownership in a firm's mature stages. While Shelton (1967) and Boeckenholt/Wiens (2001) have argued that franchise units realize higher revenues per unit, company-owned stores are ultimately more profitable to the franchisor (Hunt 1973, Ehrmann/Spranger 2005c). Thus it remains unclear so far why, even during the late stages of their entrepreneurial life, a major proportion of franchise chains prefers to be plurally organized, why a minority chooses to remain fully franchised and why nearly none attempt to replace franchising entirely with company-ownership. This puzzle will not be solved as long as franchising and company-ownership are understood as rival forms and the choice of organizational structure is regarded in either-or-terms only. Explaining the static existence and dynamic continuity of hybrid and plural forms will require the acknowledgement of a theory that incorporates mixtures of franchising and company-ownership that provide synergetic effects which strengthen as the chain matures.

4 Plural form characteristics of franchising

The theory of the plural form as initialized by Bradach (1997) accounts for synergies accomplished as company-owned and franchised stores are run simultaneously. In contrast to the theory of hybrid form characteristics, the plural form idea argues that organizational structure is not the outcome of a multitude of singular decisions, each concerning the optimal setting for a particular site. Rather by franchising some stores and owning others, franchisors are able to achieve dynamic efficiency through overcoming informational asymmetries, aligning diverse interests, balancing innovation streams and advancing inter-firm competition – all of benefit the chain and are unlikely to be realized in a homogeneous system. Still, plural forms incorporate drawbacks as well; the greatest of which, compared to pure forms, lies in increased and costly organizational complexity.

4.1 Plural form synergies

The first plural form synergy relates to the resource scarcity thesis. It assumes a quick roll-out of the franchise concept to be necessary in order to achieve economies of scale and to raise outlet revenues via an enhanced consumer brand name recognition. While selling the franchise concept, especially young franchisors without a winning financial record will face reluctant franchisees questioning the soundness of the business concept concerning profitability and consumer acceptance. According to Gallini/Lutz (1992), the franchisor is able to overcome such information asymmetry by signaling commitment in the business concept through owning and running a proportion of the outlets him-

self. As Ehrmann/Spranger (2005b) propose, such company-owned elements within chains convince external partners of the system's success and assist franchisors in attracting franchisees especially during the start-up and growth phases of the system.

Secondly, the occurrence of different income patterns enjoyed by franchisees and the franchisor may result in costly conflicts between contracting partners. While franchisees are motivated to maximize outlet profit, franchisors at the outset prefer to maximize an outlet's revenue as they benefit from a marginal royalty rate. By running units himself, the franchisor will bear the full consequences of all strategic measures and is likely to refrain from actions that seem preferable for maximizing revenues of the entire system but are disadvantageous for maximizing each outlet's profit. According to Lewin-Solomons (1999), a franchisor using the plural form will balance the powers of the chain with those of the franchisees, a process that counteracts the agent's uncertainty of opportunistic principal behavior and facilitates a trustful interaction with current and potential franchisees.

A third important aspect of operating plurally has been advanced by Lewin-Solomons (1997) and Sorenson/Sørensen (2001) who find interaction between two organizational modes to accelerate and progress a chain's innovational activities. While franchisees will exercise more initiative to advance innovation themselves, company owned units are necessary to give the franchisor both sufficient incentive and power to evaluate and to market such opportunities.

Finally, Bradach (1997) has emphasized the plural form's importance for creating a competitive environment between the two distribution channels. With a precise knowledge of financial figures drawn from their operation of company units, the franchisor is able to initiate and to evaluate franchisees (and vice versa) with high-class goals. Benchmarking the results of franchise outlets with those of company stores will support internal competition and may increase the overall system performance.

According to these arguments, the plural form is superior to pure franchising as divergent interest of franchisor and franchisee are harmonized and as franchisors are able to signal trust in the business concept to external agents. With innovation processes being accelerated and total performance being improved through benchmarking one arm of the system against the other, the plural form equally succeeds over pure company-owned arrangements. As operating a plural form will make the management of the entire firm more difficult though, plural form synergies are also accompanied by costs.

4.2 Plural form costs

The costs associated with plural forms are mainly caused by a higher complexity of the parallel running of two distributional arms rather than just a single one in the case of pure franchising or pure company-ownership.[6] As Bradach (1997) reports, franchisees have to be managed vastly different than managers of company-owned units. While unit managers are treated rather as employees of the chain, franchisees are understood more like business partners. Hence coordination of the first is assigned to district executives whereas that of the latter is the job of field consultants. In comparison to the franchisees' ability to apply personal initiative, the controlling of company managers on quality standards requires more frequent local visits and thus proportionally more staff than for checking on franchisees.[7] A plural franchisor will need to tailor contracts, communication means, controlling instruments, financial reporting, quality surveillance, human resource supply, etc. to each form's individual requirements. Since coordination becomes even more critical with more units being added, the franchisor may face increasing plural form costs as coordinating the system becomes more complex during phases of maturity.

5 A decision matrix for franchisors

Neither one-dimensional analysis of HFB and PFS will explain the full spectrum of organizational structures observed in reality. While concentrating on HFB alone will not suffice to confirm the stability of plural forms, relying on PFS only will not account for the existence of pure franchise chains. In order to derive applicable strategies for realistic conditions, we therefore propose a discrete two-scale model based on net outcomes of HFB and PFS. Both net values result from deducting the franchisor's organizational costs from its benefits for each arrangement. These resultant amounts will turn out either positive or neutral to negative. Consequently we receive a four-quadrant matrix displayed below as figure 2 which, depending on the sum of HFB^{net} and PFS^{net}, advises the franchisor either to franchise, to own, or to plurally structure the chain. Notice that for the sake of distinct classification, we argue from a static position when presenting the four quad-

[6] This aspect has been emphasized by Jeff Bradach during a discussion with the author.

[7] In what Bradach (1998, p. 46) calls "the span of control", he compares the resources in chain operator's field staff needed to monitor franchisee and company-owned units. While for instance at Kentucky Fried Chicken every franchise consultant covers 15 franchisees or a total of 90 franchise units, one company area manager is needed to monitor 6 company-owned units.

rants of the matrix (section 5.1). In a second step (section 5.2), we then account for changes in environmental settings of chains by taking up a dynamic view of the life-cycle problem and its characteristics.

5.1 The quadrants of the matrix

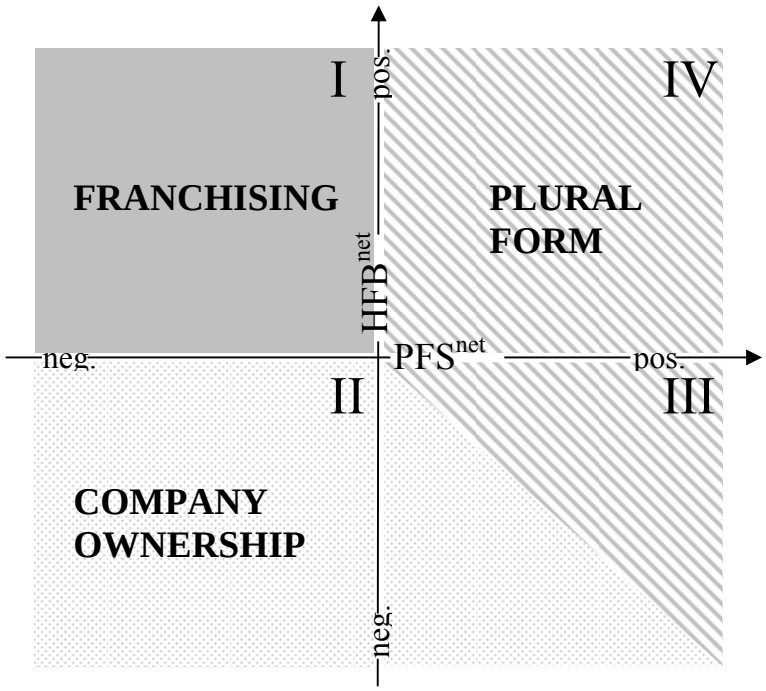
Quadrant I of the matrix presents cases in which HFB^{net} are positive and PFS^{net} are neutral or negative. While the principal will, for instance, be able to profit from franchising by benefiting from the franchisee's initiative and resources or by transferring risk away from himself, simultaneous company-ownership is more costly than beneficial for this setting. For example, business concepts of low investment requirements typically show positive HFB^{net} and neutral to negative PFS^{net}. Other than large hotel or full-service restaurant chains, small points of sale are highly dependent on the personal work input of the franchisee and that of his family members. Additionally, potential franchisees are more easily to acquire the lower the price for buying a franchise unit is. Thus the low-investment chain will not depend as much on signaling profitability and aligning franchisor-franchisee interests through company-ownership as a high investment concept does. Profiting less from plural form benefits, while PFC would still exist, will result in neutral to negative PFS^{net}. With exceptions where franchise statutes require a minimum of company-ownership[8], quadrant-1-chains thus will ultimately be structured as nearly pure forms of franchising.

Quadrant II describes a setting for which both HFB^{net} and PFS^{net} are neutral to negative. For such cases, franchising does not result in economic advantages or, if it does, they are fully (over-)compensated for by the accompanying costs. One reason for the existence of concepts belonging to quadrant II may be that their agent's personal work input has close to no influence on keeping unit sales high. For industries like food retailing, maximum revenues are much more determined by the low pricing of goods than through outstanding service quality offered by highly motivated (franchisee) store managers. The surge of food discounters like Aldi or Lidl in Germany over the last two decades has well documented the success of fully integrated systems in a quadrant-II-setting. As long as it is primary to ensure the agent's proper conduct and to make him execute predefined routine work, hierarchical structures are sufficiently efficient. Without personal initiative being an im-

[8] For instance the German Franchise Association requires each franchisor to own and operate at least one unit by himself. Relating to a large number of franchise units though, the ownership of one required unit does not demonstrate a substantial commitment towards company ownership.

portant aspect of the unit's success, neither franchising nor a plural form is able to outperform full ownership. Thus for quadrant-II settings, franchising as a high incentive organizational form is only the second best choice and chains will be organized as fully integrated hierarchies.

Figure 2. Decision matrix to franchising



For quadrant-III-cases, a franchisor finds himself with HFB^{net} being neutral to negative while positive PFS^{net} are achieved. This, for instance, applies to high investment chains that locate their outlets in large distance from the central headquarters. While a plural form's aspects of positive signaling effects, or the alignment of diverse interests, may result in efficient PFS^{net}, the hybrid form's costs of free riding or reluctance to follow financial and strategic franchisor conduct have to be subtracted. Thus for chains facing a quadrant-III-situation, the franchisor needs to weigh the advantage of PFS^{net} against the drawback of negative HFB^{net}. When the latter outweigh the PFS^{net}, he will run the system through full company-ownership. With the benefits of the PFS^{net} compensating for the disadvantageous HFB^{net} although a plural structure will be best.

Finally, quadrant IV typifies settings in which the franchisor enjoys both positive PFS^{net} and HFB^{net}. Many franchisors of quick-service restaurants belong to this group; most famous among them are chains like McDonalds, Carl's Jr., Hardee's, Denny's, Wendy's, Applebee's or YUM. For maximizing economic value, the organizational structure of such systems should consist of both franchise and company-owned units and therefore be a plural form.

5.2 The dynamic aspects of the decision matrix

As demonstrated by the decision matrix, static organizational structure is determined by the absolute sum of two sets of variables, which have been identified as the characteristics of hybrid (HFB^{net}) and plural (PFS^{net}) forms. Hence we have partially answered our research question of section 3, which required interpretation for the simultaneous existence of fully-franchised, fully company-owned and plural structures.

What remains unclear is the observed stability of distinct forms, a phenomenon whose existence is denied for instance by Oxenfeldt/Kelly (1969) but empirically confirmed in figure 1 and by others (see section 3). Regarding the organizational development of an expanding firm (examined more closely in section 6), we agree with the Oxenfeldt/Kelly proposition that a chain's operating environment (restrictions, goals, capabilities, challenges etc.) undergoes continuous changes over time. The second part of the research question therefore seeks to find out why organizational settings (i.e. franchising and plural structures) survive unchanged the altering of ex- and internal conditions during expansion. In other words, it is unclear why franchising and plural structures prevail each by themselves and why there is no increased level of ownership during maturity of the business.

In order to answer this question, the simplified organizational development of franchise systems needs to be understood as a sequence of two phases. As outlined in figure 1, when operating one or several pilot outlets during the first years in business, every chain is initially organized into full company-ownership. As soon as the chain expands via franchising at some point after the seed phase, it successively adds franchise units until it has reached its final form somewhere between the 10^{th}-12^{th} year of operation. From here on it will continue either as a purely franchised or as a plurally structured organization.[9] Provided that HFB^{net} are positive and positive PFS^{net} cannot be realized, the chain should be fully franchised according to the decision matrix. Otherwise (where HFB^{net} is negative) it should be fully company-owned. Changing conditions during expansion (as proposed by Oxenfeldt/Kelly 1969 and Hunt 1973) may now reduce the absolute value of HFB^{net}. Without HFB^{net} becoming negative though (together with the lack of positive PFS^{net}), no rational motivation would urge the franchisor to buy-back outlets and to revert the structure to a fully com-

[9] The dividing line between "pure franchising" and "plural form" is rather diffuse. What is unclear is how many company-owned outlets are needed to define a chain as plurally organized. Strategically "pure franchising" means that the management does not engage in serious effort to own a significant number of outlets itself. In numbers, we define a chain as "purely franchised" as long as its share of franchising is 99% or greater.

pany-owned system. While those claiming that the benefits of franchising erode during maturity may be correct in this aspect, they are obviously wrong in their conclusion that full ownership will come about at the end of such a process. For plurally organized chains, the case is similarly straightforward. As explained above, they result in the sum of HFB^{net} and PFS^{net} being positive, which is the case in quadrant IV and for some chains in quadrant III. Now, as conditions change, the absolute value of HFB^{net} may decrease, as is the case for purely franchised chains. PFS^{net} though, if realized, will rather escalate in absolute value (see section 7 below for detailed arguments) during expansion, which compensates for a diminishing HFB^{net}. Thus, as long as the existence of positive PFS^{net} keeps the absolute sum of HFB^{net} and PFS^{net} greater than zero, the chain will be structured plurally.

What is it then that allows a chain to appreciate positive PFS^{net} influence during the second phase of development? We have used the data of franchise chains that have been named the 100 top global players in the 2006 survey by the Entrepreneur Magazine to answer this question. In total, these systems run more than 281.000 franchised and 28.000 company-owned outlets at the end of 2005. Hence they represent approximately 36% of all points of sale organized under franchise trademarks worldwide. Of those factors that might influence a chain's structure, we tested investment volume, franchise fee, royalty rate, terms of contract and franchisee financial support provided by the franchisor and through third-party sources. Labeled as λ (LAMBDA), organizational structure is expressed in percent of the franchise outlets in relation to all outlets of the chain. The factor that yielded both a highly significant influence on λ and a good R^2 was the magnitude of the required investment volume. Table 1 displays regression results for the proposition that organizational structure (partly) depends on the size of the investment volume.[10]

Table 1. Linear regression results

Coefficients (a)	Non-standardized coefficients		Standardized coefficients		
Model*	B	Standard error	Beta	T	Sign.
Intercept	0.981	0.015		65.541	0.000
Investment Volume in $T	0	0	-0.455	-5.055	0.000

(a) Dependent variable: Lambda

* N= 100, R-Square= 0,207, F= 25,557, Sign. at 1% level.
To avoid distortion by outliers, the model purposely excludes chains whose average investment volume is greater than $2 million, i.e. Inter Continental, Super 8, Ramada, Days Inn, Motel 6 and Hilton.

[10] See www.entrepreneur.com for a list of the 2006 100 top global chains and the appendix of this paper for correlation results of λ and investment volume.

Two popular franchise chains included in the sample stand as models for the strong influence of the investment volume. While plurally organized McDonald's (75% franchising) asks $500K-1.6M from its franchisees, its purely franchised rival Subway requires its agents to invest between $86-213K. Ehrmann/Spranger (2005b) moreover support table 1 findings by demonstrating that investment volume is inversely related to the degree of franchising for a much larger sample of 925 US-franchise chains. Taken together, these findings are especially striking as HFB-arguments, such as resource scarcity or risk aversion aspects, advise the franchisor to strengthen franchising and to reduce company-ownership as investment volumes surge. To explain this inconsistency, one has to apply PFS-aspects. In terms of the plural form, the franchisor's profit from running company-owned outlets is positively influenced in proportion to the required investment volume. In other words, whereas investment volume is positively correlated with PFS^{net}, its influence on HFB^{net} is rather negative. For the organizational development during phase two we may therefore conclude: The more money franchisees are required to invest into the franchise business, the higher a plural form will reward the franchisor (in terms of increased PFS^{net}). Consequently the high-investment chain will more likely be run with franchise and company-owned units. The less franchisees are required to invest on the other hand, the smaller will be the benefit a franchisor could receive from operating plurally. Consequently the low-investment chain will concentrate on franchising and abstain from costly company-ownership.[11]

6 A new model of the franchise life cycle

In light of the findings that have been presented so far, the model describing the development of franchise-chains as proposed by Oxenfeldt/Kelly (1969) and Hunt (1973) has to be abandoned. While it was correct to assume altering conditions during a chain's expansion, they underestimated the powers of franchising and underrated the power of those aspects that would make hybrid or plural forms attractive even during maturity. Applying the findings from above on a modeled development process, we propose a new model for presenting and understanding the growth path of franchise chains. For each of the five phases of growth, the strategic challenges will define a certain set of organizational imperatives, which in turn will determine the appropriate structural solution.

[11] This aspect has also been supported by an interviewee who has been a multi-unit franchisee of McDonald's for 20 years and is currently engaged as a franchisor for two chains on his own.

6.1 Life-cycle models in general

The basic assumption that organizational life-cycle models build on is that firms, like humans, animals or plants, move through distinctive stages on their way from inception to maturity (Greiner 1972). Each phase is individually marked by a specific management focus and style, by special structural and managerial challenges, and by an altering role and function of the entrepreneur. Only if an organization successfully meets the specific challenges of each stage will it be possible to continue its operation on the next and more advanced level; failure to meet these challenges will stop the process and collapse the entire structure. With the characteristics of each phase being identical regardless of industry specifics, factors like a skillful management team or a high-growth industry may shorten the time needed to accomplish each step. Accordingly, a high-potential management team operating in a fast developing industry will experience shorter cycles and reach maturity sooner than a standard team in a low-growth industry. Detailed knowledge about the characteristics of each phase may prepare any management team up-front for meeting those challenges in a prospering manner that are critical to the organization's survival.

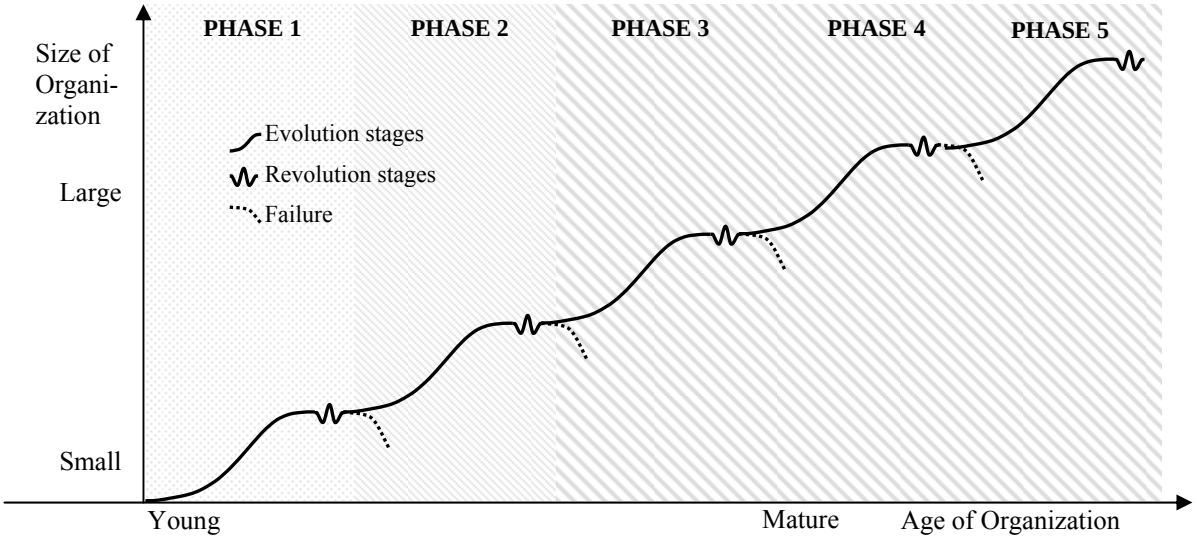
According to Greiner (1972), organizational development as a function of size (employees, sales volumes, number of units, etc.) and time, is a sequence of evolutionary and revolutionary phases which inevitably depend on each other. During times of evolution, the organization grows without major turbulence as long as the appropriate strategic challenges are met. Determined by the limits of each evolutionary process, every stage of growth automatically creates its own times of crisis, a period of revolutionary format in which formerly adequate strategies have become outgrown and where a new strategic set-up has to be created in order to master the subsequent stage of evolutionary growth. Every successfully managed process of turmoil will elevate the organization onto the next level of superior organizational quality and size. Every failure to meet new challenges though will slow down or bring the growth process to halt. In extremes, the inability to manage crises may even cause the destruction of the firm. Concerning the skills of the entrepreneur, it is the professionalization of himself and of his organization that turn out to be the top managerial challenges across every stage of the corporation's life-cycle (Hellmann/Puri 2002). Even three decades of subsequent research have not caused major harm to Greiner's attractive life-cycle model. He himself (Greiner 1998) still claims its practical validity. Having researched 63 stage models, Levie/Hay (2001) have concluded that the idea of a stepwise organizational development cannot be rejected, in spite of repeated failures to confirm it empirically.

6.2 A model of franchising development

The modeled path towards expansion in the franchising industry fits into the general five-stage model outlined by Greiner (1972, 1998). Instead of assuming evolutionary linearity though, we propose each stage to follow an s-shaped curve as applied in marketing science to explain product-life-cycles. Moreover, our model of franchising development (figure 3 below), explicitly illustrates the option to undergo entrepreneurial setbacks caused by a surrender to revolutionary crises. Note that we have chosen to describe the development of a high-investment chain which, according to the reasoning above, will realize positive PFS^{net} once a plural form structure is installed. Applying the propositions of figure 3 to chains without positive PFS^{net} is straightforward. As explained in detail in section 5, the chain will use full franchising as long as HFB^{net} remain positive during phase 3 through phase 5.

In the first stage of initializing the business, the founders of the system act entrepreneurially. All their energy is absorbed by creating the central product or service and by bringing it to the market. The business concept has to be tested by operating one or more pilot outlets initially. More than in later stages, the founders will be involved in operational tasks while their management style may still be informal. Above all they must create a critical environment of constant improvements and endeavor to demonstrate the concept's soundness by documented financial results. In order to move quickly and to directly experience the outcome of their initial strategy, the management needs to keep its control structure tight for passing on instructions directly and effectively. When entering the market the first time, using immediate customer feedback in order to adjust operational activities is highly important. Any form other than a purely integrated one would unnecessarily slow down the process of early business development. Moreover, the benefits of more complex structures cannot be exploited yet at this stage. Full ownership during stage one is therefore the common approach.

Figure 3. The life-cycle of franchise chains



Strategic charge	Install, test, improve and run the pilot outlet(s)	Build local hubs, finalize concept, create structures	Finish national rollout	Finish international rollout	Diversify properly
Organizational imperative	Hold control tightly, order quickly, experience strengths and weaknesses	Prove reliability, lern from best practice, create multipliers	Allow fast growth, raise brand value, enforce rules	Be scalable, exchange know-how	Combine business opportunities
HFB and PFS	HFB ≤ 0 PFS ≤ 0	HFB > 0 PFS ≤ 0	HFB > 0 (↗) PFS > 0 (↘)	HFB > 0 (low) PFS > 0 (high)	?
Structural solution	Ownership	Continue selected ownership, start franchising	Complete plural structure	Transfer plural structure to new markets	?

During the second stage of growth, the business concept has to maintain its quality standards at places other than at the initial pilot(s). Establishing and successfully running local hubs is the primary strategic task during this time. When undertaking the first wave of expansion, the business format needs continuous improvement while centrally located functional structures like marketing, financial accounting, agent support, etc. have to be set up. Managing the young system will require a more formal, directive style where controlling the efficiency of operations becomes gradually more important. Considering organizational structure as an adjustable strategic instrument now becomes important for realizing further growth. Backed by the financial record of the pilot(s), during stage two the system will begin to set up franchise units for some of their local hubs while others will be developed as company-owned units. With many processes like quality control, logistics, customer service, etc. still being in a state of trial-and-error, organizational adjustments are increasingly influenced by the creative input of franchisees. Through their personal initiative, the franchi-

sor will receive refined and reliable data on the financial capability and the competitiveness of the business concept. Moreover every franchisee contributes substantial financial resources while the franchisor's expansion capital is still most likely to be limited. In total, HFB^{net} have turned positive during stage two, whereas the time for positive PFS^{net} is still to come.

Having proven the reliability of the concept through running selected hubs, the chain is now prepared to roll out its business concept nationwide during stage three. Decentrally expanding into one market will require an organizational structure that allows fast growth and at the same time provides mechanisms to keep communication and control such that standards of uniformity and rules of conduct may still be enforceable. With every new unit operated successfully, the chain's brand name value will successively increase the overall sales volume, making the membership to the system more promising for every potential agent. The primary managerial challenge of this stage is to add new units quickly and to assure quality standards simultaneously. This will be achievable as the management now understands how to promote organizational structures that establish a climate of competitive and cooperative conduct among its agents. Expressed in terms of our model from figure 2, while HFB^{net} remain positive from the third stage on, their relative value gradually gives way to the increasingly important PFS^{net}. The more units are added by a franchisor, the more will he depend on the plural form aspects of supporting inner-system innovation processes and of establishing an environment of productive competition among his agents. Thus the chain will accomplish its final mode of plural form structure during stage three of the development process.[12] [13]

In the forth stage, the franchisor will move beyond national boundaries and export his business concept to one or more international markets. The challenges of this stage are similar to those of stage three, although greater distance from headquarters and the increased diversity of foreign markets will require the system to be simultaneously even more adaptable and controllable. The scalability of organizational structure and its ability to exchange know-how between distant entities of the chain is crucial when expanding on an international basis. While bringing these tasks to perfection during stage four, advanced structures must have been established already in stage three during the system's national expansion. Having spread over an entire national market, the chain will continue to profit less from hybrid form benefits than from plural form synergies. As long as both remain

[12] Again, if PFS^{net} are neutral to negative, the chain will choose full franchising as long as HFB^{net} are positive.

[13] As displayed in figure 1, this stage will usually be reached after about 11 years of business experience.

positive, the chain will continue to transfer its experienced plural structure from the home country to any foreign market.

Consequently, constant growth should bring a franchise system to the point where its concept is spread all over the globe and organic growth slows down or comes to a natural end. Such decreasing rates of growth are expressed in the final stages of the S-shaped curve model. During stage five of the organizational development, the franchisor would have to diversify in ways that suit to create additional shareholder value.[14] Since only very few chains reach phase-5-status, evidence on practical experience about the right structural solution during a time of exploring new business opportunities is naturally limited.

The world's largest restaurant chains, YUM Brands and McDonald's, that have reached saturation both in their home country and in many foreign markets, provide some insights into diversification strategies and their results. Following an extensive acquisition strategy, YUM Brands nowadays combines a large part of the food spectrum. Its assortment of quick-service facilities ranges from chicken (Kentucky Fried Chicken), over quick-service seafood (Long John Silver's), pizza (Pizza Hut), Mexican (Taco Bell) to all American food (A&W).[15] To face the challenges of a highly competitive quick-service industry, especially in the US-market, YUM just lately has chosen to follow a strategy of multibranding, i.e. combining two or more brands into one restaurant location. While multibrand stores roughly accounted for 10% of all restaurants and 5% of overall sales volume in 2004, the franchisor aims to expand this strategy and hopes to realize "dramatically improved returns on invested capital"(YUM 2005) in the future. McDonald's (2002) on the other hand, operates more than 1.000 restaurants under its partner brands Boston Market, Chipotle Mexican Grill and Donatos Pizzeria. In total, these restaurants achieved more than $1 billion in sales volume in 2002. In 2003 though, the company (McDonald's 2003) recorded $237 million of pretax charges relating

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[14] Note that additional value may not be created unless synergies like economies of scale or scope will be realized final to the process of diversification. For more than a decade there has been an active debate on whether and why diversification ultimately creates or destroys value. The dilemma becomes obvious as researchers argue that diversified firms trade at discounts compared to a) single-segment firms in the same industry, b) the same firm's value split into pieces and c) the same firm's value prior to diversification (see Villalonga (2003) for an overview of these issues). Hence it remains unclear so far, whether those discounts claimed are effectively a cause for or an effect of diversification. Under the premise of increasing shareholder value, franchisors with stage-5-status will have to thoroughly weigh both long-term costs and benefits of diversification strategies against each other before taking action to spend access resources.

[15] Taken these sorts of related businesses, YUM's management has followed instructions for shareholder value creating diversification strategies as outlined in footnote 14.

to losses on sales of Donatos Pizzeria, the closing of all Donatos and Boston Market restaurants outside the U.S. and the terminating of a business relationship with another domestic joint venture partner. In total, the number of partner restaurants was reduced by 140 or about 12% during 2003. Nevertheless both YUM and McDonalds clearly engage in diversification strategies which widen their initial portfolio to opportunities adjacent to their core business.

As depicted in figure 3 we have to hypothesize about the functions of HFB^{net} and PFS^{net} during phase-5 situations. Learning from diversification strategies by plurally structured YUM (77% of franchising during 2002) and McDonald's (71% of franchising during 2002), it seems as if the plural form's characteristic of successfully combining two opposing structures remains beneficial in a late stage development phase also, where acquiring and operating businesses of the same industry is the preferred move towards further growth.

7 Implications for franchisor management in general

This empirical study's results are naturally limited by the quality of the data used to develop both the concept of the decision matrix and that of the life-cycle model. Regarding the first objection, data on purely company-owned chains would be helpful to challenge the arguments related to (plural and pure) franchise chains presented in section 5. In regard to the second issue, scarce information on status-5-systems – their strategic charges, organizational imperatives, strength of HFB and PFS – allow rather speculative propositions towards a proper structural solution.

Still this research provides very practical propositions to franchisors: Firstly, franchisors should become aware of those factors that determine the organizational setting of their chain. An improved understanding of structure as an instrument of strategic management should replace its widely underestimated importance. Secondly, the franchisor should build competence to fully understand its structure's potential to provide HFB and PFS across the distinct stages of the franchise chain's life cycle. Equally important, the relevant costs of both forms have to be accounted for. Structural decisions should be largely based on a sound analysis of HFB^{net} and PFS^{net}. And finally, the franchisor needs to understand and to identify the distinct phases of growth, their individual strategic requirements and their organizational imperatives.

Translating these challenges into the appropriate structure should increase a franchisor's chances both to embrace the phases of evolution and to prevail during times of revolution.

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Appendix

Table A. Correlation results of organizational structure (λ) and investment volume

	Pearson Correlation	Lambda	Investment Volume
Lambda	Correlation coefficient	1	-0.455**
	Sig. (2-tailed)	.	0.000
	N	100	100
Investment Volume	Correlation coefficient	-0.455**	1
	Sig. (2-tailed)	0.000	.
	N	100	100
	Kendall Tau-b	Lambda	Investment Volume
Lambda	Correlation coefficient	1	-0.350**
	Sig. (2-tailed)	.	0.000
	N	100	100
Investment Volume	Correlation coefficient	-0.350**	1
	Sig. (2-tailed)	0.000	.
	N	100	100

** significant at 1% level * significant at 5% level

PART C

Appendix

A. Entrepreneur Magazine Data 2004

No.	Franchise Chain	Year of Business Start	Year of Franchising Start	Total Franchisee Investment	Franchise Fee	Royalty Rate
No.	**Chain**	**BusExp**	**FranExp**	**Inv**	**FF**	**RR**
1	@Wireless	2000	1994	$70.5K-131.9K	$15K	5-10%
2	1-800-DryClean	2000	1997	$133K-493K	$6.9K	7%
3	1-800-Got-Junk?	1998	1989	$46.7K-58.6K	$18K+	8%
4	1st Propane Franchising Inc.	1998	1990	$176.6K-442.5K	$30K	6%
5	24 Seven	2001	1997	$523.3K-544.8K	$500K	10%
6	5 & Diner Franchise Corp.	1993	1987	$300K-1M	$35K	5%
7	7-Eleven Inc.	1964	1927	Varies	Varies	Varies
8	A & W Restaurants Inc.	1925	1919	$212K-1.4M	$20K/50K	5-6%
9	A Thousand Points of Knowledge	2000	1998	$175K-201K	$50K+	12.5%
10	A-1 Concrete Leveling Inc.	1993	1992	$75K-89K	$70K	6%
11	AAMCO Transmissions Inc.	1963	1963	$187.5K-207K	$30K	7%
12	Aaron's Sales & Lease Ownership	1992	1955	$263K-543K	$35K	6%
13	ABC Inc.	1978	1973	$98.1K-212.5K	$18K	Varies
14	Accountants Inc.	1994	1986	$185.8K-259K	$30K	10%
15	AccuTrak Inventory Specialists	2000	1993	$30K-43K	$22.5K	7%
16	ACE America's Cash Express	1996	1968	$118.2K-259.1K	$15K-30K	6%
17	ACFN	2003	1986	$71.2K	$29K	0
18	ACS Int'l.	2000	1984	$38.4K-43.8K	$35K	10%
19	Action Int'l.	1997	1993	$52.2K-79K	$25K-40K	$1.5K/mo.
20	Advantage Golf Tournament Services	1998	1996	$79.8K-172.7K	$25K-65K+	5%
21	Adventures in Advertising Inc.	1994	1982	$11.9K-47.7K	$5K-27.5K	6-7%
22	Aero Colours Inc.	1993	1985	$56.4K-164.4K	$25K-125K	7%
23	Aerowest/Westair Deodorizing Services	1978	1943	$10.3K-36.7K	$4K	8%
24	Affiliated Car Rental LC	1987	1987	$46.4K-69.5K	$6K-10.8K	Varies
25	AIM Mail Centers	1989	1985	$88.9K-133.9K	$26.9K	5%
26	Airbag Service	1995	1992	$45.9K-116.3K	$25K-35K	8.5%
27	Aire Serv Heating & Air Conditioning Inc.	1993	1993	$31.6K-119.5K	$17.5K	2.5-4.5%
28	Aire-Master of America Inc.	1976	1958	$40.6K-110.9K	$22K-50.5K	5%
29	Al & Ed's Autosound	1986	1954	$160.3K-560.2K	$25K	to 7%
30	All American Frozen Yogurt & Ice Cream Shops	1987	1986	$91K-224K	$6K-25K	5%
31	All Tune and Lube	1985	1985	$125K	$25K	7%
32	Allegra Network	1977	1976	$256K-358.5K	$25K	3.6-6%
33	Allstate Home Inspect./Environ. Testing	1996	1989	$23.9K-44K	$23.9K	7.5%

No.	Chain	BusExp	FranExp	Inv	FF	RR
34	AlphaGraphics Printshops Of The Future	1980	1970	$352K-545.9K	$25.9K	1.5-8%
35	Alta Mere Industries	1993	1986	$93K	$27.5K	7%
36	Alternative Board TAB, The	1996	1990	$27.9K-57.9K	$9.9K-39.9K	0
37	Altracolor Systems	1991	1988	$37.5K-53.95K	$8K-19.95K	$95/wk.
38	am/pm Mini-Markets	1979	1976	$1M-3.2M	$35K-95K	5%
39	American Asphalt Sealcoating Co.	1998	1988	$35K-45K	$15K	5-7%
40	American Leak Detection	1984	1974	$71.3K-155.1K	$57.5K+	6-10%
41	American Poolplayers Association	1982	1981	$11.6K-14K	$5K+	20%
42	American Town Mailer	2000	1976	$23.9K-37.2K	$20K	0
43	American Wholesale Thermographers Inc.	1981	1980	$357.6K-381.1K	$30K	7%
44	American Wildlife Association LLC	2002	1989	$23.1K-76.2K	$19.8K	0
45	AmeriHost Franchise Systems Inc.	1998	1989	$3.2M-4.5M	Varies	4-5%
46	AmeriSpec Home Inspection Services	1988	1987	$24.6K-63.6K	$18K/26.9K	7%
47	AmeriSuites Franchising Inc.	1998	1985	$5.9M-9.7M	Varies	5%
48	Anago Franchising Inc.	1991	1989	$7.8K-457K	$5.4K-500K	10%/5%
49	Andy OnCall	1999	1993	$30.6K-49.2K	$23K	5%
50	Apartment Movers etc.	1998	1995	$67.3K-95K	$19.5K	5%
51	Arby's	1965	1964	$333.7K-2.3M	$37.5K/25K	4%
52	Archadeck	1984	1980	$29.3K-78.8K	$28K	3.5-5.5%+
53	Around Town Community Magazine Inc.	2003	1996	$32.5K-42.9K	$25K	5%
54	Arrow Neighborhood Pub Group, The	1996	1990	$400K	$35K	5%
55	Arthur Treacher's Fish & Chips	1970	1969	$145.5K-267.9K	$30K	5%
56	Ashley Avery's Collectables	1990	1983	$272.1K-403.6K	$30K	6%
57	Assist-2-Sell	1993	1987	$30K-57K	$14.5K	5%
58	Athlete's Foot, The	1973	1972	$201.6K-640.3K	$35K	5%
59	Atlanta Bread Co.	1995	1993	$629.7K-806.3K	$40K-30K	5%
60	Atwork Personnel Services	1992	1990	$59.5K-105K	$11.5K	1.4-6.1%
61	Auntie Anne's Hand-Rolled Soft Pretzels	1989	1988	$192.5K-326K	$30K	6%
62	Aussie Pet Mobile	1996	1996	$60K-352.5K	$32.5K-112.5K	8%
63	Autowraps Inc.	2002	2000	$36.1K-60K	$20K	5%
64	AWC Commercial Window Coverings	1992	1963	$110K-120K	$25K	5-12.5%
65	AZPCO Arizona Pizza Company	2002	1996	$256.5K-397K	$25K	4%
66	Babies 'N' Bells Inc.	1997	1996	$16.7K-28.9K	$9K	8%
67	Back Yard Burgers Inc.	1988	1986	$800K-1.4M	$25K	4%
68	Bad Ass Coffee Co.	1998	1991	$200K	$20K	6%
69	Bahama Buck's Original Shaved Ice Co.	1993	1989	$95K-275K	$20K	6%
70	Baja Sol Tortilla Grill	1995	1995	$166K-400K	$25K	4.5%
71	Baker Bros. American Deli	2000	1998	$353K-641K	$20K-30K	4-5%
72	Barbizon School of Modeling	1967	1939	$47.9K-106K	$19.5K-35K	7.5%
73	Bark Busters	1994	1989	$45K-70K	$22.5K	8%
74	Barnie's Coffee & Tea Co.	1981	1980	$202K-350K	$20K	7%
75	Baskin-Robbins USA Co.	1948	1945	$145.7K-527.8K	$40K	5.9%

No.	Chain	BusExp	FranExp	Inv	FF	RR
76	Bath Fitter	1992	1984	$60K-100K	$24.5K	0
77	Batteries Plus	1992	1988	$164.5K-255K	$25K	4%
78	Baymont Franchises Int'l. Inc.	1986	1973	$4.1M-4.9M	$35K	5%
79	Beaner's Gourmet Coffee	1999	1994	$225K	$22.5K	5%
80	Bear Rock Cafe	1998	1997	$449.5K-525.3K	$35K	4%
81	Beef `O'Brady's	1998	1985	$300K-350K	$30K	4%
82	Ben & Jerry's	1981	1978	$129.5K-316K	$9K-30K	1.5%
83	Benjamin Franklin Plumbing	2001	2000	$41.5K-279.5K	$10K	3-5%
84	Bennigan's Grill & Tavern	1995	1976	$1.4M-2.6M	$65K	4%
85	Best Inns/Best Suites	1982	1970	$170K-577K	$10K	3-5%
86	Better Homes Realty Inc.	1975	1964	to $61.5K	$9.95K	6%
87	Between Rounds Bakery Sandwich Cafe	1992	1990	$168K-215K	$18K-25K	4%
88	Bevinco Bar Systems Ltd.	1990	1987	$41.5K-45K	$34.9K	$12/audit
89	Big Apple Bagels	1993	1993	$174.8K-349.5K	$25K	5%
90	Big Boy Restaurants Int'l.	1952	1936	$1.5M	$40K	4%
91	Big O Tires Inc.	1962	1962	$150K-1.5M	$27.5K	2%
92	Big Picture Framing	2003	2000	$120K-150K	$25K	5.5%
93	Billboard Connection Inc.	2003	1997	$19.5K-26.5K	$19.5K	2.5%
94	Bingo Bugle Newspaper	1983	1981	$5.1K-11.5K	$1.5K-10K	8%
95	BioLogix	1995	1989	$24.5K-45.6K	$12.5K	4%
96	Black American Income Tax Service	2003	1997	$33.6K-43K	$20K	15%
97	Blackjack Pizza Franchising Inc.	1988	1983	$140.8K-300.4K	$10K	to 4%
98	Blimpie Int'l. Inc.	1970	1964	$72.8K-338.2K	$18K	6%
99	Bojangles' Famous Chicken 'n Biscuits	1978	1977	$145K-558.8K	$15K-25K	4%
100	Bonanza Restaurants	1966	1963	$1.3M-2.1M	$40K	4%
101	Bonus Building Care	1996	1996	$7.6K-13.3K	$6.5K	10%
102	Booster Juice	2000	1999	$153K-240K	$20K	6%
103	Boston Pizza	1968	1963	$1.5M-2.1M	$35K/50K	5%/7%
104	Brake Depot Systems Inc.	1999	1990	$70.5K-204K	$25K	7%
105	Brake Masters Systems Inc.	1991	1983	$107.5K-647.3K	$22.95K	5%
106	Breadeaux Pizza	1985	1985	$69.5K-310K	$15K	5%
107	Breadsmith	1993	1993	$217.5K-416K	$30K	7%
108	BrickKicker Home Inspection, The	1994	1989	$13.6K-52.1K	$7.5K-25K	6%
109	Brooke Franchise Corp.	1988	1986	$95.9K-116.1K	$95K	15%
110	Bruster's Old-Fashioned Ice Cream & Yogurt	1993	1989	$165K-968K	$30K	5%
111	Buck's Pizza	1994	1994	$111.3K-196.9K	$10K	3%
112	Budget Blinds Inc.	1994	1992	$54.7K-81.1K	$24.95K	Varies
113	Buffalo Wild Wings	1991	1982	$969K-1.5M	$30K-40K	5%
114	Buffalo's Cafe	1990	1985	$309.3K-464.7K+	$35K	5%
115	BuildingStars Inc.	2000	1994	$1.9K-42.2K	$995-3.99K	10%
116	Burger King Corp.	1961	1954	$294K-2.8M	$50K	4.5%
117	Business Products Express	1999	1996	$49.99K-100K	$24.99K+	4%
118	Buster Enterprises Inc.	1992	1985	$30K-81.5K	$7.5K-24K	5.5-7%
119	Cafe Ala Carte	2000	1996	$56.2K-80.8K	$25K	8-5%
120	California Closet Company	1982	1978	$121.5K-341.9K	$45.9K	6%
121	Camille's Sidewalk Cafe	1999	1996	$210K-470K	$25K	5%
122	Camp Bow Wow	2003	2000	$108.5K-315.5K	$25K	5%
123	Candleman Corp.	1992	1992	$155.9K-329.5K	$35K	6%

No.	Chain	BusExp	FranExp	Inv	FF	RR
124	Candlewick Homes	2003	2002	$300K-1.3M	$50K	5%
125	Candlewood Suites	1996	1995	$3.9M-6.1M	Varies	4-5%
126	Candy Bouquet	1993	1989	$7.3K-44.1K	$2K-27K	0
127	Candy Express	1989	1988	$77.3K-225K	$35K	7%
128	Capital Bonding	2001	1988	$58K-87K	$25K	0
129	Capri Coffee Break	2002	2000	$110K-200K	$30K	6%
130	Captain D's Seafood	1969	1969	$223K-894K	$20K/10K	3.5%
131	Captain Tony's Pizza & Pasta Emporium	1985	1972	$150.8K-282.9K	$10K-20K	4.5%
132	Cardsmart Retail Corp.	2001	1996	$151.2K-194K	$10K	2.5%
133	Careers USA	1988	1981	$110.9K-159.6K	$14.5K	Varies
134	Carl's Jr. Restaurants	1984	1941	$783K-1.2M	$35K	4%
135	Carlson Wagonlit Travel	1984	1888	$2.5K-164K	$1.5K-29.9K	$480-965/mo.
136	Carpet Network	1992	1991	$25K-35K	$14.5K	2-7%
137	Carstar Franchise Systems Inc.	1989	1989	$24.4K+	$5K	Varies
138	Cartex Limited	1988	1987	$34.5K-95.2K	$23.5K-36.5K	7%
139	Cartoon Cuts	2000	1991	$97K-216K	$25K	5%
140	Cartridge World	1997	1997	$75K-120K	$25K-35K	6%
141	Carvel	1947	1934	$177.5K-260.9K	$15K-25K	$1.74/gal.
142	Car-X Auto Service	1973	1971	$232K-341.5K	$25K	5%
143	Cash Now	2001	1999	$120.1K-363.5K	$34.5K	5%
144	Cash Plus Inc.	1988	1985	$123.7K-200.7K	$22.5K	5-6%
145	CD Tradepost	2002	1998	$85.9K-139.9K	$18K	5-6%
146	CD Warehouse Inc.	1992	1992	$127.1K-164.3K	$15K-20K	4-5%
147	Celsius Tannery	2000	1995	$265K-598.5K	$20K	1%
148	Century 21 Real Estate Corp.	1972	1971	$11.6K-522.4K	to $25K	6%
149	Certa ProPainters Ltd.	1992	1992	$66.2K-84.3K	$30K	2-5%
150	CFO Today	1990	1989	$24.4K-40K	$24K	Varies
151	Champion Cleaners Franchise Inc.	1995	1993	$425K-444K	$25K	2%
152	Charley's Grilled Subs	1991	1986	$122.5K-294.5K	$19.5K	5%
153	Cheeburger Cheeburger	1989	1986	$200K-387K	$24.5K	4.5%
154	Chem-Dry Carpet Drapery & Upholstery Cleaning	1978	1977	$23.6K-82.8K	$9.95K	$213/mo.
155	Chemstation	1983	1965	$500K-700K	$45K	4%
156	Chicago's Pizza Franchises	1981	1979	$87.3K-173.1K	$18K	4%
157	Child Care Choices	1999	1998	$23.5K-46.6K	$19K	6%
158	Children's Lighthouse Franchise Corp.	1999	1997	$250K-1.5M	$50K	7%
159	Children's Orchard	1985	1980	$69.5K-144.95K	$19.5K	5%
160	CHIP - The Remarkable Child I.D. Program	2002	2001	$29.9K-42.2K	$27.9	0
161	Choice Hotels Int'l.	1962	1939	$4M-6M	$25K-50K	3.5-5.3%
162	Christmas Decor Inc.	1996	1984	$19.2K-42.4K	$10.9K-17.5K	2-4.5%
163	Church's Chicken	1972	1952	$203K-750K	$10K/15K	5%
164	CiCi's Pizza	1987	1985	$400.9K-606.9K	$30K	4%
165	Cindy's Cinnamon Rolls	1986	1985	$69K-130.5K	$25K	5%
166	Cinnabon	1986	1969	$232.5K-333.5K	$30K-35K	5%
167	Cinnzeo	1998	1987	$214K-621K	$15K	7%
168	Clean & Happy Windows	2000	1991	$100-2K	0	7%
169	Cleaning Authority, The	1996	1978	$67.2K-96.5K	$22.5K-36K	4-6%
170	CleanNet USA Inc.	1988	1988	$3.9K-35.5K	$2.95K-32K	3%
171	ClickTown Int'l. LLC	2001	2000	$13.3K-25K+	$7.5K+	0
172	Closet & Storage Concepts	2000	1987	$145K	$40K	5%

No.	Chain	BusExp	FranExp	Inv	FF	RR
173	Closet Factory, The	1986	1983	$99.5K-196.1K	$28K-39.5K	5.75%
174	Closets By Design Franchising	1998	1982	$88.5K-275.9K	$19.5K-34.9K	6%
175	Coffee Beanery, The	1985	1976	$50.5K-384K	$5K-25K	6%
176	Coit Drapery & Carpet Cleaners	1964	1950	$45.1K-111.3K	$20K+	2-6%
177	Colbert/Ball Tax Service	2002	1995	$23K-40K	$5K	15%
178	Cold Stone Creamery	1994	1988	$245K-353K	$31K-35K	6%
179	Coldwell Banker Real Estate Corp.	1982	1906	$23.5K-477.3K	$13K-20.5K	6%
180	Color Me Mine Enterprises Inc.	1995	1992	$138.6K-181.3K	$25K	5%
181	Color-Glo Int'l. Inc.	1983	1979	$26.5K-30.3K	$25K	4%
182	Colors On Parade	1991	1989	$50K-594K	$5.5K-15.5K	7-30%
183	ColorTyme	1982	1979	$319.1K-560.5K	$7.5K-35K	2-5%
184	Comet Cleaners	1967	1947	$196K-368K	$25K-50K	0
185	ComForcare Senior Services Inc.	2001	1996	$19.5K-50K	$12.5K	3%
186	Comfort Keepers	1999	1998	$39.7K-65.1K	$18.8K	5-3%
187	Commission Express	1996	1992	$85.3K-172.5K	$10K-40K	Varies
188	Complete Music	1983	1974	$19.7K-33K	$12K-20K	6.5-8%
189	CompuChild	2001	1994	$13.9K-15K	$12.5K	Varies
190	Computer Builders Warehouse	1999	1990	$250K+	$35K	2%
191	Computer Moms Int'l. Corp.	1998	1994	$46.2K-75.2K	$9.7K+	to $800/mo.
192	Computer Renaissance	1993	1988	$50K-150K	$15K	4%
193	Computer Troubleshooters	1997	1997	$16.3K-24.4K	$11K	$220/mo.
194	Computertots/Computer Explorers	1988	1983	$32.1K-48.5K	$15K/29.9K	8%
195	Concerto Networks Inc.	2003	2002	$36.5K-47.9K	$15.8K	14%
196	Concrete Raising of America Inc.	1993	1947	$16.9K-200K	$16.9K-25K	4-8%
197	Connoisseur, The	1988	1972	$200K-270K	$29.5K	6%
198	Contours Express	1998	1998	$31.2K-45.7K	$10K	$395/mo.
199	Cookie Factory Bakery	1991	1970	$98K-237.5K	$15K	5%
200	Cookies By Design/Cookie Bouquet	1987	1983	$90K-175K	$12.5K-35K	6%
201	Cookies in Bloom	1992	1988	$60K-114K	$19.5K	5%
202	Copy Club Inc.	1994	1992	$311.3K-421.95K	$30K	7%
203	Cost Cutters Family Hair Care	1982	1982	$69K-148K	$12.5K-22.5K	6%
204	CottageCare Inc.	1989	1988	$49.5K-75.5K	$9.5K-17K	5.5%
205	Cottman Transmission Systems LLC	1964	1962	$155K-221K	$31.5K	7.5%
206	Country Clutter	1992	1991	$153.9K-348.5K	$25K	5.5%
207	Country Inns & Suites By Carlson	1987	1986	$3M-5.5M	Varies	4.5%
208	Cousins Subs	1985	1972	$200K-275K	$20K	6%
209	Coustic-Glo Int'l. Inc.	1981	1979	$12K-18K	$12K	5%
210	Coverall Cleaning Concepts	1985	1985	$6.3K-35.9K	$6K-32.2K	5%
211	Crack Team, The	2000	1985	$38.6K-69.1K	$15K	6%
212	Craters & Freighters	1991	1990	$95K-131K	$27K	5%
213	Creative Colors Int'l. Inc.	1991	1980	$53.6K-70.4K	$19.5K+	6%
214	Creative Playthings	2002	1951	$135.7K-207K	$25K	4%
215	Crescent City Beignets	1999	1997	$250K-300K	$25K	5%
216	Crestcom Int'l. Ltd.	1991	1987	$47.8K-78.5K	$39.5K/58.5K	1.5%
217	Critter Control Inc.	1987	1983	$9.8K-66K	$2.5K-33K	6-16%
218	Crown Trophy Inc.	1987	1978	$115K-144K	$32K	5%

No.	Chain	BusExp	FranExp	Inv	FF	RR
219	Cruise Holidays Int'l.	1984	1984	$70.7K-126.2K	$5K-19.5K	$525+/mo.
220	Cruise Planners	1999	1994	$8.99K-18.6K	$8.99K	3-0%
221	CruiseOne Inc.	1993	1989	$9.8K-26.3K	$9.8K	3%
222	Culligan Water Conditioning	1938	1936	$104.5K-695K	$5K	0.5-5%
223	Culver Franchising System Inc.	1988	1984	$340.4K-2.9M	$50K	4%
224	Curves	1995	1992	$35.6K-41.1K	$24.9K	$395/mo.
225	Cuts Fitness For Men	2003	2003	$47.1K-70.9K	$25K	$400/mo.
226	CW&E Franchise Corp.	2000	1995	$66.7K-181.7K	$20K	5%
227	Dairy Queen	1944	1940	$655K-1.3M	$20K/35K	4-5%
228	Dale Carnegie Training	1999	1912	$32.7K-221.9K	$25K	12%
229	Damon's Int'l.	1982	1979	941.5K-2.7M	$50K	4%
230	Dancercise Kids	1999	1988	$16.8K-33.3K	$9.5K-19.5K	10%
231	D'Angelo Sandwich Shops	1988	1967	$200.1K-342.4K	$15K	5.5%
232	Days Inns Worldwide	1972	1970	$400K-5.4M	Varies	5%
233	Dealer Specialties Int'l. Inc.	1996	1989	$10.2K-35.4K	$2.5K	$0.66/unit
234	Deck The Walls	1979	1979	$147.1K-267.4K	$30K	6%
235	Deckare Services	1997	1995	$25K-40K	$14.5K	5%
236	Decor & You Inc.	1998	1994	$29.7K-119.2K	$14.5K/75K	10%
237	Decor-At-Your-Door Int'l.	1995	1983	$10.6K-46K	$6K	1%
238	Del Taco Inc.	1967	1964	$1M	$25K	5%
239	Denny's Inc.	1984	1953	$971K-1.8M	$40K	4%
240	Dent Doctor	1990	1986	$47.5K-84.9K	$19.9K+	6%
241	Dentist's Choice, The	1994	1992	$25.9K-30.1K	$17.5K	1-5%
242	Desert Moon-Fresh Mexican Grille	1999	1992	$186.5K-356.4K	$25K	5%
243	Diamond Home Cleaning Services Inc.	1997	1993	$29K-61.2K	$15K	4-6%
244	Dickey's Barbecue Pit Restaurants	1994	1941	$450K-1.7M	$25K	4%
245	Dippin' Dots Franchising Inc.	2000	1988	$45.6K-189.8K	$12.5K	4%
246	Discount Imaging Franchise Corp.	1998	1995	$90K-115K	$25K	6%
247	Discount Sport Nutrition	2000	1996	$82.7K-165.3K	$25K	5%
248	Discovery Map Int'l.	1999	1987	$32.3K-36.3K	$18K	0
249	Dollar Discount Stores	1987	1982	$99K-195K	$18K	3%
250	Dolly's Pizza Franchising Inc.	1993	1966	$125K-180K	$17.5K	4%
251	DOTI (Designs Of The Interior)	1998	1983	$266K-326K	$36K	6%
252	DoubleDave's Pizzaworks Restaurant	1995	1984	$295K-320K	$25K	4%
253	Doubletree Hotels, Suites, Resorts, Clubs	1989	1969	$7M-40.4M	$50K+	4%
254	Dr. Glass Window Washing	2001	1978	$4.6K	$3K	10%
255	Dr. Vinyl & Associates Ltd.	1981	1972	$41K-66.5K	$29.5K	7%
256	Drama Kids Int'l. Inc.	1989	1979	$33.4K-39.6K	$25K	10%
257	DreamMaker Bath & Kitchen by Worldwide	1972	1971	$64.1K-113K+	$27K	6-3%
258	Dry Cleaning Station	1992	1987	$42.5K-485.5K	$9.5K-25K	Varies
259	Dry Cleaning To-Your-Door	1997	1994	$39.99K-63.4K	$24.5K/29.5K	4.5%
260	Dry-B-Lo Int'l. Inc.	1997	1993	$44.7K-150.3K	$15K/25K	7.5%
261	Dryclean USA	1978	1976	$80.7K-518.5K	$15K/30K	$5K/yr.
262	Duct Doctor USA Inc.	2000	1985	$41K-64K	$25K	5-8%
263	Dunhill Staffing Systems Inc.	1961	1952	$84.98K-162.8K	$17K/55K	Varies
264	Dunkin' Donuts	1955	1950	$255.7K-1.1M	$50K	5.9%
265	Dunn Bros Coffee	1994	1987	$143.8K-418K	$30K	5%

No.	Chain	BusExp	FranExp	Inv	FF	RR
266	Duraclean Int'l.	1945	1930	$25.1K-81.5K	$10K	2-8%
267	E.P.I.C. Systems Inc.	1994	1994	$10.2K-28.5K	$6.5K/25K	4-10%
268	EagleRider Motorcycle Rental	1997	1992	$219.5K-674K	$15K-35K	5%/10%
269	Earth Graphics	1999	1994	$34.1K-40.3K	$15K	8%
270	East of Chicago Pizza Company	1991	1990	$163K-356.7K	$20K	5%
271	easyInternetcafe	2001	1999	$30.8K-208.4K	$1K-10K	5%
272	Econotax	1968	1965	$15.4K-33K	$10K	15%
273	Edible Arrangements	2000	1998	$80.2K-130K	$25K	5%
274	Edo Japan Inc.	1986	1977	$150K-287K	$20K	6%
275	Educational Outfitters	2001	1998	$72.2K-172.2K	$25K	5%
276	Eight at Eight Dinner Club	2003	1998	$28.6K-44.6K	$25.5K	10%
277	El Pollo Loco	1980	1975	$504.98K-1.1M	$40K	4%
278	ELDirect Homecare	2002	1996	$21.9K-29.7K	$15K	5%
279	Elephant House	1991	1991	$28K-44.5K	$10.2K	0
280	Elliott & Company Appraisers	1993	1980	$3.65K-18.9K	$900-9.9K	8-18%
281	Embassy Suites Hotels	1984	1983	$17M-23M	$100K+	4%
282	EmbroidMe	2001	2000	$43.3K-211.1K	$35.5K	5%
283	eModel.com	2000	1996	$35K-50K	$20K-30K	0
284	Entrepreneur's Source, The	1997	1984	$71K-79K	$45K	0
285	ERA Franchise Systems Inc.	1972	1971	$42.7K-205.9K	to $20K	6%
286	Erbert & Gerbert's Subs & Clubs	1992	1987	$158.5K-289K	$25K	6.5%
287	Essentials Protective Coatings	1997	1996	$53.6K-154.7K	$25K-85K	8%
288	Ever Dry Waterproofing	1984	1978	$147.7K	$67.5K	6%
289	Executive Tans Inc.	1995	1991	$125K-499K	to $25K	$795/mo.
290	Expetec	1996	1992	$57.2K-78.2K	$20K-28K	$150-300
291	Express Mart Franchising Corp.	1990	1975	$86.2K-361K	$15K	4%
292	Express Oil Change	1983	1979	$114.5K-149.5K	$17.5K	5%
293	Express Personnel Services	1985	1983	$120K-160K	$17.5K-20.5K	6-9%
294	Express Tax	2002	1997	$9.9K-16.6K	$4.5-5K	$12/return
295	Extreme Pizza	2000	1994	$123.5K-351K	$25K	4%
296	Faces	1980	1974	$77K-109.5K U.S.	$16.3K U.S.	5%
297	Famous Sam's Inc.	1989	1979	$573K-1.3M	$30K	5%
298	Fantastic Sams	1976	1974	$75K-164K	$25K	$236/wk.
299	Farmer Boys	1997	1981	$732.4K-1.8M	$35K	5%
300	Fast-Fix Jewelry Repairs	1987	1984	$123K-221K	$30K	5%
301	Fastframe USA Inc.	1987	1986	$94.8K-139.3K	$25K	7.5%
302	FasTracKids Int'l. Ltd.	1998	1998	$30K-60K	$22.5K	1.5%
303	FastSigns Int'l. Inc.	1986	1985	$152.3K-225K	$20K	6%
304	Fazoli's Systems Inc.	1991	1988	$431K-1.1M	$30K	4%
305	Fibrenew	1987	1985	$30K-50K	$30K-50K	$300/mo.
306	Fiducial Inc.	1999	1999	$44.4K-115.6K	$12.5K-25K	1.5-6%
307	Figaro's Italian Kitchen	1984	1982	$85K-205.5K	$2.5K-24.5K	5%
308	FiltaFry	1997	1996	$46.3K-47.5K	$15K	to $450/mo.
309	First Choice Haircutters	1982	1980	$118K-205K	$10K-25K	5-7%
310	Fish Window Cleaning Services Inc.	1998	1978	$55.7K-115.8K	$24.5K-49.5K	6-8%
311	Fitness Together	1996	1984	$130K-175K	$29K	5%
312	Five Guys Burgers & Fries	2002	1986	$152.6K-360.3K	$25K	6%
313	Flamers Charburgers	1987	1986	$164.5K-268.5K	$30K	5%
314	Floor Coverings Int'l.	1989	1988	$36K-79.1K	$18K-25K	6-3%
315	Flowerama of America	1972	1966	$180K	$35K	5%

No.	Chain	BusExp	FranExp	Inv	FF	RR
316	Foliage Design Systems	1980	1971	$49.4K-144.4K	$25K-100K	6%
317	Foot Solutions Inc.	2000	2000	$171.7K-230.8K	$25K	5%
318	Fortune Personnel Consultants	1973	1959	$76K-115K	$40K	7%
319	Four Seasons Sunrooms	1984	1975	$13.3K-82.5K	$7.5K/10K/15K	0
320	Fourth R, The	1992	1991	$85K+	$16K	Varies
321	Fox's Pizza Den	1974	1971	$68.3K-79K	$8K	$200/mo.
322	Frank & Stein	1986	1985	$170K-300K	$20K	6%
323	Friendly Computers	1999	1992	$14.5K-180K	$9.5K/25K	3%
324	Friendly's Restaurants Franchise Inc.	1996	1935	$629.8K-1.9M	$30K-35K	4%
325	Fuddruckers	1983	1980	$740K-1.5M	$50K	5%
326	Full Circle Image	1997	1991	$25K	$20K	5%
327	Fun Cuts 4 Kids	1999	1998	$75.1K-161K	$25K	$50-125/wk.
328	Furniture Medic	1992	1992	$35.5K-78.9K	$22K	7%
329	Fuzziwig's Candy Factory Inc.	2002	1996	$194.8K-315.1K	$20K-30K	7%
330	GarageTek Inc.	2001	2000	$184K-234.2K	$50K	6%
331	Garfield's Restaurant & Pub	1987	1984	$1.2M-1.96M	$30K	4%
332	Gateway Cigar Store/Newstands	1983	1983	$55.9K-362.8K	$15K-125K	3%
333	Geeks On Call America	2001	1999	$48.4K-77.2K	$15K	Varies
334	Glamour Shots Licensing Inc.	1992	1988	$78K-113K	$15K-20K	0
335	Glass Doctor	1981	1962	$107.2K-259.2K	$19.9K	4-7%
336	Global LeaderBoard	2001	1995	$36K-138K	$5K-36K	Varies
337	Gloria Jean's Gourmet Coffees Franchising Cor	1986	1979	$25.2K-437K	$15K/30K	6%
338	GNC Franchising Inc.	1988	1935	$132.7K-182K	$40K/30K	6%
339	Goddard Systems Inc.	1988	1986	$350K	$60K	7%
340	Golden Chick	1972	1967	$442.6K-780.9K	$15K	4%
341	Golden Corral Franchising Systems Inc.	1987	1973	$1.7M-3.9M	$40K	4%
342	Golden Krust Caribbean Bakery	1996	1988	$135.2K-325.9K	$25K	3%
343	Gold's Gym Franchising Inc.	1987	1979	$300K-2M	$20K	$1K/mo.
344	Golf Etc.	1995	1992	$151K-181K	$15K	$35/sq. ft.
345	Golf USA Inc.	1989	1986	$235K-297K	$34K-44K	2%
346	Goodfella's Old World Brick Oven Pizza	1997	1993	$247.2K-931K	$22.5K/40K	5%
347	Gotcha Covered	1999	1995	$50.5K-76.3K	$44.95K	$700/mo.
348	Grease Monkey Int'l. Inc.	1979	1978	$120K-220K+	$28K	5%
349	Great American Cookies	1977	1977	$138K-680K	$30K	7%
350	Great Clips Inc.	1983	1982	$94.6K-180.1K	$25K	6%
351	Great Earth Vitamins	1978	1970	$92.5K-111K	$30K	6%
352	Great Frame Up, The	1975	1971	$126.1K-162K	$30K	6%
353	Great Harvest Franchising Inc.	1978	1976	$107.6K-352.3K	$8K-30K	4-7%
354	Great Steak & Potato Co., The	1986	1983	$153K-280K	$25K	5%
355	Great Wraps Inc.	1983	1974	$180K-273K	$17.5K	5%
356	Greco Pizza-Donair	1977	1977	$150K-170K Cdn.	$15K Cdn.	5%
357	Green Mill Restaurants	1991	1975	$1M-1.5M	$40K	4%
358	Greenleaf's Grille	1998	1998	$190.2K-399.5K	$25K	5%
359	Griddle Family Restaurants, The	1977	1964	$62K-507.5K U.S.	$17.5K U.S.	5%
360	Griswold Special Care	1984	1982	$6K-30K	$0	Varies
361	Groucho's Deli	2001	1941	$115.7K-163.2K	$15K	4%

No.	Chain	BusExp	FranExp	Inv	FF	RR
362	Grout Doctor Global Franchise Corp.	2001	1994	$15.7K-28.6K	$12.5K	$750/mo.
363	Grout Wizard	2001	1997	$15.6K-25.2K	$12.5K	Varies
364	Growth Coach, The	2003	2002	$22.5K-34.9K	$17.9K	6%
365	Guardsman WoodPro	1994	1865	$10K-25K	$7K	Varies
366	Gumball Gourmet	2001	2001	$24.6K-462.1K	$17.2K	$100/mo.
367	Gutter Guys, The	2000	1988	$71.6K	$10K	5%
368	Gymboree	1978	1976	$76.7K-214.2K	$35K	6%
369	Haagen-Dazs Shoppe Co. Inc., The	1977	1961	$54.6K-390.6K	$10K-20K	3%
370	Haircolorxpress	2001	2000	$199.8K-295K	$15K	6%
371	Hamburger Mary's Bar & Grille	1999	1972	$250K-1M	$45K	5%
372	Hampton Inn/Hampton Inn & Suites	1984	1983	$4.9M-8.7M	$45K+	4%
373	Handyman Connection	1991	1990	$80K-180K	$35K-90K	5%
374	Handyman Network	2002	2000	$46.9K-95.6K	$28.5K	5%
375	HandyPro Handyman Services Inc.	2000	1996	$36.4K-61.9K	$25K	$600-1.5K/mo.
376	Hangers Cleaners Inc.	1998	1996	$750K-1.5M	$50K	4%
377	Hannoush Jewelers	1995	1980	$291K-717K	$20K	4%
378	Happy & Healthy Products Inc.	1993	1991	$23K-55K	$17K-24K	0
379	Happy Joe's	1973	1972	$79.7K-1.1M	$1.5K-20K	4.5%
380	Hardee's	1962	1961	$770.8K-1.1M	$35K	4%
381	Hawaii's Java Kai	2000	1997	$168.99K-355.9K	$30K	6%
382	Hawthorn Suites	1986	1986	$4.4M-7.4M	$40K	5%
383	Hayes Handpiece Franchises Inc.	1995	1989	$57.2K-59.9K	$45K	3.5-5%
384	Heaven's Best Carpet & Uphol. Cleaning	1983	1983	$15.9K-55.6K	$2.9K	$80/mo.
385	Heel Quik! Inc.	1985	1984	$45K-95K	$15.5K-17.5K	4%
386	Help-U-Sell Real Estate	1978	1976	$64.5K-190.5K	$16.5K	6%
387	High Touch-High Tech	1993	1990	$20.1K	$15K	7%
388	Hilton Garden Inn	1996	1996	$8.8M-11.4M	$60K+	5%
389	Hilton Hotels, Suites, Resorts	1965	1919	$2M-44.8M	$75K+	5%
390	HobbyTown USA	1986	1969	$140K-700K	$10K-19.5K	2.5-3.5%
391	Hogi Yogi Sandwiches & Frozen Yogurt	1992	1989	$108.2K-452.5K	$20K	6%
392	Hollywood Tans	1998	1994	$269.5K	$34.5K	7%
393	Home Cleaning Centers of America	1984	1981	$23.8K-25.8K	$9.5K	3-5%
394	Home Helpers	1997	1997	$22.5K-35.9K	$15.9K	4-6%
395	Home Instead Senior Care	1995	1994	$30.2K-39.5K	$21.5K	5%
396	HomePros	2002	2001	$50.8K-89K	$26K	6%
397	Homes & Land Magazine	1984	1973	$48K-104K	$25K	Varies
398	HomeTeam Inspection Service, The	1992	1991	$19.5K-46.1K	$11.9K-29.9K	6%
399	Hometown Threads	2001	1998	$150K	$25K	5%
400	HomeVestors of America Inc.	1996	1989	$139.2K-219.5K	$43K	Varies
401	Homewatch Caregivers	1986	1973	$23.8K-43.7K	$12K-17.5K	3-5%
402	Homewood Suites by Hilton	1988	1988	$9M-12.2M	$50K+	4%
403	HoneyBaked Ham Co. & Cafe, The	1998	1957	$217.3K-340.5K	$30K	5-6%
404	Honors Learning Center, The	1991	1987	$48.5K-53.7K	$15K	$2K/mo.
405	Hospitality Int'l. Inc.	1977	1971	Varies	$2.5K-5K	3-4%
406	House Doctors	1995	1994	$24K-51.6K	$13.9K-32.9K	6%

No.	Chain	BusExp	FranExp	Inv	FF	RR
407	House of Bread	1998	1996	$99K-249K	$24K	6%
408	HouseMaster	1979	1971	$25K-65K	$12K-29K	6-7.5%
409	Howard Johnson Int'l. Inc.	1954	1925	$365K-6.2M	Varies	4%
410	HR First Contact	2002	2001	$89.1K-206.4K	$35K	6%
411	Huddle House	1966	1964	$120K-800K	$20K	4%
412	Hungry Howie's Pizza & Subs	1982	1973	$83.1K-220.5K	$15K/9.5K	5%
413	Huntington Learning Centers Inc.	1985	1977	$155.3K-206.6K	$38K	8%
414	Hydro Physics Pipe Inspection Corp.	1996	1991	$70K-95K	$22.5K	7.5%
415	i9 Sports	2003	2002	$26.5K-59.7K	$16K-36K	10%
416	Ice Magic Franchising Inc.	2001	1996	$300K-554.3K	$30K	Varies
417	Icebox/Soupbox	1998	1995	$69.5K-174.5K	$14K-20K	4%
418	Ident-A-Kid Services of America	2000	1986	$29.5K-64.96K	$29.5K	0
419	IDRC Franchising Corp.	2001	1997	$144K-194.5K	$20K-40K	6%
420	Image Sun Tanning Centers	2000	1994	$110K-287K	$25K	5.5%
421	Incredibly Edible Delites Inc.	1993	1985	$100K-150K	$25K	4.5%
422	Inner Circle Int'l. Ltd.	1997	1985	$67K-84K	$56K	15%
423	Inspect-It 1st Property Inspection	1998	1991	$26.8K-50K	$19.9K-27.9K	6-8%
424	Instant Imprints	2001	1992	$50.5K-187.1K	$25K	5%
425	InterContinental Hotels Group	1954	1952	Varies	Varies	5%
426	Interface Financial Corp.	1991	1971	$77.1K-128.3K	$25K	0.8%
427	Interim Healthcare	1966	1966	$123K-404K	$5K-30K	5%
428	Interim Personnel	1956	1946	$96.9K-395.7K	$10K-15K	Varies
429	Interiors by Decorating Den	1970	1969	$40K	$24.9K	7-9%
430	International House of Pancakes Inc.	1960	1958	$92K-810K	$50K-600K	4.5%
431	Interquest Detection Canines	1999	1988	$46.5K-85.3K	$30K	6%
432	Island Ink-Jet Systems Inc.	2000	1995	$80.4K-109.1K	$22.5K	6%
433	Italian Pie Franchise LLC, The	1995	1994	$241.5K-351K	$25K	5%
434	It's A Grind	2000	1995	$227K-397.3K	$30K	6%
435	It's Just Lunch Franchise LLC	2000	1992	$77K-148.5K	$25K-35K	9%
436	J.D. Byrider Systems Inc.	1989	1979	$289.2K-2.5M	$50K	3.5%
437	J.W. Tumbles, A Children's Gym	1993	1985	$115.5K-142.2K	$30K	$500/mo.
438	Jackson Hewitt Tax Service	1986	1960	$47.4K-75.2K	$25K	15%
439	Jani-King	1974	1969	$11.3K-34.1K+	$8.6K-16.3K+	10%
440	Jan-Pro Franchising Int'l. Inc.	1992	1991	$1K-14K+	$1K-14K+	8%
441	Jantize America	1988	1988	$9.8K-16.8K	$3.5K-8.5K	6-9%
442	Jasneek Medical Staffing	2000	1997	$54K-186K	$17K	5.5%
443	Jazzercise Inc.	1983	1977	$2.6K-32.8K	$325/$650	to 20%
444	Jennifer Maxx Inc.	2001	1994	$99K-151.2K	$25K	5%
445	Jerry's Subs & Pizza	1980	1954	$250K-350K	$25K	6%
446	Jersey Mike's Submarines & Salads	1987	1956	$71K-185K	$18.5K	6.5%
447	Jet City Pizza	1996	1994	$59.1K-258.3K	$15K	4.5%
448	Jet-Black Int'l. Inc.	1993	1988	$39.7K-106.7K	$15K	8%
449	Jets Pizza	1990	1978	$201.8K-269.5K	$15K	8-10%
450	Jiffy Lube Int'l. Inc.	1979	1979	$174K-194K	$35K	to 5%
451	Jimmy John's Gourmet Sandwich Shops	1993	1983	$199.4K-353K	$20K-30K	6%
452	Jo to Go The Drive Thru Espresso Bar	2001	1998	$104.5K-782.1K	$25K	7%

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453	Jody Maroni's Sausage Kingdom	1998	1979	$50K-425K	$30K	7%
454	Joey's Only Seafood Restaurant	1985	1985	$358.8K-504.5K	$20K-25K	4.5%
455	Johnny Rockets Group Inc.	1987	1986	$581K-877K	$45K	5%
456	Juice It Up!	1998	1995	$173.8K-277.7K	$25K	6%
457	JumpBunch Inc.	2002	2002	$14K-45K	$7.5K-17.5K	8%
458	Just Dogs! Barkery	2003	2001	$94K-159.5K	$22.5K	8%
459	KaBloom	2001	1998	$143K-212K	$30K	4.5-5.5%
460	Kampgrounds of America Inc.	1962	1961	$716K-1.6M	$25K	8%
461	KCS Applications Inc.	1994	1992	$15.5K	$15K	to $350/yr.
462	Keller Williams Realty	1987	1983	$121K-252K	$25K	6%
463	KFC	1952	1930	$1.1M-1.7M	$25K	4%
464	Kid to Kid	1994	1992	$96.8K-127.1K	$25K	5%
465	Kiddie Academy Child Care Learning Centers	1991	1979	$233.3K-606.6K	$50K	7.5%
466	KidzArt	2002	1997	$16.6K-22.4K	$14.9K-16.4K	7%
467	Kilwin's Chocolates Franchise	1982	1946	$209.9K-480K	$25K	5%
468	Kinderdance Int'l. Inc.	1985	1979	$9.95K-27.1K	$7K-21K	6-15%
469	Kitchen Solvers Inc.	1984	1982	$40.3K-73K	$19.99K	4-6%
470	Kitchen Tune-Up	1988	1986	$39.6K-46.9K	$25K/10K	4.5-7%
471	Knights Franchise Systems Inc.	1991	1972	$225K-4.4M	Varies	5%
472	Koya Japan	1986	1985	$213.7K-335.1K	$25K	6%
473	Krystal Restaurants	1990	1932	$900K-1M	$32.5K	4.5%
474	Kumon Math & Reading Centers	1958	1958	$8K-30K	$1K	$30+/student/mo.
475	Kwik Kopy Business Centers Inc.	2001	2001	$187K-277.7K	$30K	7%
476	Kwik Kopy Printing	1967	1967	$320K-404K	$25K	4-8%
477	La Salsa Fresh Mexican Grill	1988	1979	$431K-612K	$20K-30K	5%
478	Labor Finders	1975	1975	$67.1K-111.6K	$10K	Varies
479	Lady of America	1986	1984	$21.4K-175.4K	$12.5K-35K	10%
480	Lakewood Engine Exchange	1997	1989	$112K	$25K	5%
481	Lapels	2001	2000	$66.2K-92.1K	$20K	5%
482	Larry's Giant Subs	1986	1982	$131K-195.6K	$20K	6%
483	Las Vegas Golf & Tennis Inc.	1984	1974	$537K-774K	$39K	3%
484	Laser Chem Commercial Cleaning	1990	1979	$12.1K-34.5K+	$9.3K-13K+	8%
485	Lawn Doctor	1967	1967	$82.9K-83.3K	$74.9K	10%
486	LazerQuick	1990	1968	$172.5K-275K	$25K	to 5%
487	Leadership Management Inc.	1965	1965	$33.5K-37.5K	$30K	6%
488	Learning Express	1987	1987	$185K-290K	$30K	5%
489	Ledo Pizza System Inc.	1989	1986	$115.3K-419K	$20K	5%
490	Lee Myles Transmissions	1964	1947	$126.2K-169.1K	$27.5K	7%
491	Lemon Tree, The	1976	1974	$44.9K-78K	$15K	6%
492	Lentz U.S.A. Service Centers	1989	1983	$114K-130K	$20K	to 7%
493	Liberty Tax Service	1973	1972	$38.1K-49.1K	$25K	Varies
494	Lil' Angels Photography	1998	1996	$27.7K-32.2K	$17K	0
495	Line-X	1999	1993	$70.2K-157.5K	$20K-30K	0
496	Link Staffing Services	1994	1980	$85.5K-156K	$17K	Varies
497	Lloyd Personnel Systems Inc.	1986	1971	$93.5K-155.3K	$20K	7-40%
498	Logan Farms Honey Glazed Hams	1985	1984	$369.4K-425.7K	$25K	4%

No.	Chain	BusExp	FranExp	Inv	FF	RR
499	Long John Silver's Restaurants Inc.	1970	1969	$192K-2M	$20K/50K	5-6%
500	Lotusea Franchise Group Inc.	2000	1990	$56.8K-96.2K	$35K	7-8%
501	Maaco Auto Painting & Body-works	1972	1972	$249K	$30K	8%
502	Macy's Vision Express	2002	1996	$350K-685K	$15K	7%
503	Mad Science Group, The	1995	1985	$36.9K-78.5K	$10K-23.5K	8%
504	Made In Japan Teriyaki Experi-ence	1987	1986	$183K-229.8K	$25K	6%
505	MaggieMoo's Ice Cream & Treatery	1997	1996	$198.9K-296.9K	$28K	6%
506	Maid Brigade USA/Minimaid Canada	1980	1979	$46.4K-232.5K	$18.5K+	3.5-6.9%
507	Maid To Perfection	1990	1980	$36.3K-43.6K	$9.95K	4-7%
508	MaidPro	1997	1991	$27.9K-75.9K	$7.9K	3-6%
509	Maids Home Service, The	1981	1979	$69.7K-216.6K	$10K	3.9-6.9%
510	Maids To Order	1992	1988	$47.6K-95K	$25K-50K	3-5%
511	Mama Fu's Noodle House Inc.	2003	2002	$325K-450K	$20K	5%
512	Management Recruiters/Sales Consult./MRI Worl	1965	1957	$115.6K-160.4K	$79K	7-7.5%
513	Manchu Wok	1989	1981	$268.6K-332.8K	$20K	7%
514	Manhattan Bagel Co. Inc.	1988	1987	$159K-300K	$20K	5%
515	Marble Slab Creamery Inc.	1984	1983	$187.4K-251.98K	$25K	6%
516	MarbleLife	1989	1989	$56K-140K	$15K+	6%
517	Marco's Inc.	1979	1978	$119K-250K	$15K	3-5%
518	Martinizing Dry Cleaning	1949	1949	$250K-396K	$30K	4%
519	Matco Tools	1993	1979	$60K-158K	$0	0
520	Mathnasium Learning Centers	2003	2002	$27.1K-65.3K	$3.1K	Varies
521	Maui Wowi	1997	1983	$55K-200K	$27.5K	0
522	McAlister's Deli	1994	1989	$329.5K-1.4M	$20K-30K	5%
523	McDonald's	1955	1955	$506K-1.6M	$45K	12.5%+
524	McGruff Safe Kids Total Iden-tification System	2002	2001	$28.8K-42K	$25K	0
525	Medicap Pharmacies Inc.	1974	1971	$22.1K-447K	$3K-15K	2-3.9%
526	Medicine Shoppe Int'l.	1970	1970	$74.3K-253.4K	$10K-18K	2-5.5%
527	Meineke Car Care Centers	1972	1972	$180K-365K	$30K	2.5-7%
528	Melting Pot Restaurants Inc., The	1984	1975	$595.8K-1M	$32K	4.5%
529	Me-N-Ed's Pizzerias	1958	1958	$175K-486K	$25K	5%
530	Merle Norman Cosmetics	1989	1931	$33.1K-162K	$0	0
531	Merlin's Franchising Inc.	1975	1975	$183.6K-315.9K	$26K-30K	4.9-6.9%
532	Merry Maids	1980	1979	$22.95K-55.5K	$17K-25K	5-7%
533	Metal Supermarkets	1987	1985	$225K-275K	$39.5K	6%
534	Microtel Inns & Suites	1988	1987	$2.8M-5.6M	Varies	4-6%
535	Midas Auto Service Experts	1956	1956	$379.4K-528K	$20K	10%
536	Mighty Distrib. System of America	1970	1963	$150K-200K	$12.9K-34.8K	5%
537	Milex Tune-Up & Brakes	1979	1978	$149K	$27.5K	7%
538	MilliCare Commercial Carpet Care	1996	1982	$94K-128K	$20K	6%
539	Mini-Tankers USA Inc.	1997	1997	$169K	$1K	0
540	Minuteman Press Int'l. Inc.	1975	1973	$119.5K-214.9K	$44.5K	6%
541	Miracle Auto Painting Inc.	1964	1953	$216K-273K	$35K	5%
542	Miracle Ear Inc.	1983	1948	$89K-198K	$30K+	$49/aid

No.	Chain	BusExp	FranExp	Inv	FF	RR
543	Miracle Method Surface Restoration	1980	1977	$25K-45K	$18.5K	5%
544	Mocha Delites Inc.	2001	2000	$53.5K-218K	$22.5K	5%
545	Model Merchandising Int'l. L.P.	1979	1979	$64.2K-137.4K	$20K-40K	7%
546	Modernistic Carpet & Upholstery Cleaning	2000	1972	$50K	$12K-42K	6%
547	Moe's Italian Sandwiches	1993	1957	$50K-119K	$12.5K	5%
548	Moe's Southwest Grill	2001	2000	$300K	$20K	5%
549	Molly Maid	1979	1979	$62.6K-92.1K	$6.9K	6.5-3%
550	Mom's Bake At Home Pizza	1979	1961	$46.8K-52.9K	$15K	0
551	Monday Morning Moms	1989	1981	$24.2K-31.2K	$9K-16K	4-6%
552	Money Mailer LLC	1980	1979	$53K-76.5K	$35.5K-48.5K	Varies
553	More Space Place	1993	1985	$89.5K-166.8K	$22.5K	4.5%
554	Motel 6	1996	1962	$1.8M-2.2M	$25K	4%
555	MotoPhoto	1982	1981	$200K-250K	$35K/5.3K	6%
556	Mountain Comfort Furnishings	1991	1984	$189.97K-410.8K	$22.5K	$10K/yr.
557	Mr. Appliance Corp.	1996	1996	$32.2K-68.9K	$15.9K	3-7%
558	Mr. Electric	1994	1994	$64.1K-156.5K	$19.5K	3-6%
559	Mr. Goodburger's	2003	2001	$155K-210K	$25K	6-8%
560	Mr. Goodcents Franchise Systems Inc.	1990	1988	$77K-242.8K	$12.5K	5%
561	Mr. Handyman Int'l. LLC	2000	2000	$92K-110K	$6.9K	7%
562	Mr. Hero Restaurants	1970	1965	$113K-305K	$18K	5.5%
563	Mr. Jims Pizza	1981	1975	$70K-100K	$10K	6%
564	Mr. Rooter	1972	1968	$46.8K-120.5K	$22.5K	4-7%
565	Mr. Transmission	1976	1956	$149K	$27.5K	7%
566	Mrs. Fields Cookies	1990	1977	$180K-247K	$30K	6%
567	Mrs. Vanelli's Fresh Italian Foods	1984	1981	$168.8K-226.6K	$25K	6%
568	Multistate Transmissions	1973	1973	$149K	$27.5K	7%
569	Music Go Round	1994	1986	$190.3K-274.6K	$20K	3%
570	My Friend's Place	1990	1980	$97.2K-192.3K	$20K	$200-325/wk.
571	My Gym Children's Fitness Center	1995	1983	$120K-200K	$42.5K	6%
572	Nathan's Famous Inc.	1988	1916	$250K-450K	$30K	5%
573	National Home Buyers Assistance	2003	2001	$105K	$25K	2%
574	National Property Inspections Inc.	1987	1987	$28.5K-31K	$19.8K	8%
575	Nationwide Floor & Window Coverings	1992	1992	$42.8K-115.1K	$24.9K-39.9K	5%
576	NaturaLawn of America Inc.	1989	1987	$55K-60K	$29.5K	7-9%
577	Nature's Pro	1999	1975	$57.2K-103K	$17.5K-40K	5%
578	NaturZone Pest Control Inc.	1998	1982	$19K-25K	$20K	5%
579	Navis Pack & Ship Centers	1984	1980	$89K-160K	$29.8K	5%
580	Nelson's Direct Casket Outlet Inc.	1998	1997	$73.7K-145K	$10K-30K	4%
581	Nestle Toll House Cafe by Chip	2000	2000	$177.1K-313.5K	$25K	7%
582	Netspace	2000	1996	$51.2K-70.9K	$39.5K	10%
583	Nevada Bob's Discount Golf	1978	1974	$338K-358K	$45K	3.5%
584	New Horizons Computer Learning Centers Inc.	1992	1982	$370K-560K	$25K-75K	6%
585	New York Burrito-Gourmet Wraps	1996	1995	$75K-130K	$12.5K	7%
586	New York Butcher Shoppe, The	2003	1999	$209.9K-259K	$25K	6%

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587	Nite Time Decor Inc.	1999	1989	$58K-87.8K	$17.9K	2-4.5%
588	NorthWest Aquifer Surveying Inc.	2002	2001	$53.6K-85K	$15K-25K	4-6%
589	Norwalk - The Furniture Idea	1987	1902	$380K-400K	$35K	0
590	Novus Auto Glass	1985	1972	$37K-170K	$7.5K	7-8%
591	Nutri-Lawn	1985	1983	$75K	$25K	6%
592	Odyssey Art Centers	1995	1974	$28.7K-56.2K	$24K	6%
593	Off The Grill Franchising Inc.	1999	1998	$275K	$25K	4%
594	Oil Butler Int'l. Corp.	1991	1987	$28K-40.7K	$15K	7%
595	Oil Can Henry's	1988	1972	$137K-203K	$35K	5.5%
596	Oilstop-Drive Thru Oil Change Centers	1998	1987	$266.1K-995.1K	$24.5K-35K	5%
597	Once Upon A Child	1992	1984	$133.9K-218.1K	$20K	5%
598	OpenWorks	1983	1983	$15K+	$14K-67.5K	10%
599	Orange Julius of America	1948	1926	$194.2K-380.6K	$20K-35K	6%
600	Orion Food Systems LLC	1993	1982	$16K-680K	$2.99K	0
601	Outdoor Connection	1990	1988	$10.4K-15.1K	$9.5K	3-5%
602	Outdoor Lighting Perspectives	1998	1995	$71.5K-211.5K	$45K-130K	7%
603	Owens Corning Basement Finishing System	2000	2000	$54K-122K	$15K+	5%
604	Oxford Learning Centres Inc.	1989	1982	$125K-250K	$39.5K	10%
605	P.J.'s USA Inc.	1989	1978	$202.5K-269.5K	$20K	5%
606	Pacific Medical	2000	1991	$9.2K-30.5K	$8.99K	0
607	Padgett Business Services USA Inc.	1975	1965	$53K-54.5K	$25K	4.5-9%
608	Paid Inc.	1999	1998	$24.5K	$24.5K	0
609	Paint Medic	1995	1990	$39.6K-71.3K	$25K-50K	5%
610	Pak Mail	1984	1983	$72.4K-132.3K	$28.95K	to 5%
611	Palm Beach Tan	1998	1990	$345K-612K	$25K	2-6%
612	Palms Tanning Resort, The	2003	2003	$542.5K-636.5K	$25K	6%
613	Panera Bread/Saint Louis Bread Co.	1993	1987	$843K-1.5M	$35K	5%
614	Papa John's Int'l. Inc.	1986	1985	$250K	$20K	4%
615	Papa Murphy's	1982	1981	$140.6K-203K	$25K/15K	5%
616	Papa's Pizza To-Go Inc.	1990	1987	$139.5K-175.7K	$9.5K	5%
617	Paper Warehouse Franchising Inc.	1987	1980	$250K-400K	$25K	4%
618	Parcel Plus	1988	1986	$115K-174K	$25K	6%
619	Park Inns	1993	1986	$55.9K-9.7M	Varies	4.5%
620	Park Plaza Hotels and Resorts	1993	1986	$65.9K-14.6M	Varies	5%
621	Parmasters Golf Training Centers LLC	2001	2000	$381.9K-1.1M	$25K	6%
622	Party Land Inc.	1988	1986	$299K	$35K	5%
623	Passport Health Inc.	1997	1995	$52.95K-150K	$25K-100K	7%
624	Paul Davis Restoration Inc.	1970	1966	$114.9K-162.97K	$52.5K	3.5%
625	Payless Car Rental System Inc.	1971	1971	$217.9K-6.3M	$15K-500K	5%
626	Pearle Vision Inc.	1980	1961	$115.8K-372.8K	$10K-30K	7%
627	Pee Wee Workout	1988	1986	$2.7K	$2K	10%
628	Penn Station East Coast Subs	1988	1985	$221.9K-383.3K	$22.5K	4-8%
629	Pepe's Mexican Restaurants	1967	1967	$145.1K-316K	$15K	4%
630	Perfect Wedding Guide Inc., The	1998	1991	$64K-199K	$50K-150K	6%
631	Perkins Family Restaurant	1958	1958	$1.7M-3M	$40K	4%
632	Perma-Glaze	1981	1978	$26.5K-47.5K	$21.5K+	Varies

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633	PersoNet-The Personnel Network	1994	1994	$35.2K-100K+	$15K-60K	Varies
634	Pestmaster Services	1991	1979	$30K-79.3K	$15K-30K	5-7%
635	Pet Supplies "Plus"	1990	1987	$395.5K-611K	$25K	Varies
636	Petland	1971	1967	$403.5K-892.7K	$25K	4.5%
637	Pets Are Inn	1986	1982	$20K-75K	$12K-32.5K	5-10%
638	Philly Connection	1987	1980	$130K-198.5K	$20K	6%
639	Pickerman's Soup & Sandwich Shop	1998	1975	$174.6K-218.8K	$15K	5%
640	Pickles & Ice Cream Franchising Inc.	1999	1997	$110.4K-302.1K	$20K	6%
641	Pillar To Post	1994	1994	$23.9K-41.7K	$13.9K-23.9K	7%
642	PIP Printing	1968	1965	$201K-442K	$20K	2.5-6.5%
643	Pirtek	1987	1980	$202K-504K	$42K	1.5-4%
644	Pizza Factory Inc.	1985	1979	$69.2K-261.9K	$5K-20K	5%
645	Pizza Hut Inc.	1959	1957	$268K-1.4M	$25K	6.5%
646	Pizza Inn Inc.	1963	1960	$56.6K-871.7K	$5K-20K	4-6%
647	Pizza Man - He Delivers	1971	1964	$162.9K-178.5K	$25K	4%
648	Pizza Ranch, The	1984	1981	$209.6K-496.6K	$15K	4%
649	Pizza Schmizza	2002	1993	$181.4K-244.9K	$15K	5%
650	Pizzeria Uno Chicago Bar & Grill	1980	1943	$778K-1.7M	$35K	5%
651	Planet Beach Franchising Corp.	1996	1995	$179.3K-298.6K	$30K	6%
652	Planet Smoothie	1998	1995	$90.3K-182.7K	$22.5K	5%
653	Plato's Closet	1999	1998	$139.8K-243.2K	$20K	4%
654	Play It Again Sports	1988	1983	$212.3K-318.9K	$20K	5%
655	PMA Franchise Systems	1998	1985	$43.3K-70K+	$35K	10-8%
656	Pop-A-Lock Franchise System	1994	1991	$97.6K-741.5K	$13K-100K	6%
657	Popeyes Chicken & Biscuits	1976	1972	$600K-1.2M	$30K	5%
658	Port Of Subs	1985	1972	$52.5K-219.6K	$2.5K+/16K	5.5%
659	Positive Changes Hypnosis Centers	2001	1987	$92.8K-329.4K	$29.5K	5%
660	Postal Annex+	1986	1985	$58.4K-174.1K	$29.95K	5%
661	Postal Connections of America	1995	1985	$98.5K-138.5K	$18.9K	4%
662	PostNet Postal & Business Services	1993	1985	$154K-164K	$28.9K	4%
663	Precision Concrete Cutting	2002	1991	$98K-100K	$95K	4%
664	Precision Door Service Inc.	1999	1997	$73.5K+	$25K+	$250/wk.+
665	Precision Tune Auto Care	1978	1975	$142.3K-208.1K	$25K	7.5%
666	Pressed4Time Inc.	1990	1987	$20.6K-29.5K	$17.5K	4-6%
667	Pretzel Time	1992	1991	$119.5K-238.5K	$25K	7%
668	Pretzel Twister, The	1993	1992	$114.5K-175.2K	$22.5K	5%
669	Pretzelmaker Inc.	1992	1991	$100.1K-213.3K	$25K	6%
670	Pretzels Plus Inc.	1991	1991	$80K	$12K	4%
671	Priceless Rent-A-Car	1997	1997	$30.9K-175K	$2.5K-37K	$30/car/mo.
672	Primrose School Franchising Co.	1988	1982	$200K-250K	$50K	7%
673	Pro Golf Discount	1972	1962	$252.9K-1.1M	$49.5K	2.5%
674	Pro Image Franchise LC	1986	1985	$120K-250K	$19.5K	4%
675	PRO: President's Resource Organization	1999	1993	$18.9K-63K	$8.5K-35K	10-15%
676	Pro-Cuts	1984	1982	$111K-207K	$22.5K	to 6%
677	Professional Carpet Systems	1981	1978	$18.4K-47.8K	$59.95K	2-6%
678	Profit-Tell Int'l.	2001	1993	$27.4K-45.3K	$19.5K	0

No.	Chain	BusExp	FranExp	Inv	FF	RR
679	ProForma	1985	1978	$4.5K-34.1K	to $14.9K	6-8%
680	Property Damage Appraisers	1963	1963	$18.3K-35.95K	$0	15%
681	Protocol Inc.	1996	1987	$8.2K-22K	$500	0
682	PRstore LLC	2002	2001	$100.96K-181.3K	$25K-40K	2-6%
683	Puckmasters Hockey Training Centers	1996	1993	$132K-1.9M	$20K	6%
684	Pudgies Famous Chicken Ltd.	1989	1981	$197K-379.9K	$30K	5%
685	Pump It Up	2001	2000	$164.5K-259K	$25K	6%
686	Purified Water To Go	1995	1992	$100K-157K	$23.5K/29.5K	5-6%
687	PuroSystems Inc.	1991	1986	$79.3K-122.2K	$25K	8-10%
688	Qdoba Mexican Grill	1997	1995	$300K-450K	$25K	5%
689	Quizno's Franchise Co., The	1983	1981	$208.4K-243.8K	$25K	7%
690	R.J. Boar's BBQ Restaurants	1998	1993	$378.5K-909K	$35K	4%
691	RadioShack	1968	1921	$60K	$30K	0
692	Radisson Hotels & Resorts	1983	1962	$33M-50M	Varies	Varies
693	Rainbow Int'l. Carpet Care & Restoration	1981	1981	$64.6K-117.4K	$15.9K	4-7%
694	Ramada Franchise Systems Inc.	1990	1954	$380K-6.2M	Varies	4%
695	RE/MAX Int'l. Inc.	1975	1973	$20K-200K	$10K-25K	Varies
696	Realty Executives Int'l. Inc.	1973	1965	$22.6K-83.1K	$1K-20K	$50/licensee
697	Re-Bath LLC	1991	1979	$33.9K-200K	$3.5K-40K	$25/liner
698	ReCeil It Ceiling Restoration	2002	1992	$38.9K	$35K	7%
699	Red Hot & Blue	1990	1988	$380.7K-1M	$45K	5%
700	Red Roof Inns Inc.	1996	1967	$2.6M-3M	$30K	4.5%
701	Regus Business Centres	2001	1989	$243K-989.8K	$50K	6%
702	Relax The Back Corp.	1989	1984	$192.2K-320.5K	$25K	4%
703	RemedyTemp Inc.	1987	1967	$95K-155K	$18K	Varies
704	Renaissance Executive Forums Inc.	1994	1994	$44.4K-59.9K	$29.5K	20%
705	Renovation Professionals	2002	1997	$28.5K-50.98K	$24.5K	4%
706	Rent-A-Wreck	1977	1970	$32.8K-207K+	$5K-74K+	$30/car/mo.
707	Rescuecom	1998	1997	$7.5K-19K	$1.5K-18.8K	9-24%
708	Resettlers Franchise Group LLC, The	1997	1985	$85K-139.5K	$20K	5%
709	Results! Travel	2000	2000	$25-8.9K	to $1.5K	to $600/yr.
710	Rezcity.com	2002	2002	$6.7K-61.2K	$1K-50K	0
711	Right at Home Inc.	2000	1995	$28.5K-64.9K	$16.5K	5%
712	Right One, The	1999	1990	$98.4K-254K	$50K-150K	6%
713	Rita's	1989	1984	$137.2K-247.4K	$25K	6.5%
714	Ritter's Frozen Custard	1994	1990	$225K-1.2M	$25K	5%
715	Rocky Mountain Chocolate Factory	1982	1981	$88.5K-430.5K	$19.5K	5%
716	Roly Poly Franchise Systems LLC	1997	1992	$55K-120K	$20K	4-6%
717	Ronzio Pizza	1992	1986	$119K-168K	$10K	4%
718	Rooter-Man	1981	1970	$46.8K-137.6K	$3.98K	Varies
719	Rotelli Pizza & Pasta	1999	1999	$310K-481K	$25K	6%
720	RSVP Publications	1999	1985	$32K-100K	$15K-60K	7%
721	Rug Place, The	2000	1997	$150K-275K	$25K	5%
722	Saladworks	1992	1986	$296.6K-622.3K	$35K	5%
723	Samuel Mancino's Italian Eat-ery	1994	1959	$234.5K-304.5K	$25K	5%
724	Samurai Sam's Teriyaki Grill	1995	1994	$118.5K-199.5K	$30K	6%
725	San Francisco Oven	2003	2001	$225.5K-477.8K	$25K	5%

No.	Chain	BusExp	FranExp	Inv	FF	RR
726	Sandler Sales Institute	1983	1967	$56.5K-73.3K	$50K	$1.2K/mo.
727	Sanford Rose Associates	1970	1959	$63.5K-103.5K	$45K	7-5%
728	Sarah Adult Day Services Inc.	2000	1985	$170K	$19.5K	5%
729	Sarpino's Pizzeria	2001	2000	$165K-207K	$15K	6%
730	Save It Now!	2002	1986	$58.5K-167.9K	$32.5K	6%
731	Savoia T'Go Franchise LLC	2000	1974	$287K-377K	$25K	4%
732	Sbarro The Italian Eatery	1977	1959	$250K-850K	$45K	7%
733	Schakolad Chocolate Factory	1999	1995	$93.2K-127.5K	$30K	4%
734	Schlotzsky's	1977	1971	$400K-825K	$25K/30K	6%
735	Schooley Mitchell Telecom Consultants	1997	1983	$37.5K-50K	$37.5K	8%
736	Scotts Lawn Service	1985	1984	$86.7K-406.9K	$30K-250K	6-10%
737	Screen Machine, The	1988	1986	$47K-72.1K	$25K	5%
738	Screenmobile, The	1984	1982	$72.7K-76.9K	$69.3K	5%
739	Sealmaster	1991	1969	$223.3K-441K	$20K-35K	5%
740	Sears Carpet & Upholstery Care Inc.	1999	1992	$71.5K-368K	$5K-95K	8%
741	Seattle Sutton's Healthy Eating	1998	1985	$400K-675K	$35K	5%
742	Seattle's Best Coffee	1992	1972	$179.5K-523.5K	$25K	4%
743	Seekers Coffee House	2002	2001	$189K-1.2M	$15K	4%
744	Service Team of Professionals Inc.	1996	1971	$10K-104K	$8K-34K	5-9%
745	ServiceMaster Clean	1952	1947	$26.6K-90.5K	$16K-33.5K	4-10%
746	Servpro	1969	1967	$89.5K-138.1K	$33K	3-10%
747	Shake's Frozen Custard	1998	1991	$168K-800K	$30K	5%
748	Shakey's Pizza Restaurant	1958	1954	$396.5K-1.6M	$25K	4.5%
749	Shape Up Sisters Inc.	2002	2002	$40K-51K	$24.9K	$375/mo.
750	Show Me PCs	1999	1998	$21.5K-40.5K	$9.8K	7%
751	Signal Graphics Business Center	1982	1974	$142K-315.9K	$27K	to 5%
752	Sign-A-Rama Inc.	1987	1986	$47.6K-179.1K	$37.5K	6% w/cap
753	Signs By Tomorrow	1987	1986	$97.5K-179K	$24.5K	3-6%
754	Signs First	1989	1966	$30K-118K	$7.5K-17.5K	6%
755	Signs Now Corp.	1986	1983	$132.3K-160K	$25K	5%
756	Simple Simon's Pizza	1986	1982	$125K/78.7K	$15K/5K	3%/5%
757	Sir Speedy Inc.	1968	1968	$243K	$25K	4-6%
758	Smitty's Canada Ltd.	1960	1959	$350K-450K Cdn.	$35K Cdn.	5%
759	Smoothie King	1988	1987	$126.5K-204.5K	$25K	6%
760	Snap-on Tools	1991	1920	$17.6K-254.7K	$5K	$50/mo.
761	Snelling Personnel Services	1956	1951	$81K-168K	$11.5K	Varies
762	Snip N' Clip Inc.	1986	1958			
763	Soccer Post	1991	1978	$183.5K-220K	$29.5K	5%
764	Soft-Temps Worldwide	2002	1999	$3.99K-4.99K	$2.99K	5%
765	Sona Laser Centers Inc.	2002	1997	$330K	$49.5K	Varies
766	Sonic Drive In Restaurants	1959	1954	$710K-2.3M	$30K	1-5%
767	Sonitrol	1965	1964	$148K-474K	$20K-50K	2.5%
768	South Bend Chocolate Co.	1997	1991	$74.95K-295.5K	$35K	4%
769	South Philly Steaks & Fries	1986	1984	$105.3K-235.2K	$25K	5%
770	Southern Maid Donuts	1939	1937	$63.95K-226.95K	$5K	0
771	Sparkle Wash	1967	1965	$18.8K-85.3K	$15K-40K	3-5%
772	Speedy Transmission Centers	1984	1983	$53.5K-96.9K	$19.5K	7%
773	Sport Clips	1995	1993	$98K-197K	$10K-25K	6%
774	Sports Section, The	1984	1983	$17.2K-52.7K	$10.9K-30.9K	0

No.	Chain	BusExp	FranExp	Inv	FF	RR
775	Spot-Not Car Washes	1985	1968	$622K-1.1M	$25K	5%
776	Spring-Green Lawn Care	1977	1977	$76.9K-87.2K	$21.9K	6-9%
777	Stained Glass Overlay	1981	1974	$66K-90K	$45K+	5%
778	Stanley Steemer Carpet Cleaner	1972	1947	$81.1K-343.1K	$20K+	7%
779	Steak Escape, The	1983	1982	$190.2K-1.3M	$25K	5-6%
780	Steak-Out Franchising Inc.	1988	1986	$221.4K-342.2K	$25K	5%
781	Steaks To Go	1995	1990	$72K-110K	$24.5K	$250/wk. or 3%
782	Steam Brothers Inc.	1984	1977	$22K-53.5K	$16K	5-6.5%
783	Steamatic Inc.	1967	1948	$57.8K-125.2K	$5K-24K	8-5%
784	Stork News of America Inc.	1984	1983	$10K-18K	$5K-10K	$500-1.5K/yr.
785	Stratis Business Centers	1997	1996	$110.1K-275.8K	$50K	6%
786	Street Corner News	1995	1988	$85K-120K	$19.9K	4.5%
787	Stretch-N-Grow Int'l. Inc.	1993	1992	$15K-20K	$14.6K-19.6K	$100/mo.
788	Strokes' Franchising Inc.	2000	1999	$80K-100K	$37.5K	$90/wk.
789	Studio 6	1999	1998	$2.7M-3.4M	$25K	5%
790	Stuft Pizza	1985	1976	$350K-650K	$25K	4%
791	Sub Station II	1976	1975	$75K-150K	$10.5K	4%
792	Subway	1974	1965	$86K-213K	$12.5K	8%
793	Sunbelt Business Advisors Network	1993	1979	$51K-100K	$15K-25K	$3K/2x/yr.
794	Sunbrook Academy	1999	1984	$271.2K-2.1M	$40K	6%
795	Sunchain Tanning Centers	1995	1994	$98K-233K	$12.5K	4%
796	Sunshine Pack & Ship Express Centers	2000	1993	$39K-139K	$5K/15K	5%
797	Sunshine Pack & Ship Logistics Centers	2002	2002	$89K-129K	$35K	5%
798	Super 8 Motels Inc.	1976	1974	$291K-2.3M	Varies	5%
799	Super Clean Yacht Service	1999	1984	$12.7K-50.8K	$7.5K-25K	$500/mo.
800	Super Coups	1983	1982	$34.95K-53.5K	$29K	Varies
801	Super Wash	2001	1982	$391.3K-1M	$9K	Varies
802	Supercuts	1979	1975	$90.9K-164.1K	$10K-22.5K	6%
803	SuperGlass Windshield Repair	1993	1992	$9.9K-31K	$9.5K+	3-4%
804	Superior Carpet Care	2001	1968	$50K-90K	$20K	8%
805	Supply Master USA	2001	1989	$12.95K-22.7K	$4.5K-10K	$25-100/wk.
806	Support On-Site Computer Services	1998	1997	$23.7K-46.8K	$15K	6%
807	Surface Specialists Systems Inc.	1982	1981	$25.3K-34.9K	$19.5K	5%
808	Sweets From Heaven/Candy HQtrs.	1992	1990	$136.5K-295K	$30K	6%
809	Swisher Hygiene Franchise Corp.	1989	1983	$44.2K-170.1K	$35K-85K	6%
810	Sylvan Learning Centers	1980	1979	$142.1K-220.3K	$38K/46K	8-9%
811	Systems Paving Franchising Inc.	2001	1992	$100K-210.5K	$39.8K	6%
812	T.J. Cinnamons	1985	1985	$32.6K-47.2K	$5K	4%
813	Taco Bell Corp.	1964	1962	$3M	$45K	5.5%
814	Taco John's Int'l. Inc.	1969	1968	$453K-706.5K	$15K-22.5K	4%
815	Taco Maker, The	1978	1978	$221K-325.2K	$19K	5%
816	Taco Palace Franchising Corp.	1997	1985	$75K-99K	0	0
817	TacoTime	1961	1959	$43K-355.5K	$12.5K-50K	5%
818	Talent Tree Personnel Services	1990	1976	$113K-170K	$20K	Varies
819	Talking Book World	1995	1993	$150K-225K	$25K	5%
820	Tastee Freez	1950	1950	$39.8K-1.6M	$5K-10K	4-5%

No.	Chain	BusExp	FranExp	Inv	FF	RR
821	TCBY Treats	1982	1981	$142K-347K	$6K-25K	4%
822	Teriyaki Stix	1998	1995	$108K-452K	$15K-30K	6%
823	Terminix Termite & Pest Control	1927	1927	$24.7K-85.3K	$25K-50K	7-10%
824	Thrifty Car Sales Inc.	1998	1998	$765K-4M	$35K	$110+/vehicle
825	Thrifty Rent-A-Car System Inc.	1962	1950	$150K+	$17.5K+	3%
826	Tilden Car Care Centers	1996	1923	$131.5K-171.2K	$25K	6%
827	Tire Warehouse	1989	1971	$100K-342K	$15K	3%
828	Today's Window Fashions	1997	1993	$19.6K-26.9K	$19.5K	4%
829	Together Dating Service	1981	1974	$98.4K-254.9K	$50K-150K	6%
830	Togo's Eatery	1977	1972	$194.2K-559.8K	$50K	5.9%
831	Tony Roma's A Place For Ribs	1979	1972	$830.1K-1.8M	$35K+	4%
832	Top of the Line Fragrances	1987	1983	$164.8K-237.8K	$20K	5%
833	Top Value Muffler Shops	1980	1977	$107K-160.7K	$17.5K	2-5%
834	Tower Cleaning Systems	1990	1988	$1.9K-23.8K	$1.5K-13.5K	3%
835	Travel Network	1983	1982	$34.2K-99K	$3.95K-29.9K	$250-750/mo.
836	Travelodge Hotels Inc.	1966	1939	$366K-5.4M	Varies	4.5%
837	Treat Street	1998	1998	$114.2K-300.5K	$22K	6%
838	Triple Check Income Tax Service	1977	1968			
839	Triple Crown Sports	1997	1982	$19.5K-53K	$12.5K-22.5K	10%
840	Tropical Smoothie Cafe	1997	1997	$130K-200K	$15K	6%
841	Tropik Sun Fruit & Nut	1980	1980	$93K-214K	$20K	6%
842	Truly Nolen	1996	1938	$3.6K-300.5K	$1.5K-45K	7%
843	T-Shirts Plus	1976	1972	$10.2K-191.8K	$5K-25K	6%
844	Tubby's Sub Shops	1978	1968	$72.9K-243.5K	$8K/15K	6%
845	Tuffy Associates Corp.	1971	1970	$209K-317K	$25K	5%
846	Tunex Automotive Specialists	1974	1972	$125K-166K	$19K	5%
847	Turbo Management Systems Ltd.	1995	1985	$29K-36K	$29K	10%
848	Tutor Time Learning Centers LLC	1989	1979	$355K-2.8M	$50K	6%
849	Tutoring Club	1999	1991	$56.8K-97.9K	$29.5K	10%
850	Two Men and a Truck Int'l. Inc.	1989	1985	$80.4K-246.1K	$32K	6%
851	U.S. Bistro	1998	1998	$225K	$20K	6%
852	U.S. Lawns	1987	1986	$48.5K-56K	$29K	3-4%
853	UBuildIt	1998	1988	$50K-150K	$25K	5-8%
854	UCC TotalHome	1972	1971	$115K-252K	$30K-55K	22%
855	Unicash Financial Centres	1998	1992	$110K-150K Cdn.	$25K Cdn.	5%
856	Unishippers	1987	1987	$31K+	$10K	16.5%
857	United Financial Services Group	1991	1977	$194.7K	$27.5K	0.2%
858	United Marketing Solutions Inc.	1982	1981	$30.4K-59.3K	$24K-28K	0
859	United Shipping Solutions	2002	2002	$22.5K-65K	$18K-25K	6%
860	United States Seamless Inc.	1992	1992	$49.5K-147K	$8.5K	Varies
861	UPS Store, The	1980	1980	$141.1K-239.7K	$19.95K-29.95K	5%
862	USA Baby	1986	1975	$344K-650K	$23.4K-60.2K	3%
863	U-Save Auto Rental of America Inc.	1979	1979	$56.5K-103.5K	$20K	$34/car/mo.
864	U-Wash Doggie	1997	1992	$82.8K-104.4K	$15K	6%
865	V2K, The Virtual Window Fashion Store	1997	1996	$45K	$34.5K	6.5-8%

No.	Chain	BusExp	FranExp	Inv	FF	RR
866	Val-Pak Direct Marketing Systems Inc.	1988	1968	$48.7K-81.3K	$12K	0
867	Valvoline Instant Oil Change	1988	1986	$107.8K-1M	$30K	6%
868	Vanguard Cleaning Systems	1984	1984	$2.2K-33.7K	$1.9K-32.8K	5%
869	Velocity Sports Performance	2002	1999	$256.8K-496K	$30K	4-8%
870	Verlo Mattress Factory Stores	1989	1958	$196K	$30K	5%
871	Villa Pizza/Cozzoli's Pizzeria	1994	1964	$190K-350K	$25K	6%
872	Villager Franchise Systems Inc.	1992	1989	$234K-6.2M	Varies	5%
873	Visiting Angels	1998	1992	$19.4K-38.6K	$19.95K-24.95K	2.95-2%
874	Visual Image Inc., The	1994	1984	$37.3K-37.5K	$23.5K	0
875	Vocelli Pizza	1989	1988	$95K-185K	$15K	4%
876	VR Business Brokers	1979	1979	$32.1K-58.8K	$17.5K	6%
877	Wall Street Deli Inc.	1997	1966	$75.2K-467.4K	$30K	5%
878	Wateria	1997	1994	$95.8K-102.2K	$20K	$0.01/gallon
879	We The People Forms & Service Centers USA Inc	1996	1985	$115.5K-151.5K	$89.5K	0
880	Weed Man	1976	1970	$48.6K-70.3K	$20K-33.8K	6%
881	Weichert Real Estate Affiliates Inc.	2000	1969	$45K-254K	$25K	6%
882	Wellesley Inn & Suites Franchising Inc.	1998	1985	$338.9K-7.8M	Varies	4.5%
883	We're Rolling Pretzel Co.	1998	1996	$65K-149K	$15K	5%
884	Western Sizzlin	1965	1962	$811K-2.3M	$30K	3%
885	Wetzel's Pretzels	1996	1994	$128.9K-352.5K	$30K	6%
886	Wheel Fun Rentals	2000	1987	$103K-260K	$20K	6%
887	Wheelchair Getaways Inc.	1989	1988	$40K-108K	$17.5K	$550/van/yr.
888	White Hen Pantry	1965	1965	$52.4K-225.2K	to $30K	Varies
889	Whole Child Learning Co., The	1999	1996	$17.5K	$17.5K	6%
890	Why USA	1989	1988	$23.8K-103.4K	$19.99K	Varies
891	Wicks 'N' Sticks	1968	1968	$228.5K-340.7K	$35K	2.5%
892	Wienerschnitzel	1965	1961	$136K-1M	$20K	5%
893	Wild Bird Centers of America Inc.	1990	1985	$102.1K-143.2K	$20K	3-4.5%
894	Wild Birds Unlimited	1983	1981	$78K-132K	$18K	4%
895	Winchell's Donut House	1985	1948	$120K-180K	$7.5K	5%
896	Window Butler	1997	1997	$17.3K-28.5K	$7K+	6%
897	Window Gang	1996	1986	$14.4K-78.1K	$5K-75K	6%
898	Window Genie	1998	1994	$38.9K-48.8K	$19.5K	6%
899	Window Works Int'l. Inc.	1979	1978	$60K-90K	to $30K	4%
900	Window-ology	1991	1987	$24.6K-29K	$15.9K	2%+ $250
901	WineStyles Inc.	2002	2002	$122.3K-200.5K	$25K	6%
902	Wing Zone Franchise Corp.	1999	1991	$144.5K-204.5K	$25K	5%
903	Wingate Inns Int'l.	1995	1995	$5.7M-5.9M	Varies	4.5%
904	Winger's-An American Diner	1997	1993	$124.5K-1.1M	$30K	4%
905	Wingstop Restaurants Inc.	1998	1994	$193.3K-286.5K	$20K	5%
906	Wireless Dimensions	2002	2002	$23K-34K	$6.9K	6%
907	Wireless Toyz	2001	1995	$116K-221K	$20K	0
908	Wireless Zone	1989	1988	$42.4K-145.8K	$7.5K-25K	Varies
909	Women's Health Boutique Franchise System Inc.	1994	1991	$197.4K-225.4K	$20.8K	4-7%
910	Wood Re New	2001	1993	$50K	$25K	4%
911	Woodcraft Franchise Corp.	1997	1928	$445K-545K	$45K	5%
912	Woodplay	1999	1975	$100K-180.6K	$25K	1%

No.	Chain	BusExp	FranExp	Inv	FF	RR
913	Woody's Hot Dogs	1991	1990	$48.6K-394K	Varies	6%
914	World Championship Arm-wrestling	2003	2002	$41.9K-56.9K	$35K-50K	$400/mo.
915	World Inspection Network	1994	1993	$34.4K-49.3K	$25K	6-7%
916	World Wrapps	2003	1996	$300K-600K	$25K	4%
917	Worldwide Express	1994	1991	$40.7K-295.3K+	$20K-266K	6%
918	WSI Internet	1996	1995	$40K-50K	$39.7K	10%
919	Yogen Fruz Worldwide	1987	1986	$150K-200K	$25K	6%
920	Yogi Bear Jellystone Camp-Resorts	1969	1969	$70K+	$20K	6%
921	Young Rembrants	1997	1988	$36K-45.5K	$28.5K	Varies
922	Zero's Subs	1996	1967	$120K-160K	$15K	6%
923	Ziebart	1963	1954	to $190K	$25K	8%
924	ZLand Business Centers	2002	1996	$67.3K-137.99K	$19.5K	0
925	Zyng Noodlery	1999	1997	$212K-480K	$25K	5%

K: in thousand $, wk: week, mo: month

B. Literature Overview

As the papers in sections I through IV aim for journal publication, cited references are consequently kept to a minimum number. Thus many more sources providing helpful background information did not get a chance to appear in the above work. To future researchers therefore I share those writings that have influenced my studies in the fields of organizational design, new institutional economics, franchising, network structure, growth strategy and entrepreneurship. May they be helpful and inspiring to you.

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