

# Comparison Of Finnish, American, And New Zealand Franchisee Satisfaction

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## ABSTRACT

*Franchising is growing as a business model in many countries. We test a model of franchisee satisfaction across three countries to examine the model's predictive and measure reliability. The multi-dimensional franchisee satisfaction model is a significant and reliable predictor of general franchisee satisfaction in different cultures. Franchise systems looking for an efficient method of measuring and predicting franchisee satisfaction can rely on the model to aid their efforts of managing the franchisor-franchisee relationship. In the future the model should be tested in other industries, cultures, and with larger samples.*

## INTRODUCTION

**F**ranchising is fundamentally based on relationships. Franchisees are licensed by contract with the franchisor but they are still independent businesses. Indeed, it is the independence of the franchisee that is at the heart of the growth and success of franchising. The franchise agreement codifies the legal relationship, but can't possibly anticipate all the interactions that are critical to success for both the franchisor and franchisee. Franchisee satisfaction with their franchisor will influence whether they respond to franchisor initiatives with enthusiasm and energy or with cynicism and criticism. If satisfaction impacts franchisee performance, a franchisor needs to know how to improve franchisee satisfaction. As franchising expands globally, culture or country differences may arise that complicate the management of franchisee relations. Our purpose here is to present a multidimensional model of franchisee satisfaction and examine its reliability and predictive value across countries.

## LITERATURE REVIEW

Franchising is a unique form of channel organization, having elements of hierarchical and market organization. Channel member satisfaction has been measured as a terminal value or consequence of other constructs such as power and dependence (Frazier and Summers 1984, 1986; Lusch 1976; and Skinner, Gassenheimer and Kelly 1992), conflict and cooperation (Gaski 1984). It has been measured using multi-item measures (Gassenheimer, Sterling and Robicheaux 1996; Gassenheimer, Davis and Dahlstrom 1998; Reukert and Churchill 1984; and Schul, Little and Pride 1985) and single item, overall measures of channel member satisfaction Ping (1994).

Two fundamental drivers of channel member satisfaction are satisfaction with economic and with noneconomic features of the relationship (Geyskins, Steenkamp and Kumar 1999). Economic features of the relationship include satisfaction with profits, new product opportunities, growth potential (Gassenheimer, Sterling and Robicheaux 1996; Gassenheimer, Davis and Dahlstrom 1998) and with products and financial considerations (Ruekert and Churchill 1984). Non economic features include franchise administration, service support, policies and reward systems (Schul, Little and Pride 1985), social interaction and cooperation (Ruekert and Churchill 1984), treatment by headquarters and local sales representatives, fairness and honesty, and concern for channel member's goal accomplishment (Gassenheimer, Sterling and Robicheaux 1996; Gassenheimer, Davis and Dahlstrom 1998).

In some respects, the hierarchical nature of the franchise channel makes franchisee satisfaction analogous to salesperson job satisfaction so that job-satisfaction dimensions apply (Morrison 1996). Using a job satisfaction model, Morrison (1996) examines franchisee satisfaction in terms of non-economic dimensions. Job satisfaction is a consequence of role perceptions (Brown and Peterson 1993). In their meta-analysis of salesperson job satisfaction, Brown and Peterson (1993) noted that job satisfaction is not related to performance either as a consequence or a determinant and suggest that sales performance is a terminal value for sales people. The economic performance or success of an individual franchise may, however, be more of a determinant of franchisee satisfaction.

In one sense, the franchisee is a customer of the franchisor. A franchisee makes a long-term investment or purchase decision when they elect to begin a relationship with a franchisor. The agreement might be characterized more as an agreement for service rather than product. One perspective in the service satisfaction literature suggests that customer characteristics and expectations are important in determining perceived service quality and satisfaction (Parasuraman, Zeithaml and Berry, 1994; Hing 1995).

Looking more specifically at franchisee satisfaction research, Elango and Fried (1997) considered economic and non-economic dimensions while others examined franchisee and franchisor characteristics, and expectations (Hing 1995; Morrison 1996). Economic dimensions of franchisee satisfaction include reward systems, perceptions of the franchisor's contribution to the franchisee's financial success, expectations for future success and growth, and satisfaction with cooperative advertising and promotion programs (Elango and Fried 1997). Non-economic factors include autonomy, fairness, operations support, training, control systems, and communications (Elango and Fried 1997). Characteristics of the franchisee such as extraversion and subjective well being also contribute to franchisees' job satisfaction (Morrison 1996). Franchisee characteristics and expectations contribute to franchisee satisfaction (Hing 1995) suggesting that franchisors should more carefully and completely screen potential franchisees to ensure higher levels of franchisee satisfaction.

A number of limitations exist with respect to past literature. First, only a single study has examined franchisee satisfaction across different cultures. Second, some past studies borrow scales without adapting the scale to a franchising context.

A goal of the franchisee satisfaction measure is to be specific enough to distinguish franchisee satisfaction from other types of satisfaction, yet capture the franchisee satisfaction domain of most franchise systems. In the context of this paper, franchisee satisfaction measures should be generalizable across different cultures.

## **FRANCHISEE SATISFACTION MEASURE**

An eight-dimension measure of franchisee satisfaction exists (Wadsworth and Haines 2000; Haines and Wadsworth 2001) but has been tested only once in a cross-cultural setting (Wadsworth, Tuunanen, and Haines 2004). Wadsworth and Haines used Churchill's (1979) measure development procedure in designing their measure. The eight factors are: Relationship, Financial, Training, Support Services, Brand Image, Entrepreneurial Control, Territory, Communications, and Franchise Contract.

## **DATA COLLECTION**

Data was collected using a postal survey of Finnish, American, and New Zealand franchisees. The procedures have been discussed elsewhere (Wadsworth and Haines 2000; Tunnanen 2002; Paynter and Terry 2002) and need not be repeated in detail here. The sampling procedure in Finland and the United States collected data only from Quick Service Restaurant (QSR) franchisees. The New Zealand study sample was comprised of QSR and non-QSR franchisees. This study used the data from 21 United States and 45 Finnish QSR franchisees and 54 New Zealand franchisees.

## RESULTS

Results are discussed in the following order. First, we examine results of statistical tests designed to examine for differences among countries on nine franchisee satisfaction dimensions and the general franchisee satisfaction dimension. Following the single dimension analysis, we examine dimension reliability consistency across studies and the three countries. Last, we examine the regression analysis results and implications from our study.

Examining each dimension of franchisee satisfaction separately to determine if a statistical difference exists between the Finland, New Zealand, and the United States franchisees showed that six of the dimensions had no statistical differences (Table 1). Franchisee satisfaction with Relational, Support Services, Brand Image, Communication, Training, Franchise Contract, and the General Franchisee Satisfaction measures do not differ among New Zealand, Finland and the United States. However, statistical differences do exist among New Zealand, Finland and the United States on Financial, Entrepreneurial Control, and Territory (Table 1).

**Table 1: ANOVA Results: Differences Between Average Factor Scores**

|   | <b>F</b> | <b>Sig</b> |
|---|----------|------------|
| Territory   | 98.000   | .000       |
| Entrepreneurial Control                           | 3.559    | .032       |
| Financial   | 3.192    | .045       |
| Franchise Contract                                | 2.811    | .064       |
| Training  | 2.678    | .073       |
| Communication                                     | 1.826    | .166       |
| Brand Image                                       | 1.116    | .331       |
| General Satisfaction                              | .435     | .649       |
| Overall, how would you rate your franchise system | .430     | .651       |
| Support Services                                  | .323     | .725       |
| Relational  | .025     | .975       |

F F-Value, Sig Level of Significance between Mean Scores for Each Country

There were only a few statistical differences among the three countries on the nine franchisee satisfaction dimensions. American and New Zealand franchisees both feel more positive about Financial and Territory dimensions than Finnish franchisees. American franchisees feel more positive about Entrepreneurial Control issues than New Zealand and Finnish franchisees. New Zealand franchisees feel more positive than Finnish franchisees on the Franchise Contract and Training dimensions.

In examining these country specific results for Finland we posit that since there is not specific franchise legislation, that Franchise Contract is not in the minds of Finnish franchisees. Also, since franchising as a business model is relatively young in Finland (franchising increased significantly in early 1990's), that there are not enough outlets in a particular geographic area to cause territorial concerns. For the United States results, it has been our experience that U.S. franchisees feel satisfied about the financial issues but less satisfied with the relational issues of their franchise. American franchisees like to feel in control of their destiny and that may be why American franchisees feel more positive about entrepreneurial control issues than New Zealand and Finnish franchisees.

Table 2 shows the consistency of the measure dimensions across time, studies and countries. Every dimension is remarkably consistent across time, studies and countries. These results give us confidence in the validity of the measure and its generalizability.

Table 2: Reliability Of The Nine Factor Solution Dimensions<sup>1</sup>

|                            | Coefficient Alpha (Number of items) |                   |                |              |              |
|----------------------------|-------------------------------------|-------------------|----------------|--------------|--------------|
|                            | WH<br>(2000)                        | Finland<br>(1999) | U.S.<br>(1999) | HW<br>(2001) | PT<br>(2002) |
| Relationship               | .95 (5)                             | .87               | .84            | .91          | .95          |
| Financial                  | .85 (3)                             | .90               | .91            | .88          | .80          |
| Training                   | .89 (5)                             | .87               | .90            | .90          | .81          |
| Communication              |                                     |                   |                | .91 (6)      | .87          |
| Brand Image                | .86 (5)                             | .88               | .82            | .82          | .91          |
| Entrepreneurial<br>Control | .89 (9)                             | .79               | .86            | .86          | .85          |
| Franchise<br>Agreement     | .86 (8)                             | .78               | .72            | .85          | .81          |
| Support Services           | .79 (2)                             |                   | .90            | .86          | .82          |
| Territory                  |                                     |                   | .73 (4)        | .77          |              |
| General<br>Satisfaction    | .97 (14)                            |                   | .98 (6)        | .98 (6)      | .96 (17)     |

WH2000 Wadsworth and Haines (2000) Finland Tuunanen (2002) HW Haines and Wadsworth (2001)  
PT Paynter and Terry (2002)

Regression results are shown in Tables 3-6. When examining results separately for each country, they do not share dimensions that are significant predictors of general franchisee satisfaction. For Finland, franchisees' satisfaction with Relation, Brand Image, and Entrepreneurial Control are predictive of their general satisfaction. For the United States, franchisees' satisfaction with Franchise Contract dimension was predictive of their general satisfaction. For New Zealand, franchisees satisfaction with Financial, Relation, and Support Services were predictive of their general satisfaction. When the data across the countries were combined to predict general franchisee satisfaction, Financial, Relation, Support Services, Brand Image, Entrepreneurial Control, and Franchise Contract dimensions were significant predictors.

Overall, none of the dimensions has a consistent and significant relationship with franchisee satisfaction across the three countries. Only one dimension, Relation, has a significant relationship with franchisee satisfaction in New Zealand and Finland. Otherwise the dimensions that have a significant relationship with franchisee satisfaction are unique to each culture. The amount of franchisee satisfaction explained in each country's specific analysis is about 90 percent regardless of the small sample sizes and significant factors.

## CONCLUSIONS

This study undertook to compare franchisee satisfaction across three different cultures. Franchisees in the three cultures did differ on their satisfaction with the Financial, Entrepreneurial Control, Franchise Contract, and Training dimensions. Reliability analysis showed that franchisee satisfaction dimensions are generalizable across time, studies and cultures. Regression analysis revealed that the dimensions are able to explain almost 90% of the variation of general franchisee satisfaction with six of the nine dimensions.

Limitations of the chosen research method include the use of a single data collection method rather than two or three methods. Either an observational or other communication method such as in-depth interviews or existential phenomenology might lead to a different conceptual model. A second limitation is the use of the franchisee satisfaction measure in a single industry category for two of the cultures and across many industries in a third culture. A third limitation is the small sample size used in this study. For two of the cultures the sample was confined to QSR franchisees and used small sample sizes. For the other culture, the franchisee study was part of a franchisee and franchisor study and therefore used a smaller sample size than if the study had been franchisee-only oriented.

<sup>1</sup> The use of a coefficient alpha with a three-item scale is questioned by some researchers

Table 3: Finland Regression Output

| Model Summary  |                    |      |                  |                    |        |
|--|--------------------|------|------------------|--------------------|--------|
| Model  | R                  |      | R <sup>2</sup>   | R <sup>2</sup> Adj | SE     |
| 1  | .964               |      | .930             | .910               | .40166 |
| R <sup>2</sup> Coefficient of Multiple Determination R <sup>2</sup> Adj Adjusted Coefficient of Multiple Determination SE Standard Error of the Estimate |                    |      |                  |                    |        |
| Coefficients   |                    |      |                  |                    |        |
|  | Unstd Coefficients |      | Std Coefficients | t                  | Sig    |
|  | B                  | SE   | Beta             |                    |        |
| (Constant)   | -.632              | .463 |                  | -1.365             | .182   |
| Financial  | .131               | .081 | .097             | 1.612              | .117   |
| Relationship   | .334               | .117 | .316             | 2.851              | .008   |
| Support Services   | -.216              | .115 | -.129            | -1.887             | .068   |
| Brand Image  | .331               | .097 | .290             | 3.399              | .002   |
| Entrepreneurial Control  | .202               | .077 | .170             | 2.628              | .013   |
| Territory  | .030               | .078 | .023             | .388               | .701   |
| Communication  | .140               | .122 | .129             | 1.147              | .260   |
| Franchise Contract   | .178               | .123 | .157             | 1.443              | .159   |
| Training   | .102               | .081 | .099             | 1.248              | .221   |
| Unstd Unstandardized Std Standardized t t Statistic Sig Level of Significance  |                    |      |                  |                    |        |

Table 4: United States Regression Output

| Model Summary  |                    |       |                  |                    |        |
|--|--------------------|-------|------------------|--------------------|--------|
| Model  | R                  |       | R <sup>2</sup>   | R <sup>2</sup> Adj | SE     |
| 1  | .984               |       | .967             | .925               | .31207 |
| R <sup>2</sup> Coefficient of Multiple Determination R <sup>2</sup> Adj Adjusted Coefficient of Multiple Determination SE Standard Error of the Estimate |                    |       |                  |                    |        |
| Coefficients   |                    |       |                  |                    |        |
|  | Unstd Coefficients |       | Std Coefficients | t                  | Sig    |
|  | B                  | SE    | Beta             |                    |        |
| (Constant)   | -2.364             | 1.070 |                  | -2.210             | .063   |
| Financial  | .477               | .232  | .363             | 2.059              | .078   |
| Relationship   | -.095              | .156  | -.069            | -.609              | .561   |
| Support Services   | .140               | .324  | .079             | .434               | .677   |
| Brand Image  | .106               | .156  | .112             | .661               | .518   |
| Entrepreneurial Control  | .353               | .165  | .281             | 2.136              | .070   |
| Territory  | .363               | .238  | .116             | 1.526              | .171   |
| Communication  | -.164              | .197  | -.153            | -.832              | .433   |
| Franchise Contract   | .636               | .232  | .393             | 2.744              | .029   |
| Training   | .060               | .119  | .060             | .502               | .631   |
| Unstd Unstandardized Std Standardized t t Statistic Sig Level of Significance  |                    |       |                  |                    |        |

A number of future directions are suggested by this study. First, additional testing of the franchisee satisfaction measure with other franchise industries and systems is recommended. Continues testing is necessary to confirm the reliability and validity of the measure, although reliability results are beginning to show a consistent trend. Second, continued testing of the instrument over time should be used to determine if the satisfaction construct indicants are stable over time and cultures. Finally, the goal of future research would be to place the franchisee satisfaction construct into a nomological network which will allow other researchers to use and confirm its appropriateness. In particular, for cross-cultural work, the use of variables that could potentially explain difference across cultures would be important to increasing our understanding of what makes franchising successful in one culture but perhaps not be as successful in another culture.

Table 5: New Zealand Regression Output

| Model Summary  |                    |                |                    |        |      |
|--|--------------------|----------------|--------------------|--------|------|
| Model  | R                  | R <sup>2</sup> | R <sup>2</sup> Adj | SE     |      |
| 1  | .957               | .916           | .887               | .47415 |      |
| R <sup>2</sup> Coefficient of Multiple Determination R <sup>2</sup> Adj Adjusted Coefficient of Multiple Determination SE Standard Error of the Estimate |                    |                |                    |        |      |
| Coefficients   |                    |                |                    |        |      |
|  | Unstd Coefficients |                | Std Coefficients   | T      | Sig  |
|  | B                  | SE             | Beta               |        |      |
| (Constant)   | .220               | .578           |                    | .380   | .707 |
| Financial  | .467               | .131           | .379               | 3.555  | .001 |
| Relationship   | .326               | .121           | .375               | 2.691  | .012 |
| Support Services   | -.322              | .147           | -.210              | -2.196 | .037 |
| Brand Image  | .140               | .128           | .138               | 1.096  | .283 |
| Entrepreneurial Control  | .014               | .094           | .012               | .150   | .882 |
| Territory  | .049               | .097           | .037               | .505   | .618 |
| Communication  | .191               | .161           | .173               | 1.191  | .244 |
| Franchise Contract   | -.016              | .178           | -.011              | -.089  | .929 |
| Training   | .151               | .107           | .153               | 1.414  | .169 |
| Unstd Unstandardized Std Standardized t t Statistic Sig Level of Significance  |                    |                |                    |        |      |

Table 6: Combined Country Regression Output

| Model Summary  |                    |                |                    |        |      |
|--|--------------------|----------------|--------------------|--------|------|
| Model  | R                  | R <sup>2</sup> | R <sup>2</sup> Adj | SE     |      |
| 1  | .949               | .901           | .891               | .44023 |      |
| R <sup>2</sup> Coefficient of Multiple Determination R <sup>2</sup> Adj Adjusted Coefficient of Multiple Determination SE Standard Error of the Estimate |                    |                |                    |        |      |
| Coefficients   |                    |                |                    |        |      |
|  | Unstd Coefficients |                | Std Coefficients   | t      | Sig  |
|  | B                  | SE             | Beta               |        |      |
| (Constant)   | -.115              | .294           |                    | -.390  | .697 |
| Financial  | .256               | .062           | .203               | 4.101  | .000 |
| Relationship   | .314               | .068           | .318               | 4.637  | .000 |
| Support Services   | -.290              | .085           | -.179              | -3.409 | .001 |
| Brand Image  | .289               | .068           | .275               | 4.278  | .000 |
| Entrepreneurial Control  | .122               | .052           | .105               | 2.328  | .022 |
| Territory  | -.015              | .035           | -.018              | -.420  | .675 |
| Communication  | .084               | .076           | .079               | 1.104  | .273 |
| Franchise Contract   | .226               | .084           | .181               | 2.683  | .009 |
| Training   | .110               | .058           | .111               | 1.909  | .060 |
| Unstd Unstandardized Std Standardized t t Statistic Sig Level of Significance  |                    |                |                    |        |      |

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