Does the Franchisor Provide Value to Franchisees? Past, Current, and Future Value Assessments of Two Franchisee Types
by Marko Grünhagen and Michael J. Dorsch

The degree to which a franchise system penetrates a target market over time often is influenced by the rate to which its individual franchisees expand. Yet a franchisee’s decision to expand the business operation depends, in part, on the perception of value that the franchisee expects to receive from the franchisor in return for a variety of fees (for example, entry fee, advertising fees, royalties). Moreover, the franchisee’s experience with its franchisor may strengthen or weaken his or her perception of franchisor value. The change in perception of franchisor value can influence franchisees’ decisions to expand their franchise operations. To date, scant research exists on factors influencing a franchisee’s decision to expand. In the reported study, a four-stage analysis was conducted to examine empirically whether franchisees’ opinions about the value of their franchisors changes over time. The study findings reveal that franchisees had the strongest, positive opinions when asked to recall an earlier decision to expand their franchise operations. These opinions weakened when franchisees contemplating expansion of their operations were asked for their current and anticipated future opinions of franchisor value. Overall, franchisees were undecided when asked about their perceptions of current franchisor value and anticipated future franchisor value. Implications of these findings for theory and practice of franchising are discussed.

Introduction
Franchising commonly is considered a contractual vertical marketing relationship between a franchisor and one or more franchisees. Franchisees of various types exist, often distinguished by the size of their operation and the modalities of the contractual agreement with the franchisor (Kaufmann and Kim 1995; Kaufmann and Dant 1996). They typi-
cally pay an entry fee as well as recur-
ing royalties and advertising fees to the
franchisor.

In return, franchise owners receive
the right to use the trademark or even
the entire business format as well as a
host of services provided by the fran-
chisor, often including legal advice,
consulting on location and real estate
development, national advertising cam-
paigns, training, and so forth.

The franchisor–franchisee relation-
ship represents a partnership conducted
as a form of relational exchange. As such,
the strengthening of the franchisor–
franchisee relationship, such as through
expansion of individual franchisees' busi-
nesses, involves a sharing of benefits
and costs (see Macneil 1980 for a
description of relational exchanges).
Accordingly, of particular interest to fran-
chise owners is the balance between the
payments made to the franchisor (that is,
franchisee costs) and the “value” (that is,
franchisee benefits) received in return
(Porter and Renforth 1978; Kaufmann
and Lafontaine 1994; Michael 1999).

Moreover, consistent with partnership
theories (for example, Garbarino and
Johnson 1999), franchisees are expected
to remain in the relationship as long as
they perceive to receive adequate value
for their contributions to the franchisor.
Recognizing that franchisees’ percep-
tions of value of services received versus
payments made to the franchisor may
change over time, it is important that
franchisors effectively manage franchisee
perceptions of the value received from
the franchisor. Unfortunately, research
on franchisees’ perceptions of their
franchisors is scant. As a first step to
filling this gap in the understanding of
franchisee–franchisor relationships, we
empirically examine whether franchisee
perceptions of franchisor value change
over time. In essence, we are aiming to
answer the question, “Does the strength
of perceptions of value assessment
change over time?” More specifically, we
examine single-unit and sequential multi-
unit franchisees’ perceptions of value
received from the franchisor at the
present time and compare these assess-
ments to expectations for the future and
to expectations they recall from their
past.

The knowledge that, in fact, fran-
chisee perceptions of franchisor value
change over time may have many
implications for the evolution of the fran-
chisor–franchisee relationship. Recogniz-
ing that changes in attitudes (that is,
value perceptions) tend to occur before
changes in behavior (Ajzen and Fishbein
1980), franchisors would be able to
manage their franchisor–franchisee rela-
tionships more effectively by monitoring
how their franchisees perceive them. For
example, by understanding the nature
and direction of changes in franchisees’
perceptions of franchisor value, fran-
chisors may be able to position them-
selves better to their franchisee partners
to achieve a positive value perception
and thereby to gain greater cooperation
from the franchisees.

First, a review of relevant franchising
literature is provided. Then, the research
design, analysis, and findings are pre-
sented. Finally, implications, recommen-
dations, and limitations of the study are
outlined.

**Background and**

**Research Question**

Franchisor–franchisee relationships
typically are characterized as contract-
ual arrangements and thus represent
relational exchanges. As relational ex-
changes, franchisor–franchisee relation-
ships entail a sharing of benefits and
burdens (for example, Macneil 1980).
The quantity of benefits and burdens
shared between the franchisor and its
franchisee can result in cooperation
(agreement) or conflict (disagreement)
among the relationship partners. More-
over, the rate to which a franchisor-
franchisee relationship evolves depends

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on the value of the relationship to each partner.

Conflicts between franchisors and their franchisees are well documented in the U.S. domestic marketplace, in the popular press (Bongiorno 1993; Single-tary 1993; Touby 1993; Pollack 1996; Shivell and Banning 1996), as well as in the academic literature (Stern and Gorman 1969; Porter and Renforth 1978; Smith 1993; Kaufmann and Lafontaine 1994; Kaufmann and Dant 1996; Michael 1999; Frazer 2001). Conflict issues include territorial encroachment, geographic scope of advertising campaigns, vertical price restraints, and the composition of the product mix, to name a few.

Porter and Renforth (1978) found that “sharing advertising costs” is one of the most important and most frequent causes of tension and litigation in franchise relationships. Franchisees complain that their advertisements do not yield results commensurate with the fees paid (Shivell and Banning 1996; Tomzack 1994; Webster 1986). Along the same lines, franchisees often voice concerns about the amount paid as an entry fee into a franchise system, particularly when more than one franchise outlet is acquired. In fact, new franchisees who are contemplating the opening of multiple units regularly expect a discount on the entry fee of each new unit. Also, anecdotal evidence suggests that franchisees often are unhappy about the contractual stipulation that monthly royalties are figured as a percentage of sales and not of profits (For a recent comparison of royalty structures, see Jeon and Park 2002). For example, a nationally advertised promotion on a signature hamburger may drive sales and hence royalties for the franchisor yet may leave participating franchisees struggling in the face of marginal profits (Sanderson 1995).

Many franchisor-franchisee relationships can be characterized as agency relationships in that they are characterized by explicitly defined obligations and a “give-and-take” reciprocity (Price and Arnould 1999). Such relationships tend to be maintained as long as each partner’s benefits exceed its costs (Rawlins 1992). The difference between one’s benefits and costs is referred to as value (Zeithaml 1988, 14; Keegan, Moriarty, and Duncan 1992, 11). The definition of value long has presented difficulties for marketing scholars (Zeithaml 1988). Such definitional quandaries have ranged from value being equated to price (Bishop 1984; Hoffman 1984; Schecter 1984) to value being defined as a tradeoff between price and quality (Dodds and Monroe 1985; Shapiro and Associates 1985). Zeithaml (1988) synthesizes the literature on value in a consumer context by noting that “value can be captured in one overall definition: Perceived value is the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given” (14).

Correspondingly, in this study, the worth of a franchisor to a franchisee, which is referred to here as franchisor value, can be described as the difference between the overall benefit from being a franchisee and the total cost of acquiring the franchise, including entry fee, royalties, and advertising fees. While many franchisors levy other fees in addition to the advertising fee, such as training or legal fees, advertising fees are the typical and most frequently used fees across franchise systems (Michael 1999) and thus represent such miscellaneous fees in this study.

Many franchise agreements often entail 10 or 20 years of commitment at the signing of the contract, with various franchise fees being paid monthly. Moreover, the level of benefit franchisees realize from their fees to the franchisor may change over time. Correspondingly, it is likely that the perceived value of a
franchisor to its franchisees also changes over time.

Recognizing that franchisee perceptions of the value they receive from their franchisors may affect the evolution of the franchisee–franchisor relationship, it is important to understand how franchisees’ experiences with their franchisors in general shape their value perceptions over time. Unfortunately, scant empirical research exists on this topic. While anecdotal evidence may hint that franchisee perceptions of franchisor value change over time, the lack of systematic investigation makes it difficult to comprehend fully how franchisee experience with a franchisor influences franchisee perceptions of franchisor value. Such knowledge is valuable to franchisors seeking to effectively manage their long-term franchisor–franchisee relationships.

This study represents a first step toward understanding the extent to which franchisee experience with a franchisor affects the strength and direction of franchisee perceptions of overall franchisor value. Specifically, the study examines whether the strength of franchisee perceptions of the overall value of their franchisors changed over time for two different types of franchisees, single-unit operators and sequential multi-unit franchisees. To accomplish this research objective, two research issues were addressed. The first issue dealt with whether single-unit and sequential multiple-unit franchisees exhibited the same strength in the belief that they were receiving value from their various franchise fees; the second issue related to the extent to which the strength in the belief of receiving value from the franchisor remained stable over time.

The answers to these questions may provide insight into whether franchisors should be concerned about how strongly they are perceived as providing value to these two types of franchisees. While a strengthening of franchisee opinions about the received value from franchisors can help to solidify a positive relationship between franchisee and franchisor, a weakening of franchisee opinion about the value received from the franchisor may provide a signal that the franchisor–franchisee relationship is deteriorating. If deterioration in the franchisor–franchisee relationship is not detected in its early stages, the compromise of the franchisor–franchisee relationship may continue to evolve to the point where the relationship becomes dysfunctional, resulting in increased tensions between franchisors and franchisees and ultimately in the termination of the relationship itself. Thus, there is a need to examine factors thought to precede the actual changes in behaviors between franchisors and franchisees.

Consistent with attitude theory (Fishbein and Ajzen 1975; Ajzen and Fishbein 1980), a change in opinion, such as the strength of franchisee perceptions of franchisor value, tends to precede a change in behavior. Bagozzi and Burnkrant (1979) examined cognitive attitudes' effects on behavioral intentions as opposed to the abundance of research on affective attitudinal components of behavior (Dorsch, Grove, and Darden 2000). Hence, the examination of value as a cognitive measure of attitude that may lead to alternative behaviors is a key task of this study. However, an answer to the question, “Does a belief about value received from the franchisor lead to a specific behavior?” is beyond the scope of this study. It seems apparent that attitudes about present versus past versus future value received from the franchisor may delay or may accelerate decisions by the franchisee. This study does not attempt to predict particular outcomes but rather provides support to the notion that the strength
and directional development of attitudes over time suggests alternative scenarios for franchisor responses.

**Research Design**

**Sample**

*Population of Interest.* The population of interest in this study consists of the two most common types of franchisees that exist. Franchisees represent a specific type of marketing professionals whose primary motivation is seen in their entrepreneurial engagement compared to hired managers (Dahlstrom and Nygaard 1994). Single-unit franchising, in which each franchisee owns only a single retail outlet, long has been considered the prevailing traditional form of franchising (Caves and Murphy 1976). A widespread trend over the past two decades has been the ever-growing number of franchisees who own and operate more than one retail outlet (Grünhagen and Mittelstaedt 2001). Indeed, “the typical location-based franchise system (of which the fast food franchise is the prime and model example) is populated with multi-unit franchisees” (Kaufmann and Dant 1996, 346–47).

Of the existing types of multi-unit franchising that have been identified by Kaufmann and Dant (1996) and Kaufmann and Kim (1995), sequential multi-unit franchising has been identified as the most common domestic form (Kaufmann 1992). In sequential multi-unit franchising, the franchisor grants the franchisee the right to open additional units, with each subsequent outlet being legally governed by a separate franchise agreement. This franchise form is based on the desire by traditional single-unit franchisees to open additional units in order to grow their businesses. This form particularly encourages the creation of “mini-chains” that may extend across entire states, often encompassing hundreds of outlets (Kaufmann 1988; Bradach 1995; Bodipo-Memba and Lee 1997). Consequently, of particular interest are those single-unit and sequential multi-unit franchisees considering expansion. In addition, whereas traditional franchising research has focused on a single franchise system (Elango and Fried 1997), this study examines several franchise systems within a single industry—the fast-food industry—in order to enhance the generalizability of the research findings.

The fast-food industry was chosen for several reasons. First, it represents a large percentage of all franchise businesses. Further, the restaurant franchise industry in general, and fast-food franchising in particular, has been the predominant target of most academic franchise studies (Kalnins and Lafontaine 1996; Kaufmann 1988, 1992; Kaufmann and Lafontaine 1994; Robicheaux, Dant, and Kaufmann 1994). As mentioned earlier, Kaufmann and Dant (1996) even call the fast-food industry “the prime and model example” of location-based franchising (346–47). The fast-food industry seemed to lend itself particularly well to this study, as emerging results could be related and compared to findings in the aforementioned studies within the same environment. Finally, the fast-food industry has been earmarked by Dant and Schul (1992) for its considerable diversity-ownership patterns and various behavioral and governance dimensions.

In this context, it is important to note that the focus on one specific industry limits the generalizability of findings to other industries. However, as Elango and Fried (1997) point out, the focus on the fast-food industry represents a significant improvement over past studies that merely examined one particular franchise system, such as Pizza Hut or McDonald’s. On the other hand, a study that crosses industries often may become burdened by the fact that industry specific factors may not be detected because they cancel each other out.
**Sampling Procedure.** The sampling approach consisted of a two-step process. In the first step, it was necessary to identify the different fast-food franchise systems. To accomplish this task, a mailing list of fast-food franchisees was obtained from franchise disclosure documents, which are filed with the Franchise Division at the Office of the Attorney General of the State of Illinois. The State of Illinois not only has one of the highest concentrations of franchise systems in the nation, but, in addition, it also is one of 13 states with a Franchise Disclosure Act. The law requires all franchisors who wish to offer franchise contracts to prospects in the State of Illinois to disclose specifics of their contracts. These Uniform Franchise Offering Circulars (UFOCs) are open to the public and include the addresses of current franchisees as part of the disclosure requirements. A sample of 14 fast-food franchise systems that offered various types of franchisees was selected from the filed documents, with the goal being to receive a balanced representation of systems with regard to menu lines. A total of 2,495 addresses were identified as belonging to one of the described 14 fast-food systems, whose menus ranged from tacos to chicken to hamburgers.

While the selected systems offered both types of the targeted franchise agreements, most of the franchisee lists retrieved from the Attorney General’s Office did not identify specifically the type of franchise agreement under which a listed franchise owner operates. Hence, it was necessary to qualify the franchise owners according to their most recent status in a specific franchise relationship. Accordingly, all 2,495 franchisees received a qualifying questionnaire. The qualification served the purpose of receiving updated information about the current status of the targeted franchisees. Specifically, the qualifying questionnaire consisted of a one-page instrument, a cover letter, and a business reply envelope. About three weeks after the first mailing, a reminder mailing was sent out in accordance with Dillman’s (1978) recommendation. The first step yielded 279 usable surveys. This represents a response rate of 11.2 percent to the initial qualifying survey. The response rate for completion of step one of the sampling method is typical of studies examining populations in the business community (Jobber and Sanderson 1983; Dommeyer 1989; Duhan and Wilson 1990; London and Dommeyer 1990).

In step two, franchisees who completed the qualifying questionnaire were classified into one of two franchisee types, single-unit or sequential multi-unit. Each franchisee received a questionnaire tailored to its franchisee type. Three versions of the survey instrument were mailed to the 279 respondents of the qualifying survey who had indicated their willingness to participate in this study. The three questionnaires were identical in all respects except one. In two of the questionnaires respondents were asked to respond to one set of value questions from a retrospective perspective, that is from the perspective of when they started the franchise (past value) and the other set of value questions from today’s perspective (current value). In the third questionnaire, respondents were asked to answer one set of value questions from today’s perspective (current value) and the other set of value questions from a prospective perspective (anticipated future value), that is from the perspective of the value they expect to receive from their franchisor as they prepare to add to their franchise operations in the future. Specifically, one of the retrospective versions was mailed to single-unit operators; the other retrospective version was mailed to sequential multi-unit owners; and the prospective version was mailed to those single-unit and
multi-unit franchisee groups that intended to expand in the near future. Further, it was intended to receive roughly equal numbers from each group to obtain adequate statistical power to compare the samples.

Consistent with Dillman’s (1978) recommendations, each mailing included the respective survey, a cover letter, a postage-paid business reply envelope, and a dollar bill as a symbolic gesture of appreciation. After a wave of reminder faxes and telephone calls, 206 usable responses or a 73.8 percent overall response rate to the actual survey were yielded. Table 1 shows the breakdown into the different franchisee categories. In each of the categories, the response rate surpassed 70 percent.

**Profiling the Sampled Franchisee Types.** The single-unit franchisees who responded to the retrospective survey had a median personal age of 48 years, were mostly male, had an average of slightly more than 15 years of education and 10 years of experience in franchising, averaged per-unit sales of $500,000, and had an average age of slightly more than nine years for their franchise operations. Sequential multi-unit franchisees who responded to the retrospective survey had a median personal age of 50 years, were mostly male, had an average of slightly more than 15 years of education and 16 years of experience in franchising, averaged per-unit sales of $740,000, and had an average age of slightly more than 14 years for their franchise operations. The average size of their franchise operations was slightly more than 12 units. Single-unit franchisees who responded to the prospective survey had a median personal age of 42 years, were mostly male, had an average of slightly more than 15 years of education and nine years of experience in franchising, averaged per-unit sales of $620,000, and had an average age of slightly more than seven years for their franchise operations. Finally, sequential multi-unit franchisees who responded to the prospective survey had a median personal age of 49 years, were mostly male, had an average of slightly more than 15 years of education and 17 years of experience in franchising, averaged per-unit sales of $830,000, and had an average age of slightly more than 11 years for their franchise operations. The average size of their franchise operations was slightly less than 11 units.

**Measurement**

In this study, respondents were asked to respond to a value scale from three

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### Table 1

**Overall Survey Return**

<table>
<thead>
<tr>
<th>Franchisee Type (Questionnaire Content)</th>
<th># Mailed</th>
<th># Returned</th>
<th>Response %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-Unit Franchisees (Retrospective)</td>
<td>71</td>
<td>53</td>
<td>74.6</td>
</tr>
<tr>
<td>Sequential Multi-Unit Franchisees (Retrospective)</td>
<td>91</td>
<td>68</td>
<td>74.7</td>
</tr>
<tr>
<td>Single-Expansion (Prospective)</td>
<td>43</td>
<td>32</td>
<td>74.4</td>
</tr>
<tr>
<td>Sequential Expansion (Prospective)</td>
<td>74</td>
<td>53</td>
<td>71.6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>279</td>
<td>206</td>
<td>73.8</td>
</tr>
</tbody>
</table>
possible perspectives, that is, past, present, and future. Realizing that the underlying structure of the value scale may be dependent on the perspective employed, it was decided to examine the internal consistency of the value scale from the three different perspectives. In essence, the value scale was treated as three separate scales. One scale, the expected franchisor value scale, examined the value that the respondent expected from the franchisor at the time that the franchise was started. A second scale, the current franchisor value scale, examined the value that the respondent currently is experiencing from the franchisor. The third scale, the anticipated future franchisor value scale, examined the anticipated value that the respondent expects to receive as he or she is preparing to expand the franchise business.

All three franchisor value scales were constructed as three-item Likert-type scales developed specifically for this survey. The scale development process consisted of three steps. First, franchising literature was reviewed for an initial set of items. Second, a panel of researchers and franchisees reviewed the scale items for their appropriateness. Third, the scales were pretested with a sample of franchisees. The three-step scale development process was used to determine whether scale items should be added, deleted, or modified.

Each of the final scales included three broad unidimensional items, relating to value received for the entry fee, advertising fees, and royalty fees. Unidimensional self-report measures such as these are not untypical to capture broad concepts like value (for example, McConnell 1968; Jacoby, Olson, and Haddock 1973; Shapiro 1973). For all three multiple-item scales, respondents were asked to rate each item on a seven-point scale ranging from 1, “Strongly Disagree” to 7, “Strongly Agree.” Coefficient alpha (Cronbach 1951) was used to estimate the internal consistency of each scale. The coefficient alphas for the scales ranged from 0.82 to 0.87 and were considered appropriate for further analysis (Nunnally 1978). The three value scales and their corresponding coefficient alphas are found in Table 2.

**Method of Analysis**

The relationship among past, current, and anticipated (future) perceptions of franchisor value was examined in four stages (see Table 3). In the first stage of analysis, the comparability of current franchisor value across the four sampled groups of franchisees was examined using a between-subjects analysis of variance (ANOVA) approach. In the second stage, the stability of franchisee perceptions of franchisor value was examined by comparing past and current franchisor value. In stage three, the comparability of current and anticipated franchisor value was examined. During the second and third stages of the analysis, the single-unit and multi-unit franchisees were combined and were examined using a repeated-measures ANOVA approach. The fourth and final stage of the analysis examined the comparability of past and anticipated future perceptions of franchisor value. In the fourth stage, the following four franchisee groups were examined using between-subjects ANOVA: Single-unit franchisees who were asked about the franchisor value they expected when they contemplated expanding their business in the past; single-unit franchisees who were asked for their opinions about the franchisor value they expect as they contemplate expanding their business in the future; multi-unit franchisees who were asked about the franchisor value they expected when they contemplated expanding their business in the past; and, multi-unit franchisees who were asked for their opinions about the franchisor value they expect as they contemplate expanding their business in the future.
Results

Stage 1: Comparability of Current Perceptions of Franchisor Value across Study Groups

Comparability of the four groups of respondents was examined using a between-subjects ANOVA to compare their perceptions of current value. It was reasoned that while demographic profiles of single-unit and multi-unit franchisees are likely to differ, the franchise owners are likely to possess similar experiences in their dealings with the franchisor and therefore would have similar perceptions of current value. In addition, of the three value scales, the current value scale was the only one asked of all respondents. As expected, perceptions of current value did not differ across the four groups of franchisees \( \text{F}(3,201) = 0.16, p = 0.922 \). Consequently, all four groups reported similar opinions about current franchisor value, and subsequent analyses were conducted by pooling single-unit and multi-unit franchisee groups.

Even though similar perceptions of current franchisor value across the four franchisee groups were expected, the typical response across the four franchisee groups was surprising. Regardless of group, respondents reported that they were somewhat neutral when asked about the current value they perceive to be receiving from their franchisor.
### Table 3
Analysis of Variance (F-Values)

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Stage 1: Current Franchisor Value</th>
<th>Stage 2: Franchisor Value (Past versus Current)</th>
<th>Stage 3: Franchisor Value (Current versus Anticipated Future)</th>
<th>Stage 4: Franchisor Value (Past versus Anticipated Future)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F-Value  Effect size</td>
<td>F-Value  Effect size</td>
<td>F-Value  Effect size</td>
<td>F-Value  Effect size</td>
</tr>
<tr>
<td>Perspective&lt;sup&gt;a&lt;/sup&gt;</td>
<td>35.93*** 0.232</td>
<td>0.78 0.01</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Franchisee Type&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.16 0.00</td>
<td>5.03** 0.041</td>
<td>0.20 0.00</td>
<td>8.93*** 0.119</td>
</tr>
<tr>
<td>Perspective × Franchisee Type</td>
<td>4.31** 0.035</td>
<td>0.78 0.01</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

<sup>a</sup>A within-subjects variable.

<sup>b</sup>A between-subjects variable.

***p < 0.000

**p < 0.05
Stage 2: Past versus Current Perceptions of Franchisor Value

In stage two, repeated measures ANOVA was used to examine whether differences in the strength of respondent perceptions existed between the two groups of franchisees asked about their past and current perceptions of the value they expected or currently are receiving from their franchisors. The study findings reveal that the perspective respondents were asked to take when rating the value scale (past versus current) had a significant and strong effect on their perceptions of franchisor value \([F(1, 119) = 35.926, p = 0.000, \omega^2 = 0.23]\). In addition, significant and moderate effects on franchisor value were found for franchisee type (single-unit or multi-unit) \([F(1, 119) = 5.03, p = 0.027, \omega^2 = 0.041]\) and perspective x franchisee type interaction \([F(1, 119) = 4.31, p = 0.04, \omega^2 = 0.035]\). These results, which are graphically depicted in Figure 1, reveal that both single-unit franchisees (\(M_{\text{single unit}} = 5.76\)) and multi-unit franchisees (\(M_{\text{multi-unit}} = 4.96\)) reported significantly stronger, positive perceptions of expected franchisor value when asked about the time they started their franchise relative to the more undecided perceptions of current value they perceived to be receiving from their franchisors (\(M_{\text{single unit}} = 4.33\) and \(M_{\text{multi-unit}} = 4.26\), respectively). In addition, relative to multi-unit franchisees, single-unit franchisees reported significantly stronger positive perceptions of value expected from their franchisor when they started their franchise. Both franchisee types reported similar levels of indecisiveness in their perceptions of value currently received from their franchisors.

Stage 3: Current versus Anticipated Future Perceptions of Franchisor Value

In stage three, repeated measures ANOVA again was used to examine whether differences in the strength of respondent perceptions existed between those franchisees asked about their perceptions of the current value being
received from franchisors and the antici-
pated future value they expect to receive from their franchisors as they (the fran-
chisees) plan to add to their operations. Nonsignificant findings were obtained for the perspective respondents were asked to take when rating the value scale (current versus anticipated future) \( [F(1,80) = 0.78, p = 0.380] \), franchisee type (single-unit or multi-unit) \( [F(1,80) = 0.195, p = 0.66] \), and perspective x franchisee type interaction \( [F(1,80) = 0.78, p = 0.38] \). These results, which are graphi-
cally depicted in Figure 2, reveal that both single-unit franchisees (\( M_{\text{single unit}} = 4.47 \)) and multi-unit franchisees (\( M_{\text{Multi-unit}} = 4.19 \)) were undecided (neutral) in their perceptions of current franchisor value and that the indecisiveness in franchisor value continued to pervade franchisees’ perceptions of anticipated future franchisor value as they (the franchisees) contemplated adding to their franchise operations (\( M_{\text{single unit}} = 4.47 \) and \( M_{\text{Multi-unit}} = 4.46 \), respectively).

Stage 4: Past versus Anticipated Future Perceptions of Franchisor Value by Franchisee Type

In stage four, a between-subjects ANOVA was used to examine whether strength of franchisor value perceptions differed by franchisee type as they contemplated expansion of their franchise operations. In other words, did single-unit (or multi-unit) franchisees who contemplated adding to their franchise business in the past exhibit similar opinions of franchisor value as single-unit (or multi-unit) franchisees who are currently contemplating the expansion of their franchise operations? To examine this issue, the following four groups of franchisor value opinions were compared: (1) single-unit franchisees who were asked about the franchisor value they expected when they contemplated expanding their business in the past; (2) single-unit franchisees who were asked for their opinions about the franchisor value they expect as they contemplate expanding their business in the future; (3) multi-unit franchisees who were asked about the franchisor value they expected when they contemplated expanding their business in the future; and (4) multi-unit franchisees who were asked for their opinions about the franchisor value they expect as they contemplate expanding their business in the future.

The findings reveal that franchisee type (single-unit or multi-unit) exhibited a significant and strong effect on
Franchisor value perceptions \( F(3, 199) = 8.93, p = 0.000, \omega^2 = 0.119 \). These results, which are graphically depicted in Figure 3, reveal that single-unit franchisees \( \mu_{\text{single, unit}} = 5.76 \) and multi-unit franchisees \( \mu_{\text{Multi-unit}} = 4.96 \) reported stronger, positive opinions of expected franchisor value when asked to reflect on the time they started their operations than those franchisees who currently are planning to expand their operations \( \mu_{\text{single, unit}} = 4.47 \) and \( \mu_{\text{Multi-unit}} = 4.46 \), respectively. Furthermore, even though single-unit franchisees reported the strongest, positive opinions of past expected franchisor value (the value expected from the franchisor at the time they started their franchise), both single-unit and multi-unit franchisees who currently are planning to expand their operations reported similar perceptions of value expected from their franchisors in the future. Specifically, franchisees planning to expand their franchise operations, regardless of franchisee type, were undecided (neutral) when asked to report the anticipated future value of their franchisors. The pattern of results in the stage-four analysis is similar to those of the other stages. That is, franchisees, regardless of type, reported stronger, positive opinions of franchisor value in the past than they do currently or expect to receive in the future.

**Discussion and Implications of the Findings**

To summarize the findings of this study, the following results emerged from a four-stage analysis of a paper-and-pencil survey conducted in the fast-food industry with 206 responding franchise owners of two kinds—single and sequential multi-unit operators.

First, both single- and multi-unit franchisees reported significantly stronger, positive perceptions of expected franchisor value in the past compared to the more undecided perceptions of current value they perceived to be receiving from their franchisors. Second, it was revealed that all sampled franchisees, no matter which type, similarly were undecided when asked about the current value they place on their franchisors. Third, for both single-unit and multi-unit franchisees, the indecisiveness about franchisor value continued to pervade franchisees’ perceptions of anticipated future franchisor value as they (the franchisees) contemplate adding to their franchise operations. In addition, relative to multi-unit franchisees, single-unit franchisees reported significantly stronger positive, perceptions of value expected from their franchisor when they started their franchise.

![Figure 3](image-url)  
**Comparison of Past and Anticipated Future Value**

<table>
<thead>
<tr>
<th>Perceived Strength of Value</th>
<th>Past</th>
<th>Future</th>
</tr>
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<tbody>
<tr>
<td>7</td>
<td></td>
<td></td>
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<tr>
<td>5</td>
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<td>3</td>
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</table>

- Single-Unit
- Multi-Unit
Hence, in an overall assessment this study revealed that franchisees, whether single-unit or multi-unit, changed their perceptions of value received from the franchisor over time. In addition, the study also indicates, that overall, these value perceptions appear to diminish and that single-unit franchisees’ discrepancy between past expectations and either today’s or even future value assessments is more pronounced. In other words, franchisees in general appear to get discouraged over time in their perceptions of value received from the franchisor, with single operators’ initial expectations incurring a more pronounced “reality check” than sequential multi-unit owners’. The shift in perceived franchisor value from strong positive to undecided indicates that single- and multi-unit franchisees’ expectations of franchisor value were not met. This change in perceived franchisor value over time may have resulted from unrealistically high franchisee expectations of the franchisor; from franchisees’ inability to estimate the benefits received from a franchisor; or from the franchisees’ expectations of their franchisors being realistic but unmet by the franchisors.

The knowledge that, in fact, franchisee perceptions of franchisor value change over time has implications for the evolution of the franchisor–franchisee relationship and ought to be incentive for both franchisors and franchisees to pay more attention to the issue. Franchise owners, and aspiring single operators in particular, ought to be aware of the greater level of naivety their lack of previous experience may introduce to the franchise relationship compared to those owners with past experience in the business. Also, franchisees ought to be aware of the fact that the initial perception of their franchisor very well may change over the course of the relationship, for better or for worse, and that safeguards may be a wise consideration, particularly in light of franchise agreements that often entail 10 or 20 years of commitment at signing. Particularly those franchise owners considering expansion may want to consider careful reviews of their value perceptions as the expansion decision draws close. They also may consider renegotiations of contract terms with the franchisor in order to enhance the benefits received compared to the payments made. Finally, they may have to consider postponing the expansion or even withdrawing from the system as the franchise contract allows.

Recognizing that changes in attitudes (for example, value perceptions) tend to occur before changes in behavior (Ajzen and Fishbein 1980), franchisors should be able to manage their franchisor–franchisee relationships more effectively by monitoring how their franchisees perceive them. The knowledge that value perceptions of franchisees change over time provides a possibility for franchisors to influence, even “coach,” franchisees as to their evaluations of the services provided. In fact, it would afford franchisors an opportunity to market and to position themselves to their franchisee partners to achieve a positive perception. In particular, single operators seem to incur more “disappointment,” and this study points at higher initial “hopes” by single operators than by sequential owners. Hence, single-unit franchisees may become a prime target for franchisor efforts. Franchisors also ought to become aware of the consequences inherent in changing value perceptions by their franchisees. Franchise owners considering expansion may decide to postpone the decision or even to leave the system if their perceptions deteriorate below a certain threshold. Disillusioned franchisees well may become discouraged to pay particular attention to maintaining the standards of the system and hence hurt the trademark and other franchisees in the long run. Further, franchisors
may have to reposition their recruitment efforts, as overly positive anticipations by new franchisees very well may develop into even deeper disappointments. The literature on satisfaction (Oliver 1993; Spreng, MacKenzie and Olshavsky 1996; Oliver 1997; Szymanski and Henard 2001) has concluded that we do not make absolute evaluations about performance but rather compare performance to expectations. On the other hand, the literature on self-fulfilling prophecies points out that high expectations can lead to higher performance evaluations (for example, Ross 1991). Obviously, franchisors do not want to “overhype” the benefits they offer, but neither should they undersell them. Hence, realistic expectations may become a key recruitment tool.

Limitations and Recommendations for Future Research

Inherent to the design of this study are several limitations. Kaufmann and Stanworth (1995) have noted that retrospective accounts are a typical method in franchising research. However, most of the research on memory has focused on constructive acquisition processes, while reconstructive retrieval has been examined only recently in a consumer context (Braun 1999). Moreover, the validity of retrospective accounts from memory has been questioned (Daft, Griffin, and Yates 1987; Golden 1992; Brewer 1994; Golden 1997). Memory has been defined as the “active constructive process where information is acquired, stored, and then retrieved for use in decision-making” (Braun 1999, 319). Furthermore, Hoch and Deighton (1989) maintain that consumers often retroactively modify hypotheses made in the past by adjusting them for experiences encountered in the meantime. Such updating may lead to a distorting of past events. Schacter (1996, 13527) illustrates this concern by noting that “memories do not preserve an actual representation of the world; memories […] depend on influences operating in the present as well as the past.” This condition may result in a hindsight bias when perceptions of the past are reconstructed under the influence of intervening experiences. While the possibility of hindsight bias cannot be ignored, the study findings indicate clear differences in the sampled franchisees’ current value perceptions compared to the ones retrospectively remembered from the past. If hindsight biases were present beyond a reasonable expectation of some memory-related effects, the effect size corresponding to the repeated measured variable (that is, the “perspective” variable) in stage two of the analysis would be considerably smaller than what was observed. Replication studies are warranted, and more sophisticated efforts to control for the possibility of hindsight bias need to be developed. For example, a longitudinal research design that tracks the satisfaction levels of franchisees over time could control for respondent memory loss. Also, panel studies may provide an alternative route to reduce memory-related effects.

Another limitation is that the study was conducted within a single industry, that is, the fast-food industry. While confining the empirical portion of the study to the fast-food industry represents a significant improvement over past studies that merely examined one particular franchise system, such as Pizza Hut or McDonald’s, such a focus also limits the generalizability of the findings, as industry-specific factors cannot be excluded. Hence, ideally a replication of this study’s research design in different franchise industries is recommended to validate the findings.

Future research should attempt to gain a better understanding of the “why” of changes in value perceptions of franchisees. A survey design like the one used in this study allows for the assess-
ment of probabilities based on quantitative data. However, a questionnaire typically does not offer the richness of information to investigate true causalities and respondents' reasons for their assessment. Hence, an investigation into the rationale for franchisees' decisions well may involve the use of ethnographic data of a qualitative nature, for example, in-depth interviews.

Another fruitful avenue for future research includes an investigation into franchisors' internal marketing efforts to their franchisee stakeholders in order to prevent a deterioration of the franchisor–franchisee relationship. As is evident from this study, franchisors' understanding that a franchisee's value assessment may decrease over time ought to provide an incentive to coach franchisees about the value provided by the franchisor. Also, an examination of franchisees' reactions to a perceived deterioration in value received from the franchisor may provide fertile ground for new research in this area.

Finally, an analysis into the effect of anticipated franchisor value on franchisee decisions to expand their franchise operations clearly promises the potential of valuable insights for franchise practitioners in particular. Only scant research has been conducted on the aspirations and expectations of new franchise owners, and this study points to this realm for future research.

References


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