

**Franchise Channel Relationships:
A Cross-Country Comparison**

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**Submitted in fulfilment of the
requirement of the degree of
Doctor of Philosophy**

**London Business School
University of London**

1993



Franchise Channel Relationships: A Cross-Country Comparison

Abstract

Franchising is very widespread. Typically, it is seen as a standardized business in that the same basic format can be developed in different countries, with only small adjustments to local market conditions. These levels of standardization are most apparent at the consumer end of the business. The focus here, by contrast, is on the internal management of franchise networks in different countries.

We find that the same model of inter-organizational relationships in franchise networks can be successfully applied across countries, specifically Britain and Italy.

Extensions of previous research have been carried out on issues related to the power-conflict process; new variables, such as the interaction between franchisees have been added to the model; and the inter-relationships between these variables have been tested using a linear structural model (Lisrel).

Perceptual data about inter-organizational relationships in franchise networks were collected with personally administered questionnaires from both franchisors and franchisees of the same retail franchises. To ensure cross-country comparability the sample was only drawn from retail business format franchises (such as fast food and mass market clothing, not franchised services such as builders and plumbers).

Analysis shows that the power sources franchisors use has an impact on the dependence of franchisees; these power sources also affect the vertical conflict between franchisors and franchisees, and the way the decision structure of the franchise is perceived. Conflict has a role in affecting the Italian franchisees performance, and a similar but weaker result was obtained among British franchisees. The power-conflict process affects the way franchisees interact with each other: for example, the more vertical conflict (between franchisor and franchisee), the more horizontal information exchange (among franchisees). The fact that franchisees interact with each other does not decrease their perceived dependence on the franchisor.

These results imply that franchise channels should be looked at as networks where not only vertical one-to-one (franchisor-franchisee) relationships are important, but also where horizontal linkages have an influence and where other complex relationships exist.

Acknowledgements

I am most grateful to my supervisor, Dr. Mark Uncles, who has provided invaluable support throughout the past three-and-a-half years. Mark has guided the development of both this research project and my research skills. His constructive criticism, constant encouragement, and enthusiasm for academic research underlie the completion of this thesis. Mark is aware of the importance of knowledge exchange and communication between members of a research group. For this reason, he put a lot of effort into organizing marketing seminars, to which professors and researchers from the best universities and businesses have come. These seminars contributed very much in giving me the motivation and enthusiasm to carry out such a long project. He also encouraged me to share my research interests with others at the London Business School and at other Universities, and to present part of my findings at the 1992 Marketing Science Conference, at a 1993 E.S.R.C. Seminar, and at the 1993 American Marketing Association Summer Educators' Conference.

A special word of thanks to Professor Andrew Ehrenberg, Professor Paddy Barwise, and Professor Nigel Nicholson. Andrew is living proof that marketing research can and should be a scientifically rigorous discipline as well as a relevant one. His determination to find generalizable results across different contexts is at the very heart of the scientific process, and this has influenced my thinking (even if my research falls short of Andrew's ideal). Also, his help has been invaluable in encouraging me to explore the relationship between research design and data analysis methods in different areas of marketing research. Paddy encouraged me to open my research design to cross-country comparison (which increased the internal and external validity of my research project), and to overcome the difficulties this posed in the field. Nigel provided me with innumerable methodological suggestions when developing the research design, with particular attention to the measurement properties of my field research instruments.

Dr. Chris McManus at University College London helped me understand and use Lisrel which was important for testing the models presented in this thesis. Professor Richard P. Bagozzi from University of Michigan at Ann Arbor gave me suggestions for revising the multi-sample estimation of the Lisrel models. Ms Jane Wilson, a friend and Product Manager in a multinational company, read the whole thesis and provided very good suggestions and comments.

I thank my fellow PhD students for their friendship during both the enjoyable and frustrating periods of the past three years. In particular, Francesca Dall'Olmo Riley and her husband Will, Erik Reimer Larsen and Dirk Willenbochel. Among them,

Michael Klugertz and Jochen Wirtz were very helpful in exchanging methodological suggestions for the data analysis.

Dr. Raymond Madden and Dr. Ian Cooper, respectively Director and Chairman of the PhD programme, encouraged me to maintain the timetable for completing the thesis, by setting intermediate deadlines and providing incentives. Also they encouraged me to develop research contacts with other first class Universities, which might lead to the development of new research projects in the future.

Professor Gianni Lorenzoni, Professor Andrea Zanoni, Professor Alberto Marcati, and all the colleagues at the Dipartimento di Discipline Economico-Aziendali at the University of Bologna, Italy, were the propulsive force which drove me to start and carry out my doctorate. Not only have they helped with constant encouragement and advice, but they have also involved me in research and consultancy projects which provided me with the financial resources essential for the three-year PhD project.

Organizations which provided financial support, were:

- PhD Programme, London Business School, Financial Awards 1989-1990-1991
- Centre for Marketing and Communication, London Business School
- FIAT (car manufacturer), Italy
- E.N.I. (Ente Nazionale Idrocarburi), (energy and engineering company), Italy
- C.N.R. (Consiglio Nazionale delle Ricerche), (Research Funding Body of Italian Government), Italy
- A.S.C.O.M. (association of retailers of Emilia Romagna), Italy

Finally, I would like to thank my parents, whose emotional and material support facilitated and constantly encouraged me to work hard, when things seemed to be going badly as well as when things were going well.

Even if many have contributed to the completion of this thesis, I am responsible for any errors and weaknesses.

Summary

The research reported in this thesis concerns franchise channels, which represent contractual vertical arrangements for the distribution of goods and services. In particular, the focus is on the extent to which different organizations within a franchise interact with each other to provide more effective channel management.

The background to this research is that franchising is a growing industry all over the world, and the leading franchises often operate in many different countries. Franchising is seen as a fairly standardised business where the same business format can be used in different countries with only small adjustments to local markets. But this is mainly a standardization of consumer marketing operations. By contrast, little is known about the inter-organizational management of franchise networks across countries, and the extent to which franchising can be regarded as a standardized business across countries also at the inter-organizational and managerial level. Are perceptions of franchise relationships affected by differences in the business environment, by the general state of the economy, and by cultural factors? Are there any similarities in the way franchise relationships are perceived across countries? These are the broad questions that underlie the substantive part of this thesis.

Aims and Objectives

Of the specific questions raised in this thesis, the most significant are:

*** Why do organizations interact in franchise channels ?**

Different marketing and organizational theories try to explain why interaction takes place; what the relevant dimensions of these inter-organizational relationships are; and what the consequences of such interactions are. In this thesis, in particular, power sources theory (French and Raven, 1959), resource dependence theory (Pfeffer and Salancik, 1978; Emerson, 1962), and exchange network theory (Cook, 1977; Cook et al., 1978, 1983) are employed to analyze the behavior of channel members.

We show that organizations in franchise channels, both in Italy and Britain, interact vertically (franchisor and franchisee) and horizontally (franchisee and franchisee), and this can be viewed as an exchange network.

*** What are the most important means of interaction ?**

Among the dimensions included in our model are power sources. We divide French and Raven's taxonomy of power sources into the economic and non-economic. We show that both in Italy and Britain non-economic power sources are more widely used than economic ones. The way these inter-dependencies are managed is important because it affects levels of conflict, performance, and information exchange within the franchise.

*** What are the consequences of these interactions ?**

The level of franchisees' dependence on their franchisor, the level of vertical conflict, and the franchisees' perception of their participation in decision making, are all determined by the level of non-economic power sources which are possessed and used by the franchisor. By contrast, there is little exchange of information between franchisees, but what there is depends on the level of conflict, dependence and participation in decision-making. We were able to find variations in the performance of Italian franchisees depending on how the power-conflict process was managed. This was not as clear in the British sample, either because the economic conditions were so bad that even proper power-conflict management could not improve performance, or because British franchisees have a different perception of the behavior of other channel members.

*** Is the one-to-one relationship between the franchisors and each franchisee of over-riding importance, or does a broader view of the channel add something to our understanding ?**

We show that exchange network theory is a feasible approach to the study of franchise channel relationships.

*** Do franchisors and franchisees hold similar perceptions of inter-organizational relationships ?**

Perceptions about inter-organizational relationships will vary across different players within a franchise. For example, we were able to apply and fit the same model of inter-organizational relationships to franchisees in different countries, and in different

retail sectors, but the data suggest we would not be able to apply the same model to both franchisees and franchisors, even within the same country or the same sector.

*** Are inter-organizational relationships similar in different countries?**

The hypothesized model of inter-organizational relationships holds well in both Italy and Britain. Not only is this true of the structural model, but also most of the structural and measurement parameters are similar (ie. most of the parameters can be constrained to be equal across the two countries). A number of replications must be undertaken to establish the full generalizability of these findings, so the research reported here should be regarded as an important first step.

Research Design and Analysis

Cross-country comparability was ensured by confining the field research to retail business format franchises (eg. fast food and mass market clothing). From this population franchises were randomly sampled. Non-retail franchised services (eg. builders and plumbers) were not included in the field research.

Perceptual data about relationships in each franchise were collected using questionnaires administered during personal interviews with two key informants: the franchisor (the franchise manager) and one franchisee. This allowed us to study how the differences between franchisors' and franchisees' perceptions affect the model.

The sample (120 interviews) included 30 franchisors and 30 franchisees in Italy; 30 franchisors and 30 franchisees in Britain. A further sample of 293 franchisees, drawn from the sample of 60 franchises already contacted, were surveyed using a mail questionnaire. A total of 413 observations from key informants were analyzed. The design of the questionnaires was largely based on Brown, Lusch, and Muehling's (1983) research instrument for analysing retailers' perceptions about channel member behavior. Their questionnaire was slightly changed to cope with the specifics of franchising (instead of independent retailing), and to deal with the different viewpoints of franchisors (suppliers) as well as franchisees (front-line retailers). Also, the questionnaire was extended to explore new variables, such as participation

(suggested by Schul and Babakus, 1988) and information exchange between franchisees (added after the introductory interviews and the pilot study).

Variables - such as power, dependence, conflict - were specified by grouping together responses from related sets of questions (we refer to these groupings as multi-item measures). The reliability, unidimensionality and validity of these multi-item measures was tested using standard refining procedures (Peter, 1979, 1981; Churchill, 1979), including Cronbach's Alpha, item-total correlation, factor analysis, and confirmatory factor analysis (Lisrel). Statistical tests (t-tests) were performed to check whether data collected with different methods could be pooled (ie. whether interview data could be pooled with mail-based data).

A range of formal analyses were undertaken, starting with basic descriptive analyses of the items and multi-item measures. Apart from providing a description of the pooled data and sub-samples, we were able to test whether structural variables (such as the size of the franchise) affected perceptions. Chi-square tests were used to test for associations between structural variables and perceptions of channel members' interaction and behavior.

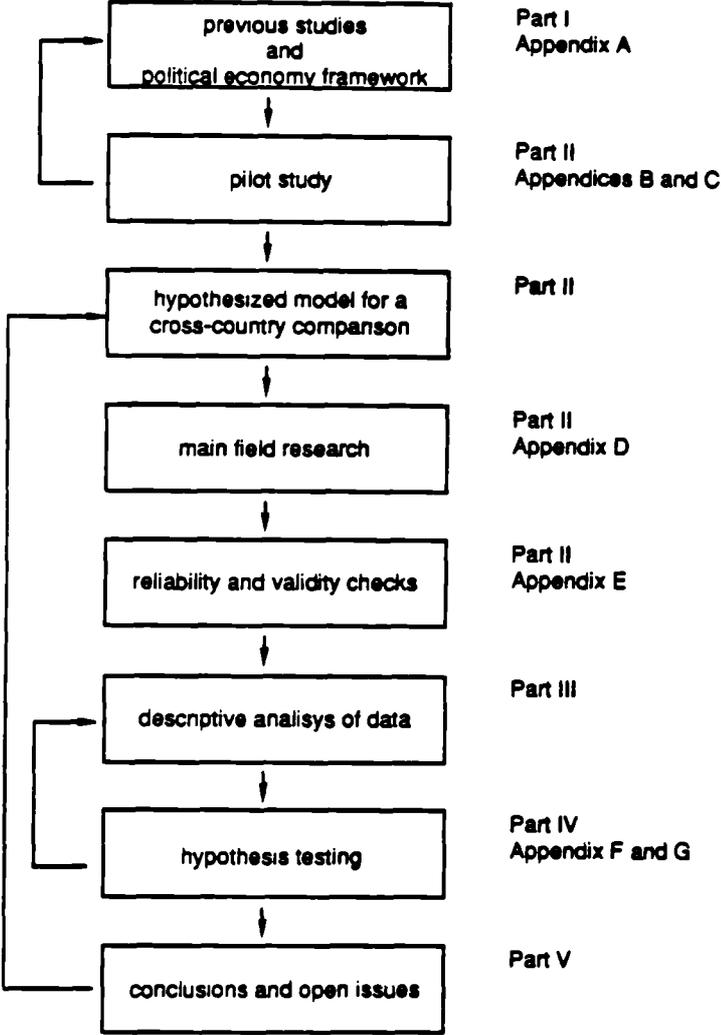
Following on from this, correlation analysis was undertaken before and during a second-phase of analysis based on structural-equation modelling (Lisrel). In this phase of research a traditional hypothesis-testing approach was adopted: relations between pairs of variables were tested (such as the relationship between power sources and conflict), and a structural model of inter-organizational behavior was tested with the data from each country. The extent to which the same model could be applied to both countries was tested using multi-sample Lisrel; this allowed parameters to be constrained and allowed for the simultaneous estimation of parameters and goodness-of-fit indicators.

Structure of the Thesis

This thesis is in seven parts (see Figure 1).

Figure 1

The Research Process and the Structure of the Thesis



In Part I we discuss the background literature: we introduce a number of theories which underpin the work on inter-organizational relationships and summarize the main findings that have been established by previous researchers. An integrating framework is developed, taking into account the distinctive nature of the relationships within distribution channels.

In Part II we analyze the characteristics of the model which has emerged from previous studies. We discuss possible improvements and extensions of the current model, in order to achieve both substantive and methodological objectives. Among the substantive objectives is to see the extent to which franchising can be regarded as a standardized business across countries, not only in consumer terms, but also at the inter-organizational and managerial level. Of methodological interest is the degree to which results are generalizable when the same research design is replicated in different countries. The design of the field research, the variables that are included in the model, the measures that are used, the procedures for checking the reliability and validity of measures, and the sample from which the data have been collected, are presented.

Part III is a descriptive analysis of the data; we compare the sub-samples (franchisors and franchisees, Italy and Britain), and describe the associations between the structural variables (such as the size of the franchise) and the perceived behavior of channel members.

Formal hypotheses are tested in Part IV. Correlation analysis and linear structural equation modelling are used to test hypotheses concerning relationships between pairs of variables and a hypothesized model of channel member relationships. Also discussed is the extent to which channel members who perform different roles have similar perceptions.

Conclusions are drawn in Part V, referring back to the initial objectives of this research. We also discuss the limitations of the research design, and present some issues which have still to be resolved or which have arisen out of the analyses

presented here.

In Part VI we provide some material (such as copies of the questionnaires and descriptions of the data analysis techniques) which could be useful to fully understand the research design that has been adopted in this thesis. We also hope that by including these appendices the analyses may be replicated, extended and refined in the context of, say, another country. In Part VII a reference list is provided.

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PART I

INTER-ORGANIZATIONAL RELATIONSHIPS

IN DISTRIBUTION CHANNELS

I INTER-ORGANIZATIONAL RELATIONSHIPS IN DISTRIBUTION CHANNELS

1. THE POLITICAL ECONOMY FRAMEWORK FOR THE ANALYSIS OF DISTRIBUTION CHANNEL RELATIONSHIPS

1.1 Approaches and Integrating Frameworks

In Part I (Chapters 1-3) we discuss the background literature on relationships between organizations, with a specific focus on distribution channels. Different approaches to this issue and an integrating framework are discussed (see Figure 2).

Chapter 1 provides a justification for Political Economy Framework . After defining what we mean by distribution channels, we discuss the reasons that organizations interact with each other, and the context in which these inter-organizational relationships take place. We support the idea that there is no one-theory of inter-organizational relationships, but just different approaches to their study. The two main streams of research concerning inter-organizational relationships in distribution channels are classified into an economic stream and a behavioral-political stream. The overlap between these two approaches suggests the need for an integrating framework, the Political Economy Framework, components of which are investigated in the research reported in this thesis.

With a somewhat post-hoc rationalization, in Chapters 2 and 3 previous studies are considered relative to the components of this integrating framework: in Chapter 2 we review studies of the relationships between organizations within a distribution channel, and we highlight the results that previous research obtained as well as the issues, both substantive and methodological, which have been left open. In Chapter 3 we discuss the extent to which the environment affects these relationships.

The current definition of distribution (or marketing) channels is the following: distribution channels enable firms to deliver goods and services to those who want

them. They are sets of interdependent organizations which, by an exchange of outputs (goods and services), are involved in the process of making a product or service available for consumption.

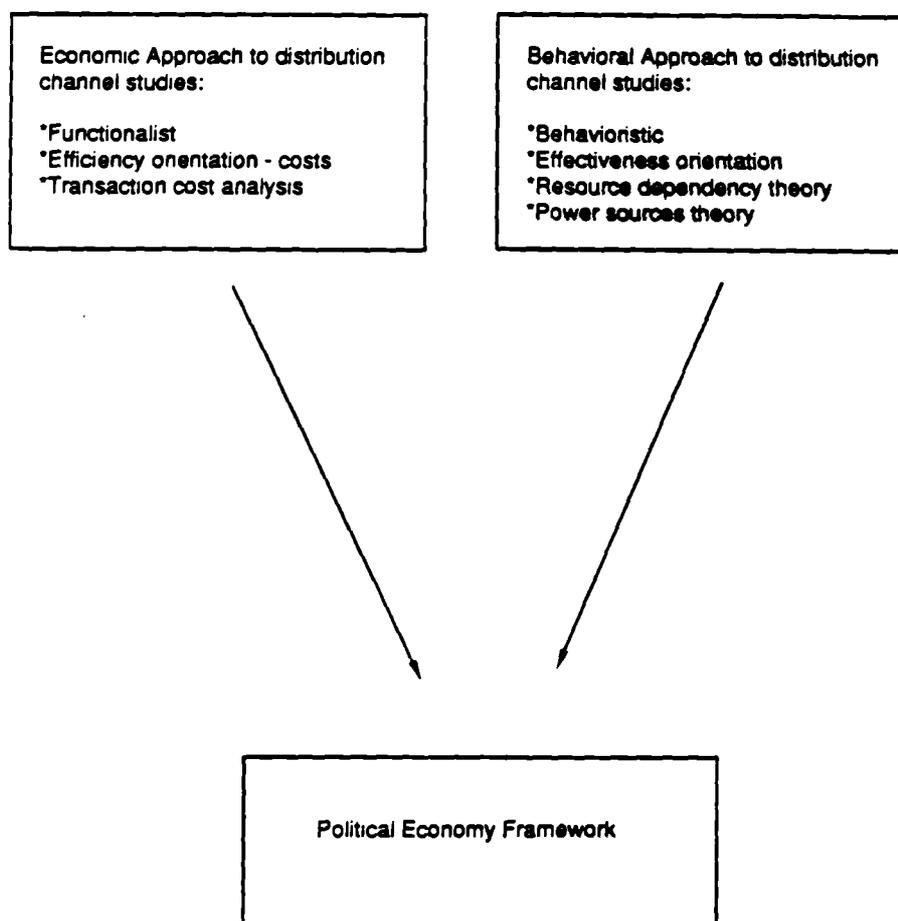
Studies of inter-organizational relationships in distribution channels can be divided into two major disciplinary orientations, *economic* and *behavioral-political*. These two approaches have been developed by researchers with different backgrounds, the former by people with a microeconomic or operation-management background, the latter by people who have heavily borrowed from social psychology and organization theory; for this reason, little communication or cooperation has occurred between these two research environments.

*** Economic Approach**

A traditional view of marketing, borrowed from classical economics, conceives all marketing phenomena as independent transactions. The coordination and control of the economy follows from the myriad of decentralized, unconnected decisions, collectively making up the invisible hand which allocates resources in an efficient manner. Even in oligopolistic and monopolistic situations, the key structural attributes of the markets are seen as the same, ie. transactions that are impersonal, decentralized and independent-from-one-another. In fact, in all marketing phenomena, very often there are repetitive and established transactions and (using a more general concept) exchanges, which enable lasting relationships to form (Arndt, 1979). Authors like March (1962), highlighted the view of organizations as political systems, suggesting that the "relational arena" is a main factor to be managed. Thus, a traditional model of stimulus-response was integrated or even replaced by dyadic or system models, which stress reciprocal influence patterns among different organizations or actors.

Figure 2

Different Approaches to Inter-organizational Relationship Research and an Integrating Framework



Likewise, the relational context between the organizations of a distribution channel is crucial because usually negotiations are not isolated from each other but comprise a process of medium or long term exchange. The organizations participating in a distribution channel also interact with other organizations that are outside of the channel, and they operate within a complex environment, including, for example, regulations.

Once it is established that transactions can be repetitive and that organizations interact with each other, the research approach can take one of two directions.

The traditional *economic approach* that explains the reasons for relationships between organizations in distribution channels is a *functionalist approach*; the assumption here is that organizations cannot perform their function except through interaction and cooperation (Alderson, 1965). It has concentrated on optimization and efficiency problems, focusing on costs, functional differentiation, and channel design (Bucklin, 1960; 1970; 1973; Breyer, 1949). In a paper for the American Marketing Association, McCammon (1965) listed a number of advantages of centrally coordinated marketing systems, such as franchise channels: scheduling efficiencies, reduced selling costs, economies of scale. It is clear that in his perspective, managing relationships with other channel members had the objective of minimizing costs. An operational model for evaluating the efficiency of marketing channels has been developed by Higby and Smykay (1979); their approach relies heavily on a computer aided functional cost model. More recent optimization models share the same economic approach (Rangan, 1987). Authors with an industrial economics (often described as competitive strategy) approach have investigated channel structure ("make or buy") in order to find the "best" structure for an inter-organizational set of functions. Studies of *vertical marketing systems* (see, for example, Bucklin, 1970; Anderson and Weitz, 1986; Harrigan, 1983a, 1983b) and domesticated markets (Arndt, 1979) try to address the issue of when is it preferable to have an integrated organization versus a system of independent organizations, such as an integrated or

independent channel, and select the best choice between them ¹ (Harrigan, 1983a, 1983b; Anderson and Weitz, 1986). The economic variables, such as PIMS variables, are dominant in this strand of research. Among the theories underlying these studies, *transaction cost analysis* (Williamson, 1975) has been very influential. Among the six sets of causes suggested by Oliver (1990) in her attempt to fully account for the contingencies of inter-organizational relationships ², one, efficiency, is based on economic analysis, while the others can be well matched with resource dependence theory.

Efficiency issues are internally, rather than externally, oriented, and can be seen as the organization's attempt to improve its internal input/output ratio. Williamson's (1975, 1985) transaction cost perspective is consistent with the argument that efficiency is an underlying determinant of inter-organizational relationships. It predicts that transaction cost economies determine whether transactions will be carried out within organizations, in intermediate structures, or in the market. As asset specificity (the existence of significant and durable non-redeployable investments), uncertainty, and the number of recurring transactions between partners increase, so transaction costs rise. When intermediate structures (such as franchise channels) are able to mediate transactions more efficiently than the marketplace, as transaction costs rise, the likelihood of movement from the market to intermediate structures (and eventually to hierarchies) also increases. This efficiency approach has been widely applied in distribution channels, very often with the objective of optimizing channel design and operations.

The limit of transaction cost analysis and the efficiency perspective is that it only focuses on cost minimization of each function, and so is able to explain only a portion of channel member behavior and performance. For example, no allowance is made for power process in the channel. An exception is the study by Anderson, Lodish and

¹. In most of these studies, distribution channels are studied as a special case of the general problem of vertical integration.

². This author classified those efficiency issues which would most likely generate specific inter-organizational relations, such as joint-ventures, trade associations, voluntary agency federations. The six contingencies that she identified are the causes that prompt or motivate organizations to establish relationships with one another: *necessity, asymmetry, reciprocity, efficiency, stability, and legitimacy*.

Weitz (1987) in which both economic (demand, commission rate) and behavioral variables (power, climate) were studied, but still as part of the efficiency oriented tradition (ie. the aim was to find an optimal allocation of resources).

*** Behavioral-Political Approach**

An approach which investigates the relational content of repetitive interactions between organizations can be classified as *behavioral or political*. The cultural distance between the economic and behavioral approaches is well exemplified by the words of Galaskiewicz: "Whether they look at market-like or hierarchy-like solutions to the problems of resource allocation, sociologists have been especially sensitive to issues of power dependence and uncertainty in inter-organizational transactions. While economists may dismiss these factors as *market imperfections* and thus aberrations, sociologists and organizational theorists see them as central to the resource procurement/allocation process" (Galaskiewicz, 1985, p.282). Within this behavioral-political approach Galaskiewicz (1985) identified three reasons that organizations establish relationships with each other: *resource procurement and allocation, political advocacy, and organizational legitimation*. All three sets of reasons can be related to resource dependence theory. An alternative classification has been proposed by Oliver (1990). The five behavioral-political contingencies discussed by Oliver are *necessity, asymmetry, reciprocity, stability, and legitimacy*³. We now review these two classifications (Galaskiewicz's and Oliver's) and check for similarities and differences between them.

The *procurement of resources* has been an overriding reason for establishing inter-organizational relationships (Aldrich, 1979; Galaskiewicz, 1985). In this view, if given the option, organizations theoretically would prefer not to establish inter-organizational relations inasmuch as these relations can constrain their subsequent actions. A resource dependence approach says that channel members are dependent

³. See footnote 2.

on other organizations and, broadly speaking, the environment. Interaction between organizations is explained by the attempt of each of them to diminish this dependence (Aldrich, 1979; Pfeffer and Salancik, 1978). In order to do this, each organization tries to use power over other organizations, for example channel members. The perspective here is that of the single organization, which strives for autonomy. This is very similar to what Oliver called an *asymmetry* contingency; she says that asymmetry refers to inter-organizational relationships prompted by the potential to exercise power or control over another organization or its resources. Resource scarcity prompts organizations to attempt to exert power, influence, or control over organizations that possess the required scarce resources. Both the desire for control and the reluctance to relinquish control reflect asymmetrical motives in the organization's decision to interact. Thus, this contingency is related to resource dependency theory and the political view of firm's action (Pfeffer and Salancik, 1978; Benson, 1975). This contingency seems to be very strong in developing relationships between distribution channel members.

Political advocacy is the degree to which the laws of a society affect an organization, depending on that organization's goals (Pfeffer and Salancik, 1978; Galaskiewicz, 1985). Corporate actors in structurally equivalent positions, facing comparable political threats, would come to recognize and act upon their common interest. The mobilization of organizations and the formation of coalitions is often dependent upon the existence of internal linkages - linkages that can be used for coalition building. Also, mobilization of individual organizations is a function of being in a central position within an inter-organizational network. In Oliver's (1990) terminology, this is a *necessity* contingency, where *necessity* refers to linkages with other organizations in order to meet necessary legal or regulatory requirements, from authorities such as government agencies, legislation, industry, or professional regulatory bodies. In franchise distribution channels this is not usually the case for explaining the existence of inter-organizational relationships.

Relationship formation can be based on *reciprocity* (Oliver, 1990) for the purpose of pursuing mutually beneficial goals or interests. Resource scarcity may induce

cooperation, not just competition. Potential partners to an exchange will anticipate that the benefits of forming a linkage far exceed the disadvantages, such as the loss of decision-making latitude and the cost of managing the linkage. Organizations can establish inter-organizational relationships in order to achieve *stability* (Oliver, 1990); this can be viewed as an adaptive response to environmental uncertainty, which in turn can be determined by resource scarcity and by a lack of perfect knowledge about other organizations and the environment. Galaskiewicz (1985) included this contingency in a resource dependency framework. Organizations can establish relationships with others in order to enhance organizational *legitimation* (Oliver, 1990). This contingency seems to be relevant for developing inter-organizational relationships in distribution channels, for example when a retailer joins a franchise. In the *legitimacy arena* (Galaskiewicz, 1985), the issue is the adequacy of the organization's goals or operating procedures. The targets of the effort are licensing authorities, funding agents, intellectuals, and public opinion (Pfeffer and Salancik, 1978). For example, recruiting prestigious people to the organization's board of directors can legitimate the organization or at least improve its image. Problems of legitimacy measurement have limited the scope of this research approach (Galaskiewicz, 1985).

In distribution channel research, the behavioral-political approach deals with social dimensions, such as power, conflict and cooperation. As clear is from this section, it has borrowed heavily from social psychology, sociology, political science, and organizational behavior. The objective of this strand of research is to study the way the use of power is related to the achievement of one member's goals of independence from external resources. The management of power dependencies has a central role in explaining inter-organizational relations. In the most widely accepted view, one's power resides implicitly in another's dependency (Emerson, 1962; Cook, 1977; Aldrich, 1979). However, the approach has limitations: the inability to produce satisfying results (Galaskiewicz, 1985), doubts about the connection between power and dependence (Reve and Stern, 1979), and the scant attention given to horizontal relationships. For example, the impact of creating horizontal coalitions on the

resource dependency framework has not been studied in depth⁴. Also, the relation between environmental constraints on the one hand and decision-making and power-dependency relations on the other hand have not been sufficiently studied.

A variable which might be regarded as a bridge between the economic and behavioral-political approaches is *uncertainty*. Simon (1957) and March and Simon (1958) suggested that reducing uncertainty for organizational decision-makers can have as much to do with explaining inter-organizational relations as power dependency. Uncertainty was usually related to greater formalization and control in inter-organizational relations. Studies in this field showed that firms tend to react to uncertainty by establishing connections with other organizations, such as, for example, interlocking directorates. Sometimes these studies implied a theory of executive anxiety reduction; but, more interestingly, uncertainty has been found to increase transaction costs, and strategies, such as establishing inter-organizational relations, can be used to reduce these costs (Williamson, 1975; Ouchi, 1980). A central thesis of the transaction cost approach is that as uncertainty in transactions increases, there will be a shift from markets to firms ("hierarchy"). Resource dependency and uncertainty are not necessarily independent phenomena; the impact of power dependency relations and uncertainty upon organizational strategies is not mutually exclusive, and the researcher has to be constantly aware of the possible interaction between the two (Galaskiewicz, 1985). For example, by creating an interlocking board with a prime customer, an organization might hope to institutionalise the interdependencies and cope with uncertainties.

* **The Political Economy Framework**

So far we have shown that there is no one theory of inter-organizational relations. We now discuss the overlap between the economic and behavioral-political approaches, their integration into the Political Economy Framework, and the extent to which our research investigates components of this framework.

⁴. In Chapter 8 of this thesis we investigate the possible decrease of a franchisee's dependence on the franchisor due to relationships between franchisees.

The Political Economy Framework is an integrative paradigm originally developed by organizational theorists (Zald, 1970)(see Figure 3). It is a way to upgrade the microeconomic view dominating marketing studies, whilst also including the behavioral perspective. According to this integrative view, social systems comprise "interacting sets of major economic and sociopolitical forces which affect collective behavior and performance" (Stern and Reve, 1980 p. 53; see Figure 4 in next chapter). More specifically, political economy emphasizes the interplay of power, the goals of the power wielders, and the productive economic exchange systems (Buchanan, 1964).

The political economy world view has proved quite flexible in helping researchers to conceptualize organizational behavior. Its usefulness has been documented in the analysis of individual organizations (Zald, 1970) and that of inter-organizational networks (Benson, 1975).

The political economy approach to the study of organizations was originally developed to help explain the direction and processes of organizational change, focusing on internal and external causes of change. But this approach also has the advantage of providing an integrative, theoretical framework for the comparative study of organizations. In fact, it specifies the interrelation of a range of organizational dimensions and types of organizations. Some of these dimensions, such as power and conflict, have been central concerns of other studies of organizations, but their interrelation with other important dimensions was left unspecified. Because the framework states the range of variation between organizations on crucial (in the sense of pervasive and powerful) variables, it is useful for comparative work (Zald, 1970).

Figure 3

Major Components of Political Economy (Zald, 1970)

	Environment Structure and Process	Internal Structure and Process
Polity	<p>Associations of similar organizations (trade associations)</p> <p>Relationship with major suppliers and buyers of factor inputs</p> <p>Regulatory agents</p> <p>Indirect parties</p>	<p>Power distribution and major value constellations</p> <p>Demand aggregation</p> <p>Succession system</p>
Economy	<p>Characteristics of factor "markets" (labour, capital, etc.)</p> <p>"Raw material" supply</p> <p>Characteristics of demand and clientele "Industry structure"</p>	<p>Allocation rules</p> <p>Accounting information systems</p> <p>Incentive system</p> <p>Task and technology related unit differentiation</p>

Zald (1970) and Benson (1975) proposed that the following dimensions were central in the comparative analyses of organizations: (i) polity-economy, (ii) external-internal, (iii) substructure-superstructure. As stated by Arndt (1983):

"Polity refers to the power and control system of a social unit, a network of social units, or society. The polity encompasses both power and the values (ends) which power is used to achieve. The economy is the productive exchange system of a social unit or society transforming "inputs" into "outputs". Hence, the economy is concerned with the arrangement of the division of labour and allocation of resources for task accomplishment and maximization of efficiency. An essential characteristic of political economy is the insistence of simultaneous analysis of the polity and the economy, with particular emphasis on the inter-dependencies. The second dimension relates to the external (environmental) vs. internal (organizational) polity and economy. The boundary of this dichotomy depends on the unit of analysis. When the interest centres on inter-organizational linkages such as channels of distribution, the focal network will constitute the internal sphere. The third dimension, proposed by Benson (1975) is the distinction between substructure and superstructure, building in a loose way on the original Marxian conception. Superstructural variables such as sentiments and behaviors are viewed as determined by (and in some cases, restricted by) the underlying sub-structural patterns of dominance" (Arndt, 1983, p.48).

In practice the focus of the Political Economy Framework is on two dimensions, polity-economy and external-internal, however the dimension of substructure-superstructure is implicitly considered. For instance, in channels of distribution research, there is usually an implicit assumption of a causal relationship between different sources of power and conflict. As Arndt (1983) mentioned, superstructural variables such as sentiments and behavior (eg. conflict) can be viewed as dependent variables determined by external and internal political economy (eg. power structure).

Inter-organizational analysis is very complex because various arenas intersect and overlap with one another, and interactions among contingencies are the rule. Organizations work in more than one arena of action at a time. They often pursue resources and legitimacy and participate in efforts of collective action simultaneously (Galaskiewicz, 1985), and at the same time they try to achieve a level of efficiency superior to their competitors. Therefore it should not be surprising that inter-organizational structures created in one arena will either be useful or a hindrance to strategic action in another.

For example, consider the influence of existing networks of inter-organizational relations on coalition formation: the networks of resource exchange that already exist among corporate actors are the infrastructure upon which political coalitions can be built. The dependence on external resources and political coalitions can affect the efficiency of these operations. Also, resource dependency theory hypothesizes that to lessen their resource dependency, individual organizations in a structurally equivalent position may tend to behave as a collective actor. In the channel context, when a channel is managed through a certain transaction form instead of another it could be that different ways of managing power and cooperation are performed.

This also works in the opposite way: a certain kind of relationship between channel members can influence the form of channel contractual arrangement, and the level of efficiency in the channel. The overlap of these relationships has been known for a long time; for example, some authors recognized that distribution channels can be viewed from different perspectives, but they could not integrate these perspectives within a unified framework (see, for example, El-Ansary, 1979); there are also studies where one of the approaches is incorporated within the other. For example, Anderson, Lodish, and Weitz (1987) studied the resource allocation behavior of channel members in conventional channels, where each member has many suppliers. Among the factors influencing resource allocation, there were both economic factors (such as the growth rate of demand, and the commission rate from the supplier) and behavioral factors (such as the extent that the supplier is more powerful than the channel member under investigation, and the organizational climate). However, the perspective is mainly economic, with the aim being to optimize resource allocation.

The external side of the framework refers to organizations outside of the distribution channels and the environment in general. Some evidence has been found to show a relationship between environmental factors (mainly economic factors) and the control structure (power structure) in the channel: for instance, the control of the channel leader appears to be greater under conditions of decline rather than growth, and where there is unstable demand and strong intra-channel competition (Etgar, 1977). These results can be considered, according to a resource dependency approach, as

supporting the idea that environmental dependency and uncertainty affect the way inter-organizational relations (seen from a political perspective) are managed in the channel. In many studies of vertical integration (see, for example, Anderson and Weitz, 1986), environmental uncertainty is hypothesized to have a role in the channel management. These studies refer to transaction cost theory, where the objective is to find more efficient ways to perform (channel) marketing management. The relationships between organizations (seen from an economic perspective), are influenced by the environment. From these pieces of research it is evident that a general framework for the study of marketing channels must include at least four elements: Economic vs. Political, Internal vs. External.

The focus of the research reported in this thesis is mainly on the internal political and economic side. The external contingencies can be inferred from the cross-country comparisons which show some differences in the pattern of economic and political relationships within each country's channels.

1.2 The Political Economy Framework in the distribution channels

The Political Economy Framework has been used in distribution channel studies in order to integrate the dominant paradigm, the microeconomic one, with behavioral ("political") elements analyzed in previous organizational studies. The variables constituting the Political Economy Framework in distribution channels are:

- The internal economy, consisting mainly in the transactional arrangement (structure) of the channel (eg. the franchising form of distribution channel vs. the independent or corporate point of sales), and the decision mechanisms (economic processes) to implement such an arrangement (eg. centralization, participation and formalization of decisions).
- The internal polity, which consists of the distribution of power (structure) and the extent of cooperation and conflict (processes) in the

channel.

- The external economy, which generally involves market structure, competitive rivalry, variability, concentration, and abundance of supply and demand states.
- The external polity, which consists of associations of similar organizations, agents, alliances, and outside parties.

The essence of the analysis is that economic and sociopolitical forces cannot be analyzed in isolation. All research investigating power conflict issues, whether before or after the seminal article by Stern and Reve (1980), can be analyzed according to this framework. The framework can be taken as an organizing key for understanding previous research and findings and to relate them to each other.

We report the definitions of key concepts in the Political Economy Framework in the distribution channel context, as summarized by Stern and Reve (1980, p. 61,62).

Political Economy = collectivity comprising an economic system (economy) and a sociopolitical system (polity) which jointly influence collective behavior and performance.

I. Internal political economy = the internal structuring and functioning of an organized collectivity (eg. distribution channel) analyzed in terms of an internal polity and their interactions.

II. External political economy = the task environment of an organized collectivity (eg. distribution channel) analyzed in terms of an external economy and an external polity and their interactions.

I.1 Internal economy = the internal economic allocation system analyzed in terms of the internal economic structure and processes.

I.2 Internal polity = the internal sociopolitical allocation system analyzed in terms of the internal sociopolitical

structure and processes.

- II.1 *External economy = the economic task environment of an organized collectivity (eg. distribution channel) described by the nature of its vertical (input and output) and horizontal markets.*
- II.2 *External polity = the sociopolitical task environment of an organized collectivity (eg. distribution channel) described by the distribution and use of power resources among external actors and their prevailing sentiments.*
- I.1.1 *Internal economic structure = the economic arrangements or transactional form within an organized collectivity (eg. distribution channel) set up to complete internal exchanges.*
- Transactional form = internal economic arrangements ranging from markets to hierarchies (eg. vertical integration).*
- I.1.2 *Internal economic processes = the decision making processes within an organized collectivity (eg. distribution channel) which determine the terms of trade and the division of labour, functions, and activities among the internal actors.*
- Decision making processes = internal collective choice processes ranging from impersonal determination of terms of trade through the price mechanism, through bargaining processes, to centralized planning processes.*
- I.2.1 *Internal sociopolitical structure = the pattern of power/dependence relations within an organized collectivity (eg. distribution channel).*
- Power/dependence relations = an internal power/dependence pattern ranging from minimal power (low dependence) through the mixed power constellation of balanced and imbalanced power (mutual dependence), to centralized power (unilateral dependence).*

1.2.2 Internal sociopolitical processes = the dominant sentiments and behaviors which characterize the interactions between actors within an organized collectivity

Dominant sentiments and behavior = internal sentiments and behaviors of cooperation and functional or dysfunctional conflict characterizing internal exchange, ranging from minimal cooperation, high dysfunctional conflict to maximal cooperation, functional conflict.

1.3. Summary

Studies on relationships between organizations in distribution channels have always borrowed from literature developed in other fields, such as organization theory, sociology, social psychology, and economics. This highlights the inter-disciplinary nature of distribution channel studies and marketing studies in general.

Inter-organizational relationships are usually studied within theoretical approaches and paradigms which draw on different methodologies and different theoretical foundations. A framework has been proposed - the Political Economy Framework - which highlights the inter-dependencies and complementarities between different strands of research that differ in terms of analytical technique, theoretical paradigm, and researcher's background.

The main dimensions of the Political Economy Framework are: polity-economy; internal-external; and structure-process. Different theories are encompassed within this framework, notably a functionalist approach, a transaction cost approach, together with a resource-dependence approach.

2. THE INTERNAL POLITICAL ECONOMY

2.1 The Internal Political Structure

In this section we comment upon the political structure and its determinants in distribution channel studies (see Figure 4). In particular, we focus on two explanations of power, the *power source* (French and Raven, 1959) and the *power-dependence* (Emerson, 1962) approaches. A research design from Brown, Lusch and Muehling (1983) that combined them into one behavioral model is discussed. We also show that other determinants of inter-organizational influence and power can be included in the previous two approaches.

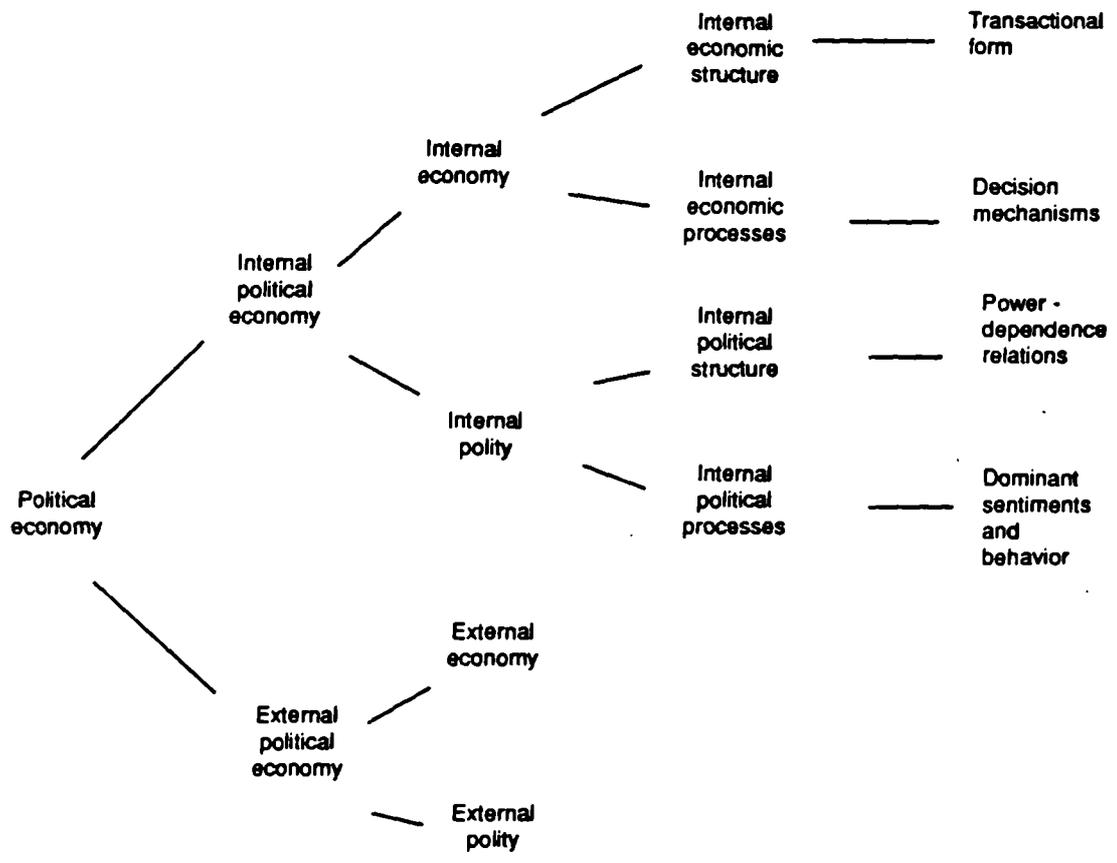
2.1.1. Control, Power, Dependence and their determinants in distribution channels

This section addresses the difficulty in defining variables such as control, power, and dependence. In previous studies the definition and operationalization of these variables has sometimes overlapped and at other times differed. We first discuss control, then power and its sources, and dependence.

In marketing, *control* is assumed to be almost inter-changeable with power. The only difference is that power can be viewed as potential power (non-exercised) or exercised power, while control is a factual variable that results from the possession of either potential or exercised power.

Figure 4

Key Concepts of the Political Economy Framework in Distribution Channel Studies (Stern and Reve, 1980)



In studies of social systems (inter-organizational or inter-personal), power has always been seen as an important driving force of the action of the members (see, for example, French and Raven, 1959; Emerson, 1962). Some thirty years ago Stern (1965) suggested that channel control might be a central variable for achieving effective channel performance and a more efficient allocation of resources among channel members. According to this view, vertical conflict in the bargaining process within a channel of distribution may result in the emergence of channel control by the most powerful member and the existence of channel control may, in some cases, inhibit performance. Paradoxically, Stern also suggested that the existence of channel control may be a prerequisite to effective overall performance. This is because sustained leadership would provide the means to obtain coordinated action among channel members, and only with control could leadership be sustained. Control is very often seen as a way to achieve coordination, which cannot be achieved spontaneously, through the process of competition and market mechanisms. For example, studies of "optimal" channel functioning and relations among channel members have shown that imperfect information about each other's action can have disruptive effects on channel operations, even though each member is acting rationally based on the information available to it (Forrester, 1961).

In the distribution channel context Stern (1969, p.91) theorized that the exercise of *power* can have a positive role in the achievement of integration, adaptation, and goal attainment within the channel. In an "asymmetric" contingency view of channel relationships (Oliver, 1990; see also this thesis, section 1.1), power is a means by which an organization can cope with resource scarcity; in an "efficiency" contingency view, the degree of power of one member over another is the result of the evaluation and choice of a hierarchical channel structure.

Power is usually considered the variable underlying the tactics or strategies "...used by organizations (particularly business firms) in their attempt to *get their way* with other organizations" (Wilkinson and Kipnis, 1978). Although this is a simple idea several definitions of power have been accepted and used in marketing research: El-Ansary and Stern (1972) based their study on Dahl's (1957) definition of power:

"..the ability of one individual or group to prompt another unit to do what it would not have otherwise done." Thus, in the marketing channels environment, the power of a channel member is "his ability to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution." (El-Ansary and Stern, 1972). According to Emerson, "..the power of A over B is equal to, and based upon, the *dependence* of B upon A". "The power of actor A over actor B is the amount of resistance on the part of B which can be potentially overcome by A". "The dependence of actor A upon actor B is directly proportional to A's motivational investment in goals mediated by B, and inversely proportional to the availability of those goals to A outside of the A-B relation" (1962, p. 23). Thus, power and dependence, in Emerson's view, are two sides of the same coin. Power derives from having resources that the other needs and from controlling the alternative sources of these resources. Emerson's power-dependence model has been elaborated and generalized to the organizational level in the resource-dependence model as developed by Pfeffer and Salancik (1978). The inter-party dependence can be expected to have an effect on the parties' behavior in a business relationship.

An important problem with power (other than its definition) is its operationalization. Typically, in the questionnaires used to collect data, distributors are asked to rate each decision variable according to the extent of manufacturer control (see for example, Lusch and Brown, 1982). This operationalization of power-control is very widely used (Reve and Stern, 1979). But the way power is measured differs slightly from the definition of power: if a franchisor has control over most commercial policies of a franchisee, this does not necessarily mean that the franchisor is able to overcome franchisee's resistance, for example to invest money in the business, or to comply with some restructuring of the store image or assortment. Thus, the operationalization of power has not been very consistent with part of the theoretical definition of this variable. The problem in operationalizing power is the main reason that we did not include it in the questionnaire used in the main data collection process for the research reported in this thesis. A measure of power, including a multi-item measure of the degree of control over marketing decision variables, has been used for a sub-sample; this is in the context of replicating Brown, Lusch, and Muehling's

(1983) study. The shortcomings of this are discussed in section 8.2.4. Also, we raise questions about the measurement of this variable, and the usefulness of measuring it.

Simon (1957), suggested that the magnitude of the *power source* might be employed as an idea of influence. He also pointed out the difficulties associated with using power sources as a direct measure of power. For example, he noted that channel members' power sources may not be used (later Gaski and Nevin, 1985 studied this problem) and that sources of power may be increased through the use of power. El-Ansary and Stern (1972), following French and Raven's (1959) classification, suggested that in marketing channels, as well as in social systems, power depends on the sources of power channel members have.

French and Raven (1959) provided a comprehensive framework of the different sources of power that actors can have when relating to one another: *Reward* power refers to B's perception that A has the ability to mediate rewards for him; *Punishment (coercive)* power refers to B's perception that A has the ability to mediate punishments for him; *Expert* power refers to B's perception that A has some special knowledge or expertise; *Referent* power refers to B's identification with A; *Legitimate* power refers to B's perception that A has a legitimate right to prescribe behavior for him. French and Raven's taxonomy proved to be valid; although a better specification of its components would benefit our understanding of the exercise of power in channels of distribution. For example, the legitimation sources of power include traditional legitimation (what the channel members are legitimated to do because of tradition) and legal legitimation (what the channel members are legitimated to do because of a contractual agreement). These two different sources are likely to have negative and positive influences on the perceived conflict, the perceived conflict in the channel (Kasulis and Spekman, 1980). Information, that in some pieces of research was considered an additional source of power (Brown, Lusch, and Muehling, 1983; Lusch and Brown, 1982; Kasulis and Spekman, 1980), can be included in French and Raven's "expert" category (Gaski, 1986); in theory it has been considered separately, but measured together with expert, referent and legitimate sources (Brown, Lusch and Muehling, 1983).

There is a source of power that seems not to be reflected in French and Raven's scheme: "the ability to control critical aspects of W's environment in such a way that the new environment will bring about a desired change in W's behavior" (Tedeschi and Bonoma, 1972, p.15). Gaski (1986) labelled it "manipulative power source" and listed it as an additional source of power. We will not include this source of power, because its definition is too vague, and it is unlikely to have an evident impact on power as perceived by retailers.

Marketing scholars usually group power sources in order to find underlying variables which influence power-conflict processes. Hunt and Nevin (1974) grouped power sources, including punishment into the variable called *coercive* power sources, and, on the other hand, reward, expert, referent, and legitimate sources together into the variable called *non-coercive* power sources. They found that more power is perceived when coercive sources are exercised; on the other hand less power is perceived when non-coercive power sources are exercised. The authors doubted these results, and suggested that the observed relationship might be spurious. Etgar (1978a), showed a very similar effect, of a negative relationship between what he called *non-economic* power sources (including French and Raven's referent, legitimate, and expert sources) and power. Etgar categorized reward and coercive sources as being "economic"; and referent, expert, and legitimate as being "non-economic". Brown, Lusch and Muehling (1983) later expanded this typology by including legal legitimate power in the "economic" group and by placing information and traditional sources with the "non-economic" ones. In fact, legitimate power has been defined as having two components: traditional legitimate and legal legitimate (Kasulis and Spekman, 1980). The former component refers to perceived hierarchies within the channel where larger companies or manufacturing firms may legitimately influence certain marketing policies. The latter is based upon contractual arrangements, such as franchise agreements between channel members (Stern and El-Ansary, 1977). The most important effect of all these changes is that reward sources are included in the coercive-economic dimension; and what we do in practice is to consider reward and punishment as two components of the same dimension - the "economic" one. Gaski (1986) demonstrated that reward power sources are positively correlated with the

other non-coercive power sources (see section 2.1.3.), but this result depends on the items that he used to measure reward power sources. The items he used were issues such as personnel training and inventory management assistance. In our research instrument, reward power sources are measured by items such as financial rewards, while services provided by the supplier are included as expert power sources. In section 5.3., we report on the economic/non-economic division used in the research for this thesis.

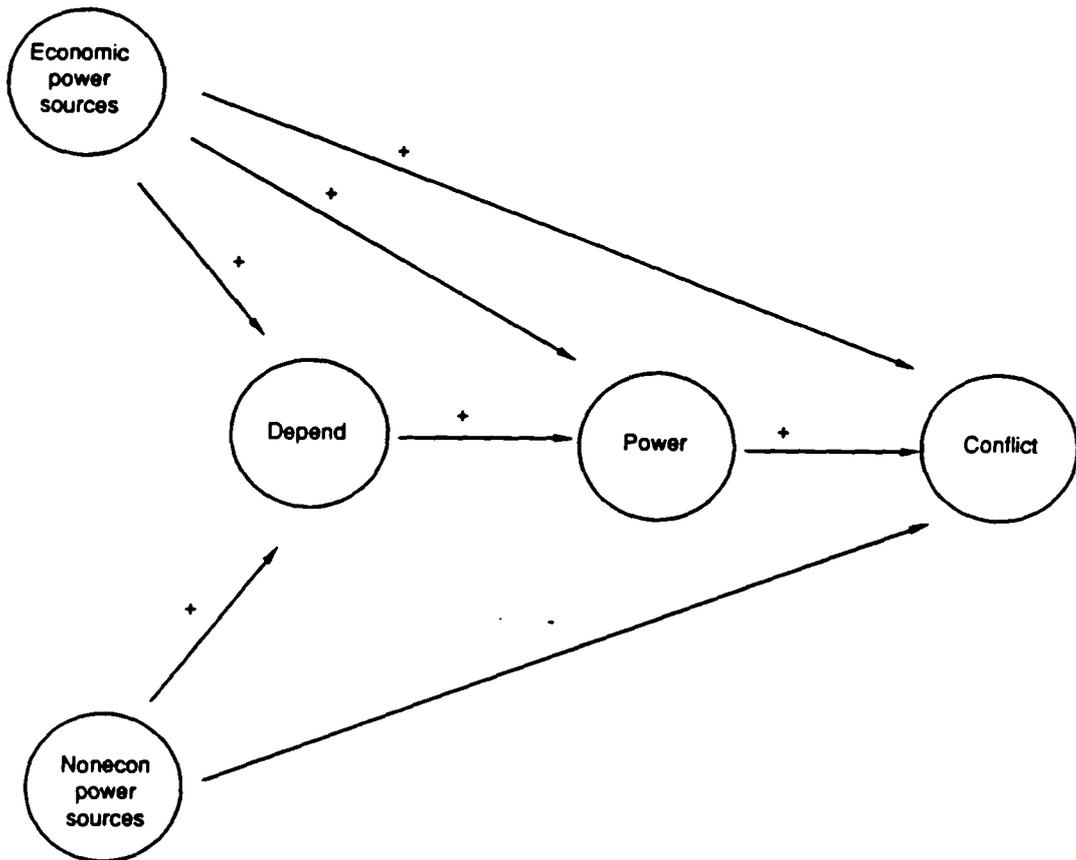
Lusch and Brown (1982) confirmed Hunt and Nevin's result, showing that coercive sources contributed more to franchisor's perceived power than do non-coercive sources of power. Again, as opposed to their hypothesis, they showed evidence of a negative relation between higher quality assistance (non-coercive power source) and supplier's (franchisor's) power.

The view of power sources as a taxonomy explaining power and control can be matched and juxtaposed to the idea of formal versus social control. Control can be achieved not only through formal but also social measures. Expertise, information, traditional legitimate power sources and, even more, referent power sources, together with franchisees selection processes establish the potential for social control, which enables the franchisor to guide franchisees' strategies and marketing operations (see Larson, 1992).

Having presented the main issues about the definition and operationalization of control, power, and dependence, in the next section we discuss the reasons that drove Brown, Lusch, and Muehling (1983) to combine the power source approach with a dependence approach (this summarized in Figure 5).

Figure 5

Brown, Lusch, and Muehling's Model (1983)



2.1.2. A combined approach to the determinants of power in distribution channels

In this section we discuss the choice of perceived instead of factual measures of power. This measurement issue suggests an approach which combines power sources and dependence as causes of power.

In a relationship between two organizations what in fact exists does not necessarily match what is perceived by members: "...power does not refer to the objective ability of one individual or group to control or influence the behavior of another, but rather to the potential ability.. as perceived by the controlee or influencee" (Hunt and Nevin, 1974, p.188; Ross, Lusch, and Brown, 1982). This means that measuring power with perceived measures ought to produce more poignant results than the use of factual measures. Following Brown, Lusch and Muehling (1983), we argue that coercive (and economic) power sources are more easily perceived than non-coercive (and non-economic). Indeed, up to the early 1980s perceived ¹ power was seen as mainly determined by coercive sources - due to their "hard" ("threatening") impact on the channel members - whereas the "soft" (non-coercive) sources were less perceptible. As non-economic sources become stronger, the target channel member B increasingly internalizes the values of channel member Á who possesses or exercises power (Kasulis and Spekman, 1980). The more socialized channel members become, the more they perceive themselves as acting autonomously when, in effect, they are doing exactly what the channel leader would like them to do. This explanation suggests that power which is based on non-economic sources will be hard to measure by self-report or attributed power methods. How much power is attributed to a channel member may be very different from the actual influence of that channel member, if the ability to influence has been gained through non-economic sources. Concerns about the measurement of perceptions would go some way to explain Hunt

¹. In fact, almost all the research designs have measured the variables using perceptual dimensions. One exception is Etgar's work of 1976 in which he tried to develop a more factual measure of power. Unfortunately, he could not find direct measures for each of the accepted power sources, and in his research he mixed perceived power measures with factual ones. Probably because of this, his approach has not been followed in later research. Etgar himself focussed on only-perceived measures of power in subsequent work.

and Nevin's doubts about their results. We can say that Hunt and Nevin (1974), Etgar (1978a), and Brown and Day (1981) measured the "level of threat" perceived by franchisees, not really the level of power of the franchisor over the franchisees. This explains why the "power" of the franchisor was negatively related to the use of non-coercive power sources in these studies. In a sense, this methodology seems to provide tautological results: previous literature demonstrated that the distributors are more threatened if the franchisor uses an evident threat than if he uses other ways of interaction (or non evident threats).

Even if non-coercive or non-economic power sources are not easily perceived as sources of power, it would be a mistake to say that they are not important means to influence the marketing activities of other channel members. This statement is supported by the observation that in franchise systems the franchisor continually tries to maintain control over the image of franchisees' shops - this power is largely achieved through a non-coercive source of power, namely a package of services including design of the point of sale, training and periodic merchandise assistance at the point of sale, given to the franchisees as a benefit of the contractual relationship. This is what has been called a Capability Building Program (Narus and Anderson, 1988)², but it is also one of the best ways to control the commercial policies of the franchisees. It is a very well known and effective way to achieve control, and it is probably more powerful than, for example, the threat of breaking the relationship if the image is not maintained at the desired level.

Brown, Lusch and Muehling (1983) designed a study in order to explore the power-conflict process using perceptual measures, and at the same time avoid problems to do with the relationship between sources of power and the total amount of perceived power. They worked on the definition of power given by Emerson (1962); this definition refers to the influence power of member A over member B; this influence power makes B do what A wants, whether it is deliberate and perceived or not. He considered that power of A over B has two dimensions: perceived and non-perceived

². A Capability Building Program is defined as a program a manufacturer can employ to build desired distributor capabilities and, hence, long-term marketing performance.

power. The former is what makes B do what A wants, deliberately and fully aware of A's power; the latter is what makes B do what A wants, but without perceiving it.

Brown, Lusch and Muehling (1983) divided power sources into economic and non-economic categories, and found evidence that non-economic power sources are not directly associated with the retailer's perceptions of the extent of the supplier's power. Instead, they found an indirect relationship between perceived non-economic sources of power and perceived power. They demonstrated that there is an indirect effect through the perceived dimension of dependence. This was an interesting way to bypass the problem we highlighted. Since it is easier to measure perceived dimensions than objective (factual) ones, the authors wanted to pursue that methodology, and found a way to show the effect of non-economic sources of power on perceived power, through the increase in perceived dependence (which is also due to non-economic sources). Thus, they reaffirmed the value of perceptions in marketing channel studies ³. Because Brown, Lusch, and Muehling (1983) then showed that economic sources increase conflict, they advised that the use of non-economic incentives may be a preferable method to obtain long run coordination of retailer-supplier activities (through supplier's control on retailers)⁴.

The research design - and the findings - of Brown, Lusch and Muehling (1983) also suggests something about the diachronic effect of power sources on power; the power sources that influence dependence can be seen as establishing a stock of potential power, i.e. an expert and referent image, that can be capitalized over time. The direct effect of power sources on power can be seen as something like "short term power" that must be used carefully not to negatively affect "long term" dependence.

In the research for this thesis, we use a combined approach to the measurement of the

³. "To the extent a researcher has a strong interest in understanding and anticipating the human component within organizations, it is probably desirable to employ perceptual measures" (Hellriegel and Slocum, 1974 cited by Schul, Pride and Little, 1983).

⁴. What they didn't say and is difficult to predict, is the balance between economic and non-economic sources of power, because one could say, observing what happens in reality, that a certain degree of economic power is probably still necessary to manage the system (see, for example, Parsons, 1951).

political structure, derived from Brown, Lusch, and Muehling (1983)(see section 5.3.). This includes power sources and dependence, and, for a sub-sample, the variable of power.

2.1.3. Reciprocal influences between power sources

In 1986 Gaski presented results of research on reciprocal effects between the five power sources identified by French and Raven (1959). He found that punishments are negatively related to expert, referent, and legitimate sources; rewards are positively related to expert, referent, and legitimate sources. The contribution to power of punishments and rewards is achieved through the mediation of expert, referent, and legitimate power sources. The implication of their findings is essentially that the use of reward and coercion may have a compound impact on one's power (because they affect the other three of French and Raven's sources of power). For instance, if an entity's granting of rewards has a positive direct impact on its power level, this effect may be intensified through the positive effect on these other power sources. If the use of coercion were to have a positive direct impact on power, the effect could be reduced, offset, or reversed by the inverse effect that coercion has on expert, referent, and legitimate power sources.

2.1.4. Exercised and non-exercised sources of power

In previous literature the distinction between exercised and non-exercised sources of power is unclear. Gaski and Nevin (1985) identified this gap and investigated the differential effect on power of exercised and non-exercised power sources. They found that exercised non-coercive power sources (rewards) have a stronger effect on power than non-exercised power sources. Although, they didn't find (as might have been supposed) a difference in the effect of exercised and non-exercised coercive power sources on power. Their research showed some differences between exercised

and non-exercised sources; the differences that have been found were as expected, but not all the differences were statistically proved, so that the picture of exercised and non-exercised sources of power is not completely clear. The main problem in this research, as often happens in marketing research, is that inferences were made after the analysis of a single set of data.

2.1.5. The measurement of power and the issue-specific nature of power

In this section we report results which show that power is not a pervasive concept, but is issue-specific, and that therefore the same operationalization will not necessarily be effective in every context. This argument reinforces our doubts about the use of the variable of power, while we favour its antecedents, namely power sources and dependence.

Lusch and Ross (1985) considered the problem of having a definition of power that mirrored what really happens in power-dependence relationships. They wanted to understand if power is a pervasive concept (as seemed to be assumed in previous marketing literature) or an issue-specific concept (as was suggested in behavioral literature). By analysing a marketing channel for grocery products, they showed that:

- * The self-perception of power held by channel member A, regarding his power over channel member B, is limited in scope.

- * The power attributed by channel member B to channel member A is limited in scope.

- * A power source held by A is issue specific rather than pervasive in terms of the power it creates for A over B.

At the end of their article they suggested investigating, separately, the effects of the different power sources on the different areas of power.

Speh and Bonfield (1978) had also shown that channel control was issue-specific. Wilkinson (1978) found that the sources of a channel member's power are situation

specific. That is to say, for different targets of power and for different activities, the sources of power are not the same. Therefore, to develop a viable resource base for the exercise of power, a channel member must first identify the resources that can contribute to the kind of power it desires. There is also the problem of how to acquire the appropriate resource mix. Therefore, it is necessary to understand the factors that affect the way one firm perceives another.

2.1.6. Influence strategies and power

In this section we show that a strand of research studying influence strategies is very closely connected to that studying power, and the results are very similar. Some of the issues are the same, and power sources and influence strategies are operationalized with the same measures.

The idea of influence is very close to that of power: French and Raven (1959), in their classic study of power in social systems, said that "The strength of power of O/P [O on P] in some system *a* is defined as the maximum potential ability of O to influence P in *a*. By this definition influence is kinetic power, just as power is potential influence. It is assumed that O is capable of various acts which, because of some more or less enduring relation to P, are able to exert influence on P." (French and Raven, 1959, p.152). The connection between power sources and influence was established very clearly by French and Snyder (1959): the effective influence of A on B was tested as a function of B perceiving that A possessed power sources. Effective influence is considered in terms of change in the behavior of B, which is exactly what others (Dahl, 1957; El-Ansary and Stern, 1972) considered as power.

Frazier and Summers (1984) investigated what sources of power (combined with each other in what they called "influence strategies") were primarily used, that is to say,

how power sources are implemented in reality through influence strategies⁵. Frazier and Summers (1984) showed that the inter-firm's influence over another member's behavior does not necessarily need to be directly focused on the intended behavior, but can also try to alter the perceptions of the target organization. In the channel investigated (car dealership) the authors found two "indirect" strategies: information exchange and recommendations; four "direct" strategies: promises, threats, requests and legalistic strategies. They investigated relationships between influence strategies and suggested that under certain conditions (for instance, where there is a high level of interdependency) some combinations of influence strategies can be more common than others. They verified that in a channel with high levels of interdependency "...firms will rely most heavily on information exchange in their attempts to gain their influence objectives and least on threats and legalistic pleas. Moderate reliance will be placed in the use of requests, recommendations and promises, with promises being used somewhat less frequently" (1984, p.48). If we interpret this result according to the power source approach, we could say that Frazier and Summers found that firms in this kind of channel mainly used non-coercive power sources, specifically expert and referent power sources. A second finding of Frazier and Summer was that "... in inter-firm relationships, uses of the information exchange and request strategies are positively correlated, and each is negatively correlated with promises, threats, and legalistic pleas. In turn, promises, threats, and legalistic pleas are positively inter-correlated"(1984, p.48). According to the power sources approach, non-economic (non-coercive) sources are inter-correlated and (coercive) economic sources are inter-correlated ("legalistic" is here considered as coercive because it is something like a legal threat - in power sources terms, a legal legitimate source). The correlations between information exchange and request strategies were probably found because, in order to effectively perform a request strategy, it is necessary to have already exercised "information exchange".

The method of considering real influence strategies in a channel of distribution is useful because it gives us an idea of what happens in the kind of channel examined.

⁵. This is a conceptually very similar view of channel power issues as that of Hunt and Nevin (1974), and Brown, Lusch and Muehling (1983).

But this strand of research is unlikely to contribute to further understanding of the power process, and consequently significant advancement in the state of the art, because it is unlikely to generalise. Later (1986) Frazier and Summers showed that the use of coercive influence strategies⁶ by A over B is negatively related to B's⁷ perception of the power of A over B. Also, the use of non-coercive influence strategies is positively correlated to perceived power. They found that coercive strategies are frequently used after other forms of influence, such as recommendations (a non-coercive strategy), have failed to achieve the desired results. The apparent contradiction with the results of other researchers concerning the relationship between non-coercive sources of power and power (Hunt and Nevin, 1974; Etgar, 1978a; Lusch and Brown, 1982) might be due to different approaches to research. We believe that the different results are due to the different measure of perceived power: Frazier and Summers measured power with the role performance approach (the more the manufacturer's role performance is perceived as good, the more the distributor is dependent⁸; on the other hand, previous authors measured power as the manufacturer's ability to control a number of decision variables, the measurement of which is likely to be influenced by coercive action more than by the evaluation of the role performance (Brown, Lusch, and Muehling, 1983). Frazier and Summers' approach (1986) suggests that there might be feedback effects⁹. Frazier and Rody (1991) studied the use of influence strategies in the context of an industrial channel where there was moderate downstream dependence between supplier and distributor. In this study they dichotomized influence strategies into coercive and non-coercive, connecting their work to previous studies on power.

⁶. In the concept of coercive influence strategy they also included promises of rewards, and therefore this "coercive" is similar to the "economic" category.

⁷. In this case B are dealers.

⁸. It seems that the measurement of power based on role performance proposed by Frazier (1983) is somehow related to the non-coercive sources of power, particularly the expert and the referent sources, as demonstrated by Brown, Lusch, and Muehling (1983). Coming directly from the close relationship between power and dependence (see, for example, Emerson, 1962), this theory asserts that, when the level of a source of firm role performance is perceived as being high, the target should be highly motivated to maintain the exchange relationship, and should look at other alternative systems as less attractive. This proposed measurement method seems to be valid, even if there is the risk of undervaluing the coercive aspect of power/dependence.

⁹. For example, when the manufacturer has little power and can't exercise non-coercive or non-economic power because he has not got the reliability to do it, he will tend to use more coercive sources; the more he uses these, the more he is perceived as unreliable and the more he will use coercive sources.

To summarise, the influence strategy approach is very interesting but it did not provide much more understanding of the internal political structure of the channel than the classical power source approach. We support the idea that the overlap between influence strategy and power source approaches (regarding variable domain, analytical methods, and results) is so significant that we can treat them with the same approach.

2.1.7. Influencing a channel member's reaction to power

In previous sections of this chapter we described the political structure of relationships between channel members in terms of power sources and dependence. In this section we review a few studies that consider the variable of power in action, identifying a stage where control is relinquished. What this research says is that when competencies and capabilities of franchisor and franchisee are different, with the franchisee acknowledging the expertise of the franchisor, the franchisee is more likely to relinquish control. This reinforces the importance of non-economic power sources in franchise channels.

Anand and Stern (1985) examined the conditions that encourage channel members to relinquish control willingly and purposefully to others in franchise channels. The underlying assumption was that franchisees make choices to follow the franchisor's decisions or their own by examining past performance and the circumstances in which it occurred. That is to say, channel members react differently to the existence or exercise of power sources, depending on previous experience in the relationship. As was summarized later by Anand (1987), franchisees were found to relinquish control when:

- * profitable decisions initiated by franchisor were attributed to internal characteristics of the franchisor, such as ability and effort:
- * unprofitable decisions initiated by the franchisor were attributed to factors external

to the franchisors, such as location or luck;

* their own profitable decisions were attributed to external factors;

* their own unprofitable decisions were attributed to internal causes, such as lack of ability or effort.

In a later piece of research Anand (1987) identified an effective method to increase control of the franchisor by inducing franchisees to relinquish their control. When there is evidence that some channel members, who in the past followed the franchisor's advice, are more profitable than those who don't, then these data can be used to encourage franchisees to relinquish control. This is a very refined piece of tactics in channel management, even if it could be used instrumentally, by manipulating information flows.

2.1.8. Open issues on power-dependence

A very important issue that has not really been researched is the extent to which channel member's power-dependence and its outcomes are managed similarly or differently across different environments. In a resource dependence framework, for example, the environment may influence the degree of concentration of authority and the way power is managed. Economic conditions and cultural differences, for example, may play a role in the process, by affecting the way power-dependence is perceived, and control relinquished. In the published literature there is a lack of comparative studies, although research has been reported on indirect comparisons of similar studies conducted in different countries¹⁰. The need for studies which compare the management of distribution channels in different cultures is growing as more and more business is done in an international context (Kale and McIntyre, 1991). In the research reported in this thesis, a model of channel management is developed and tested in a cross-country context, and inferences are made about similarities and differences (see Chapter 8).

¹⁰. See, for example, Frazier, Gill and Kale, 1989; Kale, 1986.

Another gap in the literature is that power-dependence issues have only been investigated by collecting data from one out of the two actors in the relationship. It would be interesting to measure the potential and actual power of the supplier-franchisor, not only as perceived by the franchisees, who are the "targets", but also by the supplier-franchisor himself; this is because perceptions of members playing different roles in the channels are not necessarily equal (see section 8.3).

Finally, we question the possibility of finding context-free perceptual and factual measures of power (through the traditional multi-item measures of control items) that are capable of being related to other behavioral variables such as conflict. Thus, power can hardly be used for comparative studies, such as cross-franchise or cross-country studies. On the other hand, power sources are theoretically defined in such a way that they are applicable in behavioral models for comparative studies. Methodologies for measuring the level of power are available in other strands of research (see, for example, Freeman, 1977), but the nature of the techniques used does not allow us to include this variable in the behavioral models such that we use here.

2.2. The Internal Political Processes

In this section we deal with the impact of the political structure on channel member behavior; we discuss the effect of attempts to exercise power on other channel members, and specifically the consequences of using different sources of power. Previous literature in distribution channel studies concerning the variables of satisfaction, conflict, coordination and performance is discussed.

The theory behind these studies is that the improper execution of power in a channel can lead to unnecessary conflict between channel members, inefficiencies in operations, decreased cooperation, decreased satisfaction, and even to the termination of the channel relationship (e.g. Kasulis and Spekman, 1980).

2.2.1 Satisfaction

In this section we discuss previous studies of channel member's satisfaction, and we provide two reasons that prevented us from including this variable in our model.

Satisfaction has been conceptualized as "an affective response of individual channel members towards salient aspects of the channel organization" (Schul, Little, and Pride, 1985), and measured with perceptual measures. Channel power and its use by a channel leader has been regarded as a primary factor affecting channel member satisfaction (Dwyer, 1980; Hunt and Nevin, 1974; Lusch, 1978; Wilkinson, 1979). The consequences of exercising power in a channel of distribution depend on the sources of power exercised: franchisors were found to be able to increase the franchisees' satisfaction about franchise relationship by relying more on non-coercive or non-economic sources of power, such as providing higher quality assistance in the areas of equipment, site location, national advertising, local advertising, and so on (Hunt and Nevin, 1974; Lusch, 1976a and 1976b showed the same evidence). The results also showed that franchisors could increase franchisee' satisfaction by relying less on coercive sources of power. Gaski and Nevin (1985) showed that the negative

effect of coercive power sources on satisfaction is stronger when they are not just possessed, but also exercised, while the positive effect of exercised non-coercive power sources is as strong as the effect of non-exercised non-coercive power sources.

Channel member satisfaction has also been related to an organizational variable defined as "channel climate". According to Schul, Little and Pride (1985), ".. power perceptions alone cannot account for individual differences in satisfaction observed among members of a distribution channel. In fact, studies in organizational behavior suggest that satisfaction depends upon channel member's perceptions of a full range of organizational and social variables that constitute the internal environment of the organization (see for example: Bagozzi, 1980a; Campbell et al. 1970; Cawsey, 1973; Churchill, Ford, Walker, 1976;)". The organizational and social variables that constitute the internal environment of the organization (for example, autonomy, leadership, structure, task orientation, and interpersonal relations) are defined as "organizational climate", which serves as a basis for interpreting the environmental contexts of organizations (Hellriegel and Slocum, 1974; James and Jones, 1974; Woodman and King, 1978, cited by Schul, Little and Pride, 1985). Organizational climate emerges from the naturally occurring interactions of various personnel who represent member firms within the channel hierarchy and serves to describe the characteristic behavioral processes of the channel organization at one time. Schul, Little and Pride (1985) identified:

- * four dimensions of organizational climate in a franchise channel: (i) channel leader's initiating structure; (ii) channel leader's consideration; (iii) autonomy; and (iv) reward orientation;

- * four dimensions of channel satisfaction: (i) franchise administration (interaction with regional office personnel); (ii) service support; (iii) rewards; and (iv) franchise fee policies.

In their research, the four channel climate variables explained a significant share of the variance in channel satisfaction: channel members are more satisfied with various aspects of their channel arrangement (eg. administration and service support) when

they perceive a high degree of direction is being offered by channel management. One explanation for this association is that direction reduces a channel member's role ambiguity (or its consequences), thus increasing his or her satisfaction under ambiguous situations, such as those typically experienced in a channel arrangement. Similarly reward orientation, consideration, and also perceived autonomy (even if with weaker evidence) positively affect franchisees' satisfaction. The result provides strong evidence that a channel member's satisfaction with various aspects of the channel arrangement is based on more than just a consideration of the type of power sources they control and/or are subject to, a contention generally expressed in the channel literature (Dwyer, 1980; Lusch, 1978; Wilkinson, 1979 and 1981). We acknowledge this, and this is the first reason that we did not include satisfaction in our model.

Another reason is that research on satisfaction has not established a direct relationship between satisfaction and performance. Typically, in consumer behavior research, satisfaction and its determinants are used as explanatory variables and logical antecedents of variables such as brand and store loyalty. In an inter-organizational context, the satisfaction of channel members might be studied in relation to the length of the relationship (duration effect) or in relation to channel performance. Within a behavioral model, satisfaction is likely to be an indirect (and not so clearly linked) antecedent of channel member performance. In our research we tried to analyze behavioral variables which are more directly linked to performance, such as power sources and conflict, and so satisfaction was not included in our research design.

2.2.2. Conflict

Here we review studies on conflict between channel members, and highlight the following results: the causes of conflict, as perceived from one side of the distribution channel, can be explained in terms of the power sources theory. On the other hand,

the outcomes of conflict are not clear: it is unclear whether conflict is really dysfunctional for anyone's performance or whether it is just part of the normal working relationships in distribution channels.

2.2.2.1. The Variable of Conflict

Conflict has been extensively defined and studied in sociological disciplines: "A social relationship between two or more parties (persons, groups, or empirically distinguishable entities) in which at least one of the parties perceives the other as an adversary engaging in behavior designed to destroy, injure, thwart, or gain scarce resources at the expense of the perceiver" (Goldman, 1966, quoted in Rosenberg and Stern, 1970). In distribution channels, conflict is traditionally defined as existing in a channel when "a component (channel member) perceives the behavior of another to be impeding the attainment of its goals or the effective performance of its instrumental behavior patterns" (Stern and Gorman, 1969). The differences in the definitions of conflict usually lie in the stage of conflict under investigation. Conflict has been commonly recognized as being a dynamic process of disagreement between two organizations, composed of a series of episodes, each of which consists of different stages (latent conflict, affective conflict, manifest conflict, and conflict aftermath) (Pondy, 1967). Manifest conflict is the stage that has been most widely studied in channel research; it can be seen as the level of written or verbal disagreement among channel members (Lusch, 1976a and 1976b), taking place over various marketing strategy issues (Stern and Gorman, 1969).

Conflict has been measured using different dimensions. Lusch (1976a and 1976b) used a perceptual measure of manifest conflict, the frequency of disagreement between channel members. Stern, Sternhal, and Craig (1973) in a laboratory study measured conflict using a semantic differential scale, and Pearson and Monoky (1976, cited by Etgar, 1979) used attitudinal statements. Etgar (1979) measured both the affective and manifest conflict, showing evidence that attitudinal factors contributed more than structural factors to the development of intra-channel manifest and affective

conflict. In the most substantial effort to develop measures of conflict, Brown and Day (1981) provided a multiple component approach; they compared six alternative measures of manifest conflict, i.e. several combinations of measures of importance, frequency, and intensity of conflict on 15 selected issues, jointly with measurement of overall conflict perceptions on goal compatibility, overall conflict, goal impediment, and affective conflict. They compared the six combinations with respect to reliability, content validity, nomological validity, and convergent validity (they did not evaluate discriminant validity and concurrent validity). The measure that emerged as clearly the best was the one obtained from multiplying the intensity, frequency, and importance of each selected issue. Thus, frequency of occurrence, intensity of conflict, and the importance of the issue of disagreement are the three dimensions that proved to be most effective to describe and measure conflict (Brown and Day, 1981).

Another issue is the extent to which conflict is seen as "dangerous". Some authors assume that conflict is an inherent element of interdependence relationships in distribution channels (Stern and El-Ansary, 1977). As Reve and Stern (1979) said, "The conceptual foundations underlying the study of inter-organizational relations in distribution channels stresses that conflict is inevitable". Some authors support the idea that in certain conditions, inter-organizational and interpersonal conflict can be useful (Assael, 1969). But marketing scholars usually assume that conflict should be managed in order to avoid the dangers of an overly high level of conflict (Rosenberg and Stern, 1971). These dangers, however, have not been demonstrated empirically, the results being episodic. The relationship between levels of conflict and outcomes of conflict might even be non-linear; this to say, a certain amount of conflict might be desirable as a generator of motivation and innovation, while a larger amount of conflict can badly affect coordination and control in the channel. In section 2.2.4., the relationship between conflict and performance is discussed, showing that previous research was not able to show any systematic link between these two variables.

Most of the studies *assumed* conflict was undesirable, and concentrated on the causes, in order to understand how to prevent its emergence. In section 2.2.2.2. the causes of conflict are presented.

2.2.2.2. The causes of conflict

Several general causes of conflict between distribution channel members have been proposed, including¹¹:

1. * incompatibility of goals;
 - * role incongruence and dysfunctional domain definitions;
 - * differences in perceptions of reality in joint decision making (Stern and Heskett, 1969);
2. * attitudinal causes;
 - * structural causes (Etgar, 1979);
3. * non-coercive sources of power (non-economic sources; see sections 2.1.1. and 5.3);
 - * coercive sources of power (economic sources, see sections 2.1.1. and 5.3.)(Lusch, 1976a and 1976b).

We now review results concerning these three groups. Rosenberg and Stern (1970) provided the basic conceptual framework to analyze conflict, following Stern and Heskett's categorization of causes of conflict. Rosenberg and Stern (1971), tested the hypothesis from Stern and Heskett (1969): they showed evidence that conflict varies directly with:

- * disparity between the individual goals of channel members;
- * who has the responsibility for the range of products, population served, services and functions performed;
- * differences between members' perceptions of reality.

Etgar (1979) partitioned the causes of conflict into attitudinal and structural differences among channel members. Attitudinal differences concern the ways

¹¹. Among the large number of pieces of research on the causes of conflict within a channel of distribution, some concentrated on one specific cause of conflict, trying to understand the process of conflict and its possible resolution in specific cases. For example Zeller, Achabal and Brown (1980) showed that market penetration and location goals of the members of a franchise system very seldom coincided. Kaufmann and Rangan (1989, 1990), proposed a counteracting effect of local advertising on location conflicts between franchisor and franchisees.

channel members absorb and process information about their channel and their environment: roles, expectations, perceptions, and communications. Structural differences concern a clash of opposite interests: goal divergence, drive for autonomy, competition for scarce resources. Through a cross-channel piece of research Etgar showed evidence that attitudinal causes of conflict are the most important ones in both affective and manifest conflict situations (but it should be kept in mind that sample sizes were small). The most important observed causes of conflict were divergence of expectations, lack of role clarity, divergence in perceptions, and competition over resources; whereas the affective causes of conflict were divergence in perceptions and divergence in goals.

Conflict also has been related to the sources of power within the inter-organizational system. Since each channel member tries to achieve power over the others, it seemed important to understand if the way power was obtained affected the possibility of a cooperative relationship (i.e. non-conflictual relationship, see section 2.2.3.). Hunt and Nevin (1974) in a franchise channel and Lusch (1976a and 1976b) in an automobile channel of distribution, showed that coercive sources of power tended to increase the level of intra-channel conflict whereas non-coercive sources tended to decrease it. It has been argued (Etgar, 1978a) that in Lusch's article (and probably also in Hunt and Nevin's) the causal relationship is not clear, because coercive behavior could be provoked by a conflict situation in which all the other non coercive influences proved to be ineffective. The clear evidence, as the author himself admitted, is that conflict was positively correlated with coercive sources and negatively correlated with non-coercive sources. In a laboratory study it was found that conflict is lowest when referent and expert power are used and highest when reward and coercive sources of power are used (Stern, Shulz, and Grabner, 1973). Gaski (1986), showed that the positive correlation between coercive power sources and conflict is stronger when the power sources are exercised, while the negative correlation between non-coercive power sources and conflict is not stronger when the power sources are not exercised.

Assuming that opportunism is a cause of disagreement between channel members,

John (1984) examined the reason why opportunistic behavior in franchise channel relationships occurs and concluded that when the focal party attributes his behavior to such sources of influence as expert, legitimate, and referent power, attitudinal orientation becomes more positive. A positive orientation has a significant inhibiting effect on self-reported opportunism. Conversely, when attributions of influence are made to rewards and coercion, more opportunistic behavior is induced.

Thus, different pieces of research have concluded that certain power sources (non-coercive or non-economic) rather than others (coercive and economic) should be used because they do not create conflict.

2.2.2.3. Conflict and leadership style

Schul, Pride, and Little (1983) explored the relationship of conflict to a variable very similar to power sources, the leadership style (i.e. how the channel leader uses power sources). In fact, these authors explored three dimensions of the leadership style - participative, supportive, and directive ¹² - and studied how they affected channel member's perceptions of intra-channel conflict in a franchise distribution channel. Participative, supportive, and directive leadership styles were found to decrease the level of affective conflict. While it seems very likely that the more the leadership style is participative and supportive, the less conflict there is, the proposed and "demonstrated" influence of directive leadership style on conflict seems to be less clear in its rationale. Their definition of directive style says that a directive leader organizes and defines the task environment, assigns the necessary functions to be performed, establishes communication networks and evaluates work group performance. To justify their hypothesis Schul, Pride and Little (1983) pointed out that:

1. Previous organizational literature had shown that close supervision, emphasis

¹². These dimensions are very close to those included in the construct called *decision mechanisms* (economic processes in the political economy framework terminology): see section 2.2.2.4.

on rules and standardization (i.e. directive leadership style) appeared to create tension and pressure (that are considered "conflict antecedents") when subordinates engaged in highly structured tasks and reduced conflict when subordinates engaged in ambiguous or unstructured tasks (Burke, 1966; Corwin, 1969; Pondy, 1967);

2. The organization of distribution channels has a non-traditional structure. Consequently, they advanced the hypothesis that in distribution channels, the more directive the style of leadership, the less conflict there is.

Two problems arise from this analysis:

1. It is not clear to what extent is it possible to exercise a directive style of leadership without provoking conflict, which means that the relationship between directiveness and conflict could be nonlinear.
2. The focus of the empirical research (franchising in real estate brokerage services), was fairly typical distribution channels, but relatively atypical compared to many business format franchise systems that are now increasing their importance in the marketplace. We doubt that the result showed by Schul, Little and Pride can be generalized to, say, business format franchise systems, because these are so structured that it is not possible to exercise a very directive style of leadership without taking away the franchisees autonomy.

What we mean is that the way the channel leader uses authority depends also on what type of structure has been previously established (contractually or informally). What Parsons affirmed and Schul, Little, and Pride recognized is surely true: instrumental activities, which are highly directive and task oriented, are necessary for any social system to solve the basic functional problems of adapting to its environment and attaining goals through allocation and mobilization of resources (Parsons 1951). This means it would be better if clear rules existed. But, since all the researchers and practitioners involved in franchise channels recognize that a certain degree of franchisee autonomy is necessary to obtain the advantages of peripheral entrepreneurship, the rules cannot be applied in a heavy-handed way.

In our research we analyze franchise channels that are structured distribution channels, where a very directive leadership style would create problems. The variable of leadership style used in Schul, Little, and Pride research is not included in our research design because of the overlap with power sources and decision mechanisms.

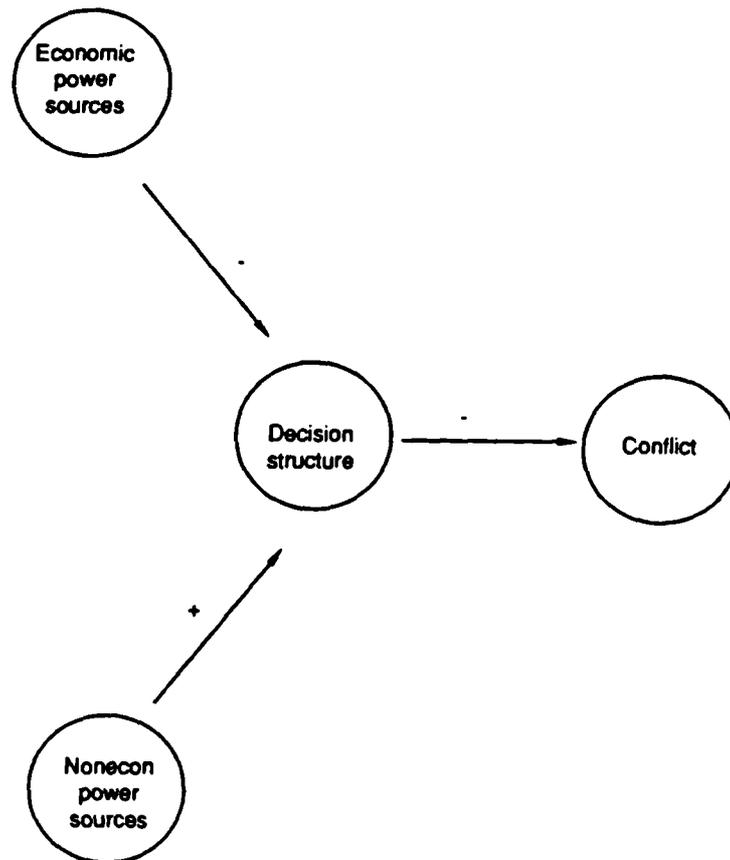
2.2.2.4. Conflict and decision mechanisms

Schul and Babakus (1988) (Figure 6) examined the relationship between power sources and conflict by assessing the mediating role of factors representing elements of the decision structure (decision mechanisms or economic processes in the Political Economy Framework terminology: see section 2.4.). They did this for franchises for real estate brokerage services. Decision structure was considered as "...a positional variable in the organization reflecting the vertical economic arrangement or transactional form of the channel" (Day and Klein, 1987 cited by Schul and Babakus, 1988). "The decision structure defines the structure of the distribution of authority or power in decision making, i.e., how behavior is coordinated and resources allocated" (Dwyer and Welsh, 1985, cited by Schul and Babakus, 1988)¹³.

¹³. Schul and Babakus followed the conceptualization of the decision structure provided in the political economy paradigm of organization theory (Achrol, Reve, and Stern, 1983; Dwyer and Welsh, 1985; Stern and Reve, 1980).

Figure 6

Schul and Babakus' Model (1988)



Schul and Babakus considered two dimensions of the decision channel structure: Formalization and Participation. The former refers to establishing uniform controls, explicit rules and procedures; the latter to the level of participation of channel members in decision making. Participation is considered the reverse of centralization, and has been considered in previous research (Dwyer and Welsh, 1985, Dwyer and Ho, 1987 and 1988). Schul and Babakus' report that coercive and non-coercive power sources have respectively a negative and positive impact on the two dimensions of the decision structure, formalization and participation. These two dimensions, then, are negatively related to the perception of conflict. The direct effects of power sources on intra-channel conflict proved to be insignificant in a Lisrel model. As the authors commented at the end of the report, "...the study found no direct link between reward or coercive power sources and conflict, only an indirect effect through the decision structure component. The implication of these findings is essentially that the use of any particular type of power must be carried out in full consideration of its impact on channel members' perceptions of components of the decision structure. A de-facto assumption that reward power reduces conflict and coercion increases it, while consistent with the prevailing literature, may generate confusing results" (1988, p.399). In our research design, the same two dimensions of decision mechanisms are included in the measurement model, and the relationship of this variable to the power-conflict process is investigated.

2.2.2.5. An open issue about conflict

Conflict is an important variable in inter-organizational studies, especially in those focused on asymmetry (Oliver, 1990), on a resources dependence approach (Pfeffer and Salancik, 1978), and on a political economy view of the relationships (Zald, 1970; Benson, 1975). But a very important and challenging question is "so what": a research issue that should be addressed is the extent to which conflict is related or compatible with organization goals. For example, the extent to which conflict and its antecedents are relevant for the improvement of channel member's performance. In this thesis conflict is included in a model where relations between power-conflict

process on the one hand, and performance and information exchange on the other, are drawn and studied. As a suggestion for the future, further research should be undertaken on the antecedents and consequences of conflict.

2.2.3 Coordination and cooperation

Coordination between organizations has been studied in organization theory according to two basic approaches (Warren, Rose, and Bergunder, 1974):

- * The study of the formally structured arrangements for coordination during a long term inter-organizational relationship.
- * The study of short term, ad-hoc efforts at coordination between pairs of organizations.

The second set of coordination policies is frequently overlooked, but has been shown as a frequent and pervasive way to coordinate organizations at the earlier stages of a relationship (Van de Ven and Walker, 1984). In distribution channel studies, the first set of coordination policies mainly have been studied.

In distribution channel studies, cooperation and coordination have been considered and investigated as variables relating to some form of joint effort between organizations in order to do something, during long term relationships, in a context of reciprocity (Oliver, 1990; see also Chapter 1). This is particularly true for vertical marketing systems. The basic assumption is that vertical marketing systems, like franchise systems, by definition cannot operate as organized behavior systems without a certain degree of member cooperation (Stern, 1969; Robicheaux and El-Ansary, 1975-76; Stern and El-Ansary, 1977).

Both the words coordination and cooperation have been used in channel studies. Cooperation has been defined as the process of collaboration through the choice of policies, strategies, tactics, and actions by two or more organizations at different

levels in the distribution channel to attain their mutually desirable goals (Sibley and Michie, 1982); these researchers tried to measure the degree of cooperation existing between, e.g., a franchisor and a franchisee, over a number of important channel issues as perceived by the franchisee. On the other hand, other authors (Guiltinan, Rejab, and Rodgers, 1980) used the label "coordination" to mean the degree to which the franchisor and the franchisee work closely together on important business issues, and they measured this in the same way as cooperation. Thus, these two words, which can be interpreted as having slightly different meanings have been used to describe and investigate the same phenomena. In this research the two words are used synonymously.

Marketing scholars have investigated the relationship between this variable of cooperation/coordination and power sources. Sibley and Michie (1982) found that the greater the franchisor's non-coercive sources of power over the franchisees, the greater the cooperation of the franchisor as perceived by the franchisees. Doubting the comprehensiveness of the power sources approach when looking for the determinants of coordination-cooperation, Guiltinan, Rejab, and Rodgers (1980) investigated some other factors that were related to coordination/cooperation. Specifically they found that the more influential factors were participative decision making, low uncertainty, and good communication between channel members. In our research cooperation is investigated in a sub-sample of franchisors and franchisees. For space reasons it has not been possible to include in the questionnaire different sets of variables as possible determinants of cooperation from the traditional power source approach.

2.2.4 Performance

Although most of the authors involved in research on distribution channels have assumed that power and conflict affect performance, and some have tried to demonstrate it (Walker, 1970; Pearson, 1972; Lusch, 1976a), no strong evidence has

been found ¹⁴.

Two sets of reasons lie behind these inconclusive results:

- * performance is likely to be influenced by many factors, so isolating the effect of one variable may be very difficult;
- * performance is hard to measure.

Lusch's study, the only one that at least found some evidence (but not conclusively significant), measured dealer operating performance with both return on assets (obtained by dividing the estimated profits before taxes and officers salaries by the total assets of the dealership) and asset turnover (obtained by dividing total estimated annual sales for the dealership by the total assets of the dealership). Lusch himself recognized that these two measures are subject to error due to the difference in accounting methods followed by various dealerships (from franchisees of different automobile franchise systems). The way performance should be measured is the source of a long debate in business studies. In the context of the cross-country and cross-franchise comparisons it would be very difficult to agree a standard measure of actual performance from published accounts. This is because differences between accountancy systems, which created many problems in previous research (Lusch, 1976a), would be immensely amplified by the differences between tax systems and other environmental factors existing in different countries. Thus, in our research perceptual measures are used.

A high level of conflict is usually hypothesized as a cause of low performance. In our research a reinforcing effect of performance on the perception of conflict is also tested in order to increase understanding of the dynamic of channel relationships. This hypothesis is plausible because when the distribution channel performs well latent conflicts are not likely to be manifest, the coercive or economic sources of power can easily be replaced by "softer" non-coercive or non-economic sources, and channel member's satisfaction is likely to be higher. Although these relations seem to be obvious, they have neither been demonstrated nor considered in previous studies of the power-conflict model.

¹⁴ See for example, the model proposed by Rosenbloom (1973), and the weak evidence from Lusch (1976).

2.3 Internal Economic Structure

In this section we discuss another element of the Political Economy Framework, the channel transaction form, or internal economic structure. In our research this element is very important: we limited the scope of the field research to franchise channels because we are aware of the possible interaction between the economic and contractual arrangements and channel members' behavior. Comparing two different countries, we chose to focus on a homogeneous domain of inter-organizational systems of distribution (see also sections 6.3. and 6.4.). In this section we examine studies on the choice of the transaction form, on the relationship between transaction form and decision mechanisms, and on the relationship between transaction form and power sources.

The problem of choosing the channel form has mainly been investigated using an economic approach, based on the efficiency of exchanges between channel members in order to make a product available for consumption. In this context, a relatively recent development has been the introduction of transaction cost analysis (Williamson, 1975, 1979, 1981, 1985). Starting from an economic approach, transaction cost analysis blends organization theory, economics, and modern contract law to offer powerful explanations of why different structures are selected by managers and their environment to coordinate exchange. A very large number of studies have been developed along these lines, for example: make-or buy decisions (Walker and Weber, 1984; Harrigan, 1985; Anderson and Weitz, 1986); international marketing (Reid, 1983; Anderson and Coughlan, 1987; Klein, Frazier, and Roth, 1990); the degree of vertical integration within multinational corporation (Gatignon and Anderson, 1988); conventional channels as well as franchise channels (Etgar and Valency, 1983; Anderson and Coughlan, 1987; Heide and John, 1988); forward integration in the context of industrial goods sectors (John and Weitz, 1988); networks (Jarrillo, 1988, 1990; Blois, 1990)(see also Chapter 1).

Transaction cost analysis pays particular attention to the costs of running the system (negotiating, assembling, information, and monitoring performance). Very briefly,

this approach presumes that market-based exchange is generally preferred on flexibility and efficiency grounds. However, when there are few candidate exchange partners, inevitable "frictions" may cause market exchange to fail, especially if innately imperfect decision makers face transaction environments that are complex and/or uncertain. The key variable in this seemingly powerful framework is opportunism, "self interest seeking with guile" (Williamson, 1975, p.26)¹⁵. Exemplified by distortion of information and shirking of obligations, opportunism is considered an inherent human tendency which, unless bridled by competitive market structures or highly measurable performance in predictable environments, will cripple market-based exchange. Relational contracting or vertical integration may be more efficient forms of organizing for the transaction if the inherent fixed costs of governing the exchange system can be amortized over frequent transactions.

To substitute the usual processes of negotiation and bargaining in market exchange, internal and relational forms have to rely on administrative and bureaucratic arrangements to coordinate the behavior of members. Those mechanisms are described in the Political Economy Framework as the internal economic processes. Dwyer and Oh (1988) established a relationship between transaction form and decision mechanisms: in different forms of channel different decision mechanisms are used because of the specific needs of controlling opportunism. Etgar (1978d) studied the relationship between the transaction form and the sources of power used by channel members. He tried to answer the question: are there differences between the way channel members try to achieve control over other members in conventional channels and in contractual ones? He showed that manufacturers who lead conventional channels were found to rely primarily on product-related support activities such as product development, delivery, and a wide selection of product offerings. Their counterparts in the contractual channels were found to rely on different kinds of activities to achieve power, primarily on their expertise and their ability to assist dealers in retail management activities.

¹⁵. John (1984) studied the reasons for opportunistic behaviour in marketing channels: he related opportunism to the sources of power and to the decision mechanisms.

In our research we take transaction cost analysis as a point of reference while looking at the characteristics of the franchise channels under investigation. The franchise agreement is a form of channel that is somewhere in the middle, between "market" and "hierarchy". The research design adopted here was carefully planned in order to avoid the risk of making comparisons when too many things could vary all at once: the choice was made to keep the transaction form "fixed", and "vary" the variables regarding the country¹⁶.

In order to clarify the relationship between transaction form and sociopolitical processes and structures, it is to be hoped that future research will investigate whether the same model of channel relationships is equally applicable in channels with different transaction forms.

¹⁶. Also, our study includes a mix of retail franchises, similar in each country. This implies that the results which hold across countries, hold "despite" the relative heterogeneity existing within each country sample.

2.4 Internal Economic Processes

In this section we examine the relationship between power-conflict process and decision mechanisms (or decision-making process)(Schul and Babakus, 1988)(see also section 2.2.2.4). In particular, decision making can be more or less centralized, more or less participative; decisions can be made within a set of more or less explicitly defined rules and procedure (the level of formalization of the decision structure); decisions can also be made according to the amount of task differentiation (the level of specialization of the decision structure) (Dwyer and Welsh, 1985). The decision process is influenced by the type of transaction form chosen by the channel leader. For instance, in a corporately owned retail chain, decisions are likely to be made in a more centralized way than in an independent member's channel. But, even once the transactional form is set up, there are different mechanisms that can be built in order to set the context in which decisions are made.

In our research, we are interested in the decision mechanisms within a single transactional form, the franchising one. In this context the decision mechanisms can vary between extremes of more or less bureaucratization (Dwyer and Oh, 1987). This, in turn, can be described in terms of centralization, formalization and participation of the channel members in decision making (Dwyer and Oh, 1987, 1988). Of central importance to our research are the findings from Schul and Babakus (1988), concerning the relationship between decision making and other internal (behavioral-political) elements. Two dimensions of the decision making process, formalization and participation, were found to mediate between the sources of power, the perception of power, and the conflict process. Sampling a franchise channel for real estate brokerage services Schul and Babakus found that the direct effects of reward and coercive power on intra-channel conflict are insignificant because these effects are mediated by channel decision making processes. More specifically, when the channel leader relied on non-coercive means to achieve channel control, the channel member felt a stronger sense of participative involvement and felt the organization was communicating a clear commitment to channel goals and related activities - there was a perception of higher participation and formalization. This

effect may be attributable to what Gaski (1986) calls the effect of qualitative power sources (referent, expert, and legitimate). Higher levels of participation and formalization were also associated with lower conflict. In the Schul and Babakus research, a Lisrel structural model disconfirmed the previous apparently significant positive correlation between coercive power sources and conflict. With that model Schul and Babakus showed that (in the data set examined) the effect of power sources on conflict was not direct, but mediated by decision-making process.

In other pieces of research, decision mechanisms were also found to be significantly related to elements external to the channel (see Chapter 3), such as environmental uncertainty (Dwyer and Welsh, 1985), and the availability and abundance of critical resources (Dwyer and Oh, 1987). These elements are indirectly tested in our research by comparing franchise relationships across countries.

2.5. Summary

The internal area of the Political Economy Framework is concerned with the structure (both economic and political) as well as the processes (both economic and political) of the relationships between channel members.

The acknowledged importance of control over other organizations for distribution channel management highlights the relevance of a number of variables for studying inter-organizational relationships: power, dependence, and sources of power are usually regarded as the variables that can be managed in order to achieve cooperation, limit the emergence of conflict, and increase performance. Mediating variables such as the decision-making process (eg. participation, centralization, formalization, etc.) also can be included in a model of channel relationships.

3. ENVIRONMENTAL INFLUENCES ON THE INTERNAL POLITICAL ECONOMY

A cross-country comparison of relationships between members of distribution channels can result in differences owing to: (i) the members of the channels in different countries reacting and behaving differently because cultures are different, so that their internalized socio-economic behavior is different; or, instead, (ii) some elements of the external environment cause different behavior. The interactions between the internal and external sociopolitical and economic forces of distribution channels are also included in the Political Economy Framework (see Figure 4), which we use for this research. The cross-country approach taken in designing the field research seeks to test whether a model of channel relationships can be validated across countries. Thus, the research reported in this thesis directly investigates the extent to which one general element of the external environment - the country - interacts with the way the channel is internally managed. In this section, we discuss previous studies of the interaction between specific elements of the environment and the internal channel relationships. These specific elements might be regarded as explanations of any differences that emerge in the cross-country comparison.

Achrol, Reve and Stern (1983) found that the nature of external political and economic dependencies is crucial to an understanding of the strategic options available to channel members; these dependencies represent constraints on strategic choice. Jacobs (1974) discussed organizational control in terms of exchange relations between organizations and their environments. He suggested that organizational power is a function of dependence on resource suppliers, and that the degree of dependence is inversely proportional to the number of suppliers available; and Mindlin and Aldrich (1975) proposed that the number of suppliers is not nearly as relevant as the importance of each supplier to the resource-dependent organization. Benson (1975) proposed that resource acquisition and power in inter-organizational relations are explained not only by pairwise dependencies between organizations, but also by links to the wider environment. "Thus, organizations maintaining extensive linkages to this larger environment are most likely to be powerful within their network" (Provan,

Beyer, Kruytbosch, 1980, p.202). In the context of franchising, this discussion would mean that the franchisor has more power over the franchisees the lower his dependence on external sources for the supply of know-how and products.

Etgar (1977) showed some evidence of a relationship between environmental elements and the emergence of channel leadership. The elements that, through a canonical correlation analysis of cross-channel sample data, proved to be related to the emergence of a stronger leadership were: declining demand (product's life cycle maturity); high intra-channel competition; labour intensive marketing technology; demand uncertainty (volatility). Achrol, Reve and Stern (1983) used the variable of environmental uncertainty to illustrate the interrelationship between changes in the environment and changes in the configuration of distribution channels and the behavior of channel members. Environmental uncertainty affects organizations (their structure and internal processes), inter-organizational relationships, and the mode and costs of transacting (Aldrich, 1976, 1979; Lawrence and Lorsch, 1967; Pfeffer and Salancik, 1978; Thompson, 1967; Williamson, 1975). Thompson (1967) sees environmental uncertainty as the "cutting edge" of organizational analysis and sees coping with uncertainty as "the essence of the administrative process" (p. 9, 159). This variable does not only include demand uncertainty, but also:

- * inputs and outputs (for instance, shortages or variability in supply of raw materials, and fluctuating demand or lagging sales);
- * competition (vertical or lateral competitive threats);
- * regulation (certainty and clarity of the regulator's ability to impose the regulation and police it).

Achrol, Reve and Stern (1983) proposed a number of statements to be tested on the relationships between these uncertainties and the elements of the internal political economy of distribution channels. The perceived decision-making uncertainty about outputs (considered the most important issue because it summarizes the effects of the others) is used in Achrol and Stern's (1988) research as a dependent variable. This dependent variable is likely to be affected by a range of environmental elements, including:

- * Diversity (the degree of similarity or differentiation perceived between

the elements of the population, including organizations, individuals, and any social forces affecting resources).

- * Dynamism (the perceived frequency of change and turnover in marketing forces in the output environment).
- * Concentration (the extent to which output market resources are perceived as controlled by, or concentrated in, a few or many organizations).
- * Capacity (the perceived favourableness-unfavourableness of economic and demand conditions characterizing the output market's capacity to absorb resources of the focal dyad).
- * Interconnectedness (the number and pattern of linkages or connections perceived among relevant organizations).
- * Conflict (the perceived level of abnormal competitive stress, due to opponent-centred behaviors, characterizing relations among actors vying for control of output market resources).
- * Interdependence (the mutual reactivity and sensitivity to one another's acts perceived to be present among actors competing for output market resources).

The following dimensions have been adopted to operationalize uncertainty in Achrol and Stern's (1988) research:

- * the adequacy of available information from all sources for making decisions;
- * predictability of the consequences of these decisions;
- * the degree of confidence of the decision maker when making these decisions.

Thus, here decision-making uncertainty is hypothesized as a mediating variable between perceived environmental elements and the organization. Tested with Lisrel methodology and data collected from two samples, Achrol and Stern's (1988) research showed that decision-making uncertainty is affected by diversity among consumers, dynamism, concentration, and capacity. The hypotheses that have been verified were the following:

- * The greater the diversity perceived in the consumer environment, the greater the decision-making uncertainty.
- * Perceived diversity in the organizational customer environment has no effect on decision-making uncertainty.
- * The more dynamic the environment is perceived to be, the greater the decision-making uncertainty.
- * Increasing concentration in the perceived environment leads to a reduction in decision-making uncertainty.
- * The greater the perceived capacity of the environment, the lower the decision-making uncertainty.
- * The greater the perceived capacity of the environment, the less the conflict perceived in the environment.

These findings establish a relationship between environment and uncertainty. The authors also asserts that uncertainty affects the internal political economy of channels of distribution.

Previous research (Dweyer and Welsh, 1985) had shown evidence of a relationship between uncertainty and internal political economy, although this work was based on simpler dimensions than decision-making uncertainty. In this research, Dweyer and Welsh used not only one, but two environmental organizing variables:

- * uncertainty, described as the degree of heterogeneity in the environment facing a channel (Thompson, 1967);
- * dependence on the environment (considered as a stock of resources), represented by the variability of the channel output environment (the variance of existing competition, the availability of required resources, and the adaptability of supply to change in demand (Pfeffer and Salancik, 1978; Thompson, 1967)).

Dweyer and Welsh found some statistical support using data obtained from retailers in ten different industries to show that, compared with homogeneous environments, heterogeneous channel environments are associated with:

- * more decentralized decision processes;
- * higher participation in decision-making;

- * less formalized procedures;
- * more retailer control over marketing decisions (internal political structure).

Compared with counterparts in stable settings, channels facing variability in the output sector have:

- * less complex channel configurations (which implies a simpler transactional form - internal economic structure);
- * less retailer control over marketing decisions (which implies less control over the internal political structure).

Following a dependence-only perspective (ie. dependence from the environment described as a stock of resources)(Pfeffer and Salancik, 1978), Dwyer and Oh (1987) investigated the relationship between an environmental variable, munificence (the availability and abundance of critical resources), and the extent of bureaucratization in the decision structure (in the Political Economy terminology, this refers to decision mechanisms or internal economic processes). They found some evidence that munificence has a negative effect on the supplier's tendency to centralize and formalize relations with dealers, which in turn negatively affects the quality of the relationship.

Overall, what emerges from this body of research is that:

- * The environmental elements are best related to the internal political economy through some organizing variables, such as uncertainty and dependence.
- * A number of relationships exist between environmental factors (mainly as perceived by the channel members) and (i) internal economic structure and processes and (ii) internal political structure and processes.
- * The extent to which the environment impacts on the channel of distribution has been investigated, but only regarding its influence on the dyadic relationship between a supplier and a retailer, and not to the whole network (Cook and Emerson, 1978).

3.1. Summary

In a political economy view of inter-organizational relationships, a large number of external factors in the economic and political environment influence the internal level of analysis. Resource-dependence theory can be used to explain many of the reasons that drive organizations to voluntarily establish inter-dependencies with external institutions. Environmental uncertainty, as perceived by channel members, has been developed and tested as the main organizing variable by which environmental processes can be related to important internal processes in distribution channels.

In our research, the country is the element of the external environment that is studied as a possible influence on the internal political economy of franchise channels.

PART II

DEVELOPMENT OF NEW RESEARCH

II DEVELOPMENT OF NEW RESEARCH

4. A DIFFERENT APPROACH FOR THE EMERGING MODEL

4.1. The model emerging from past research

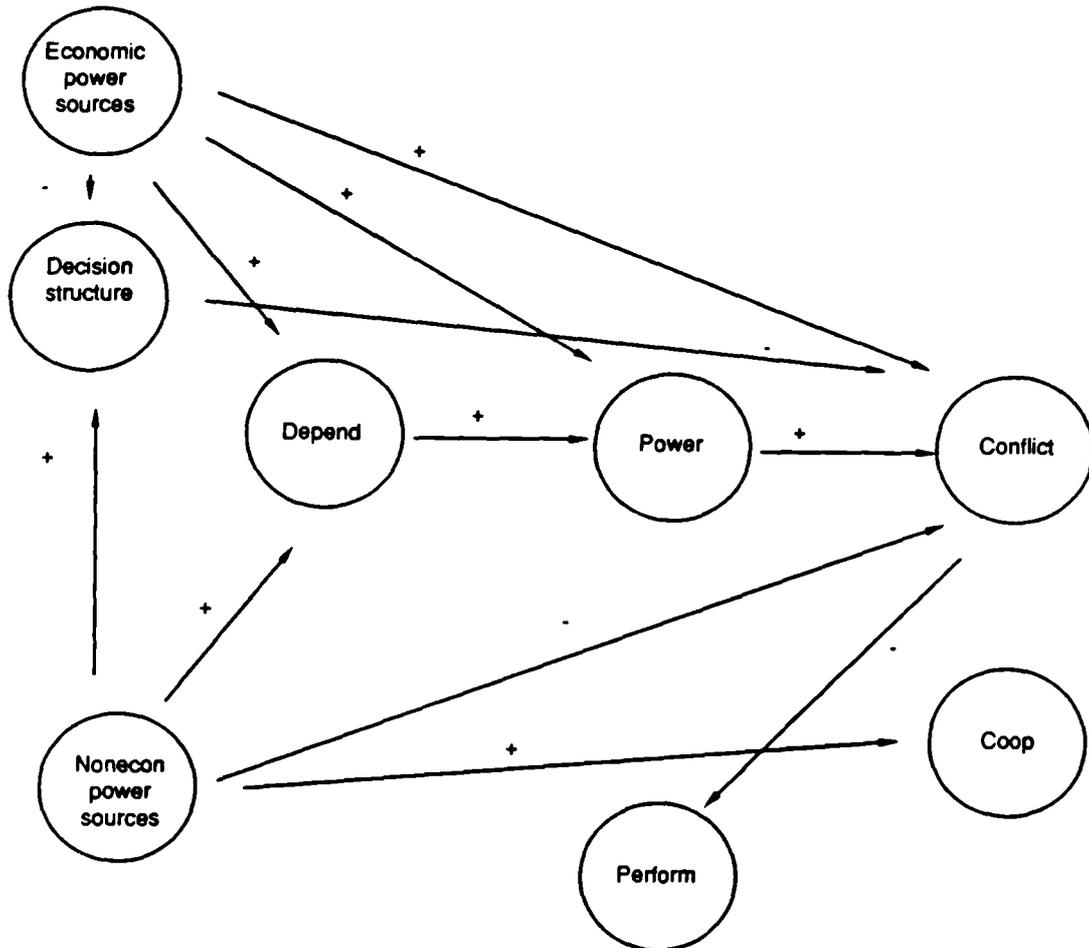
In this section we present a model emerging from past literature; in Chapters 4 and 5 extensions of this model are discussed and aspects of the model are modified in order to make it consistent with the reality of franchise channels and with the size limits of the project.

The role of model building and testing in theory construction has been acknowledged in the marketing literature, even if limitations and drawbacks have had to be considered as well (see, for example, Bagozzi, 1980b; Wilson, 1979). To represent complex phenomena via abstract, simplified, mathematical variables that purport to capture the essence of behavioral relationships is very difficult, and therefore knowledge leading to model building should be accumulated, put together, and tested within a consistent framework. Thus, the role of a framework such as the Political Economy framework is to serve as a model building tool, and to clarify the relationships between different strands of research that have to be included in the model. Even within the Political Economy framework putting together all the most relevant pieces of research into one model is practically impossible, not only because of the large number of variables that have been studied, but also because of the very different labels and definitions that have been used. For instance, studies of leadership style are very similar studies of power, with respect to the real content of the variables, and to the items (questions) included in questionnaires that were used for field research. Thus, the results from the former can be read in the light and logic of the latter - but this isn't immediately apparent because of the different labels and definitions that have been used.

Nevertheless, it is possible to select and put together into one model the results from the most influential and comprehensive pieces of research. The model that emerged from past research is presented in Figure 7.

Figure 7

The Current Model



Amongst the most influential and comprehensive pieces of research are those from Brown, Lusch and Muehling (1983) and Schul and Babakus (1988) (Figures 5 and 6, respectively). These studies are central to the literature concerning channel relationships: they investigated and operationalized the basic issues, included them in comprehensive models, and provided results derived from sets of relationships between behavioral variables which were tested simultaneously.

We now list a number of relationships between channel variables that emerged from past literature. We do not assume that causality has been conclusively demonstrated, because not enough replication of the results has been undertaken. The following relationships emerged from theoretical studies and pieces of field research investigating independent and franchise channels:

- i. The coercive (or economic) power sources perceived to be held and utilized by a supplier are positively associated with retailer's perceptions of the extent of the supplier's power.
- ii. The coercive (or economic) sources of power perceived to be held and utilized by a supplier are positively associated with the retailer's perceptions of the extent of his dependence on the supplier.
- iii. The coercive (or economic) sources of power perceived to be held and utilized by a supplier are positively associated with the retailer's perceptions of the extent of conflict between him and the supplier.
- iv. The non-coercive (or non-economic) sources of power perceived to be held and utilized by a supplier are positively associated with the retailer perceptions of the extent of his dependence on the supplier.
- v. The non-coercive (or non-economic) sources of power perceived to be held and utilized by a supplier are negatively associated with the retailer's perceptions of the extent of conflict between him and the supplier.
- vi. The extent of the retailer's perceived dependence upon the supplier is positively associated with the retailer's perceptions of the degree of the supplier's power.
- vii. The retailer's perceptions of the supplier's extent of power are positively associated with the retailer's perceptions of the degree of channel conflict.

- viii. The retailer's perceptions of formalization and participation as elements of the decision structure of the channel are negatively associated with the retailer's perception of intra-channel conflict.
- ix. The non-coercive (or non-economic) sources of power perceived to be held and utilized by a supplier are positively associated with the retailer's perceptions of formalization and participation as elements of the decision structure.
- x. The coercive (or economic) sources of power perceived to be held and utilized by a supplier are negatively associated with the retailer's perceptions of formalization and participation as elements of the decision structure.
- xi. The retailer's perception of increased conflict is negatively associated with his performance.
- xii. The non-coercive sources of power perceived to be held and utilized by a supplier are positively associated with the retailer's perceptions of the extent of cooperation between the supplier and him.

Statements i to vii were modelled by Brown, Lusch and Muehling (1983), with a causal model, tested using Lisrel and maximum likelihood estimation, on data from independent channels. Most of Brown, Lusch and Muehling hypotheses borrowed from previous research, but that study combined a classical power-sources approach (French and Raven, 1959) with the power-dependency theory from Emerson (1962), and the two distinct approaches had been previously explored by some researchers (see Gaski, 1984).

Statements viii to x have been modelled by Schul and Babakus (1988), with a causal model tested using Lisrel on data from franchise channels. They worked on combining internal political structure and process with internal economic processes (decision-making).

Statement xi was tested by Lusch (1976a), and the results were inconclusive, whereas statement xii is the result of a regression analysis by Sibley and Michie (1982) on data from a franchise channel.

All the pieces of research from which we took the previous twelve relationships implied some form of causality, in the sense of power sources affecting power, dependence affecting power, power affecting conflict, power sources affecting conflict, the decision structure affected by power sources and affecting conflict, power sources affecting cooperation, conflict affecting performance. The issue of causality is difficult to approach: on the one hand, common sense and good reasoning suggests that there are causal relationships, but often these are two way effects. On the other hand, research designs and statistical techniques have been devised to isolate the variables that have the strongest causal effects. Our approach to this problem is presented in section 5.3.4.

4.2. Distribution channels as exchange networks

Marketing scholars have analyzed relationships between distribution channel members taking a dyadic perspective; the unit of analysis has been the vertical dyad between a supplier and a buyer, eg. a franchisor and a franchisee. This arises from the assumption that the most basic activity in distribution channels is the transaction, i.e. the act of exchange between two social-economic agents (Stern and Reve, 1980; Achrol, Reve, and Stern, 1983; see also Bagozzi, 1975, 1976). In this perspective, the dyadic relationships were not related to one another, and there was no investigation of the whole set of relationships in the channel (Houston and Gassenheimer, 1987).

We argue that there are inter-relationships in channels, and that this means moving from a dyadic approach to an exchange network approach (Cook and Emerson, 1978; Cook, Emerson, Gillmore, and Yamagishi, 1983; Yamagishi, Gillmore, and Cook, 1988). It is the case that other marketing scholars have perceived that a more comprehensive approach would provide a better understanding of relational variables in channels (Achrol, Reve, and Stern, 1983), but they preferred to continue to build on the "solid" bases of research from previous dyadic studies. They considered the dyadic level as not yet clear enough to make the further step towards networks. They assumed that starting with a network approach would probably be misleading, because issues like power, dependence, and conflict had not been well defined and investigated in a channel context. As seen in Chapter 2, some evidence has been found (even if not sufficiently replicated) and a certain degree of explanation of channel management issues has been achieved at the dyadic exchange level. Thus, the traditional dyadic exchange approach has been fundamental as an exploratory tool when studying the relationships between organizations in a channel. On the other hand, a more realistic approach would be consider all the one-to-one relationships in a network.

The inter-organizational literature can help us understand the implications of the switch from a dyadic exchange to a network exchange approach. In fact, a route has

been proposed to connect the two approaches, which considers a network as a set of connections between exchange relations (Cook and Emerson, 1978). As noted by Van de Ven, Walker and Liston (1979), inter-organizational relationships can be studied using three distinct levels of analysis: (i) The simplest approach is to examine relations among pairs of organizations (Van de Ven, 1976; Emerson, 1962, 1972). By focusing on individual dyads, researchers hope to gain an in-depth understanding of linkage evolution and maintenance that would be missed when examining more complex linkage arrangements involving many organizations. (ii) A second approach has been to focus on the cluster of dyadic relations maintained by a focal organization. This approach has been discussed in theory by Evan (1966) and has been the focus of much empirical work including attempts to explain why or when organizations form linkages (Pfeffer and Nowak, 1976) and the implications of these linkages for an organization in terms of its structure and activities (Molnar and Rogers, 1979).

(iii) Although these studies and others helped to provide organizational theorists with a general understanding of relations among organizations, inter-organizational relationships are often too complex to be explained adequately by focusing only on dyads. Thus, a third approach to the study of relationships among organizations has been to focus more broadly on an entire network of linked organizations. Because of their complexity, linkage networks (or, using Emerson's terminology, exchange networks, formed by connections between exchange relations) have only recently been the subject of empirical investigations (Stern R.N., 1979, 1981; Van de Ven, Walker and Liston, 1979), although a number of theoretical discussions of the concept have appeared (Aldrich, 1979; Benson, 1975). By studying networks, it is possible to examine the behavior and activities of an entire group of connected organizations as well as those specific inter-organizational relationships that comprise the network.

The difference between the second and the third approach is the following: in the second one, the unit of analysis is a cluster of relations, and the problems of having relationships with more than one organization are analyzed; the third approach examines the connections between the relationships, adding a "horizontal" level of

analysis and considers, in fact, all the relationships at the same time.

Thus, network analysis is a powerful means of describing and analysing sets of units by focusing explicitly on their inter-relationships. The units or nodes of the networks can be individuals or virtually any aggregation of individuals such as a group, an organization, a community, or even a nation-state. As such, a network strategy is a feasible option for both organizational and inter-organizational research.

At the organization level, the unit of analysis can be the individual and the departments within the organization. The network describes the interpersonal or intergroup relations within the organization. At the inter-organizational level of analysis, the unit is the single organization or industry classification set. The network maps out the flows between organizations.

Two kinds of network can be distinguished from the start: attribute networks and exchange (or transactional) networks (Fombrun, 1982). Attribute networks link individuals who share a commonality (such as a similarity of physical attributes, goals, sex, status). Exchange networks, on the other hand, focus on the transactions that occur among a set of individuals. These two networks define two initial strategies. If one begins with attribute networks, exchanges are seen as dependent characteristics (or consequences) of the attribute network pattern. If, instead, one begins with the exchange network, individual attributes become the causes of the transactional configuration. The preferred strategy in organizational research is to focus on exchange networks, and subsequently search for suitable explanatory attributes.

Some organizational theorists categorized exchange networks according to their transactional content (Mitchell, 1969). Four networks have been distinguished in which the flow through the network is primarily either expressive (affect), instrumental (power), cognitive (information), or objective (goods). Organizational theorists distinguished between them because they perceived them as having different dynamics. In a distribution channel context, on the other hand, it is very difficult to

clearly define a network according to the prevailing kind of flow because all four flows are probably present in the long run and are exchanged from time to time between channel members.

Power certainly is one of the flows that has been better studied. Among organizational and inter-organizational theorists there is some agreement that the study of power relationships loses its fundamental meaning if we restrict the analysis to the dyadic exchange (Cook and Emerson, 1978). The distinctive process of power cannot be manifest in a dyad (Blau, 1964). According to Cook and Emerson (1978), variables like power should be studied in systems larger than the isolated dyad. On the other hand, we believe that a cluster of dyads (the second approach described previously) cannot be fully understood if we do not investigate the inter-relations between the dyads, thus considering all the relationships at the same time (third approach).

Cook and Emerson (1978), following Emerson (1972), proposed the exchange network as the unit of analysis for researching power issues. As defined by them, an exchange network is a set of two or more connected exchange relations. Both in the inter-organizational literature and in the channel context, the concept of exchange networks has the theoretical advantage of allowing the extension and application of already well developed dyadic conceptions of exchange to the more macro, N-actor level of analysis.

The connections between the elements of the network have been described as either positive or negative connections. "These exchange relations are connected to the degree that exchange in one relation is contingent upon exchange (or non-exchange) in the other relation.... The connection is positive if the exchange in one is contingent upon exchange in the other. The connection is negative if exchange in one is contingent upon non-exchange in the other" (Cook and Emerson, 1978, p.725).

The definition of exchange networks seems to be appropriate to describe a franchise system of distribution, and is more precise than other definitions of networks (e.g. "two or more organizations involved in long term relationships" (Thorelli, 1986,

p.37)) that are usually very general; the very general definitions of networks tend to produce inconclusive results.

Distribution systems have positive and sometimes negative connections, so they can be viewed as mixed systems. Positive or negative connected networks have been analyzed separately because empirical evidence shows that the distribution of power in positively connected networks can be explained with point centrality measures, while the distribution of power in negatively connected networks can be explained with power-dependence measures (Cook, Emerson, Gillmore, and Yamagishi, 1983). "In mixed networks, the distribution of power is a joint function of network position (i.e. the distance from the source point in a positive chain) and the control of resources (when an actor controls a resource that is globally more or less scarce)" (Yamagishi, Gillmore, Cook, 1988, p.850). In the research proposed here, we assume that the franchise systems are mixed networks, where the distribution of power is usually clear. The franchisor is the central firm and controls most of the resources. The relationships between members of the franchise are very likely to be influenced by the way power is used in the network, i.e. the sources of power that the franchisor uses more often and intensively (see French and Raven, 1959). The level of relationships other than the dyadic vertical relationship, can be part of the power process. The relationships between franchisees, for instance, can be perceived as threatening the power of the franchisor.

Compared to many other networks where "internal interdependency generally changes over time" (Thorelli, 1986, p.39), franchise channels are rather stable. The members of the franchise systems change over time, but their position in the network does not change. What changes over time is not the positions (a structural concept) but the linkages (i.e. the relationships). Some authors have claimed that in time networks grow stronger, in the sense of moving from loose to tight, from a poor internal fit to greater degrees of integration. Other authors question whether this notion is generally valid. "...it would seem that in the absence of conscious coordinative effort - why don't we call it network management? - networks would tend to disintegrate under the impact of entropy" (Thorelli, 1986, p.43). We agree that to allow the network to

survive, a major effort in "managing the network" must be made but there can also be structural characteristics that prevent some network systems from disintegrating: a rather stable power structure, as in franchise channels, guarantees survival of the system even if some members (usually the franchisees) change over time. On the other hand, for instance, networks of R&D agreements among multinational companies can easily collapse in time because of changes in the power-dependence relations between members.

To summarize, franchise systems can be considered as rather stable mixed exchange networks, whose members can slowly change, and where the relationships between members can evolve due to the way power is used. On the other hand, the basic structure of power hardly changes over time, as described by the point centrality measures (ie. the franchisor is central and most powerful in the vast majority of retail franchises, and remains so throughout their life).

4.2.1. Dyadic relationships and network relationships in distribution channels

In the previous section we argued that the relationships between channel members are more complex than what could be inferred by the dyadic (vertical) approach. Further support for this view can be found from those distribution systems in which there are close linkages between the different organizations, as in franchise systems. For example, there are relationships between horizontal and vertical levels of a relationship; the most evident at a first glance are the conflict issues:

- The franchisor very often can establish new point of sales close to existing franchisees; that fact is likely to create vertical and horizontal conflicts. Schul and Babakus (1988) included in their research instrument regarding power-conflict relationships in franchise systems, an item on the potential threat of introducing new franchises in the franchise area. The coercive variable measured here was found to be positively related to conflict situations. This is evidence of a connection between the two levels of analysis, horizontal and

vertical.

- Rewards are given to franchisees who fulfil certain performance expectations; the measures of the performance can be relative to the performance of other franchisees: this fact can create horizontal and vertical conflicts.
- As in the prisoner's dilemma, when there is a rule in a coalition, the better overall performance is obtained when everyone follows that rule (in that case it was "not to confess"); but if one breaks the rule and is not followed by the other one, he obtains a better individual performance (and later the other member will not be happy about his own poorer performance). In a similar way, if one franchisee breaks a "rule" that has been given from the franchiser, for example regarding the price, another franchisee could experience resentment towards both the franchisee and the franchisor (and eventually follow the former's behavior).

The management process regarding a channel of distribution is not the simple sum of many management processes set at each outlet. It is something different. That is because the way to treat each relationship must be related to the whole system. For instance, the decision to offer a new service to a certain buyer organization has to be considered together with the feasibility of offering it to all the buyer organizations in order not to create differential treatment.

Franchisor managers have mixed feelings about the interactions between franchisees. From many exploratory interviews and from the pilot study it emerged that a primary concern of franchisors is how to manage the information flow, not only between the franchisor and the franchisees, but also between franchisees. They are worried that some information could make the franchisees aware of some franchisor's faults. The franchisor very often publicly encourages franchisees to communicate with each other, but in fact they try to control that communication.

Many kinds of interaction among franchises are looked upon with suspicion by many franchisors. Some franchisors think that the more the franchisees interact, the less they are willing to be cooperative, but will tend instead to collude against the

franchisor. Thus, interaction between franchisees is a relevant matter for channel management. It is likely to be related to other aspects of a franchise relationship, and so studying the kinds of association between horizontal interaction and channel relationship variables is a relevant task.

The issues we are talking about, such as inter-organizational communication, information flow, and power-dependency, are not new in principle. The new aspect here is that these traditional variables are referred to in a different context.

We believe that a further step in the analysis of relationships in distribution channels is to investigate some of the traditional variables, but within an exchange network context. The exchange network approach is a comprehensive way to study how to manage a retailing system, considering the whole set of relationships which exist within a distribution channel. As such we are not simply adding some more relationships to the previous scheme, it means considering all the relationship at the same time; it means building a different model, not only a bigger model of channel relationships.

4.2.2 Including the exchange network interactions in our model

Since studying all the relationships at once would be very difficult and since no previous research has attempted to do this, we adopt a step-by-step approach.

An accepted way to extend previous models in this field of research has been to add a mediating variable that enhances the level of the analysis.

For instance, Brown, Lusch, and Muehling (1983) extended previous models (basically Lusch's model of 1976) by showing the mediating influence of "dependence" between non-economic power sources (on one side) and conflict and power (on the other side). Similarly, Schul and Babakus (1988) added to previous

models the "decision structure", showing how it mediated between power and conflict. Thus, a feasible way to extend previous models is by adding a mediating variable; in this case "horizontal interaction".

At an earlier stage of this research project (see Appendix C) we investigated the possibility of looking for more structured horizontal relationships, like horizontal conflict, horizontal cooperation, horizontal competition. We tried to state hypotheses on the relationship between these variables and the traditional vertical dimensions of channels. But interviews with franchisors and franchisees and the pilot study showed that with perceptual measures it is rather difficult to isolate the impact of specific horizontal variables like conflict, cooperation and competition. These specific variables are perceived as more relevant in the franchises that have been established for a long time and where retail territories overlap to a high degree. Where there is no overlap the horizontal relationships are less structured and less clear. Thus, in our final research design we chose to include quite a general variable, "horizontal interaction-information exchange", in order to relate what happens at the horizontal level to what happens at the vertical one.

4.3. Summary

The model that results from past studies on distribution channel relationships can be extended to incorporate different levels of interaction (horizontal and vertical). The importance of extending the analysis beyond the one-to-one relationship between a supplier and a retailer is discussed in the light of the shift from the exchange dyadic approach to the exchange network approach. Relevant literature in sociology, organization studies, as well as in marketing, has been discussed. Franchise systems can be considered as rather stable exchange networks, whose members slowly change, and wherein the relationships between members evolve due to the way power is used, while the power structure itself seems to be unchanged over time.

5. THE NEW MODEL

The kernel of our work is the existing model of vertical channel relationships (Figure 7). However, we extend the model (Figure 8) by incorporating ideas from resource dependence theory, exchange network theory, and replication studies. In this chapter we discuss the significance of these methodological improvements (sections 5.1. and 5.2.), and then list the full range of hypotheses that need to be tested now that the model has been extended (section 5.3.). We also describe our approach to causal relationships (section 5.3.4.).

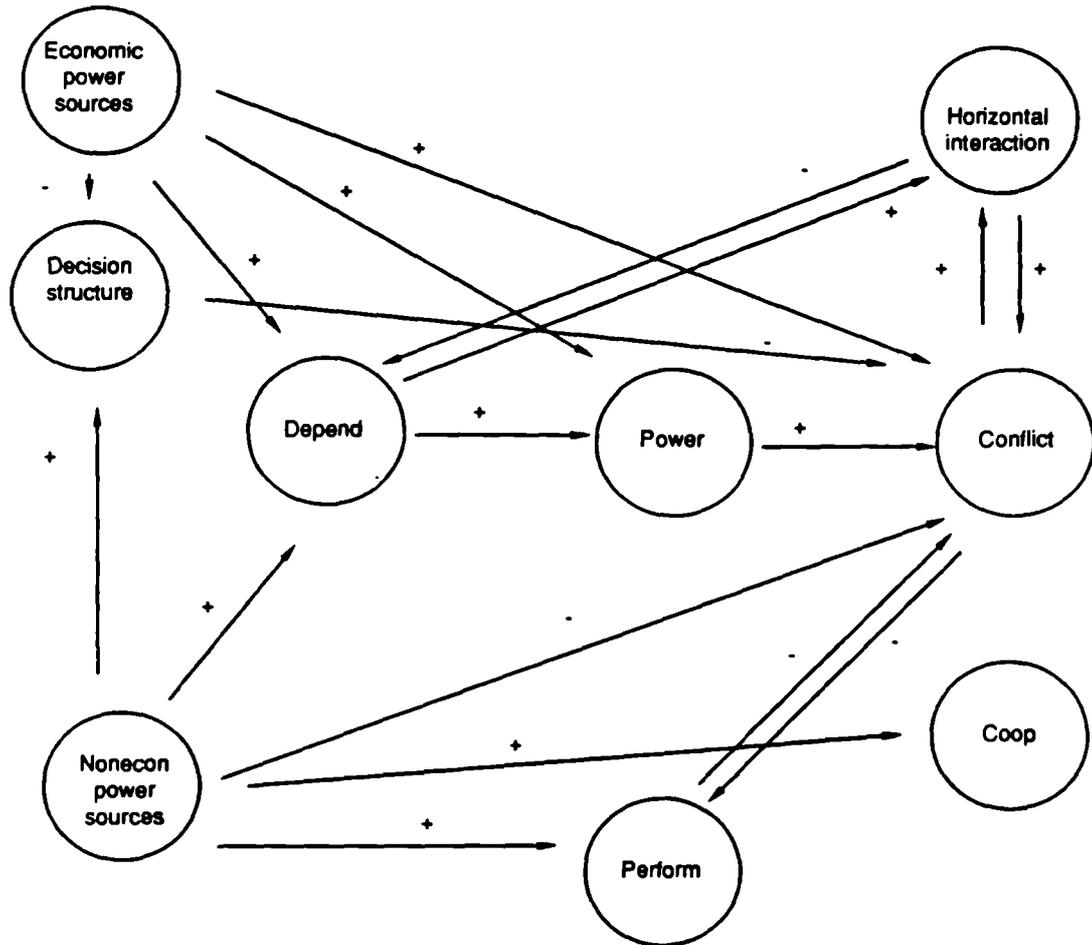
5.1 A methodological improvement: a two-sided analysis

Data for the empirical testing of hypotheses can be collected from respondents at the same level in the channel (eg. only franchisors or only franchisees) or from organizations at different levels in the channel (eg. franchisees as well as franchisors). In previous research data have usually been collected from the same level in the channel, and typically only from franchisees (or retailers). This is potentially misleading given that respondents working at different levels of the channel may have very different perceptions (eg. a franchisor might say he is reasonably flexible about pricing and promotion policies, but the franchisee might not concur with this view).

The danger of only taking into account one side of the picture has been acknowledged by previous researchers. In discussing the limitations of his research on dealer perceptions Kale (1986) listed the fact that only dealer perceptions were assessed - suppliers may have held very different views. Brown, Lusch and Muehling (1983) recognized a similar problem with their research.

Figure 8

An Extended Model



Several authors have attempted to study the consistency of perceptions across different actors (Lowe and McCrohan, 1979; Ross, Lusch and Brown, 1982; John and Reve, 1982). John and Reve (1982), for example, analyzed a sample of 99 wholesaler-retailer dyads, and measured their perceptions of the retail structure and perceptions of their behavior. They found that the measure of retail structure had convergent and discriminant validity across different informants; ie. the perceptions of respondents at different levels in the channel were consistent with each other. But perceptions of their behavior were quite different. It was as if they could agree about the system within which they operated, but not their own behavior.

To address this problem we analyze both sides of the relationship - the perceptions of franchisors as well as franchisees. The perceptions of both parties are described and compared, and in the formal analyses we test a specific hypothesis concerning the consistency of the franchisors' and franchisees' perceptions (section 8.3).

5.2 Replication and Extension as ways to develop a research project and generalize results: cross-country comparisons

Typically, replication studies are uncommon in marketing, and the field of channel research is no different in this respect. Consequently researchers have found it hard to confirm previous results, or consolidate previous findings, or make any generalizations about relationships in the channels. These problems have not gone unnoticed: Ehrenberg (1990, 1992), Ehrenberg and Bound (1992a, 1992b), Hubbard and Armstrong (1989), Madden, Franz, and Mittelstaed (1979), and Albaum and Peterson (1984) discuss these methodological issues; Cunningham and Green (1984, p.9) have written: "This is a question of external validity and research should be encouraged to determine which marketing principles can be universally applied and which are basically ethnocentric". But in practice little attention has been paid to the concerns and challenges raised by these authors.

A partial exception in the channels literature is the work of Kale, who has attempted

to compare results from different studies. "Research conducted across different market environments and countries", writes Kale (1986, p.392), "would permit testing of the generalizability of theories by distinguishing between those regularities in marketing that are system-specific and those that are universal." Kale himself looked at only one distribution channel, in one industry, in one country (India), but he endeavoured to compare his results with previous research that had been done in other countries (mostly the U.S.). He was only partially successful because his research design differed from that used in previous studies. He found that real differences between India and the States were confounded by the effects of different samples, questionnaires, variables and industries.

Despite the inadequacy of Kale's study, his research makes the case for more cross-national and cross-industry studies before making generalizations, and alerts us to the need for consistent research designs if comparisons are to be meaningful. Here we start to take up the challenge by testing the same model - with similar samples, questionnaires, etc. - on data sets collected in Italy and Britain. Also, where possible comparisons with previous studies are made, although the research designs differ slightly from case to case.

Among the objectives of modelling, predicting results is usually recognized as one of the most important - that is "...we can expect the outcome to recur with near-certainty" (Ehrenberg and Bound, 1992a, p.2). "A result can be regarded as routinely predictable when it has recurred consistently under a known range of conditions. This depends on the previous analysis of many sets of data, obtained under different conditions of observations" (Ehrenberg and Bound, 1992a, p.1). The issue of whether a model of channel relationships in franchise exchange networks should be able to predict parameters is far from even being discussed in the literature because results are not sufficiently established and the theory has not been tested enough to regard the "hypotheses" as much more than "conjectures". What should be done at the present time is to analyze a model in different contexts and check the degree to which it performs similarly. This can be considered a safe procedure for theory building (Ehrenberg, 1990; 1992).

5.3 Hypotheses:

To test our model we have to see whether there is evidence of the suggested relationships between the main variables. We do this within a hypothesis-testing framework. There are thirty hypotheses in all: H1 to H15 replicate hypotheses which have been tested in previous research, H16 to H30 are original to this research and are based on resource dependence theory and network exchange theory. Some of the extensions are incremental in that they refine the existing model of vertical channel relationships (hypotheses H16 to H20); others represent new approaches (as discussed in sections 5.1. and 5.2.)(hypotheses H21 to H30).

5.3.1. Replication of earlier hypotheses

We start by listing the hypotheses which have been tested in previous research; in the main these relate to power sources and the effect of power sources on variables such as power, conflict, participation and cooperation.

Following Etgar (1978a), Lusch and Brown (1982), and Brown, Lusch, and Muehling (1983), a division into economic and non-economic power sources is made. By economic power sources we mean coercive, reward and legal legitimate sources of power. These are fairly "hard" variables - franchisees can measure the financial rewards and incentives that underlie economic power sources. By contrast, non-economic power sources include "softer" variables: expert, referent, informant and traditional legitimate sources of power. The services provided by a franchisor are, therefore, regarded as a source of expert power. There is a temporal distinction as well, in that financial rewards and incentives are likely to give power to the franchisor in the short-term, whereas the provision of services will have a long-term effect (Gaski, 1986)¹.

On the basis of these distinctions the following hypotheses are tested:

¹. For a discussion on the division of power sources in groups, see section 2.1.

- H1² The extent of the franchisor's power is directly determined by the franchisee's perception of his dependence upon the franchisor.
- H2 The economic power sources perceived to be held and utilized by a franchisor will directly determine the franchisee's perception of the extent of the franchisor's power.
- H3 The non-economic power sources perceived to be held and utilized by a franchisor will directly determine the franchisee's perceptions of the extent of the franchisor's power.
- H4 The economic power sources perceived to be held and utilized by a franchisor will directly determine the franchisee's extent of dependence upon that franchisor.
- H5 The non-economic power sources perceived to be held and utilized by the franchisor will directly determine the franchisee's extent of dependence upon that franchisor.
- H6 The economic power sources perceived to be held and utilized by a franchisor will directly influence the franchisee's perceptions of the extent of conflict.
- H7 The non-economic power sources perceived to be held and utilized by the franchisor will inversely affect the extent of conflict perceived by the franchisee.
- H8 The franchisee's perceptions of the franchisor's extent of power directly affects the franchisee's perceptions of the degree of channel conflict.

². The wording has been amended, so "suppliers" and "retailers" are called "franchisors" and "franchisees".

A further five hypotheses are derived from the work of Schul and Babakus (1988). They found that power sources affected perceived conflict in a channel (along the lines described in H1 to H8), but in addition to their direct impact on each other there were also indirect effects. These indirect effects worked through the decision structure, which was seen as an amalgam of formalization and participation processes. The same hypotheses are tested here, but with one important difference: Schul and Babakus listed services as a reward, whereas we regard them as sources of expert power (this is consistent with H1 to H8).

H9 The non-economic power sources perceived to be held and utilized by a franchisor will positively affect the perception of formalization and participation as elements of the decision structure.

H10 The economic power sources perceived to be held and utilized by a franchisor will negatively affect the perception of formalization and participation as elements of the decision structure.

H11 Channel members' perceptions of increased formalization and participation in the channel organization will have a negative impact on the level of intra-channel conflict.

H12 The indirect effect of the use of economic power sources on intra-channel conflict will be significant while the direct effect will not be significant³.

H13 The indirect effect of the use of non-economic power sources on intra-channel conflict will be significant while the direct effect will not be significant.

The next two hypotheses relate to cooperation. In general, vertical marketing systems - such as a franchise - cannot operate without cooperation between different members

³. Hypotheses H12 and H13 are alternative to H6 and H7, as stated by Schul and Babakus (1988).

of the system (Stern, 1969; Robicheaux and El-Ansary, 1975-76; Stern and El-Ansary, 1977). The word "cooperation" can be interpreted in slightly different ways: as a process of "collaboration" or as "coordination" (compare Sibley and Michie, 1982, with Gultinan, Rejab and Rodgers, 1980). However, in this research we make no such distinctions. The reasoning behind hypotheses H14 and H15 is that non-economic sources of power (such as services provided to franchisees) would be associated with high levels of vertical cooperation, whereas economic sources would be associated with lower levels of cooperation. Following Sibley and Michie:

H14 The economic power sources perceived to be held and utilized by a franchisor will inversely affect the level of perceived intra-channel vertical cooperation.

H15 The non-economic power sources perceived to be held and utilized by a franchisor will directly affect the level of perceived intra-channel vertical cooperation.

5.3.2. Extensions of earlier hypotheses

In several ways past research is extended. Some of these extensions are incremental in that they refine the existing model of vertical channel relationships (for example, by refining our understanding of power, power sources, cooperation, conflict, and performance)(H16 to H20). We consider these extensions before moving on to specify the new approaches.

H16 The levels of participation and formalization of the decision structure directly affect the level of vertical cooperation in the channel, and are intervening variables affected by power sources.

An exploratory hypothesis can be stated regarding the relationship between

performance and conflict. However, a priori there is no clear one-way causal relationship which can be found between performance and the perception of vertical conflict. Indeed, Lusch (1976a) mentioned that although he had found some (weak) evidence of a negative association between these two variables, the direction of the causality might have been in both ways. Thus, we test two alternative hypotheses regarding the direction of causality. The rationale for the first of these two hypotheses is that there are many determinants of performance and so it might be difficult to isolate strong systematic effects of conflict on it, especially across contingencies such as strong economic growth or recession. Also, conflict is likely to increase and become more apparent when performance is perceived as unsatisfactory; the immediate result of low performance would be to create tensions with the other channel members. The rationale for the second of these two hypotheses is that dysfunctional conflict decreases the competitive strength of the organizations.

H17 The level of performance is an inverse determinant of vertical conflict.

H18 The level of conflict is an inverse determinant of performance.

There is the possibility of having a "loop", i.e. a two way causal relationships, in which conflict is both a determinant of, and determined by, performance:

H19 The level of performance is an inverse determinant of conflict and the level of conflict is an inverse determinant of performance.

Performance is a complex variable which is likely to be affected by several different variables. In our model, we hypothesize a link between non-economic power sources and performance. This link is implied in distribution channel studies which have investigated the impact of services provided by the franchisor (or supplier) to the franchisees (or distributors, or retailers). For example Narus and Anderson (1988) state the importance of Capability Building Programs, as a means of increasing the potential performance of vertically integrated retailers. It is likely that when the franchisor is an expert in his business, and communicates this expertise to the

franchisees (through, for example, know how and services provided to them), they are able to increase their competitive strength.

H20 Non-economic power sources are a direct and positive determinant of franchisees' performance.

5.3.3 Substantially new hypotheses

The hypotheses that we now describe are substantially different from those listed so far. They concern the horizontal relationships within a franchise (H21 to H27), and the applicability of the model across countries (H28) and among both franchisees and franchisors (H29 and H30).

All the preceding hypotheses have dwelt on vertical relationships, but in our model it is also suggested that horizontal relationships between franchisees will play a part as well. At the most general level, some association between horizontal interaction and other variables in the model is to be expected:

H21 Horizontal interaction is an intervening variable in the franchise network relationship model.

The type of association that might exist is:

H22 Horizontal interaction is positively associated with vertical conflict.

The reasoning here is that franchisees interacting among themselves may collude against the franchisor - this was suggested by franchisors during preliminary interviews and during the pilot study. Ascribing causality in this case is problematic: does the exchange of information create trouble, or do franchisees only exchange information (for example, shared problems) when their relationship with the

franchisor is strained? We attempt to test this with two hypotheses:

H23 Vertical conflict is a positive determinant of horizontal interaction.

H24 Horizontal interaction is a positive determinant of vertical conflict.

Another association that may exist relates to dependence. Again, however, there is some ambiguity attached to this notion. The franchisees who exchange information might do so because they are very dependent on the franchisor, and they want to decrease this dependence. On the other hand when franchisees are very dependent on the franchisor there may exist strong links between the members of the network, and so it would be easy to exchange product ideas, to discuss promotional activities, etc.. In this latter case, dependence on the franchisor might take away the need for horizontal exchange. We test two alternative hypotheses:

H25 Dependence is a positive determinant of information exchange between franchisees.

H26 Horizontal interaction is a negative determinant of franchisees' dependence upon the franchisor.

Finally, there is the impact of the decision structure. If franchisees perceive a very participative decision structure, for example, they may be encouraged to share some information about their business with other franchisees. Therefore:

H27 The level of participation and formalization of the decision structure is a direct determinant of horizontal interaction.

Typically, structural models were tested within the context of one specific country, and the questions are asked of franchisees alone. The research design adopted here

allows us to probe beyond this, to begin to check the generalizability of the results.

H28 The franchise network relationships model can be applied across countries.

In effect, we are testing whether the franchise networks have the same internal relational pattern in two countries that are similar in size and economic strength, but different from a cultural point of view. Since this hypothesis is totally exploratory, the null hypothesis ("it is not possible to model franchise relationships across countries") has the same strength as H28.

We discussed the issue of performing one-sided and two-sided analyses in section 5.1. In our research the data are collected not only from franchisees, as in previous research, but also from franchisor. Our exploratory hypothesis is that while some phenomena may be perceived differently by the two sides, the differences are not statistically significant, so the same model can be applied to data collected both from franchisees and franchisors. This hypothesis derives from an implicit assumption of previous research, whereby data from one side (franchisees or retailers) are deemed to be representative of all actors in the relationships. If the following hypothesis is rejected, new research would be needed to reconcile relational variables with roles in the channel.

H29 The same model of franchise network relationships can be applied to data collected both from franchisors and from franchisees.

An alternative hypothesis can be derived from the results of John and Reve (1982). The value of this hypothesis lies in the importance of understanding the possible reaction of channel members to attempts to exercise power by other channel members. If the franchisor has a different picture of channel relationships from franchisees, it is clear that his attempts to achieve control will be based on his model, not on franchisees model. This fact might cause conflict in the channel.

H30 There is no relationship between perceptual data reported from different channel participants of each franchise, namely franchisees and franchisors, about power-conflict processes.

5.3.4. Causal relationships

Most of the hypotheses from previous literature imply not only association, but also causal relationships between the variables. The extent to which causality between two variables can be "demonstrated" is at the centre of a long debate in research methodology. The debate is philosophical rather than statistical; furthermore, the terms of the debate are often kept implicit and not much has been published on major journals on this issue. Structural equation modelling, which we use in this research (8.1.7.) revived this debate; those who have a negative view of structural modelling generally claim that causation can never be demonstrated without longitudinal studies. On the other hand eminent statisticians support the idea that prior theoretical causal relationships might find support in a snap-shot causal model⁴. The trouble with this debate is that not much can be done to prove that one party is right or wrong. Nevertheless, we believe that both positions should be critically examined. The position supporting longitudinal studies tends to underestimate the methodological problems of controlling the context of such studies. Across time the structure of causation might not be stable, so the variables identified in period 1 may not be applicable in period 2, or the causal effect might develop across a different time span from that chosen for the repeated study.

Similarly, a position of overwhelming support for snap-shot causal models can be equally criticized. Because of the accessibility and power of computers, and the availability of multivariate analysis packages, it is all too easy to manipulate a model independently from any rational explanation or prior theory.

⁴. For references on this debate, see for example: Bagozzi, 1980b; Heise, 1975; Hunt, 1990; Hair et al., 1992.

In view of the difficulty of doing repeated studies and of the frequent problem of inadequate resources, it might be better not to attempt causal analyses. However, this would be a very drastic position. We have chosen to take a conservative approach to causal modelling: we use statistical analysis to check causation, but mainly the existence rather than the direction of it. A relationship might be suggested by theory and logical reasoning, we then use statistical analysis to check this. We also favour the accumulation of comparable results across different data sets, as these can become building blocks of an understanding and explanation of causation. Some might argue that the sum of snap-shot causal models does not make the study longitudinal, and they would be right, but an accumulation of results (especially if they are consistent) would corroborate theory and logical reasoning, which are eventually the only fundamental bases for understanding causality.

Our practical approach to causation entails:

- a. building conjectures based on logical inferences and existing theories prior to the use of the statistical techniques and software packages;
- b. replicating results in order to have more externally valid associations between the variables;
- c. using a structural equation modelling procedure (Lisrel) which has been adopted in previous research (Brown, Lusch, and Muehling, 1983; Schul and Babakus, 1988). We use modelling as a tool to structure our analysis, rather than as a way to manipulate the hypotheses⁵. Also, we use Lisrel in a conservative replication mode, that is to say we do not change the hypothesized model on the basis of just one set of results, but instead we consider the results from different sets of data (Ehrenberg, 1992; see Chapter 8 and Appendix F).

⁵. It is not as if we are trying to find the best fitting model, without regard to previous research and theories.

5.4. Summary

The existing (Figure 7) has been revised and extended (Figure 8) in the light of a number of (i) methodological and (ii) content issues. These two sets of issues are interrelated. For example, the development of an exchange network approach instead of the traditional dyadic approach suggests that variables such as information exchange between franchisees be included in the model. Also, the traditional research design that focused on perceptions of only one side of the channel relationship is questioned, and this has influenced our choice of research design. Underlying many of the methodological issues is the debate concerning the development of scientific knowledge in marketing science. This underpins our interest in cross-country comparisons, and our decision to undertake replication.

The resultant hypothesized model has been described, mainly with respect to the 30 testable hypotheses. The analytical procedure (reported in section 8.1.) involves testing for causal relationships - a justification for this approach has been given.

the analysis of a sub-sample (see section 8.2).

2. Non-economic power sources
(of the franchisor over the franchisees);
3. Dependence
(of the franchisees on the franchisor);
4. Power
(of the franchisor over the franchisees). This variable is considered in the analysis of a sub-sample (see section 8.2);
5. Cooperation
(between franchisor and franchisees). This variable is considered in the analysis of a sub-sample (see section 8.2);
6. Conflict
(between franchisor and franchisees);
7. Decision Structure
(including participation of the franchisees in the decision structure of the franchise, and formalization of the decision structure of the franchise)
8. Perceived performance
(of the franchisee, when the person being interviewed is the franchisee himself; of the franchised network, when the person being interviewed is the franchisor);
9. Horizontal interaction - information
(among franchisees).

Using this model a number of interactions are studied in detail. Particular emphasis is given to the direction of causality between (a) conflict and performance, and between (b) horizontal interaction (information exchange) and the power-dependence-conflict process.

(a) Previous researchers have studied the causal link between conflict and performance (eg. Lusch, 1976a). They hypothesized that conflict between channel members would decrease the level of performance of channel members and of the

channel. In our research we also consider the reverse hypothesis, that performance is a determinant of the level of conflict (8.1.7.2.). Furthermore, we want to test whether there is a loop effect, or whether the effect is one-way. The rationale for an hypothesis opposite to the one from Lusch is that conflict may be nothing more than just one (and not necessarily the most important) of many determinants of performance in the channel, whereas bad performance might be a direct cause of manifest conflict. When performance is bad, the tensions due to latent problems may become clearer.

(b) First, horizontal interaction is not only tested as a variable dependent on the level of vertical conflict, but also as a variable affecting the level of conflict (section 8.1.7.3.). The rationale for this reverse hypothesis is that the more franchisees interact, the more latent tensions might become manifest (and more perceived) conflict. If this is so, some explanations regarding the context and causes of horizontal interaction could come from an analysis of franchisees' selection processes, from the size of the franchise, from sector specific characteristics, or from other variables of the power-dependence process. Second, horizontal interaction is not only tested as a variable dependent on the level of dependence of franchisees upon franchisors, but also as a variable that might affect the level of dependence (section 8.1.7.4.). The rationale for the reverse hypothesis can be found in Galaskiewicz (1985)¹: franchisees might collude with each other in order to decrease their level of dependence upon the franchisors; thus, the more franchisees collude, the less they should feel dependent on the franchisor.

6.3. The population

The research is set in a cross-country environment in order to identify the similarities and differences between franchises in Britain and Italy. The model is tested on the

¹. Within what Galaskiewicz calls the "political advocacy arena".

data from the two countries separately, and then simultaneously with parameters constrained to be equal across the two data sets. The criteria for selecting these two countries were:

- * Sufficiently similar countries to be comparable with respect to the franchise industry.
- * Sufficiently different countries to make the comparison of channel management interesting.
- * Personal knowledge of the language and culture of the countries, to be able to read the background literature, control the research design, write the questionnaire, and manage the interview process.
- * Personal access to the two countries.

Most previous research into the behavioral dimensions of channel relationships has focused on independent channels. Here, however, we select franchise channels. There are three sets of reasons for this selection:

1. Franchise channels appear to have more explicit power structures than independent channels; thus it should be easier for us to analyze the consequences of power. Likewise, the interactions among franchisees are likely to be more institutionalised and so more observable.
2. Relationships between franchisors and franchisees tend to be long-term, so franchisees are likely to have high awareness of their relationship with franchisors.
3. The franchise industry has been undergoing rapid growth, both within and across nations, so a cross-country comparison might be of value to the franchisor who wishes to go international or to the franchisor who is already operating in both countries. For example, a study of the international market entry mechanisms of British retailers² (Burt, 1993) found that in the 1980s franchising became a major mode of entry into foreign markets (Table 6.1), accounting for 24% of all foreign retail investments³.

². This study analyzes a database of 726 investments by British retailers according to the market entry mechanisms which were used.

³. Number of investments.

Table 6.1 British Retailers's Investments in Foreign Countries, 1960s, 1970s and 1980s (Burt, 1993)

Mechanism	Total		By Decade					
	Number of Actions	%	1960s		1970s		1980s	
			N	%	N	%	N	%
Acquisition	178	24.5	12	17.9	61	28.6	105	23.5
Minority Acquisition	14	1.9	1	1.5	4	1.9	9	2.0
Raise Shareholding	25	3.4	2	3.0	10	4.7	13	2.9
Internal Growth	310	42.7	36	53.7	102	47.9	172	38.6
Joint Venture	61	8.4	14	20.9	14	6.6	33	7.4
Franchise	132	18.2	2	3.0	21	9.9	109	24.4
Unknown	6	0.8	-	-	1	0.4	5	1.1
All Investments	726	100	67	100	213	100	446	100

The interest of comparing Italian and Britain franchises' management issues is reinforced by looking at where British retailers invest and the mechanisms they use to enter foreign markets (Table 6.2): franchising is the most popular mechanism among British retailers for entering South European markets. "In very broad terms acquisition and internal mechanisms are most prevalent in less risky environments, whilst franchising is relatively more significant in countries with a greater risk perception" (Burt, 1993, p. 12). Cultural proximity and geographical proximity are among the variables that affect risk perception about a foreign market. The use of franchising as a market entry mechanism guarantees a high degree of control and at the same time a low financial involvement.

Table 6.2 Destination of Foreign Investment of British Retailers by Market Entry Mechanism, 1960s - 1980s (Burt, 1993)

Destination	Number of Actions	Of Which						
		Acquisition	Minority Acquisition	Raise Share	Internal Growth	Joint Venture	Franchise	Unknown
Atlantic Cluster								
- USA	120	65	3	5	39	5	3	-
- Canada	33	10	1	5	9	4	4	-
- Ireland	46	11	1	2	26	-	6	-
North Europe Cluster	234	60	8	9	125	16	14	2
South Europe Cluster	53	9	-	1	16	5	21	1
Far Eastern Cluster								
- Japan	29	-	-	-	11	14	4	-
- Other Far East	51	3	-	-	25	4	18	1
Colonial Cluster	39	8	1	1	14	4	11	-
Other								
- Other Europe	35	6	-	1	17	2	9	1
- Eastern Europe	16	-	-	-	3	4	9	-
- Scandinavia	41	5	-	1	20	1	12	1
- Middle East	17	-	-	-	1	-	16	-
Not Known	12	1	-	-	4	2	5	-
All Investments	726	178	14	25	310	61	132	6

We believe that there are commonalities among franchise businesses, but sector-specific factors could bias the field research. Therefore, we have confined our selection to:

- * Sectors that are comparable to each other
- * Sectors where the survey questions are likely to be understood in the same way
- * Sectors that allow a cross-country comparison, that is to say sectors operating in both countries.

Furthermore, to maximise homogeneity, we selected sectors where the way consumers behave at the retail level is similar. Specifically, our sample includes only those sectors where consumers walk into the shop and buy a product or service, and do so relatively quickly (eg. fast food and mass-market clothing). We do not include sectors where services and products are delivered door-to-door or in any place different from a shop (eg. plumbers and builders). The non-retail franchises look very different and respondents might react rather differently to the survey questions - this is an empirical question which could be studied in subsequent research.

We have argued that in order to compare franchises in Britain and Italy, we need a homogeneous sample of retail franchises, rather than a mix of retail and service franchises. In Italy most franchises are in the retail sector so we are able to obtain a good representation of the Italian franchise industry. By contrast, in Britain service franchising (i.e. maintenance services) is well developed and we are going to gain only a partial picture of the British franchise industry.

There is a trade-off between our ability to represent fully the reality of British and Italian franchising and our desire to avoid making biased comparisons. Here we favour unbiasedness and leave non-retail franchising for subsequent research. Comparisons between channel members' behaviour in franchise channels and in independent channels of similar sectors also might be studied in an extension of the work undertaken here.

6.4. Sampling process

Data were collected by interviewing similar sets of franchisors and franchisees in the two countries. A population survey of these was not possible because of budget constraints: in Italy there are more than 250 franchises and in Britain more than 350. Thus, a sample of the population had to be selected and investigated. As discussed and presented in Chapter 7, different sectors within retail franchising were included, and different geographical areas were represented, and these were chosen in a way that minimized sampling bias.

6.4.1. Sample size

Valid answers from franchisees and franchisors have been obtained in Britain and Italy using two different methods of data collection: questionnaires administered during personal interviews and mail questionnaires.

Questionnaires administered during personal interviews:

30 franchisors in Britain

30 franchisors in Italy.

30 franchisees in Britain

30 franchisees in Italy.

Returned mail questionnaires:

147 franchisees in Britain

146 franchisees in Italy.

Thus, the total number of sampled franchisees is 353; the total number of franchisors is 60. All the franchisees are from the same 60 franchises (30 in Italy and 30 in Britain), and were identified after speaking to the manager of the franchise. The sample size compared to the population of franchises is notable: in Italy 12% of all listed franchises were sampled; in Britain, 15% of retail franchises were sampled, accounting for 8.6% of all franchises.

6.4.2. Respondents

Respondents were selected from both franchisor and franchisee organizations to obtain a complete picture. This is a methodological improvement over previous research where only franchisees were interviewed.

The person responsible for managing channel relationships (usually called the franchise manager) was our key informant in the franchisor; the person who runs the franchised unit (usually but not always the one who signed the franchise contract as franchisee) was our key informant from the franchisee side.

6.4.2.1. How the franchisor organizations were identified

Both in Britain and Italy, Directories of Franchises are available to the public, and these list almost all the franchises in each country (more than 250 in Italy and over 350 in the U.K)(Associazione Italiana del Franchising, 1990; British Franchising Association, 1990).

6.4.2.2. How the franchisee organizations were identified

Franchisees were selected from lists provided by franchisors. In each specific area a number of franchisees were selected to be interviewed personally and a larger number were randomly selected for the mail survey. No other sources of information were available at the national level in either country.

6.4.2.3. How the names of key informants in the franchisor organizations were obtained

During the first introductory telephone call we asked for the franchise manager. That person was asked to say who the most appropriate respondent(s) would be.

6.4.2.4. How the names of key informants in the franchisee organizations were obtained

During the first introductory telephone call we asked to talk to the franchisee; he was then asked whether he personally ran the outlet. If not, another person - a shop manager, say - was identified. The decision on whom to interview was usually taken after talking on the telephone with both of them. Preference was given to the one who had closer managerial contacts with the franchisor.

6.4.3. Non-response problems

We randomly selected some of the franchisees who did not send back their questionnaires to check for potential non-response bias (from, say, very conflictual franchisees not wanting to participate in our survey). Twenty non-responses were analyzed: 9 of them concerned people who ran several shops, so that mail was lost across the different shops; 5 of them were "unknown" (wrong) addresses; 4 people "do not like questionnaires - they are a waste of time"; 3 franchisees were advised by lawyers not to answer because formal litigation was going to be pursued in the Courts in a short time (these 3 cases represent an exceptional level of conflict).

6.4.4. Incomplete answers

The interviewer made sure that all respondents answered all sections. In response to the multi-item scales, however, some respondents considered some of the items irrelevant. This called for flexibility: during reliability analysis of the multi-item scales an item was deleted if more than one-sixth of respondents considered it irrelevant.

6.5. Data collection instruments: Questionnaires administered during an interview and self-administered through a mail survey

In order to test our model we needed to collect primary data regarding the variables under investigation. For the purpose of comparison we chose a standard instrument across the two countries, namely a questionnaire. The questionnaire is a widely used instrument in social research, and its advantages and disadvantages have been well documented (Bryman, 1989; Moser and Kalton, 1971).

A questionnaire can be self-administered, administered by telephone, or personally administered by an interviewer. Self-administered questionnaires are usually cheap, quicker to do than interviews, can be completed at a pace that suits the respondent, and are not subject to interviewer bias. Another advantage is that they enable the researcher to tap the views of a large number of respondents, which may not be possible with other forms of research. Respondents may be more willing to respond to sensitive questions whereas at an interview they may feel embarrassed or inhibited.

However, there are a number of disadvantages to using self-administered questionnaires, both on the methodological and the practical level. They can elicit a low response rate or a high rate of incomplete answers, leading to a biased sample (Moser and Kalton, 1971). Respondents may be discouraged by practical issues such as the length of a questionnaire, the layout, the difficulty of the questions. Also, respondents can read the questionnaire before starting to answer the first question, so that answers to early questions may be influenced by their knowledge of the later ones, perhaps making answers more consistent than they would otherwise be. Moreover the researcher can never be certain who answered a self-administered questionnaire.

The method of administering the questionnaire by telephone can be used when the questionnaire is simple and short, however this is not the case in our research.

Previous research projects which are replicated and extended here were carried out using questionnaires personally administered or self-administered (see Appendix A).

Therefore, we decided to undertake a personal interview at every franchise; this ensured that the rate of response was high and that the context of the interview could be monitored by the interviewer. The downside was that the sample was smaller than it might otherwise have been for an equivalent amount of time and money spent on data collection. Thus, 30 franchisees and 30 franchisors in each country were interviewed, to give a total of 120 personal interviews. In addition, 293 further questionnaires from other franchisees in the same franchises were obtained through a mail survey.

Almost all interviews were done in the respondent's office; this tended to provide a "natural" and non-threatening setting for respondents. The field research was done by one interviewer (the writer) in order to ensure consistency and to help interpret results. The instructions given by the interviewer to the respondent were standardised in the form of an example taken from another relational context (eg. sport). That example was written down and learnt almost by heart, in order to avoid interviewer bias. The role of the interviewer should in fact be limited to monitoring the context and coping with minor problems the respondent might have in answering the questions (e.g. layout problems). While the respondent was completing the questionnaire, the interviewer was in fact silent most of the time.

Two different questionnaires for collecting data from franchisors and franchisees were developed. The questions are almost the same, with only minor language changes to allow for the slightly different roles of the two different channel members (see Appendix D).

The questionnaires were administered in the language of the country where the franchise was operating (which was always the respondent's mother-tongue). Otherwise, the validity of results could be called into doubt (Hofstede, 1980). Having said that, the translation of the questionnaire is itself a problematic area, and incorrect translation can be a source of error (Hofstede, 1980). However, Nida (1969) points out that even when there are vast differences between cultures and languages, communication, and consequently translation, is always possible.

Several methods of carrying out the translation were identified. Sechrest, Faye and Zaidi (1972) recognise two forms of translation: direct translation whereby the original is translated directly into the target language; and back translation, whereby the original is translated, and then the translation is re-translated into the original language and the two source-language versions are compared. Direct translation is generally not regarded as sufficiently rigorous.

A third form of translation, known as "decentering" (Werner and Campbell, 1970), which involves the simultaneous creation of the research instrument in both languages, has been advocated. However, the main problem with this form of translation is that it appears to be extremely difficult to achieve successful results (Sechrest, Faye and Zaidi, 1972), and it tends to be far more time-consuming than other methods.

Finally, it is widely recommended that translators carry out translations into their mother-tongue.

In our particular case, the questionnaires were translated twice in order to ensure consistency between the Italian and English versions. They were prepared in English first, because a major source for the selection of questions is written in English (ie. Brown, Lusch and Muehling, 1983). Second, the items were translated into Italian by myself (Italian being my mother-tongue), then translated back into English by a person whose mother-tongue is English. The two English versions have been compared and the differences analyzed and normalized. This procedure of double translation ensures consistency and comparability of the answers.

For reference, the questionnaire used by Brown, Lusch and Muehling (1983) is reproduced as Appendix A. The new questionnaire, in both "role" versions and in both languages is shown in Appendix D. A thorough pilot study was undertaken prior to the main survey - the questionnaire used for this is shown in Appendix B and the details are summarized in Appendix C.

6.6. The Measures

Measures of the variables included in the hypothesized model are taken from the existing literature, subject to a few changes that reflect the specific issues that emerged in this research. Most of our measures are multi-item measures; many research methodology articles, research books and textbooks support the use of such measures (see for example, Ruckert and Churchill, 1984) to overcome the limitations (described by Nunnally, 1967) of single-item measures. In Appendix E, questionnaire item codes and definitions of the variables are reported. Brief summaries are presented in the next eight sub-sections (6.6.1 to 6.6.8.).

6.6.1. Sources of power

The sources of power are measured by adapting the questionnaire used by Brown, Lusch and Muehling (1983). Thus, we employ a multi-item Likert-scale for each of the sources of power:

- Information
- Reward
- Coercion
- Expertise
- Referent
- Legitimate

We chose to follow the original taxonomy of power sources from French and Raven (1959), not separating information from expertise, because of the difficulty of finding more than one item to measure information power. Thus, information was measured with one item, and this was considered as part of the expertise measure.

We do not distinguish between the possession of power and the use of power on the grounds that the two are correlated; there is a reinforcement effect here that

nevertheless does not change the structural relationship between power and other variables (see Gaski and Nevin, 1986).

6.6.2. Dependence

The first measure includes 4 Likert-scales concerned with the possibility of the franchisee switching to another supplier or franchisor without losing much of what he obtains from the existing franchisor.

The second measure is an overall measure of dependence regarding the percentage of products supplied or directly controlled by the franchisor.

6.6.3. Power

Following Brown, Lusch and Muehling (1983), we developed a multi-item measure for power. This first measure of power includes 16 items about the level of overlap in decision-making between the franchisor and the franchisee. This approach to measuring power is discussed in section 2.1.1. and section 8.2.

The second measure is an overall Likert-scale for investigating the level of control that the franchisor exercises over the franchisee.

6.6.4. Vertical conflict

Following Brown, Lusch and Muehling (1983) and Brown and Day (1981), we developed a multi-item multi-dimension measure of vertical conflict - the dimensions being importance and frequency of conflict. A third dimension - intensity - was tested in a pilot study but this made the respondent's task too long and difficult; during the interview it was clear that boredom was a real risk when there were many similar

(even if subtly discriminant) dimensions for each measure. Indeed, some respondents answered the frequency and the intensity dimensions in exactly the same way, and generally the intensity of conflict was low. Thus, even if the literature suggests that a three-dimensional measure is best for measuring conflict (Brown and Day, 1981), in the context of a long questionnaire it is necessary to be more selective. In the main survey a 15-item measure was used to study conflict, with each measure consisting of two dimensions: importance of the item and frequency of disagreement.

Another (third) measure of conflict is an overall item with a Likert-scale.

6.6.5. Decision structure

Following Schul and Babakus (1988), we decided to consider the dimension of formalization and participation. Participation is considered to be a continuum from centralised to participative decision-making. Both participation and formalization are measured using three Likert-scale items.

6.6.6. Cooperation

Following Sibley and Michie (1982), and Gultinan, Rejab and Rodgers (1980), and building on preliminary interviews, we selected 6 items as a basis for measuring cooperation. Each respondent was asked to rate the importance of these items and to say how intensively he works together with the other channel member (franchisor or franchisee) on these items.

In the pilot study three dimensions of cooperation were tried out (ie. importance, frequency and intensity). During the pilot study and through informal talks with managers working in franchise systems, we came to the conclusion that intensity is a better dimension than frequency for measuring cooperation in a franchise channel.

Since we are describing an ongoing relationship, cooperation is unlikely to be more or less "frequent", it will tend to be constant. On the other hand what should prove to be a discriminant is the intensity of the cooperation, as we would expect the strength and relevance of cooperation to vary.

Thus, the dimensions of importance and intensity have been selected for the 6-item Likert-scales that are used to measure vertical cooperation. The overall measure of cooperation refers to the "general atmosphere" of the relationship, measured with a Likert-scale.

6.6.7. Horizontal Interaction

This is a totally exploratory variable. The measures are general enough to capture different types of horizontal interaction; for example, as a first measure we ask about "knowing" other franchisees and "exchanging information" with others. The respondent is asked to rate three items on Likert-scales.

The second measure tries to capture the general level of interaction by asking franchisees whether they think that other franchisees are similar. The Likert-type scale is built according to the following rationale: if the respondent agrees that there are other franchisees similar to him, then there is some kind of "empathy" among the franchisees and this is a sign of potential interactive behaviour.

Two measures were exclusively designed for the franchisee questionnaire: (i) a multi-item measure to describe the frequency of information exchange between franchisees (which is the measure used to operationalize horizontal interaction in the hypothesized model); and (ii) a "yes-no" item to denote whether or not the information exchange is rated as "intense".

6.6.8. Performance

We developed two measures of performance: the first is a rating of satisfaction with performance (actual vs. expected) and the other relates to performance trends; both are measured with Likert-scales. In the hypotheses section, reasons for using perceptual measures instead of "balance-sheet" measures are discussed (see section 5.3.).

6.7. Reliability and validity of the measures

When collecting data about a variable, the researcher has to formally investigate the measurement properties of the survey instrument. The observed level (score) of the variable may not equal the "true" level; thus, potentially, there is a problem of validity. Since researchers are not provided with a list of what the "true" scores are, it is virtually impossible to make a straight-forward assessment. The measures are always inferences. The quality of these inferences depends on the amount of systematic and random error that is produced during the measurement procedure.

If we call the "true" score X_t , and the observed score X_o ,
"Functionally, the relationship can be expressed as:

$$X_o = X_t + X_s + X_r$$

where:

X_s = systematic sources of error such as stable characteristics of the object which affect its score,

X_r = random sources of error such as transient personal factors which affect the object's score."(Churchill, 1979, p.65).

A measure is perfectly reliable when no variation in scores is attributable to random (or "chance") error. A measure is perfectly valid when no variation in scores is attributable to random or systematic error (Churchill, 1979). Thus, reliability is a necessary but not a sufficient condition for validity (Nunnally, 1967; Peter, 1979; Churchill, 1979), and can only provide negative evidence of the validity of the measure ⁴.

⁴. Reliability analysis only deals with the reproducibility of the outcome of the measurement process (Parameswaran, Greenberg, Bellenger, Robertson, 1979).

Several indices have been developed to estimate the reliability and validity of measures (Churchill, 1979; John and Reve, 1982). But until recently there was no clear framework to help a marketer select an appropriate procedure. Here the procedure suggested by Churchill (1979) is used to assess and estimate the reliability and validity of the measures. Firstly, Churchill suggests the use of multi-item measures, which decreases the possibility of measurement error, especially when investigating behavioral relationships. In our research, all behavioral relationships were measured using multi-item measures. The next step is to specify the domain of the variable and generate items which capture the domain as specified. The approach taken by Churchill is "the domain sampling model, which holds that the purpose of any particular measurement is to estimate the score that would be obtained if *all* the items in the domain were used" (Nunnally, 1967; Churchill, 1979, p.68).

Since this piece of research starts with a replication study, we largely relied on items used by Brown, Lusch and Muehling (1983) and Schul and Babakus (1988); we also developed items in order to better capture the domain of some replicated variables and to explore new variables.

6.7.1. Content Validity

In the first place we look for face or content validity. As Churchill states, "The major source of error within a test or measure is the sampling of items. If the sample is appropriate and the items *look right*, the measure is said to have face or content validity" (1979, p.69).

The multi-item scales in our research were tested, before the field research, using informal interviews with practitioners and academics, and with a formal pilot study which is reported in Appendix C.

6.7.2. Reliability: Internal Consistency

The internal consistency (homogeneity) of a set of items that are meant to measure a single variable can be assessed with coefficient Alpha (Cronbach, 1951; Nunnally, 1967; Peter, 1979; Churchill, 1979). We note that "... a low coefficient Alpha indicates the sample of items performs poorly in capturing the variable which motivated the measure. Conversely, a large Alpha indicates that the k-item test correlates well with the true scores" (Churchill, 1979, p.68). Computationally, Cronbach's Alpha is a way to calculate a mean reliability coefficient for all possible ways of splitting a set of items in half.

Peter analyzed different methods of assessing reliability for multi-item measures (1979; 1981), finding support for the idea that each method can slightly change the result of the reliability analysis. Nevertheless, his view that Alpha is a "most useful formula for assessing the reliability of measures in marketing research" (1979, p.9), has been substantially confirmed. This procedure may become routine in marketing studies given its presence in some standard statistical packages (notably SPSS-pc) and given its facility to exclude items which are poorly correlated to the rest of the measure (thereby helping to create uni-dimensional - or pure - measures).

In our research, in order to purify each measure, we used the following iterative procedure (as systematized by Churchill, 1979):

- (i) Calculation of coefficient Alpha;
- (ii) Calculation of item-total correlation coefficients;
- (iii) Deletion of items "poorly" correlated to the total score of the measure;
- (iv) Re-calculation of coefficient Alpha;
- (v) Iteration of phases (ii) to (iv) until a "satisfying" coefficient Alpha can be obtained;
- (vi) Factor analysis can be used at this stage to confirm whether the number of dimensions conceptualized is verified empirically; in fact this can be a further check for uni-dimensionality of the measure.

At some stages of this procedure the analyst has to exercise judgement. First of all, a cut-off value for a "satisfying" coefficient Alpha must be decided. Nunnally (1967) and Churchill (1979) suggest reliabilities of .50 to .60; for our research, we took the latter limit of .60 as the minimum level of acceptable Alpha.

Also, the analyst has to decide a cut-off value for a "low" item-total correlation coefficient. Following Schul and Babakus (1988), we adopted the cut-off value of .35, suggested by Saxe and Weitz (1982) as a minimum level for the item-total correlation coefficient under which an item should be discarded from the analysis.

For items that remained after this purifying procedure, the responses were summed to create uni-dimensional indices. These indices represent the variables that are used in our data analyses.

6.7.3. Reliability: External Consistency

While coefficient Alpha is the basic statistic for determining the reliability of a measure based on internal consistency, it does not adequately estimate errors caused by factors external to the instrument, such as differences in testing situations and respondents over time. To check for external consistency, the researcher has two main options: (a) collecting additional data from a different sample and comparing the results of the purification procedure; or (b) repeating the field research with the same sample after some time and checking whether the multi-item measures have the same measurement properties. This latter method has been supported by some researchers (Peter, 1979), but others have dissented (Churchill, 1979). The debate is due to the risk of respondents' memories biasing the results, when a test-retest reliability study is undertaken.

Our research uses the first of the two methods to assess the reliability of the measures. By design, data have been collected from different and independent groups of respondents; this enables us to check for external consistency.

6.7.4. Convergent and Discriminant Validity

After producing a set of items that is both internally consistent (homogenous) and also consistent across different external conditions, in order to establish the validity of the measure the analyst also must determine:

- (1) the degree to which multiple attempts to measure the same variable by different methods are in agreement (convergent validity) (Campbell and Fiske, 1959);
- (2) the extent to which a given variable is different from other variables (discriminant validity) (Campbell and Fiske, 1959);
- (3) whether a measure behaves as expected (nomological validity)(Churchill, 1979; Peter, 1981).

Such an approach rests on the view that: "A fundamental principle in science is that any particular construct or trait should be measurable by at least two, and preferably more, different methods" (Churchill, 1979, p.70).

Convergent and discriminant validity can be assessed using a multi-variable and multi-method matrix, which is a correlation matrix between different variables when each of the variables is measured by different methods. The measurement methods should be as different as possible. If these methods are "in agreement", that is they "correlate" with each other, we can say that the variables have convergent validity. The inter-correlation pattern among measures for the same variable should be stronger than the correlations between measures for different variables, then we have discriminant validity.

Our research design enables us to address the issues of convergent and discriminant validity; almost all of the variables were measured in more than one way, even if the degree of "differentiation" between the methods is not always ideal. Accordingly, convergent and discriminant validity assessment has been performed for the variables and across the different data sets analyzed in our research.

In the last decade, researchers have developed methods of confirmatory factor analysis for establishing validity of measures (for a discussion of the pros and cons of these techniques see, for example, Bagozzi, Yi, and Phillips, 1991). In section 8.1.7. a "saturated" model, corresponding to a confirmatory factor analysis structural model, is estimated (see Anderson and Gerbin, 1988); this can also be considered as a tool to help in the analysis of validity.

6.7.5. Nomological Validity

When the variable of interest is related to other variables by an established body of theory, the confirmation of the relationships predicted by the theory is evidence of nomological validity (Campbell, 1960).

We, however, are not able to assess the nomological validity of most of our variables because the theory we are testing is not well established. We are in fact replicating previous research because the inter-organizational theory of channel relationships has not been replicated in enough different contexts to say it is "established". This is not uncommon in marketing; the lack of replication in studies means there is often great uncertainty about the generalizability of results derived from market research (Ehrenberg and Bound, 1992a, 1992b; Lindsey and Ehrenberg, 1991; Hubbard and Armstrong, 1989, Uncles et al., 1993). Nevertheless, where previous research is not wholly replicated by our research an attempt is made to pin-point possible measurement biases. This highlights the crucial relationship between theory development and measurement issues.

6.8. Data Analysis Techniques

Tests of measure reliability and validity can tell us something about the nature of channel relationships (as well as addressing the measurement issues). To assess the hypotheses listed earlier (section 5.3.), however, a broader statistical framework is

needed:

- (i) Relationships between single behavioral variables (e.g., non-economic power sources and conflict) are studied using:
 - . correlation analysis; and
 - . analysis of structural coefficients and corresponding t-values, estimated with a maximum likelihood procedure within Lisrel VII.

- (ii) Models of behavioral relationships (e.g. alternative structural linear models) are compared using Lisrel VII. This technique is useful "per se", and also necessary in order to replicate previous research (Brown, Lusch, and Muehling, 1983; Schul and Babakus, 1988). Lisrel is described in detail in Appendix F. Typically, the following Lisrel outputs are considered:
 - . goodness of fit;
 - . improvement in goodness of fit between alternative models;
 - . estimated coefficients and corresponding t-values;
 - . distribution of residuals;
 - . indices of the split between the direct and indirect effects of variables within the model; and
 - . modification indices where parameters are relaxed.

- (iii) Comparison between countries (Italy and Britain) is based on:
 - . descriptive statistics (means) in a between-group-analysis mode;
 - . correlation analysis;
 - . comparison of the Lisrel VII models when they are fitted separately to data from the two different countries, and by constraining parameters to be equal across countries.

- (iv) The perceptions of different informants (namely franchisees and franchisors) are compared using:
 - . descriptive statistics in a between-group-analysis mode;
 - . correlation analysis; and

. the scope for applying Lisrel VII to franchisor data is considered.

From the hypothesis testing procedure, implications for future research emerge.

6.9. Summary

In this chapter we have discussed several important aspects of the research methodology. Ways to identify and select organizations and key informants have been presented. Alternative data collection procedures have been discussed, and the chosen combination of personal interviews and mail questionnaires has been justified, this being a way to minimize potential biases. The particular problems posed by non-response bias and incomplete answers have been addressed.

The model is to be fitted using perceived measures and tested across different data sets. Therefore, attention has been given to measure validity and reliability. Finally, the techniques of data analysis have been summarized.

PART III

DESCRIPTIVE DATA ANALYSIS

III DESCRIPTIVE DATA ANALYSIS

7. DESCRIPTIVE DATA ANALYSIS

The main purpose of this chapter is to describe the data collected from 60 franchisors and 353 associated franchisees in Britain and Italy. We assess the extent to which the sample is representative of retail franchising and retailing in general. We also try to identify patterns and relationships between variables in the data, at the same time highlighting the exceptions and anomalies that exist. This descriptive analysis provides a platform for the next chapter, in which we test hypotheses using correlation analysis and structural equation modelling.

First, a number of structural variables are used to describe the sample (section 7.1.): the franchises are described in terms of their size, sector of activity, geographical location, size of town where the sample franchisees operate, length of the franchise relationship, previous activity of the franchisees, and percentage of product range supplied by the franchisor.

Next, the variables concerning franchisees' and franchisors' behavior, such as power sources, dependence, power, conflict, information exchange, participation, cooperation, and performance are described (section 7.2.). These behavioral variables are then related to structural characteristics of the franchise (section 7.3.).

7.1. Structural Variables

7.1.1. Size of the Sampled Franchises

We sampled franchises of different size, using the measure adopted by the British Franchise Association to report industry figures - ie. the number of franchised units. About half of our sampled franchises have more than 50 franchise units (57% and 43% in Italy and Britain respectively). Since in the population the number of small

and medium franchises is greater than that of large franchises (small and medium franchises account for 79% and 76% in the two countries), there is a distinct bias in our data (Table 7.1 and 7.2).

Therefore, when we analyze the data we check to see whether firm size has an effect on our hypotheses.

We deliberately did not include franchises with less than 5 shops in our sample. This was because we wanted to concentrate on established franchises, which had already gone through the start-up phase. The cut point of 5 shops was decided after some preliminary interviews with franchise managers of both small and larger organizations, and it seems to be reasonable.

Table 7.1 Size of Sampled Franchises: Number of Franchises and Franchisees per class size (number of franchised shops) in the population and in the sample

NUMBER OF FRANCHISED SHOPS	FRANCHISES				FRANCHISEES	
	Italy		Britain		Italy	Britain
	Population of retail franchises	Sampled	Population of retail franchises	Sampled	Returned questionnaires	Returned questionnaires
n < 5	38		33			
5 ≤ n < 50	106	13	44	17	69	71
n > 50	40	17	24	13	107	106
Total	184	30	101	30	176	177

Table 7.2 Size of Sampled Franchises: Percentage of Franchises and Franchisees per class size (number of franchised shops) in the population and in the sample

NUMBER OF FRANCHISED SHOPS	FRANCHISES				FRANCHISEES	
	Italy		Britain		Italy	Britain
	Population of retail franchises	Sampled	Population of retail franchises	Sampled	Returned questionnaires	Returned questionnaires
n < 5	21%		33%			
5 ≤ n < 50	58%	43%	43%	57%	39%	40%
n > 50	21%	57%	24%	43%	61%	60%
Total	100%	100%	100%	100%	100%	100%

7.1.2. Sector of activity

To increase the internal homogeneity of the sample and allow the comparison across Italy and Britain, we limited sample to retail franchises, such as Stefanel, Buffetti, Body Shop and Levi's in Italy, and Burger King, Kall-Kwik, Athena, Levi's and Clarks' in Britain. This is because while in Italy franchising is predominantly a retail industry, in Britain almost half of all franchises are non-retail organizations (e.g. cleaning services, maintenance services). Since a basic purpose of this research is to compare franchising across countries, we accept that we are not able to represent the whole franchising industry in Britain, and we caution against making inferences about non-retail franchising.

In Table 7.3 the sampled sectors are shown. The numbers of franchisees per sector are affected by two big groups of franchisees sampled from one company in Italy (36 answers from franchisees of a stationery firm) and one in Britain (41 franchisees from a shoe firm).

In addition to these specific aspects of the sampling process, there are two further differences between the sampled franchisees in the two countries: retailers of bags and accessories occur more often in Italy, and retailers of food, restaurants and confectionery occur more often in Britain. These differences reflect true differences in the structure of franchise retailing between the two countries (see: British Franchising Association, 1990; Associazione Italiana del Franchising, 1990).

Table 7.3 Sector of Activity of the Sampled Franchisees and Franchisors:
Numbers

RETAIL SECTOR	FRANCHISEES			FRANCHISORS		
	Mail Survey + Personal Interviews			Personal Interviews		
	Italian n.	British n.	Total n.	Italian n.	British n.	Total n.
Clothing	36	35	71	6	3	9
Stationery, printing, cards	53	18	71	3	5	8
Shoes	13	41	54	1	2	3
Food, restaurants, and confectionery	4	46	50	2	9	11
Furniture and houseware	24	22	46	3	5	8
Bags and accessories	21	1	22	6	1	7
Sport equipment and clothing	7	9	16	1	2	3
Telephones and computers	4	3	7	1	1	2
Beauty products	5	2	7	1	2	3
Lingerie	5	0	5	3	0	3
Toys	4	0	4	3	0	3
Total	176	177	353	30	30	60

Table 7.4 Sector of Activity of the Sampled Franchisees and Franchisors:
Percentages

RETAIL SECTOR	FRANCHISEES			FRANCHISORS		
	Mail Survey + Personal Interviews			Personal Interviews		
	Italian %	British %	Total %	Italian %	British %	Total %
Clothing	20.5	20.0	20.1	20.0	10.0	15.0
Stationery, printing, cards	30.1	10.2	20.1	10.0	16.7	13.3
Shoes	7.4	23.2	15.3	3.3	6.7	5.0
Food, restaurants, and confectionery	2.3	26.0	14.2	6.7	30.0	18.3
Furniture and houseware	13.6	12.4	13.0	10.0	16.7	13.3
Bags and accessories	11.9	0.6	6.2	20.0	3.3	11.7
Sport equipment and clothing	4.0	5.1	4.5	3.3	6.7	5.0
Telephones and computers	2.3	1.7	2.0	3.3	3.3	3.3
Beauty products	2.8	1.1	2.0	3.3	6.7	5.0
Lingerie	2.8	0	1.4	10.0	0	5.0
Toys	2.3	0	1.1	10.0	0	5.0
Total ¹	100.0	100.0	100.0	100.0	100.0	100.0

¹. The total may not be exactly 100 because of rounding.

7.1.3. Geographical distribution of the sampled franchisees

As can be seen from Table 7.5, all the standard economic areas of each country are represented in the sample of franchisees. This allows us to break down the behavioral variables of the franchise relationships by area, to check any similarities and differences not only across countries but also within each individual country. The results from areas with small sample sizes should be considered with caution.

Table 7.5 Geographical Distribution of the Sampled British Franchisees

NIELSEN AREA	FRANCHISEES (British)
Midlands	17%
London	16%
Lancashire	15%
Anglia	11%
Southern	11%
Wales and West	9%
Scotland	8%
Yorkshire	5%
Tyne-Tees	4%
N.Ireland	2%
missing values	2%
Total	100%

Table 7.6 Geographical Distribution of the Sampled Italian Franchisees

AREA	FRANCHISEES (Italian)
North	50%
Centre	25%
South and Islands	25%
Total	100%

7.1.4. Size of town where the sampled franchisees operate

Using 100,000 people as a cut-off point, small and big towns are almost equally represented in our sample of franchisees (Table 7.7). Thus, we have sample sizes for each sub-group that allow us to check for any association between town size and franchisees' perception of franchise relationships.

Table 7.7 Size of Town where the Sampled Franchisees Operate their Business

Town size (number of people)	FRANCHISEES	
	Italian	British
Larger than 100,000	50%	43%
Smaller than 100,000	50%	57%
Total	100%	100%

7.1.5. Length of the franchise relationships

The Italian and British samples are quite similar in terms of how long the respondent franchisees have been in the franchise (Table 7.8 and Table 7.9). The majority of them have been in the franchise longer than 2 years (71% overall, 67% in Italy and 73% in Britain). A small percentage of franchisees joined the franchise in the last 6 months (4.5% overall, 5.1% in Italy and 4.0% in Britain).

National figures about the entry of new franchisees are not publicly available: having said that, it seems reasonable that not many new franchisees joined franchises in the time span between October 1991 and February 1992, when the data were collected. The recession in Western Europe would have discouraged people from starting new independent businesses, even in a successful industry such as franchising. Also, the fact that the proportion of new franchisees is almost equal in both our country

samples gives further reassurance that it represents the true proportion in the population.

Thus, the data we collected mainly comes from experienced franchisees. The implication of this is that the responses regarding the behavior of franchisees who recently joined the franchise should be considered with caution, due to their small sample size.

These data allow us to check any effect of the length of the franchise relationship on the behavior of the franchisor and franchisees (see section 7.3.5.). If we found that the behavior of "new" franchisees was different from that of "old" franchisees, we would be in danger of "averaging" different patterns of behavior, and it would be necessary to disaggregate the analysis.

Table 7.8 Length of the Franchise Relationships: Numbers

TIME	FRANCHISEES								
	Mail Survey + Personal Interviews			Mail Survey			Personal Interviews		
	Italian n.	British n.	Total n.	Italian n.	British n.	Total n.	Italian n.	British n.	Total n.
Less than 6 months	9	7	16	7	4	11	2	3	5
6 months to 1 year	20	18	38	19	11	30	1	7	8
1 to 2 years	29	20	49	19	16	35	10	4	14
2 to 5 years	59	78	137	52	68	120	7	10	17
More than 5 years	59	51	110	49	46	95	10	5	15
(Not specified)	0	3	3	0	2	2	0	1	1
Total	176	177	353	146	147	293	30	30	60

Table 7.9 Length of the Franchise Relationships: Percentages

TIME	FRANCHISEES								
	Mail Survey + Personal Interviews			Mail Survey			Personal Interviews		
	Italian %	British %	Total %	Italian %	British %	Total %	Italian %	British %	Total %
Less than 6 months	5.1	4.0	4.5	4.8	2.7	3.8	6.7	10.0	8.3
6 months to 1 year	11.4	10.2	10.8	13.0	7.5	10.2	3.3	23.3	13.3
1 to 2 years	16.5	11.3	13.9	13.0	10.9	11.9	33.3	13.3	23.3
2 to 5 years	33.5	44.1	38.8	35.6	46.3	41.0	23.3	33.3	28.3
More than 5 years	33.5	28.8	31.2	33.6	31.5	32.4	33.3	16.7	25.0
(Not specified)	0	1.7	.8	0	1.4	.7	0	3.3	1.7
Total ²	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

². The total may not be exactly 100 because of rounding.

7.1.6. Previous activity of the franchisees

What franchisees did before joining the current franchise can be used as an indicator of how franchising is influenced by the experience and capabilities of individual managers (Table 7.10 and Table 7.11).

The data show that very few Italian or British franchisees worked in other franchises before joining the current one (5.1% and 4.0% respectively). A possible implication of this is that most franchisees talk about their franchise without direct terms of comparison. This may prevent them from giving a balanced view of what franchising should be, because for their current franchise is franchising.

In Italy a large proportion of franchisees were already in the retail business (45% of franchisees were retailers either in the same or in other sectors). This evidence partly reflects the regulation of retailing in Italy: it is quite difficult to obtain new licences from the local government to operate as a retailer, so franchisees are often selected among those who already have a licence. This means that from the perspective of the franchisor, it is faster to select from existing retailers than to develop a new network. From the perspective of the franchisees, franchising seems to be a way to boost sales for their retail business; they join the franchise in order to obtain products and a brand image that can increase their sales.

The situation in Britain is different: only 26% of franchisees were already in the retail business (either in the same or in other sectors). A much larger proportion of British than Italian franchisees includes former employees, from either the same or other sectors (52% and 29% respectively). Thus, franchising in Britain seems to be a way to foster the entrepreneurial spirit of people: by joining a franchise in Britain a manager not only secures independence, but also has to learn a new job.

Overall, then, the business arrangement of franchising is used for slightly different purposes in the two countries. We believe that this is an interesting example of adaptation to the environment. In addition, the typical commonplaces of franchising

"the American way" ("go independent, learn a new business") cannot be applied to Italy in exactly the same way. There is no reason why this might not change, but up to now the influence of regulation and the willingness of independent retailers to develop their businesses have created something of a peculiar situation.

Table 7.10 Previous Activity of the Sampled Franchisees: Numbers

PREVIOUS ACTIVITY	FRANCHISEES								
	Mail Survey + Personal Interviews			Mail Survey			Personal Interviews		
	Italian n.	British n.	Total n.	Italian n.	British n.	Total n.	Italian n.	British n.	Total n.
Franchisee in another franchise	9	7	16	6	3	9	3	4	7
Retailer in the same sector	65	29	94	53	26	79	12	3	15
Employed in the same sector	22	36	58	16	33	49	6	3	9
Retailer in another sector	15	17	32	14	14	28	1	3	4
Owner/manager in another sector	23	28	51	21	21	42	2	7	9
Employed in another sector	29	56	85	24	47	71	5	9	14
Other	1	0	1	1	0	1	0	0	0
Missing values	12	4	16	11	3	14	1	1	2
Total	176	177	353	146	147	293	30	30	60

Table 7.11 Previous Activity of the Sampled Franchisees: Percentages

PREVIOUS ACTIVITY	FRANCHISEES								
	Mail Survey + Personal Interviews			Mail Survey			Personal Interviews		
	Italian %	British %	Total %	Italian %	British %	Total %	Italian %	British %	Total %
Franchisee in another franchise	5.1	4.0	4.5	4.1	2.0	3.1	10.0	13.3	11.7
Retailer in the same sector	36.9	16.4	26.6	36.3	17.7	20.1	40.0	10.0	25.0
Employed in the same sector	12.5	20.3	16.4	11.0	22.4	16.7	20.0	10.0	15.0
Retailer in another sector	8.5	9.6	9.1	9.6	9.5	19.4	3.3	10.0	13.3
Owner/manager in another sector	13.1	15.8	14.4	14.4	14.3	14.3	6.7	23.3	15.0
Employed in another sector	16.5	31.6	24.1	16.4	32.0	24.2	.17	30.0	23.3
Other	.6	0	.3	.7	0	.3	0	0	0
Missing values	6.8	2.3	4.5	7.5	2.0	4.8	3.3	3.3	3.3
Total ³	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

³. The total may not be exactly 100 because of rounding.

7.1.7. Percentage of assortment supplied by the franchisor

Franchising is often regarded as a form of exclusive distribution whereby the franchisor manufactures all the products carried by the franchisees. Even when the franchisor does not manufacture the products he might try to control the lines of supply. With exclusive arrangements (or quasi-exclusive when, for example, 90-95% of supply is controlled) the franchisor can (a) create a form of dependence and (b) control the image of the shop and the quality of the products. In our sample, 117 out of 353 franchisees (33%), with almost equal proportions in the British and Italian samples, are exclusive retailers (Table 7.13); and 227 out of 353 (64%) buy at least 75% of their product range from the franchisor or controlled suppliers.

However, the degree to which the franchisor is able and willing to control, directly or indirectly, the assortment of his franchisees varies across different sectors (Table 7.14). For example, in fashion the assortment tends to be very much controlled by the franchisor: in the clothing industry, for all the sampled franchisees, 94% on average of their product range is supplied or controlled by the franchisor. Similar arrangements exist in the shoe industry and in the bags and accessories industry.

On the other hand, in the restaurant sector the products are prepared on-site, and the raw materials are only partly bought through suppliers controlled by the franchisor. In our data set, for all the sampled franchisees the average percentage of product range supplied or controlled by the franchisor is 52%, with some difference between the British and Italian samples (54% vs. 33%). 31 British franchisees (see Table 7.13) claim not to purchase anything from the franchisor or controlled suppliers; most of them are in the restaurant and quick printing businesses.

Interestingly, the franchisor and franchisee perspectives are different (Table 7.12 and Table 7.14). Even if franchisees are cautious when talking about this issue, still, in both countries, they declare a lower percentage of assortment purchased from the franchisor or controlled suppliers than the figure claimed by franchisors (and the difference is apparent both in the total sample and in the sample of personally

interviewed franchisees).

There are at least two explanations: (a) differences in perception, with franchisors having an "ideal" arrangement (for them) in mind, or (b) a sizeable amount of independent sourcing is undertaken by franchisees which goes unnoticed by franchisors (perhaps to cope with regional needs or because franchisees feel a need to exercise their own judgement). If the latter explanation is correct it may be that franchisees want the benefits of the franchise but do not always abide by the contract, or that the relational strategies of franchisors are not flexible enough to cope with regional needs.

Table 7.12 Franchisees' Dependence on the Franchisor for the Supply of Products:
Averages across the sampled franchises

Variable	FRANCHISEES						FRANCHISORS	
	Mail Survey + Personal Interviews		Mail Survey		Personal Interviews		Personal Interviews	
	Italian (176)	British (177)	Italian (146)	British (147)	Italian (30)	British (30)	Italian (30)	British (30)
Percentage of assortment supplied or directly controlled by the franchisor	80%	66%	79%	67%	84%	59%	86%	82%

Table 7.13 Franchisees' Dependence on the Franchisor for the Supply of Products:
Number of Franchisees Dependent on the Franchisor, Breakdown by Class of Dependence

PERCENTAGE OF ASSORTMENT SUPPLIED OR CONTROLLED BY THE FRANCHISOR	FRANCHISEES			FRANCHISORS		
	Mail Survey + Personal Interviews			Personal Interviews		
	Italian n.	British n.	Total n.	Italian n.	British n.	Total n.
0%	1	31	32	0	1	1
1 - 25%	10	13	23	0	1	1
26 - 50%	20	13	33	4	2	6
51 - 75%	18	13	31	3	4	7
76 - 99%	64	46	110	5	8	13
100%	60	57	117	18	14	32
Missing values	3	4	7	0	0	0
Total	176	177	353	30	30	60

Table 7.14 Percentage of Assortment Supplied or Controlled by the Franchisor:
Breakdown by Sector of Activity ⁴

RETAIL SECTOR	FRANCHISEES			FRANCHISORS		
	Mail Survey + Personal Interviews			Personal Interviews		
	Italian	British	Total	Italian	British	Total
Clothing	88%	100%	94%	94%	98%	96%
Stationery, printing, cards	68%	19%	55%	70%	89%	82%
Shoes	85%	91%	89%	(95%)	(92%)	93%
Food, restaurants, and confectionery	(33%)	54%	52%	(65%)	68%	67%
Furniture and houseware	79%	30%	55%	90%	86%	88%
Bags and accessories	99%	(30%)	96%	92%	(75%)	89%
Sport equipment and clothing	(100%)	(77%)	87%	(80%)	(75%)	(77%)
Telephones and computers	(26%)	(20%)	(24%)	(30%)	(75%)	(52%)
Beauty products	(94%)	(85%)	(91%)	(100%)	(100%)	(100%)
Lingerie	(88%)	n.a.	(88%)	(90%)	n.a.	(90%)
Toys	(92%)	n.a.	(92%)	(97%)	n.a.	(96%)
Total	80%	66%	73%	86%	82%	84%

⁴. Classes where the number of responding franchisees is smaller than 10 and the number of responding franchisors is smaller than 3 are shown in brackets. The values of the classes with few respondents should be treated with caution. Where there are no respondents in a class, n.a. (not applicable) is indicated. For the precise number of respondent in each class, see Table 7.3.

7.2. Behavioral variables: averages between groups of respondents

In this section we have an initial look at the data concerning the behavioral variables, as reported by franchisors and franchisees. For each variable, we look at the means for each group of respondents:

- . 30 British and 30 Italian franchisors personally interviewed;
- . 30 British and 30 Italian franchisees (from the same 60 franchises as for franchisors) personally interviewed;
- . 147 British and 146 Italian franchisees (from the same 60 franchises as before) who responded by mail.
- . 177 British and 176 Italian franchisees (pooled data)(see Chapter 8 for statistical analyses of the pooled data).

For each variable, inferences are made about the extent of systematically high or low responses in the Likert-scales, and the extent to which different groups of respondents give similar answers. The mean is a reliable measure for comparisons between sub-samples when the standard deviations of the responses of each sub-group are not too large. This is because if the data were very dispersed, the mean would lose its power of representing the single observations. In a multi-item measure, we expect the standard deviations of the items to be similar, which increases the internal consistency of the multi-item index. A comparison between standard deviations across countries increases our understanding of the distributional properties of the data, and consequently the extent to which the cross-country comparison is successful.

We also look at the effect on behavioral variables of the length of the franchise relationship, the previous activity of the franchisee, the sector of activity of the franchise, the town size and geographical location of the franchised shops.

Whether or not items passed the reliability tests (reported in Chapter 8) they are included in the Tables that follow - mainly for the sake of completeness. A brief explanation of the item is given here, and for further clarification refer to the questions used in the field research (see Appendices D and E).

7.2.1. Power sources

Data in Table 7.15 come from responses to Likert-scales, where a response of 7 means heavy use of the specific kind of power source; a neutral mid-point is a response of 4, while a response of 1 means that the power source is not used at all.

We see that non-economic power sources (expert and referent) tend to be used quite a lot, in Italy as well as in Britain. The multi-item indices show very similar values across respondents belonging to the same role category (franchisor and franchisee). For example, the measure for expert power sources shows average values of 5.7 and 5.1 for Italian and British franchisees respectively. Similarly, the measure for referent power sources shows averages of 5.4 and 5.3 for Italian and British franchisees. The responses to the items are dispersed in a similar way across the role categories in the matched country sub-samples. For example, the standard deviations for the three items measuring expert power sources are 2.2, 1.7, and 1.5 in the Italian sample of franchisees, and 2.1, 1.5, and 1.6 in the British sample of franchisees. The same degree of similarity occurs for the sub-samples of franchisors, but the standard deviations are slightly lower than those of franchisees. For example, the standard deviations for the three items measuring expert power sources are 1.5, .7, and 1.0 in the Italian sample of franchisors, and 1.2, .8, and 1.2 in the British sample. As can be seen from these two examples (and this repeats across the different sub-groups and non-economic power sources), within each multi-item measure the standard deviations are very similar across the items.

The data concerning economic power sources (coercive, reward, and legitimate) must be considered with more caution, because they are based on only 30 observations (although they were collected through personal interviews, which is a more reliable and controlled field research method). Nevertheless, some very clear conclusions emerge: both Italian and British franchise systems are managed without much use of the two economic power sources of coercion and reward. The average values are usually smaller than 4, which is the neutral point. For example, the value of the reward power sources index is 3.5 and 3.1 for Italian and British respondents. On the

other hand legitimate power sources are present; the contractual arrangement applied in almost all the franchises, even if not always very tight, is a constant point of reference for both franchisors and franchisees. Occasional discrepancies are hard to interpret because of the small sample sizes. Nevertheless, a systematic difference occurs between Italy and Britain regarding legitimate power sources, with both the British franchisees and franchisors giving higher responses than the Italians - maybe they feel more contractually obligated than the Italians.

The responses of franchisors are systematically greater than those of franchisees, perhaps because franchisors over-estimate their own power sources and/or they want to give the interviewer the impression that they are in charge. The systematic occurrence of this difference is worth further investigation. The dispersion of responses (which we measured by calculating standard deviations) is similar across the role categories, countries, and among the items of each multi-item measure.

For both the non-economic and economic power sources, the multi-item indices (averages of the items) have standard deviations slightly lower than those of the correspondent items; for example in the Italian sample of franchisees, while the standard deviation of the three items measuring expert power sources are 2.2, 1.7, and 1.5, the standard deviation of the multi-item index is 1.34. This happens because some of the variance in the data across the items is lost through averaging. This is to be expected, provided that the standard deviations of the multi-item index do not tend to zero, which is not the case in our research.

Table 7.15 Power Sources:
Averages of Items and Variables Across the Sampled Franchises

VARIABLES	ITEMS	FRANCHISEES						FRANCHISORS	
		Mail Survey + Personal Interviews		Mail Survey		Personal Interviews		Personal Interviews	
		Italian (176)	British (177)	Italian (146)	British (147)	Italian (30)	British (30)	Italian (30)	British (30)
Expert power sources	III9	5.2	3.9	5.1	4.0	5.5	3.4	6.4	5.4
	III12	5.8	5.8	5.7	5.9	6.1	5.3	6.7	6.4
	III17	6.1	5.6	6.1	5.7	6.3	5.3	6.4	5.3
	Expert1	5.7	5.1	5.7	5.2	6.0	4.7	6.5	5.7
Referent power sources	III2	5.9	5.6	5.9	5.6	6.3	5.7	6.3	6.2
	III3	4.6	5.2	4.6	5.2	4.7	4.8	4.7	5.2
	III13	5.1	5.3	5.1	5.4	5.0	4.9	5.4	5.5
	III18	5.7	5.0	5.7	5.1	5.5	4.4	5.6	5.7
	Refer1	5.4	5.3	5.4	5.3	5.4	5.0	5.5	5.6
Coercive power sources	III7					4.0	4.0	4.1	3.1
	III14					2.9	2.4	2.8	2.4
	III15					2.8	2.9	3.9	1.9
	Coerc1					3.2	3.1	3.6	2.5
Reward power sources	III4					2.8	1.9	2.1	2.9
	III10					4.5	3.8	4.9	5.3
	III20					3.5	3.7	3.7	4.6
	Reward1					3.5	3.1	3.5	4.3
Legitimate power sources	III5					3.3	4.9	5.3	5.7
	III8					3.0	4.7	4.8	5.4
	III19					4.3	4.9	4.5	5.4
	Legit1					3.6	4.8	4.9	5.5

7.2.2. Dependence and power

Data in Table 7.16 come from responses to Likert-scales where an average response of 7 means that the franchisee is very much dependent on the franchisor, a response of 4 is neutral, while a response of 1 means that the franchisee is not at all dependent on the franchisor.

The average responses for each item are quite similar for the Italian and British franchisees, and the values are very close to the mid-point (an average of 3.7 for the multi-item indices). The responses of franchisors are close to 5 (4.5 and 4.9, respectively, in the Italian and British samples); so, again, the responses of franchisors are systematically higher than those of franchisees - it appears that franchisors think (or hope) that franchisees are very dependent on them, even when this is not actually the case (according to franchisees' perceptions). The standard deviations of the items are very similar across all the sub-groups, with values from 2 and 2.5; whereas the standard deviations of the multi-item indices of dependence (Dep1) are slightly lower, from 1.4 to 1.8, but still similar across all the sub-groups (for the reason that the standard deviation of a multi-item index tends to be lower than that of the individual items, see section 7.2.1)

In the second part of Table 7.16 an average response of 7 means that the franchisor fully controls decisions about the specific item, a response of 4 means that the franchisee and the franchisor have an equal say, and a response of 1 means that the franchisee decides independently from the franchisor.

Again, franchisors tend to overestimate their control. Thus, the average responses of franchisees are smaller than 4, while the responses of franchisors are nearer 5. This means that each party is confident about their say over commercial policies at the retail level. The standard deviations of the items are similar across all the items and sub-groups, with values from 1.5 to 2; the standard deviations of the multi-item indices, still similar across the sub-groups, have values from .8 to 1.1.

A methodological issue could be raised about what we are really measuring here, whether it is power (ie. control over decision-making) or whether it is franchisees attempts to be autonomous. Since we are dealing with perceptual data, there is the possibility that franchisees want to believe that they have a say over decision-making, even if they actually do not. As for franchisors, they may tend to think about the cases where they have full control of the business (as a rule, the level of direct control will vary even within one franchise system). Anyway, further analysis should be done to explore the mismatch between franchisees' and franchisors' perceptions about power and dependence.

Table 7.16 Dependence and Power:
Averages of Items and Variables Across the Sampled Franchises

VARIABLES	ITEMS	FRANCHISEES						FRANCHISORS	
		Mail Survey + Personal Interviews		Mail Survey		Personal Interviews		Personal Interviews	
		Italian (176)	British (177)	Italian (146)	British (147)	Italian (30)	British (30)	Italian (30)	British (30)
Dependence	III1	4.0	4.2	4.2	4.3	3.6	3.8	5.0	4.9
	III6	4.0	3.2	3.8	3.5	4.9	1.9	4.7	5.4
	III11	3.2	2.9	3.1	3.0	3.5	2.3	3.1	4.1
	III16	3.6	4.2	3.6	4.3	3.8	3.6	5.1	5.2
	Dep1	3.7	3.7	3.7	3.8	4.0	2.9	4.5	4.9
Power	II1					6.0	4.4	6.4	5.3
	II2					4.6	4.7	5.7	6.2
	II3					5.3	4.7	5.6	5.4
	II4					4.0	3.4	4.4	4.8
	II5					2.5	2.9	4.8	4.7
	II6					4.3	6.1	5.7	6.3
	II7					1.8	2.1	3.4	3.1
	II8					3.4	4.1	5.6	4.9
	II9					2.1	3.7	4.8	4.9
	II10					2.2	1.9	3.2	2.4
	II11					1.2	1.5	2.6	2.5
	II12					1.2	2.4	1.7	3.6
	II13					3.9	4.4	5.4	6.5
	II14					2.0	2.9	4.7	4.4
	II15					2.9	2.6	5.1	5.1
	II16					2.5	1.7	4.7	2.1
	Power1					3.0	3.3	4.6	4.5

7.2.3. Conflict

Data in Table 7.17 come from responses to Likert-scales where an average response of 6 means that the franchisee very often disagrees with the franchisor, a response of 3 indicates that franchisees sometimes disagree with franchisors, while a response of 0 means that the franchisee never disagrees with the franchisor.

Average responses for each item are quite similar in Italy and Britain, and the values are virtually the same across the role categories (franchisees and franchisors). All the average values are around 2, which implies infrequent conflict. These rather neutral values can be explained by the fact that when there are major conflicts the franchise agreement is terminated. Unfortunately (but in common with all other research studies), we were only able to collect data from working franchises. Nevertheless, we use conflict as an important dependent variable in our hypothesis testing section, in the following chapter.

The standard deviations of the items are very similar across the sub-groups. For example, the standard deviation of the item concerning the conflict about the range of management assistance provided by the franchisor to the franchisee is 1.6 in both the British and Italian samples of franchisors, whereas in the British and Italian samples of franchisees the standard deviations are 1.8 and 2.1 respectively. Across all items and all sub-groups, the standard deviations are between 1.5 and 2, with slightly lower values for the data collected from franchisors. The standard deviations of the multi-item indices are similar across the sub-groups, with values from .9 to 1.3.

Table 7.17 Conflict Frequency: Averages of Items and Variables Across the Sampled Franchises

VARIABLES	ITEMS	FRANCHISEES						FRANCHISORS	
		Mail Survey + Personal Interviews		Mail Survey		Personal Interviews		Personal Interviews	
		Italian (176)	British (177)	Italian (146)	British (147)	Italian (30)	British (30)	Italian (30)	British (30)
Conflict frequency	IVB1	2.6	2.3	2.7	2.2	2.2	2.7	2.3	2.5
	IVB2	2.1	1.1	2.1	1.0	1.5	1.7	1.9	1.4
	IVB3	2.0	2.2	2.1	2.1	1.8	2.5	2.2	2.4
	IVB4	1.5	1.5	1.6	1.4	1.2	2.0	1.9	1.6
	IVB5	2.0	1.7	2.0	1.6	1.8	2.6	3.2	2.3
	IVB6	3.0	1.9	3.0	1.7	3.3	2.9	2.7	1.9
	IVB7	2.1	1.7	2.3	1.6	1.3	2.0	1.6	2.3
	IVB8	2.0	2.0	2.2	1.9	1.2	2.2	2.4	2.8
	IVB9	2.3	2.6	2.4	2.5	1.5	3.0	1.8	2.7
	IVB10	1.9	2.2	2.0	2.1	1.3	2.6	1.8	2.0
	IVB11	2.7	2.8	2.8	2.7	2.4	3.2	1.9	2.4
	IVB12	2.0	2.0	2.1	1.9	1.6	2.6	1.0	1.9
	IVB13	1.3	1.7	1.4	1.6	1.0	2.4	2.0	1.6
	IVB14	1.8	1.5	1.9	1.5	1.2	1.6	2.0	1.6
	IVB15	1.5	1.3	1.6	1.3	0.9	1.5	1.6	1.9
		Confreq1	2.1	1.9	2.2	1.8	1.6	2.4	2.0	2.1

7.2.4. Information exchange between franchisees

Data in Table 7.18 come from responses to 5-point Likert-scales on the frequency of information exchange with other franchisees:

- 0: Never exchange information
- 1: Once a year
- 2: Once every six months
- 3: Once a month
- 4: Once a week or more.

The average responses for each item are quite similar in Italy and Britain. These data were only collected from franchisees because franchisors would not be able to answer the questions. The average values of all the items and, consequently, of the compound indices, are around 1, which means that the franchisees claim not to exchange much information (on average) with other franchisees of the same franchise.

The data from the personal interviews, both in Italy and Britain, show higher values, even if still rather low. The franchisees, when interviewed, were better able to remember the information exchange they had with their colleagues. The impression of the interviewer was that the franchisees undertook some forms of information exchange, especially by telephone, but they did not talk about them very much. Franchisees may under-estimate levels of informal communication and in further research it may be worthwhile to explore other ways of wording the questions.

The responses are not very dispersed around the mean; for all the responses, the standard deviations of the items are between 1 and 1.3, and so they are also very similar across the items and the sub-groups in the sample.

Table 7.18 Information Exchange Among Franchisees of the Same Franchise:
Averages of Items and Variables Across the Sampled Franchises

VARIABLE	ITEMS	FRANCHISEES					
		Mail Survey + Personal Interviews		Mail Survey		Personal Interviews	
		Italian (176)	British (177)	Italian (146)	British (147)	Italian (30)	British (30)
Information Exchange among franchisees of the same franchise (horizontal information exchange)	V7	1.1	0.9	1.0	0.8	1.3	1.4
	V8	0.8	0.4	0.8	0.4	0.8	0.7
	V9	1.4	1.6	1.3	1.5	1.8	2.1
	V10	0.8	0.5	0.8	0.4	1.1	0.9
	V11	1.1	1.0	0.9	1.0	1.8	1.1
	V12	1.3	0.9	1.2	0.7	1.7	1.5
	V13	0.9	0.8	1.0	0.8	0.7	0.8
	V14	0.8	0.9	0.8	0.8	0.7	1.1
	V15	1.1	1.5	1.1	1.4	1.1	1.9
	V16	1.1	1.3	1.0	1.3	1.6	1.6
	V17	1.2	1.3	1.1	1.2	1.6	1.7
	V18	1.0	1.1	1.0	0.9	1.0	1.6
	V19	1.1	1.0	1.1	1.0	1.2	1.1
	V20	0.9	0.7	0.9	0.7	1.0	0.7
	V21	0.7	0.9	0.6	0.8	0.8	1.4
		Horzinf1	1.0	1.0	1.0	1.0	1.2	1.4

7.2.5. Formalization and participation in the decision structure

Responses to questions about participation and formalization were collected using Likert scales, with a range from 1 to 7 (high values meaning high formalization or participation, 1 meaning no formalization or participation).

Average values are quite high, around 5, with very similar figures from Italian and British respondents. The multi-item indices for the formalization variable have values of 5.0 in both the Italian and British samples of franchisees, values of 5.2 and 5.9 respectively in the Italian and British samples of franchisors. The multi-item indices for the participation variables have values of 4.8 in both the Italian and British samples of franchisees, and have values of 5.1 and 5.7 respectively in the Italian and British samples of franchisors. The responses from franchisors are, again, slightly higher than those from franchisees. But, both franchisors and franchisees, in Britain and Italy think that their franchise has a very formalized and participatory decision structure.

In the British sample of franchisees the standard deviations of the items which are meant to measure formalization are dissimilar to each other, with values of 1.9, 1.7, and 5.2. Also, a standard deviation of 5.2 casts doubts on the representativeness of the mean. This raises questions about the internal consistency of the related multi-item index (in section 8.1.3. we present evidence and comment upon the unreliability of the formalization multi-item measure). All the other standard deviations of the items meant to measure formalization and participation are similar to each other within each multi-item measure, with values around 2 for the responses from Italian and British franchisees, and values slightly lower, from 1 to 2, for the responses of franchisors. Also, except for the formalization items and multi-item index of the British sample of franchisees, the standard deviations of both the items and the multi-item indices of formalization and participation are similar across the country samples. For example, the standard deviation of the item VI6, which is about the extent of participation in taking local initiatives, is 2.1 in both the Italian and British samples of franchisees, and the multi-item index of participation (Partic1) is 1.67 and 1.62 in the same two

country samples. As usual, the multi-item indices have standard deviations smaller than the individual items, because some of the variance across the items is lost while averaging them into the index.

Table 7.19 The Decision Structure (Formalization and Participation):
Averages of Items and Variables Across the Sampled Franchises

VARIABLES	ITEMS	FRANCHISEES						FRANCHISORS	
		Mail Survey + Personal Interviews		Mail Survey		Personal Interviews		Personal Interviews	
		Italian (176)	British (177)	Italian (146)	British (147)	Italian (30)	British (30)	Italian (30)	British (30)
Formalization	V11	4.8	4.5	4.6	4.6	5.5	4.0	5.3	5.4
	V12	5.5	5.6	5.5	5.6	5.1	5.7	6.3	6.8
	V13	4.6	4.6	4.8	4.7	3.7	3.8	4.1	5.5
	Formal1	5.0	5.0	5.0	5.1	4.7	4.5	5.2	5.9
Participation	V14	5.3	5.6	5.3	5.6	4.9	5.3	5.5	6.2
	V15	4.4	3.9	4.7	4.1	3.2	2.7	4.0	4.4
	V16	4.6	4.7	4.7	4.9	3.8	3.8	5.7	6.3
	Partic1	4.8	4.8	4.9	4.9	4.0	3.9	5.1	5.7

7.2.6. Cooperation between franchisor and franchisees

Responses to questions on the intensity of cooperation were collected using Likert-scales, over the range 1 to 7, with high values meaning high cooperation (that is, working together very closely), and 1 meaning no cooperation. These data were collected during personal interviews with both franchisees and franchisors, however the small sample size makes any result tentative or exploratory.

From the data collected among franchisees, it emerges that there is not much cooperation going on between franchisors and franchisees. But the average values resulting from the responses of franchisors are higher, and the values from British franchisors are higher than those from the Italians.

These results should be considered with caution. We have tried to explore the concept, and we believe that a preliminary result has been achieved: franchisees do not feel closely involved with the franchisors on important marketing issues, while the franchisor, perhaps for political reasons, claims that the level of cooperation is much higher. However, even if franchisees and franchisors do not work together closely, it is not necessarily the case that they are in conflict. It may just be that everyone has his own task and performs it autonomously.

The standard deviations of the individual items range between 1.5 and 2, and are almost identical across the country-samples; the standard deviations of the multi-item indices range between 1.1 and 1.5, again with no differences across the country-samples.

Table 7.20 Cooperation Intensity between Franchisees and Franchisor:
Averages of Items and Variables Across the Samples Franchises

VARIABLE	ITEMS	FRANCHISEES		FRANCHISORS	
		Personal Interviews		Personal Interviews	
		Italian (30)	British (30)	Italian (30)	British (30)
Cooperation Intensity	VIII B1	1.3	1.4	1.7	3.2
	VIII B2	1.5	1.0	1.9	3.0
	VIII B3	1.7	1.6	1.9	3.4
	VIII B4	1.7	2.3	3.7	4.8
	VIII B5	1.6	1.0	3.1	3.5
	VIII B6	3.1	2.3	3.4	3.6
	Coopint1	1.8	1.7	2.6	3.6

7.2.7. Performance

Responses to questions about performance were collected using Likert-scales, ranging from 1 to 7. For the first item, values greater than 4 (up to 7) indicate performance better than expected, while values smaller than 4 (down to 1) mean worse than expected; a response of 4 means as expected. For the second item, values greater than 4 (up to 7) indicate that performance is increasing, while values smaller than 4 (down to 1) mean that performance is decreasing; a response of 4 means that recently there has been no change in performance.

The performance of British franchisees is slightly worse than they expected (3.6) and the trend has remained virtually unchanged (4.1). The Italian franchisees are performing a little better than expected, with a slightly increasing performance trend. As is common in our research, the responses from franchisors tend to be equal or greater than those of franchisees.

The dispersion of data, measured here by the standard deviation, is practically identical across the two variables Perf1 and Perf2, and across the country subsamples. The data collected from franchisors are slightly less dispersed around the mean than the data from franchisees. The standard deviation values range from 1.5 to 1.8 in the data from franchisees, and from 1.1 to 1.6 in the data from franchisors.

Table 7.21 Franchisees' Performance:
Averages of Items and Variables Across the Sampled Franchises

VARIABLES	ITEMS	FRANCHISEES						FRANCHISORS	
		Mail Survey + Personal Interviews		Mail Survey		Personal Interviews		Personal Interviews	
		Italian (176)	British (177)	Italian (146)	British (147)	Italian (30)	British (30)	Italian (30)	British (30)
Performance vs expectation	Perf1	4.2	3.6	4.2	3.5	4.5	4.0	4.4	3.9
Performance trend	Perf2	4.5	4.1	4.4	4.0	4.8	4.5	4.4	4.5

7.3. Behavioral variables and structure of the franchises

In this section we analyze whether differences in franchisees' and franchisors' behavior can be ascribed to the structural characteristics of the franchise of which they are part. We have already described the structure of the sampled franchises (section 7.1.) and the perceived behavior of franchisees and franchisors (section 7.2.). In this section, we first report on tests for any association between structural and behavioral variables; then (in the rest of section 7.3.), we compare the means of the behavioral variables in each data set, breaking down the analysis by each structural variable.

In Tables 7.22 and 7.23 we summarise the results of a series of Chi-square tests performed on each of the two biggest data sets, one from 176 Italian franchisees and the other from 177 British franchisees. It was inappropriate to perform the same kind of test on the smaller data sets (ie. the responses from 30 Italian and 30 British franchisees), because the contingency tables used to calculate the Chi-square values would have very few observations per cell.

With the Chi-square test for independence between two variables, we test the null hypothesis that the variables are independent. If the reported significance level of the Chi-square value is smaller than .05 or .01, we can reject the null hypothesis and assume that there is some form of association between the tested variables. We choose to reject the null hypothesis when the significance level is smaller than .01.

From Tables 7.22 and 7.23, we see that no structural variable is consistently associated with our set of behavioral variables; there are a few cases where the significance level of the Chi-square is smaller than .01, but this is not consistent across the whole set of behavioral variables. Still, the researcher must be aware of any heterogeneity in the data set. Thus, we now analyze the relationship between each structural and behavioral variable to understand the relevance of any association among them.

Table 7.22 Italian Franchisees, Test of Independence between Structural and Behavioral Variables⁵:

(a) Chi-square values^{degrees of freedom} are superscript to the values

STRUCTURAL VARIABLES	ITALIAN FRANCHISEES - BEHAVIORAL VARIABLES							
	Expert power source	Referent power source	Dependence	Conflict frequency	Horizontal information exchange	Participation	Perf1	Perf2
Franchise size	10.2 ²	1.6 ¹	8.3 ⁶	4 ⁶	3.3 ⁴	11.2 ²	17.2 ⁶	11.8 ⁶
Sector of activity	(80.5) ⁶⁰	(58.2) ³⁰	(96.4) ⁶⁰	97.3 ⁶⁰	69.3 ⁴⁰	(93.7) ⁶⁰	(93.2) ⁶⁰	(94.0) ⁶⁰
Geographical area	(17.5) ¹²	6.9 ¹⁰	(12.5) ¹²	9.3 ¹²	5.1 ⁶	10.1 ¹²	(19.4) ¹²	(6.7) ¹²
Size of town	(3.9) ⁶	4.8 ⁵	2.2 ⁶	5.5 ⁶	.91 ³	1.6 ⁶	4.8 ⁶	7 ⁶
Length of the franchise relationship	(15.3) ²⁴	(25.5) ²⁰	(36.3) ²⁴	22.2 ²⁴	25.5 ¹⁶	(34.4) ²⁴	(25.9) ²⁴	(28.9) ²⁴
Previous activity of the franchisee	(30.4) ³⁰	(18.8) ²⁵	(28.3) ³⁰	20.4 ³⁰	24.1 ²⁰	(29.5) ³⁰	(29) ³⁰	(27.6) ³⁰
Percentage of assortment from the franchisor	(69.6) ³⁰	(57.5) ²⁵	(53.3) ³⁰	48.2 ³⁰	19.2 ²⁰	(40.5) ³⁰	(20.9) ³⁰	(20.3) ³⁰

⁵. The values in brackets are Chi-square significance levels calculated from contingency tables with few observations per cell (where more than 40% of cells have less than 5 expected frequencies), which makes the analysis less reliable.

(b) Significance level of Chi-square tests

STRUCTURAL VARIABLES	ITALIAN FRANCHISEES - BEHAVIORAL VARIABLES							
	Expert power source	Referent power source	Dependence	Conflict frequency	Horizontal information exchange	Participation	Perf1	Perf2
Franchise size	.11	.90	.22	.68	.51	.08	.01	.07
Sector of activity	(.04)	(.20)	(.00)	.00	.00	(.00)	(.00)	(.00)
Geographical area	(.13)	.73	(.41)	.67	.54	.60	(.08)	(.87)
Size of town	(.69)	.44	.90	.48	.82	.95	.57	.32
Length of the franchise relationship	(.91)	(.18)	(.05)	.57	.06	(.08)	(.36)	(.23)
Previous activity of the franchisee	(.45)	(.81)	(.56)	.91	.24	(.49)	(.52)	(.59)
Percentage of assortment from the franchisor	(.00)	(.00)	(.01)	.02	.50	(.10)	(.89)	(.91)

Table 7.23 British Franchisees, Test of Independence between Structural and Behavioral Variables⁶:

(a) Chi-square values^{degrees of freedom are superscript to the values}

STRUCTURAL VARIABLES	BRITISH FRANCHISEES - BEHAVIORAL VARIABLES							
	Expert power source	Referent power source	Dependence	Conflict frequency	Horizontal information exchange	Participation	Perf1	Perf2
Franchise size	18 ⁶	(20.6) ⁶	25.3 ⁶	(8.4) ⁶	(7.5) ⁴	18 ⁶	6.1 ⁶	6.4 ⁶
Sector of activity	(98.9) ⁴⁸	(76.5) ⁴⁸	(65.4) ⁴⁸	(92.9) ⁴⁸	(35.4) ³²	(102) ⁴⁸	(59.8) ⁴⁸	(62.9) ⁴⁸
Geographical area	(55.7) ⁵⁴	61.2 ⁵⁴	(47.2) ⁵⁴	(38.9) ³⁶	(20.8) ²⁷	(52.7) ⁵⁴	(52.3) ⁵⁴	(57.3) ⁵⁴
Size of town	12.7 ⁶	(13.1) ⁶	9.8 ⁶	15.7 ⁴	7.9 ³	13.9 ⁶	3 ⁶	9.8 ⁶
Length of the franchise relationship	(12.9) ²⁴	(41.9) ²⁴	(25.4) ²⁴	(38) ²⁴	(18.7) ¹⁶	(25) ²⁴	(27.3) ²⁴	(17.3) ²⁴
Previous activity of the franchisee	(31.1) ³⁰	(18.2) ³⁰	(37.8) ³⁰	(29.7) ³⁰	(26.5) ²⁰	(29.9) ³⁰	(33.1) ³⁰	(40.3) ³⁰
Percentage of assortment from the franchisor	(45.9) ³⁰	(39.8) ³⁰	(56) ³⁰	(50) ³⁰	(27.6) ²⁰	(43.2) ³⁰	(43.1) ³⁰	(41.9) ³⁰

⁶. The values in brackets are Chi-square significance levels calculated from contingency tables with few observations per cell (where more than 40% of cells have less than 5 expected frequencies), which makes the analysis less reliable.

(b) Significance level of Chi-square tests

STRUCTURAL VARIABLES	BRITISH FRANCHISEES - BEHAVIORAL VARIABLES							
	Expert power source	Referent power source	Dependence	Conflict frequency	Horizontal information exchange	Participation	Perf1	Perf2
Franchise size	.01	(.00)	.00	(.21)	(.11)	.01	.41	.38
Sector of activity	(.00)	(.23)	(.05)	(.00)	(.31)	(.00)	(.12)	(.07)
Geographical area	(.41)	.04	(.73)	(.34)	(.79)	(.52)	(.54)	(.35)
Size of town	.05	(.01)	.13	.00	.05	.03	.81	.14
Length of the franchise relationship	(.97)	(.95)	(.39)	(.04)	(.28)	(.41)	(.29)	(.84)
Previous activity of the franchisee	(.41)	(.95)	(.16)	(.48)	(.15)	(.47)	(.32)	(.10)
Percentage of assortment from the franchisor	(.03)	(.11)	(.00)	(.01)	(.11)	(.06)	(.06)	(.07)

7.3.1. Franchisees' and franchisors' behavior in large and small franchises

Our sample includes franchises of different sizes. As shown in Table 7.2, the sample of franchisees is well balanced in terms of the proportion of franchisees belonging to small and large franchises. In the Italian sample, 43% of franchisees come from small and 57% from large franchises; in the British sample 57% from small and 43% from large franchises. Any effect of franchise size on the responses of franchisees should be investigated; nevertheless, the structure of the sample is well balanced and this allows us to draw representative inferences even if responses vary with franchise size.

For the relationship between franchise size and each behavioral variable we first examine the data collected from franchisees, where we have many observations (353); then we look at the data collected from franchisors, where there are far fewer observations (60). The range of the values in Tables 7.24 to 7.27 are the same as before: all the variables vary from 1 to 7, except information exchange between franchisees (horzinf1) which varies between 0 and 4.

According to the Chi-square results (from Tables 7.22 and 7.23, significance level=.01), the size of the franchise is associated with the level of expert power perceived by franchisees in the British data set, while the two variables are not associated in the Italian data set (significance level=.11). The averages of the multi-item index, Expert1, across the franchise sizes (Tables 7.24 and 7.25), are very close to each other and to the overall average in the Italian data set (5.9 and 5.6, with an overall average of 5.7); whereas this is not the case in the British data set (4.7 and 5.4, with an overall average of 5.1). In Britain franchisees of large franchises claimed to perceive more expert power than franchisees of small franchises; in Italy it is the smaller franchises which have more expert power. These figures, however, only have explanatory power if they are part of a pattern which consistently appears across different variables. A rationale for explaining the degree of expert power in large franchises is that big organizations became so because they have had good brands, good products, and good management; on the other hand, there may be some kind of popularity effect that drives franchisees to rate big organizations as more "expert"

(perceptual measures of power sources can be easily influenced by this effect). Data from franchisors (Tables 7.26 and 7.27) contrast with data from franchisees, showing in Italy more expert power in large franchises and in Britain slightly more expert power in small franchises. The small sample size prevents us from being conclusive on this.

Responses about referent power sources are not associated with the franchise size in the Italian data (Table 7.22, significance level = .90), while they may be associated in the British data (Table 7.23, significance level = .00), although the tests must be considered with caution because of the large number of cells in the contingency tables that have less than 5 expected frequencies. Responses to the multi-item index, Refer1, are higher among franchisees belonging to large franchises (5.5) than to small franchises (4.8), in the British data set. In the Italian data set the opposite happens - the difference is minimal but it is consistent with what was said about expert power sources. Data from franchisors (Tables 7.26 and 7.27) are in line with data from franchisees, showing in Italy more referent power in small franchises and in Britain slightly more referent power in large franchises.

In the British sample, franchise size is associated with the dependence of franchisees on franchisors (Table 7.23, significance level = .00) and the average of the multi-item index, Dep1, is larger for large franchises (4.1) than small ones (3.1) (overall average: 3.8, see Table 7.25). Thus, franchisees of large franchises in Britain perceive more dependence than their colleagues in small franchises; this may be because the large franchisors make them more dependent with greater use of expert and referent (non-economic) power sources. This relationship between power sources and dependence is explored again in Chapter 8. In the Italian sample, franchise size is not statistically associated with dependence (Table 7.22, significance level = .22), although the variable dependence behaves in the same way as expert and referent power sources.

Data from British franchisors (Table 7.27) are in line with data from British

franchisees, showing more dependence in large franchises; on the other hand, data from Italian franchisors (Table 7.26) contrast with data from Italian franchisees, showing more dependence in large franchises. In fact, British and Italian franchisors responded the same way as each other, while British and Italian franchisees did not.

Neither in the British nor Italian samples was franchise size associated with conflict between franchisees and franchisors (Table 7.23, significance level = .21; Table 7.22, significance level = .68). In the British sample, the average of the multi-item index, Confreq1, is larger for small franchises (2.1) than large franchises (1.8) (overall average: 1.9). In the Italian sample, the averages are virtually equal. Regarding its relationship to franchise size, the conflict variable behaves very similarly to expert and referent power sources and dependence (the more economic power sources, the more dependence, the less conflict), although with less statistical support. Data from Italian and British franchisors (Tables 7.26 and 7.27) do not show any clear differences in average conflict levels between large and small franchises.

There is no statistical support to show an association between franchise size and horizontal information exchange (Tables 7.22 and 7.23: significance level = .51 and .11 respectively in the Italian and British samples). In neither large nor small franchises is there much information exchange among franchisees. The low level of overall information exchange may preclude statistical tests from showing differences across groups of franchises of different size. One could assume that franchisees of small franchises have the opportunity to develop better relationships between each other than those of big franchises; on the other hand not all small franchises are developed on a regional basis, and a dispersed franchise tends to preclude interaction.

In the British sample, franchise size is associated with the participation of franchisees in franchisors' decisions (Table 7.23, significance level = .01) and the average of the multi-item index Partic1 is larger for large franchises (5.0) than small franchises (4.5) (overall average: 4.8, see Table 7.25). Thus, franchisees of large franchises in Britain perceive more participation than their colleagues in small franchises. In the Italian sample, franchise size is not statistically associated with participation (Table 7.22,

significance level=.08), and the average response is 4.9 for large and 4.6 for small franchises (overall average: 4.8, see Table 7.24). The 60 observations from Italian and British franchisors (Tables 7.26 and 7.27) would suggest an opposite relationship between franchise size and participation from that suggested by the franchisees' data, with more participation in smaller franchises.

In the British sample, there is no evidence of any association between franchise size and performance: in Table 7.23, the significance level for the association between size and the two measures of performance are respectively .41 and .38. The average performances of franchisees in large and small franchises are similar (Table 7.25: 3.7 and 3.4 for the measure Perf1 and 4.3 and 4.0 for the measure Perf2). In the Italian sample the evidence concerning the relationship between franchise size and performance is not consistent across the two measures used for performance. The significance level for the association between franchise size and the two measures Perf1 and Perf2 are respectively .01 and .07 (Table 7.22). Even if for the second measure the difference between large and small franchises is not statistically significant, Table 7.24 shows that franchisees belonging to large franchises perform better than those in small franchises (4.4 vs. 4.0 for the measure Perf1; 4.6 vs.4.2 for the measure Perf2). Data from British franchisors (Table 7.27) are partly in line with data from British franchisees, showing higher performance in smaller franchises; data from Italian franchisors (Table 7.26) are partly in line with data from Italian franchisees, showing higher performance in smaller or larger franchises according to which of the two measures is used.

For a few behavioral variables we have data from just 60 franchisees (30 Italian and 30 British). Calculation of the Chi-square statistic is not possible for so few observations, but we can try to get some ideas by comparing the average values for each group. The variables we analyze are : legitimate power sources, power-control of franchisor on franchisees' decision making, and cooperation between franchisees and franchisors.

The average across all franchisees for the index of legitimate power sources shows

different results for the Italian and British samples (respectively 3.6 in Table 7.24 and 4.8 in Table 7.25). This would suggest that Italian franchises do not tend to use this source to maintain power over franchisees, while the British do. But the split according to franchise size shows a very different picture. In the Italian sample there is a clear difference in the data concerning legitimate power sources due to franchise size (Table 7.24); the average for small franchises is 4.9, while the average for large franchises is 2.6. On the other hand, the British sample does not show differences between small and large franchises. Data from British franchisors (Table 7.27) are in line with data from British franchisees, showing more legitimate power sources in small franchises; on the other hand, data from Italian franchisors (Table 7.26) are in contrast with data from Italian franchisees, showing more legitimate power sources in large franchises.

The index, Power1, which measures the power-control of franchisor on franchisees' decision making, shows very similar results across Italy and Britain in its relationship to franchise size: in both country samples, franchisees belonging to large franchises claim that their franchisors have more power over their decision making (Table 7.24, Italian sample: 3.2 in large vs. 2.7 in small franchises. Table 7.25, British sample: 3.4 in large vs. 3.2 in small franchises). Data from British franchisors (Table 7.27) are in line with data from British franchisees, showing more power is exerted in large franchises; on the other hand, data from Italian franchisors (Table 7.26) contrast with data from their franchisees.

Data from Italy and Britain are different with regard to the relationship between franchise size and cooperation, with more cooperation in small franchises in Italy, and more cooperation in large franchises in Britain. The 60 observations from Italian and British franchisors (Tables 7.26 and 7.27) would suggest an opposite relationship between franchise size and cooperation from that suggested by the franchisees' data. Even if we ascribe it to small sample sizes, the rather confused pattern reinforces the idea that cooperation is a variable that should be better specified. In fact, in the rest of the analysis we do not consider it as part of our model (see Chapter 8).

Table 7.24 Behavioral Variables for Italian Franchisees: Breakdown by size of franchise

SIZE OF THE FRANCHISE (number of franchised shops)	176 ITALIAN FRANCHISEES: BEHAVIORAL VARIABLES ⁷										
	Expert1	Refer1	Legit1 [*]	Dep1	Power1	Coopint1	Confreq1	Horzinfl	Partic1	Perf1	Perf2
n < 50	5.9	5.4	4.9	4.1	2.7	2.1	2.1	.9	4.6	4.0	4.2
n ≥ 50	5.6	5.3	2.6	3.6	3.2	1.6	2.0	1.1	4.9	4.4	4.6
Average	5.7	5.4	3.6	3.8	3.0	1.8	2.1	1.0	4.8	4.2	4.5

Table 7.25 Behavioral Variables for British Franchisees: Breakdown by size of franchise

SIZE OF THE FRANCHISE (number of franchised shops)	177 BRITISH FRANCHISEES: BEHAVIORAL VARIABLES										
	Expert1	Refer1	Legit1	Dep1	Power1	Coopint1	Confreq1	Horzinfl	Partic1	Perf1	Perf2
n < 50	4.7	4.8	4.9	3.1	3.2	1.4	2.1	1.2	4.5	3.4	4.3
n ≥ 50	5.4	5.5	4.8	4.1	3.4	2.1	1.8	.9	5.0	3.7	4.0
Average	5.1	5.3	4.8	3.7	3.3	1.7	1.9	1.0	4.8	3.6	4.1

⁷. Tables in this Chapter show behavioral variables arranged in the following order (from the left to right):

- (i) the power structure (power sources, power and dependence);
- (ii) the outcomes of power sources (cooperation, conflict, information exchange)(ie. the political processes described in Chapter 2); and
- (iii) performance.

^{*}. Data about Legit1, Power1, and Coopint1, both in the British and Italian samples, come from 30 franchisees.

Table 7.26 Behavioral Variables for Italian Franchisors: Breakdown by size of Franchise

SIZE OF THE FRANCHISE (number of franchised shops)	30 ITALIAN FRANCHISORS: BEHAVIORAL VARIABLES									
	Expert1	Refer1	Legit1	Dep1	Power1	Coopint1	Confreq1	Partic1	Perf1	Perf2
n < 50	6.2	5.7	4.5	3.9	4.6	2.6	1.9	5.2	4.5	4.2
n ≥ 50	6.8	5.4	5.2	4.9	4.6	2.7	2.0	4.9	4.3	4.5
average	6.5	5.5	4.9	4.5	4.6	2.6	2.0	5.1	4.4	4.4

Table 7.27 Behavioral Variables for British Franchisors: Breakdown by size of Franchise

SIZE OF THE FRANCHISE (number of franchised shops)	30 BRITISH FRANCHISORS: BEHAVIORAL VARIABLES									
	Expert1	Refer1	Legit1	Dep1	Power1	Coopint1	Confreq1	Partic1	Perf1	Perf2
n < 50	5.8	5.6	5.7	4.9	4.4	3.6	2.1	5.7	3.9	4.8
n ≥ 50	5.7	5.7	5.3	5.0	4.7	3.5	2.1	5.6	3.8	4.1
average	5.7	5.6	5.5	4.9	4.5	3.6	2.1	5.7	3.9	4.5

7.3.2. Franchisees' behavior in different retail sectors

We comment here on differences in the behavioral variables across different retail sectors, as reported by Italian and British franchisees. Tables 7.28 and 7.29 show the averages of the multi-item indices for the behavioral variables across the sampled sectors. All the variables range from 1 to 7, except information exchange between franchisees, horzinf1, which varies between 0 and 4. In the comments that follow, we focus on the sectors which have a reasonable number of respondents, say more than 10.

The Chi-square test results (Tables 7.22 and 7.23), show that the franchise sector is associated with the level of expert power perceived by franchisees in the British but not in the Italian sample. On the other hand, the franchise sector is not associated with the level of referent power perceived by franchisees in either sample. The differences in the multi-item indices for expert and referent power sources across sectors are not very large, and the averages follow the same pattern across sectors. For example, the sectors which show the highest values, for expert as well as referent sources, are the shoe sector in the Italian sample (6.7 and 6.1 in Table 7.28) and the clothing sector in the British sample (5.5 and 5.6 in Table 7.29). Whereas the sectors which show the smallest values, for expert as well as referent sources, are the stationery sector in the Italian sample (5.1 and 4.8 in Table 7.28) and the furniture and houseware sectors in the British sample (4.3 and 4.6 in Table 7.29).

The dependence variable shows only slight variations across different retail sectors. The averages across all sectors are 3.8 and 3.7 in the Italian and British samples. The values of the stationery sector are below-average in both cases, this is a sector where the service component is very strong and where the franchisee is expected to establish his own business-to-business contacts. Respondents from the clothing and shoe sectors report above-average levels of dependence. These sectors are very much based on the supply of products from the franchisors, and the brand image is strong. Therefore, the level of dependence of franchisees is above average.

Chi-square test results show that the level of conflict between franchisees and franchisors is associated with the retail sector. In the Italian sample, the stationery and printing sector exhibits above average levels of conflict (Table 7.28: conflict=2.5 compared to an average of 2.1), while the clothing and the shoe sectors are below average (1.7 and 1.6 respectively). This relates to the non-economic power sources (expert and referent sources), which are negatively correlated to conflict. Thus, at higher levels of non-economic power sources, franchisees usually experience lower levels of conflict. In the British sample (Table 7.29), the furniture and houseware sector has the highest level of conflict (2.3), and we are not surprised to see that it is so because it is the sector with the lowest level of non-economic power sources.

Results of the Chi-square test suggest that only in the Italian sample does the level of information exchange vary across sectors. But from the average responses seen in Tables 7.28 and 7.29 we see that information exchange between franchisees hardly varies across different sectors in either country.

Some variation of performance across sectors is suggested by the results of the Chi-square tests. However, the variation of performance seems to be very small, with the food, restaurant and confectionery sector being the one with the highest performance both in Italy and Britain (Tables 7.28 and 7.29), confirming the idea that consumption of food is not a very cyclical variable (the restaurant trade probably is cyclical, but in our sample we have only canvassed the fast food restaurants).

In summary, we can say that there are some differences in the franchisees' and franchisors' behavior across sectors, and these differences are consistent across a number of different behavioral variables. For example, in the Italian sample the sector with the highest average values of expert and referent power sources (the shoe sector) has the smallest levels of conflict; in the British sample the sector with the highest average values of expert and referent power sources (the clothing sector) has one of the smallest levels of conflict. These differences, however, should not hide the fact that many of the associations are the same across sectors and countries - something that is of practical relevance as well as being of statistical interest.

Table 7.28 Italian Franchisees: Sector of Activity and Franchisees' Behavior ⁹

RETAIL SECTOR (number of franchisees in each class)	176 ITALIAN FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinf1	Partic1	Perf1	Perf2
Clothing (36)	6.1	5.6	4.3	1.7	1.0	4.9	4.5	4.7
Stationery, printing, cards (53)	5.1	4.8	3.0	2.5	1.0	4.9	4.3	4.9
Shoes (13)	6.7	6.1	5.2	1.6	1.3	5.9	4.7	4.5
Food, restaurants, and confectionery (4)	(7.0)	(6.8)	(4.5)	(.1)	(1.1)	(6.0)	(5.3)	(6.3)
Furniture and houseware (24)	5.9	5.7	3.9	2.2	1.2	5.4	3.8	3.8
Bags and accessories (21)	5.8	5.2	3.5	2.0	1.0	4.0	3.8	3.6
Sport equipment and clothing (7)	(5.3)	(5.1)	(3.3)	(2.2)	(.3)	(2.8)	(3.1)	(3.3)
Telephones and computers (4)	(5.1)	(4.4)	(3.2)	(1.9)	(1.6)	(4.1)	(4.5)	(3.5)
Beauty products (5)	(5.5)	(6.2)	(4.0)	(2.2)	(.1)	(5.1)	(3.8)	(4.4)
Lingerie (5)	(5.9)	(5.6)	(4.1)	(1.5)	(1.8)	(3.3)	(4.4)	(5.0)
Toys (4)	(6.3)	(4.8)	(4.9)	(2.4)	(1.7)	(2.9)	(4.3)	(4.8)
Average	5.7	5.4	3.8	2.1	1.0	4.8	4.2	4.5

⁹. Classes where the number of respondent franchisees is smaller than 10 are shown in brackets, and these entries should be treated with caution.

Table 7.29 British Franchisees: Sector of Activity and Franchisees' Behavior¹⁰

RETAIL SECTOR (number of franchisees in each class)	177 BRITISH FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinfl	Partic1	Perf1	Perf2
Clothing (35)	5.5	5.6	4.4	1.8	1.1	4.9	3.5	3.7
Stationery, printing, cards (18)	5.1	5.5	3.1	1.8	1.1	5.4	3.8	4.6
Shoes (41)	5.4	5.5	4.0	1.7	.8	5.1	3.2	3.6
Food, restaurants, and confectionery (46)	5.3	5.5	3.7	1.7	1.0	5.0	4.3	4.6
Furniture and houseware (22)	4.3	4.6	2.8	2.3	1.0	4.0	3.0	4.4
Bags and accessories (1)	(4.3)	(3.5)	(1.3)	(2.4)	(1.1)	(2.0)	(3.0)	(3.0)
Sport equipment and clothing (9)	(3.9)	(3.8)	(2.8)	(2.9)	(1.7)	(3.0)	(3.2)	(4.6)
Telephones and computers (3)	(2.8)	(3.8)	(1.9)	(3.5)	(.9)	(3.0)	(3.3)	(4.3)
Beauty products (2)	(4.5)	(5.4)	(3.9)	(2.3)	(1.5)	(2.5)	(2.5)	(3.0)
Lingerie (0)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Toys (0)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average	5.1	5.3	3.7	1.9	1.0	4.8	3.6	4.1

¹⁰. Classes where the number of respondent franchisees is smaller than 10 are shown in brackets, and these entries should be treated with caution. Where there are no respondents in a class, n.a. (not applicable) is indicated.

7.3.3. Franchisees' behavior in different areas of each country

We comment on differences in the behavioral variables across different geographical areas. Tables 7.30 and 7.31 show the averages of the multi-item indices for the behavioral variables across the sampled areas. These data should be read in conjunction with the results of the Chi-square tests (Tables 7.22 and 7.23). In both the Italian and British samples, the results of the Chi-square test show that there is no statistically significant association between the geographical location of the franchisee's shop and his perception of the behavioral variables; for example, there is no statistically significant difference in the level of conflict whether the franchisee is located in the North or the South of Italy, or in the London area or Scotland.

The average values of the multi-item indices across different geographical areas (Tables 7.30 and 7.31) point to the same conclusions (only slightly different averages are reported across the regions) and they confirm the usual co-variation between some of the variables (for example, higher levels of non-economic power sources go with lower level of conflict).

Table 7.30 Italian Franchisees: Geographical location and Franchisees' Behavior

AREA	176 ITALIAN FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinfl	Partic1	Perf1	Perf2
North	5.7	5.5	3.7	2.0	1.0	4.9	4.3	4.5
Centre	5.7	5.2	3.6	2.1	.8	5.0	3.6	4.3
South and Islands	5.5	5.3	3.8	2.4	1.1	4.7	4.4	4.6
Average	5.7	5.4	3.8	2.1	1.0	4.8	4.2	4.5

Table 7.31 British Franchisees: Geographical location and Franchisees' Behavior¹¹

AREA	177 BRITISH FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinfl	Partic1	Perf1	Perf2
Midlands	5.0	5.2	3.5	2.1	.9	4.7	3.6	4.2
London	5.1	5.3	4.1	1.7	1.0	4.9	3.5	3.5
Lancashire	5.5	5.6	4.0	1.7	.7	5.0	3.3	4.9
Anglia	5.4	5.3	3.8	1.8	1.2	4.6	3.4	4.1
Southern	5.3	5.7	3.8	1.3	1.1	5.6	3.1	3.4
Wales, West and Westward	5.7	5.6	4.5	1.7	.7	5.4	3.7	3.7
Scotland	4.7	5.0	3.3	1.8	.8	5.0	3.7	4.5
Yorkshire	(4.6)	(4.7)	(3.9)	(2.1)	(.8)	(4.4)	(3.1)	(3.8)
Tyne-Tees	(4.6)	(4.8)	(3.3)	(2.3)	(.9)	(4.1)	(3.2)	(4.3)
N. Ireland	(5.3)	(4.7)	(3.8)	(1.6)	(1.0)	(5.8)	(4.3)	(4.3)
Average	5.1	5.3	3.7	1.9	1.0	4.8	3.6	4.1

¹¹. Classes where the number of respondent franchisees is smaller than 10 are shown in brackets, and these entries should be treated with caution.

7.3.4. Franchisees' behavior in large and small towns

We comment on differences in the behavioral variables across large and small towns. Tables 7.32 and 7.33 show the averages of the multi-item indices for the behavioral variables across the sampled towns. These data tie-in with the results of the Chi-square tests, Table 7.22 and 7.23. In the Italian sample, the results of the Chi-square test show that there is no statistically significant association between the size of the town where the franchisee's shop is located and his perception of the behavioral variables. Thus, there is no statistically significant difference in the level of conflict or performance between franchisees located in towns smaller than 100,000 people, such as Modena, and those located in large cities, such as Milan or Rome. On the other hand, some association between size of town and responses to behavioral variables is suggested by the British data. Specifically non-economic power sources have lower values in large towns (Table 7.33: values of 4.9 and 5.0 respectively, vs. 5.4 and 5.6 for smaller towns).

As we have seen in previous sections, conflict inversely covaries with non-economic power sources; larger towns' franchisees in Britain show an average value of conflict of 2.1 (Table 7.33), while small towns' franchisees have a value of 1.6. Slightly more information exchange is perceived by British franchisees located in larger towns (1.1), but the contrast with smaller towns' franchisees (.8) is not that significant (the significance level of the Chi-square test is .05). Greater participation is perceived by franchisees located in smaller towns (5.2 vs. 4.5 among larger towns' franchisees, with a significance level of the Chi-square test of .03). No significant association between town size and performance is suggested by the test results.

Table 7.32 Italian Franchisees: Size of town and Franchisees' Behavior

TOWN SIZE (number of people)	176 ITALIAN FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinf1	Partic1	Perf1	Perf2
Larger than 100,000	5.6	5.4	3.6	2.2	1.0	4.9	3.9	4.2
Smaller than 100,000	5.7	5.3	3.8	2.1	1.0	4.8	4.4	4.6
Average	5.7	5.4	3.8	2.1	1.0	4.8	4.2	4.5

Table 7.33 British Franchisees: Size of town and Franchisees' Behavior

TOWN SIZE (number of people)	177 BRITISH FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinf1	Partic1	Perf1	Perf2
Larger than 100,000	4.9	5.0	3.6	2.1	1.1	4.5	3.6	4.0
Smaller than 100,000	5.4	5.6	4.0	1.6	.8	5.2	3.5	4.1
Average	5.1	5.3	3.7	1.9	1.0	4.8	3.6	4.1

7.3.5. Time spent in the franchise and franchisees' behavior

We comment on differences in the behavioral variables depending on the length of the franchise relationship. Tables 7.34 and 7.35 show the averages of the multi-item indices, and these should be read in conjunction with the Chi-square tests shown in Tables 7.22 and 7.23.

In both the Italian and British samples, the results of the Chi-square test show that there is no statistically significant association between the length of the relationship and the franchisee's perception of the behavioral variables. Thus, there is no statistically significant difference in the level of conflict among franchisees who have been in the franchise one year compared with those of ten years standing.

But a more detailed look at the data (Tables 7.34 and 7.35) brings to light some interesting patterns which are consistent (if not statistically significant).

In the Italian data set franchisees who have been in the franchise for a long time experience a higher level of conflict than those who are new to the franchise. This tendency is clear from the data, but the increase in the level of conflict is not strong. For example (Table 7.34), the level of conflict is 1.3 at the beginning of the relationship, 1.7 one year after, and 2.2 five years after.

A rationale for this could be that the franchisees, who are enthusiasts in the beginning, discover that the franchisor is unable to teach them new things after the first few years, and they gradually come to resent paying royalties. This reasoning would imply that the non-economic power sources (expert and referent power sources), and the level of dependence, decrease with time. The evidence for this is unclear, although the greatest values are always those of franchisees new to the franchise. For example (Table 7.34), the level of referent power source for new franchisees is 6.0 which compares with 5.5 for very experienced franchisees of at least five years standing. A less clear pattern is shown in the British data, but the trend seems to be opposite, with more conflict perceived in the beginning of the

relationship.

From the (Italian) data concerning non-economic power sources and dependence, we might infer that franchisees are initially enthusiastic about the expertise and opinions of their franchisors, so they feel dependent, and the level of conflict is very low. Then, after one year, the franchisee has learnt the business, and realizes that the franchisor has less to offer. At this time, 1-2 years after joining the franchise, the franchisee experiences the lowest level of dependence on the franchisor (3.2) and the lowest level of power sources (5.4 and 5.1). On reflection, a franchisee may well value the brand-name and the products supply by the franchisor, but continue to feel that he is the one putting in most of the effort. This line of reasoning was suggested by direct contact with Italian franchisees during the personal interviews. It is supported by the data, but not strongly; therefore, it would be worth doing further research on this, using the foregoing as an initial point of reference.

Information exchange between franchisees is higher for the franchisees who have been in the franchise the longest. As will be shown in the following chapter, the more conflict franchisees experience with the franchisor the more they exchange information with each other, and since conflict is higher the longer the time spent in the franchise, so information exchange tends to show the same pattern. A complementary explanation is that in the beginning franchisees simply do not know each other and find it difficult to talk.

Results from the British sample are more confused, and it would be misleading to attempt a rationalization of behavior based on these descriptive data.

Table 7.34 Behavioral Variables for Italian Franchisees: Breakdown by Length of the Relationship

TIME (number of franchisees in the class)	176 ITALIAN FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinf1	Partic1	Perf1	Perf2
Less than 6 months (9)	6.4	6.0	4.8	1.3	0.6	5.2	4.9	4.7
6 months to 1 year (20)	6.2	5.9	4.5	1.7	0.7	5.0	4.5	4.3
1 to 2 years (29)	5.4	5.1	3.2	2.1	0.9	3.8	4.0	4.4
2 to 5 years (59)	5.6	5.1	3.6	2.1	1.1	4.8	4.4	4.6
More than 5 years (59)	5.7	5.5	3.8	2.2	1.2	5.1	4.0	4.4
Average	5.7	5.4	3.7	2.1	1.0	4.8	4.2	4.5

Table 7.35 Behavioral Variables for British Franchisees: Breakdown by Length of the Relationship

TIME (number of franchisees in the class)	177 BRITISH FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinfl	Partic1	Perf1	Perf2
Less than 6 months (7)	5.4	4.7	3.5	2.0	1.2	4.4	4.4	4.4
6 months to 1 year (18)	4.8	4.7	3.4	2.3	1.3	4.0	3.5	4.4
1 to 2 years (20)	4.9	4.9	3.4	2.1	1.0	4.8	3.2	4.2
2 to 5 years (78)	5.1	5.4	3.9	1.9	1.1	4.9	3.5	4.2
More than 5 years (51)	5.1	5.4	3.6	1.7	0.9	4.8	3.7	3.8
Average	5.1	5.3	3.7	1.9	1.0	4.8	3.6	4.1

7.3.6. Previous activity and franchisees' behavior

We comment on differences in the behavioral variables depending on the franchisee's previous activity. Averages of the multi-item indices for the behavioral variables are shown in Tables 7.36 and 7.37, and these figures should be read in conjunction with the Chi-square tests in Tables 7.22 and 7.23.

In both the Italian and British samples, the results of the Chi-square test show that there is no statistically significant association between the previous activity of the franchisees and their perception of the behavioral variables. For example, there is no statistically significant difference in the level of conflict experienced by franchisees who, before joining the franchise, were employees in another sector, and those who were retailers. Moreover, no clear pattern emerges when we study the average values of the behavioral variables across the different categories of previous activity, Tables 7.36 and 7.37.

Table 7.36 Italian Franchisees: Behavioral Variables, Breakdown by Previous Activity

PREVIOUS ACTIVITY	176 ITALIAN FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinf1	Partic1	Perf1	Perf2
Franchisee in another franchise	6.2	6.3	4.0	1.8	.7	4.9	3.8	4.1
Retailer in the same sector	5.4	5.1	3.4	2.2	1.1	4.8	4.2	4.6
Employed in the same sector	5.8	5.6	4.4	2.0	1.5	4.7	4.5	4.2
Retailer in another sector	6.1	5.3	3.7	1.5	.8	5.2	4.1	4.3
Owner/manager in another sector	5.5	5.3	3.6	2.2	1.0	4.8	4.5	4.6
Employed in another sector	6.0	5.2	3.8	1.9	.8	4.1	3.7	4.0
Average ¹²	5.7	5.4	3.7	2.1	1.0	4.8	4.2	4.5

¹². The average also includes the category "other activity".

Table 7.37 British Franchisees: Behavioral Variables, Breakdown by Previous Activity

PREVIOUS ACTIVITY	177 BRITISH FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinfl	Partic1	Perf1	Perf2
Franchisee in another franchise	5.9	6.0	4.4	2.0	1.4	5.3	3.3	4.4
Retailer in the same sector	5.2	5.6	3.8	1.7	.9	5.3	3.5	3.8
Employed in the same sector	4.8	5.2	3.7	1.9	1.1	4.7	3.9	3.9
Retailer in another sector	5.5	5.4	3.8	1.7	.9	4.7	3.9	4.5
Owner/manager in another sector	5.1	5.2	3.3	1.9	.9	5.0	3.4	4.9
Employed in another sector	4.9	5.0	3.5	2.1	1.1	4.3	3.3	3.9
Average ¹³	5.1	5.3	3.7	1.9	1.0	4.8	3.6	4.1

¹³. The average also includes the category "other activity".

7.3.7. Percentage of assortment supplied by the franchisor and franchisees' behavior

Finally, we comment on differences in the behavioral variables where the percentage of the product range supplied or controlled by the franchisor varies. Tables 7.38 and 7.39 show the averages of the multi-item indices and the Chi-square tests are shown in Tables 7.22 and 7.23.

The Chi-square tests show that there is some association between percentage of assortment and non-economic power sources, especially in the Italian sample, where the significance levels are .00 for both expert and referent power sources; in the British sample the significance levels are respectively .03 and .11. From Tables 7.38 and 7.39 we find that in both samples franchisees who are supplied with a smaller percentage of assortment have lower levels of non-economic power sources than other franchisees. For example, in the British sample, the values of expert and referent power of franchisees who are not supplied any product by the franchisor are respectively 4.6 and 4.9, while the values of franchisees who are supplied 100% of the assortment are 5.4 and 5.6. The trend is not wholly consistent across all categories, but it is evident across both the Italian and British samples. Dependence follows a very similar pattern, with higher values for the franchisees who are supplied with more products by the franchisor (significance levels of the Chi-square test are .01 and .00 for the Italian and British samples).

The data for conflict are less clear, nor is there any association between the percentage of assortment supplied by the franchisor and information exchange, or participation, or performance.

Table 7.38 Italian Franchisees: Behavioral Variables, Breakdown by Percentage of assortment as supplied by franchisor

PERCENTAGE OF ASSORTMENT SUPPLIED OR CONTROLLED BY THE FRANCHISOR	176 ITALIAN FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinfl	Partic1	Perf1	Perf2
0% ¹⁴	(7.0)	(7.0)	(5.5)	(0)	(1.6)	(7.0)	(4.0)	(4.0)
1-25%	6.0	5.9	3.1	1.5	1.0	5.33	5.1	4.9
26-50%	4.0	4.0	2.6	2.9	1.1	4.5	4.1	4.6
51-75%	5.2	4.7	2.8	2.5	.9	4.4	4.0	4.7
76-99%	6.1	5.7	4.4	1.9	1.1	5.3	4.4	4.5
100%	6.0	5.6	3.9	1.9	1.0	4.2	4.1	4.2
Average	5.7	5.4	3.7	2.1	1.0	4.8	4.2	4.5

Table 7.39 British Franchisees: Behavioral Variables, Breakdown by Percentage of assortment as supplied by the franchisor

PERCENTAGE OF ASSORTMENT SUPPLIED OR CONTROLLED BY THE FRANCHISOR	177 BRITISH FRANCHISEES: BEHAVIORAL VARIABLES							
	Expert1	Refer1	Dep1	Confreq1	Horzinfl	Partic1	Perf1	Perf2
0%	4.6	4.9	2.8	1.9	1.3	4.8	3.7	4.4
1-25%	4.6	5.1	3.3	2.0	.9	4.4	3.5	4.9
26-50%	5.0	5.1	3.1	1.8	.4	4.1	4.8	4.8
51-75%	4.9	4.9	3.2	2.0	.8	4.2	3.7	4.1
76-99%	5.3	5.3	3.8	1.9	1.1	4.8	3.4	3.9
100%	5.4	5.6	4.3	1.9	1.1	5.1	3.3	3.9
Average	5.1	5.3	3.7	1.9	1.0	4.8	3.6	4.1

¹⁴. Only one franchisee is in this class.

7.4. Summary

The main purpose of this chapter was to summarize the survey data, and provide a solid platform for the hypothesis testing and structural modelling that follow. First, we examined the structural characteristics of the franchises (section 7.1.). Both our British and Italian samples include a range of related retail sectors, and are broadly spread in terms of geographical location, size, length of the franchise relationship, previous activity of the franchisee, and percentage of product range supplied by the franchisor. In many respects the British and Italian franchises are broadly similar, but by no means identical.

Next, the variables concerning franchisees' and franchisors' behavior were described (section 7.2.). A common theme in both countries was the wide use of non-economic power sources, rather than economic ones. Another consistent theme was the greater level of power and power sources in the responses of franchisors, compared to those of franchisees.

Finally, the association between structural and behavioral variables was analyzed (section 7.3.). In general the samples are not severely biased because of any differential impact of structural characteristics on behavioral variables. There are, however, some specific associations - if not always statistically significant ones - which are worth keeping in mind. Franchise size, the sector of activity, the length of the relationship, and the percentage of assortment supplied or controlled by the franchisor are associated - in part - with some aspects of behavior. Whereas the size of the town where the sampled franchise is located and the previous activity of the franchise are not associated with differences in behavior.

PART IV

DATA ANALYSIS AND HYPOTHESIS TESTING

PART IV DATA ANALYSIS AND HYPOTHESIS TESTING

8. DATA ANALYSIS AND HYPOTHESIS TESTING

In this Chapter data from Italian and British franchisees and franchisors are analyzed in order to test the hypotheses described in section 8.1.5, which are a subset of those described in Chapter 5. Descriptive analysis of data from the previous chapter is the platform on which we build multivariate statistical analysis, using Lisrel (linear structural equation modelling) and common correlation analysis. As we have seen, descriptive statistics enable us to explore and show patterns that result from breaking down the data for between-small-group-analysis. This kind of bi-variate analysis can be very powerful and may reveal things that correlation analysis and multivariate statistics do not reveal. But with covariance structure analysis (structural equation modelling) we can test relations between a number of variables at the same time, that is to say that we test models. Correlation analysis gives an initial idea of what a model should be, from the one-to-one relations between the variables. An introduction to Lisrel is given in Appendix F. In this Chapter we assume that the reader is familiar with the technique, which has been used extensively and increasingly in marketing research in the last ten years.

This Chapter includes sections which analyze different data sets. In the first section (8.1), data from 353 franchisees (177 British and 176 Italian) are analyzed.

In the second (8.2), a subset is analyzed which includes 60 franchisees (30 British and 30 Italians). We also focus on some different variables, data for which were collected just for this sub-sample.

In the third section (8.3), data from 60 franchisors (30 British and 30 Italians) are analyzed. Previous research focused on data collected from franchisees; thus, this is really an exploratory section, centred around similar issues but from the perspective of a different set of players.

8.1. Replication and extension of previous research, with a cross-country comparison and testing of new variables: analysis of data collected from 353 franchisees

We discussed earlier (Chapter 5) the importance of replication in marketing as a first step towards the generalisation of results. "Replication is critical for the advancement of science" (Hubbard and Armstrong, 1989, p.17). One of the difficulties in replicating previous studies lies in the willingness of any researcher to change part of the research design, not just to extend it to new variables, but also to modify some of the measures. Also, perfect replication is practically impossible to achieve: the context of the data collection process would change even just by changing the length of the questionnaire, and biases may be introduced. This research has been designed to cope with these problems, and here we present a partial replication with extension of previous research and an "internal" (within the same research design) replication.

In section 8.1 we compare two different data sets, one of Italian and the other of British franchisees¹. Since the field research design is very similar (for example: same questionnaire, same variables, same sample size) in the two countries, we are in fact doing a study and replicating it at the same time in two different (but still comparable) contexts, i.e. countries. The same measurement and structural models are tested on the two data sets (sections 8.1.7.). First, we test the models completely separately in each country (section 8.1.7.1.), then we do a simultaneous estimation for the two country data sets, constraining some parameters to be equal (section 8.1.7.5).

¹. We do not analyze the data of British and Italian franchisees as one data set, but keep the two country samples separated. This parallel analysis aims to compare behaviour of franchisees in the two countries. In this section other sub-samples are pooled, but not the two country data sets. In section 8.1.1., for example, we pool data from interviews with data from the mail survey, but still keeping each country data set separate.

8.1.1. Pooling together data collected with interviews and mail surveys in each of the two countries: T-tests

During the field research data from franchisees were collected in each of the two countries using two methods, personal interviews and mail surveys, as reported in Chapter 6. We wish to treat data collected using these two methods as a single data set. Therefore, in statistical terms, we test the null hypothesis that the means of the two populations are equal in each country - ie. that the means of each item (which represents a question in the questionnaire) are equal. The statistic used is the t-statistic².

In the Italian data set 146 responses from the mail survey and 30 responses from the personal interviews are compared; whereas in the British data set 147 responses from the mail survey and 30 responses from the personal interviews are compared. The t-values and their associated probabilities are given in Table 8.1.³

².

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{s_1^2}{N_1} + \frac{s_2^2}{N_2}}}$$

where \bar{X}_1 is the sample mean of group 1 (interviews), s_1^2 is the variance, and N_1 is the sample size. Based on the sampling distribution of the above statistic, one can calculate the probability that a difference at least as large as the one observed would occur if the two population means are equal. This probability is called the observed significance level. If the observed significance level is small enough, usually less than 0.05 or 0.01, the hypothesis that the population means are equal is rejected.

³. We decided to use a .01 significance level. Because we were able to obtain franchisees' names and addresses for the mail survey from only a portion of the 30 franchises, and because we do not have the same number of returned questionnaires from each franchise, the two sub-sets with mail survey data might be slightly more heterogeneous than the ones with data from personal interviews.

Table 8.1 T-test for pooling personal interviews and mail survey data (49 items)

Items	Italy		Britain	
	T-value	Significance level	T-value	Significance level
III1	-1.19	.24	-1.03	.31
III2	1.13	.27	.32	.75
III3	.25	.80	-1.16	.25
III6	2.10	.04	-5.22	.00
III9	.95	.35	-1.36	.18
III11	.83	.41	-1.56	.13
III12	1.10	.30	-1.59	.12
III13	-.29	.78	-1.2	.24
III16	.43	.67	-1.35	.19
III17	.84	.41	-1.03	.31
III18	-.51	.61	-1.60	.12
IVB1	-1.47	.15	1.13	.27
IVB2	-1.59	.12	1.38	.19
IVB3	-.88	.39	1.33	.19
IVB4	-.95	.35	1.41	.17
IVB5	-.27	.79	1.72	.10
IVB6	.68	.50	2.38	.02
IVB7	-2.36	.02	.84	.41
IVB8	-2.26	.03	.63	.53
IVB9	-2.45	.02	1.31	.20
IVB10	-1.54	.13	1.21	.23
IVB11	-.89	.38	.89	.38
IVB12	-1.46	.15	1.62	.12
IVB13	-.89	.38	2.14	.04
IVB14	-2.19	.04	.38	.71
IVB15	-1.94	.06	.51	.61
V7	1.41	.17	2.20	.04
V8	.14	.89	1.32	.20
V9	1.79	.08	2.84	.01
V10	1.51	.14	1.77	.09
V11	2.92	.01	.47	.64
V12	1.73	.09	3.36	.00
V13	-1.41	.17	.22	.83
V14	-.52	.61	.88	.38
V15	.34	.73	2.28	.03
V16	2.35	.02	1.06	.30
V17	1.8	.08	2.00	.05
V18	-.11	.91	2.58	.01
V19	.55	.59	.70	.49
V20	.45	.66	.32	.75
V21	.82	.42	2.11	.04
VI1	1.90	.06	-1.28	.21
VI2	-.88	.38	.21	.83
VI3	-2.12	.04	-1.42	.16
VI4	-.92	.36	-.87	.39
VI5	-3.16	.00	-3.28	.00
VI6	-2.04	.05	-2.18	.04
Perf1	1.02	.32	1.77	.08
Perf2	1.12	.27	1.49	.14

Almost all the items belonging to the two groups (data collected with interviews and data collected through a mail survey), in each country, passed the t-test. Only one item in the Italian and two items in the British groups have t-values with significance levels below 0.1. Thus, we pool data collected with the two methods, and model channel relationships using each full country data set.

8.1.2. Variables analyzed

At this stage, the first order variables⁴ that we analyse are:

1. Expert power sources (3 items)
(of the franchisor over the franchisees);
2. Referent power sources (4 items)
(of the franchisor over the franchisees);
3. Participation (3 items)
(of the franchisees in the decision structure of the franchise);
4. Formalization (3 items)
(of the decision structure of the franchise);
5. Dependence (4 items)
(of the franchisees on the franchisor);
6. Performance trend (1 item)
(of the franchisee);
7. Actual performance compared to expected performance (1 item)
(of the franchisee);
8. Conflict frequency (15 items)
(between franchisor and franchisees);
9. Horizontal information exchange (15 items)
(among franchisees).

⁴. Most of these variables are measured with multi-item measures. In our research we also have second order variables, which are built using these first order variables (see sections 8.1.6. and 8.1.7.).

8.1.3. Reliability and unidimensionality

The procedure that has been followed to purify the multi-item measures is described in Chapter 6. In this section, we report results of the analysis of reliability (internal and external consistency) and unidimensionality of the measures, for each country's data set, the first results include 176 responses from Italian franchisees, and the second include 177 responses from British franchisees. In Tables 8.2 to 8.8 summary results are reported; the lists of items that survived after the measure purification procedure are reported for comparison across the country data sets.

Table 8.2 Expert power sources

	176 Italian Franchisees	177 British Franchisees
n. reliable items	2	3
alpha	.61	.63
% of variance accounted for first factor	71.8	57.5
item list		
III9	III9	III9
III12	III12	III12
III17		III17

The multi-item measures of expert power sources (Table 8.2) produced a just-acceptable alpha (over .60); in the Italian measure one item, III17, has been deleted because the item-total correlation was smaller than .35 (.34). The percentage of variance explained by the first and only factor having an eigenvalue greater than 1 is reported for the purpose of uniformity with the rest of this report, even though factor analysis is not an appropriate procedure where there are so few items.

Table 8.3 Referent power sources (4 items)

	176 Italian Franchisees	177 British Franchisees
n. reliable items	4	4
alpha	.75	.79
% of variance accounted for first factor	57.3	61.7
item list		
III2	III2	III2
III3	III3	III3
III13	III13	III13
III18	III18	III18

In both country's data sets, the reliability analysis of the referent power source measures (Table 8.3) produced very satisfactory results (.75 and .79 in the Italian and British data sets, respectively), and no item has been discarded. Also, the factor analysis shows in both cases a one-factor solution (only one factor with an eigenvalue greater than one). The resulting multi-item measures are the same across the two countries - this, and the virtually equal alphas, give us evidence of external consistency of the measures.

Table 8.4 Participation (3 items)

	176 Italian Franchisees	177 British Franchisees
n. reliable items	3	3
alpha	.71	.67
% of variance accounted for first factor	63.5	60.2
item list		
VI4	VI4	VI4
VI5	VI5	VI5
VI6	VI6	VI6

In both country's data sets, all of the items measuring participation (Table 8.4) passed the internal consistency test (alphas: .71 and .67), and the factor analysis shows a one-factor solution. The resulting measures are the same across the two countries - this, and the virtually equal alphas, give us evidence of external consistency.

Table 8.5 Formalization (3 items)

	176 Italian Franchisees	177 British Franchisees
n. reliable items	3	0
alpha	.70	.56
% of variance accounted for first factor	62.1	
item list		
VI1	VI1	non reliable measure
VI2	VI2	
VI3	VI3	

The measure purification procedures for formalization of the franchise decision structure (Table 8.5), produced different results across the two data sets. In the Italian case, the measure produced an acceptable alpha (.70) and a one-factor solution. On the other hand, the alpha in the British data set is below the cut-off point that has

been chosen for our analysis (.6). The inter-item correlation is so low that even when deleting one item we are unable to obtain any reliable measure; this confirms what emerged from the descriptive analysis, and specifically from the analysis of standard deviations (section 7.2.5.). For reasons of comparability across the different data sets, the formalization variable is not considered in the modelling procedure, either in the analysis of the British or Italian data sets.

Table 8.6 Dependence (4 items)

	176 Italian Franchisees	177 British Franchisees
n. reliable items	4	4
alpha	.79	.71
% of variance accounted for first factor	61.5	53.9
item list		
III1	III1	III1
III6	III6	III6
III11	III11	III11
III16	III16	III16

In both countries (Table 8.6), the multi-item measures of dependence produced highly acceptable results (alphas are .79 and .71 for the Italian and British data sets, respectively), and one-factor solutions have been produced in both cases. All the items survived the measure purification procedure, and thus the resulting measures are the same across the two country data sets - this, and the virtually equal alphas, give us evidence of external consistency.

Table 8.7 Conflict frequency (15 items)

	176 Italian Franchisees	177 British Franchisees
n. reliable items	14	12
alpha	.86	.83
% of variance accounted for first factor	36.1	35.5
item list		
IVB1	IVB1	
IVB2	IVB2	
IVB3	IVB3	IVB3
IVB4	IVB4	IVB4
IVB5		
IVB6	IVB6	IVB6
IVB7	IVB7	IVB7
IVB8	IVB8	IVB8
IVB9	IVB9	IVB9
IVB10	IVB10	IVB10
IVB11	IVB11	IVB11
IVB12	IVB12	IVB12
IVB13	IVB13	IVB13
IVB14	IVB14	IVB14
IVB15	IVB15	IVB15

The multi-item measures of conflict frequency produced high alphas, .86 and .83 in the Italian and British data sets respectively (Table 8.7). The procedures to assess reliability and unidimensionality here are complex, and are reported separately for each country. In the analysis of the Italian data set, one item (IVB5) has been deleted before calculating any reliability score because more than 1/6 of the respondents did not answer this question. No more items have been deleted during the measure purification procedure, all of them having an item-total correlation greater than .35. Factor analysis of the multi-item measure shows three factors with eigenvalues greater than 1. The eigenvalues and the percentage of variance explained by the factors are shown in Table 8.8.

Table 8.8 Italian Franchisees, Conflict Frequency: Factor Analysis

Factors	Eigenvalue	% of variance
F1	5.06	36.1
F2	1.22	8.7
F3	1.02	7.3

There is a big difference between the first and the other factors, in terms of eigenvalues and percentage of variance explained. Following Brown and Day (1981), we state the dominance of the first factor. We also do this because the items considered to be part of the second and third factors are almost as heavily loaded on the first unrotated factor. For a further check, we create three sub-measures with the items accounting for the three factors and check to what extent the three new variables are correlated. The correlation coefficients (Table 8.9) are all significant and again confirm the idea that for practical purposes (Brown and Day, 1981) we can consider the multi-item measure unidimensional.

Table 8.9 Italian Franchisees, Conflict Frequency
Correlation matrix of the three initial factors
(all coefficients significant at .001 level)

	F1	F2	F3
F1	1.00		
F2	.60	1.00	
F3	.54	.50	1.00

In the analysis of the British data set, three items (IVB1, IVB2, and IVB5) have been deleted before calculating any reliability score because more than 1/6 of the respondents did not answer these questions. No more items have been deleted during

the measure purification procedure, all of them having an item-total correlation greater than .35. Factor analysis of the multi-item measure shows three factors with eigenvalues greater than 1. The eigenvalues and the percentage of variance explained by the factors are shown in Table 8.10.

Table 8.10 British Franchisees, Conflict Frequency: Factor Analysis

Factors	Eigenvalue	% of variance
F1	4.26	35.5
F2	1.19	9.9
F3	1.1	9.1

As in the Italian data set, there is a big difference between the first and the other factors, in terms of eigenvalues and percentage of variance explained. Following Brown and Day (1981), we state the dominance of the first factor, again because the items considered part of the second and third factors are almost as heavily loaded on the first unrotated factor. For a further check, we create three sub-measures with the items accounting for the three factors and check to what extent the three new variables are correlated (Table 8.11). The correlation coefficients are all significant and once again confirm the idea that for practical purposes (Brown and Day, 1981) we can consider the measure unidimensional.

Table 8.11 British Franchisees, Conflict Frequency
Correlation matrix of the three initial factors
(all coefficients significant at .001 level)

	F1	F2	F3
F1	1.00		
F2	.52	1.00	
F3	.46	.44	1.00

Finally, the resulting measures of conflict are not exactly the same across the two country data sets, but they are very similar, the measure for the British data set having just two items less (IVB1 and IVB2). This, and the virtually equal alphas, give us evidence of external consistency.

Table 8.12 Horizontal Information Exchange (15 items)

	176 Italian Franchisees	177 British Franchisees
n. reliable items	14	13
alpha	.94	.89
% of variance accounted for first factor	56.4	43
item list		
V7	V7	V7
V8	V8	
V9	V9	V9
V10	V10	V10
V11	V11	
V12	V12	V12
V13	V13	V13
V14		V14
V15	V15	V15
V16	V16	V16
V17	V17	V17
V18	V18	V18
V19	V19	V19
V20	V20	V20
V21	V21	V21

In the analysis of both country's data sets, the horizontal information exchange multi-item measures (Table 8.12) produced extremely high alphas. The measure purification procedures and the factor analysis follow different patterns for the two data sets, which are reported separately. For the Italian data set, no items have been deleted before calculating the reliability score because all questions were answered by more than 5/6 respondents. During the measure purification procedure, one item (V14) was deleted, having an item-total correlation smaller than .35. The factor analysis of the purified multi-item measure shows a one-factor solution (one factor with an eigenvalue greater than 1, equal to 7.9).

For the British data set, two items (V8 and V11) were deleted before calculating the reliability score because more than 1/6 of the respondents had not answered these questions. No more items were deleted during the measure purification procedure, all

of them having item-total correlations greater than .35. The factor analysis of the multi-item measure shows three factors with eigenvalues greater than 1. The eigenvalues and the percentage of variance explained are shown in Table 8.13.

Table 8.13 British Franchisees, Horizontal Information Exchange: Factor Analysis

Factors	Eigenvalue	% of variance
F1	5.59	43.0
F2	1.41	10.8
F3	1.02	7.8

There is a big difference between the first and the other factors, in terms of eigenvalues and percentage of variance explained. As we did for the conflict frequency measures, and following Brown and Day (1981), we state the dominance of the first factor, again because the variables considered part of the second and third factors are almost as heavily loaded on the first unrotated factor. For a further check, we create three sub-measures with the items accounting for the three factors and check to what extent the three new variables are correlated (Table 8.14). The correlation coefficients are all significant and again confirm the idea that for practical purposes (Brown and Day, 1981) we can consider the measure unidimensional.

Table 8.14 British Franchisees, Horizontal Information Exchange:
Correlation matrix of the three initial factors
(all coefficients significant at .001 level)

	F1	F2	F3
F1	1.00		
F2	.63	1.00	
F3	.53	.56	1.00

Finally, the resulting measures of horizontal information exchange are not exactly the same across the two country data sets, but they are very similar, sharing 12 items out of 14 (Italian data set) and 13 (British data set) items. This, and the virtually equal alphas, give us evidence of external consistency.

In summary, all the multi-item measures, except for formalization, showed acceptable reliability (internal and external consistency) and unidimensionality for both data sets.

8.1.4. Validity

Convergent and discriminant validity are assessed using a multi-variable multi-method matrix, which is a correlation matrix between different variables when each of them is measured by different methods (Chapter 6). In Tables 8.15 and 8.16, for each country, a multi-variable multi-method matrix is reported.

Different measures (called "methods" in Tables 8.15 and 8.16) have been collected for the following variables:

a) conflict:	i)	conf	15 item 7-point Likert scale with two answers for each item, importance of the item and frequency of conflict
	ii)	confreq	15 item 7-point Likert scale (frequency of conflict)
	iii)	VII4	global measure (overall conflict)
b) dependence:	i)	dep	4-item 7-point Likert scale
	ii)	pcentass	reported percentage of assortment supplied or controlled by the franchisor
c) horizontal information exchange	i)	horzinf	15 item 7-point Likert scale (frequency of exchange)
	ii)	V22	global question (intensity of exchange)
d) performance	i)	Perf1	global measure (actual performance compared to expected performance)
	ii)	Perf2	global measure (performance trend)

In both country's data sets the conflict variables have convergent validity, because their different measures are highly correlated with each other. The correlation coefficients among the three measures of conflict are .95, .55, .57 and .96, .50, .53, in the Italian and British samples, respectively (Tables 8.15 and 8.16). The

correlations between the two multi-item measures and the overall measure of conflict "VII4" show that, as usually happens, the overall measure only offers a partial view of the concept. The measures of conflict have a high degree of discriminant validity, because the correlation coefficients among them are greater than the coefficients that correlate conflict with measures of other variables. The exception (in both country data sets) is expert power sources, where the correlation coefficients are slightly greater (-.56 and -.61 in the Italian sample; -.55 and -.63 in the British sample). The lack of complete discriminant validity is, again, due to the overall measure "VII4", which is not used in the structural modelling. The inter-correlation pattern of the measures of conflict across the two countries is very similar, which reassures us about the external validity of the measures.

The dependence variable, when measured by "dep" and "pcentass" shows it has little convergent validity, and no discriminant validity, in both data sets. The correlations between the two measures are .25 and .33 in the Italian and British data sets, respectively. Clearly, and consistently across the two data sets, the two measures are not very strongly associated with each other. Looking at the correlation pattern with measures of other variables, it emerges that none of the expected correlations between dependence and these variables (such as, for example, dependence and conflict) is apparent when the measure "pcentass" is used. On the other hand, the measure "dep" is correlated with several variables (for example: -.44 and -.39 with conflict respectively in the Italian and British data sets). In fact, "pcentass" does not even show nomological validity. The reason for this may be twofold: first, perceived measures (like "dep" or "confreq") tend to be more correlated to other perceived measures. Second, the percentage of product range supplied or controlled by the franchisor is just one of the resources that can create dependence of franchisees on franchisors. Franchising is a complex relationship, with many elements transferred from the franchisor to the franchisee. The measure "dep" is a 4-item measure which tries to capture several aspects of resource dependence. In the remainder of this chapter, specifically in the modelling section, the measure "dep" is used for measuring dependence.

The horizontal information exchange variable has convergent and discriminant validity for both country data sets. The two measures, the multi-item "horzinf" and the overall "V22" are correlated with coefficients .58 in the Italian data set and .36 in the British data set. The coefficients that correlate these two measures to the other variables are smaller, with the very minor exception of a coefficient of .37 that correlates "V22" to the measure of conflict "conf" in the British data set (this is just .01 greater than the inter-correlation coefficient (.36) of the horizontal exchange variable). "V22" is an overall measure that has been applied as a control and it is not used in the modelling procedure, particularly because it is a Yes-No measure, which would create some scaling problems in Lisrel.

Performance is measured by two measures, which show convergent and discriminant validity for both country data sets. The inter-correlation coefficients are .67 and .53 in the Italian and in the British data sets, respectively. The correlation coefficients between performance and measures of other variables are smaller (-.34 with a measure of conflict in the Italian sample, and .20 with participation in the British sample, are the greatest among those coefficients).

The validity of our measures is increased by the fact that our comments are consistent across the Italian and the British data sets. Also, very similar correlation patterns can be observed in the two different data sets. A reinforcement of the analysis done in this section comes from section 8.1.7.1., where a confirmatory factor analysis model is presented, showing convergent and discriminant validity for the analyzed variables.

Table 8.15 Italian Franchisees - Multi-Variable Multi-Method Matrix

Variable	176 ITALIAN FRANCHISEES - MULTI-VARIABLE MULTI-METHOD MATRIX													
	CONFLICT			DEPENDENCE		HORIZONTAL INFORMATION EXCHANGE		PERFORMANCE		EXPERT	REFER	PARTIC		
	conf	confreq	VII4	dep	pcentass	horzinf	V22	Perf1	Perf2					
METHOD (measure)														
conf	1.00													
confreq	.95	1.00												
VII4	.55	.57	1.00											
dep	-.42	-.44	-.33	1.00										
pcentass	-.05	-.10	-.15	.25	1.00									
horzinf	.19	.19	.12	.10	-.04	1.00								
V22	.11	.09	.06	.16	-.10	.58	1.00							
Perf1	-.34	-.33	-.12	.20	-.06	-.06	.10	1.00						
Perf2	-.34	-.33	-.15	.23	-.08	-.03	.00	.67	1.00					
Expert	-.56	-.61	-.51	.53	.28	-.03	.03	.20	.18	1.00				
Refer	-.48	-.50	-.44	.48	.19	.01	.14	.24	.21	.63	1.00			
Partic	-.24	-.26	-.17	.17	-.09	.17	.12	.17	.16	.33	.41	1.00		

Table 8.16 British Franchisees - Multi-Variable Multi-Method Matrix

177 BRITISH FRANCHISEES - MULTI-VARIABLE MULTI-METHOD MATRIX												
Variable	CONFLICT			DEPENDENCE		HORIZONTAL INFORMATION EXCHANGE		PERFORMANCE		EXPERT	REFER	PARTIC
	conf	confreq	VII4	dep	peentass	horzinf	V22	Perf1	Perf2			
METHOD (measure)												
conf	1.00											
confreq	.96	1.00										
VII4	.50	.53	1.00									
dep	-.23	-.30	-.39	1.00								
peentass	-.07	-.00	.02	.33	1.00							
horzinf	.37	.33	.27	-.11	.02	1.00						
V22	.16	.14	.15	-.02	.06	.36	1.00					
Perf1	-.11	-.11	-.15	.11	-.08	.00	.01	1.00				
Perf2	-.09	-.07	-.11	.03	-.17	-.06	-.06	.53	1.00			
Expert	-.46	-.55	-.63	.68	.26	-.22	.02	.15	.11	1.00		
Refer	-.45	-.52	-.52	.55	.20	-.14	.01	.18	.12	.74	1.00	
Partic	-.39	-.43	-.41	.42	.11	-.10	.05	.20	.12	.60	.63	1.00

8.1.5. Hypotheses tested at this stage

We test the following hypotheses, some replicating previous research and some new ones. The hypotheses tested here are a subset of those listed in section 5.3.

- H5 The non-economic power sources perceived to be held and utilized by the franchisor will directly determine the franchisee's extent of dependence upon that franchisor.
- H7 The non-economic power sources perceived to be held and utilized by the franchisor will inversely affect the extent of conflict perceived by the franchisee.
- H9 The non-economic power sources perceived to be held and utilized by a franchisor will positively affect the perception of formalization and participation as elements of the decision structure.
- H11 Channel members' perceptions of increased formalization and participation in the channel organization will have a negative impact on the level of intra-channel conflict.
- H13 The indirect effect of the use of non-economic power sources on intra-channel conflict will be significant while the direct effect will not be significant.
- H17 The level of performance is an inverse determinant of vertical conflict.
- H18 The level of conflict is an inverse determinant of performance.
- H19 The level of performance is an inverse determinant of conflict and the level of conflict is an inverse determinant of performance.
- H20 Non-economic power sources are a direct and positive determinant of franchisees' performance.
- H21 Horizontal interaction is an intervening variable in the franchise network relationship model.
- H22 Horizontal interaction is positively associated with vertical conflict.
- H23 Vertical conflict is a positive determinant of horizontal interaction.
- H24 Horizontal interaction is a positive determinant of vertical conflict.
- H25 Dependence is a positive determinant of information exchange between franchisees.

- H26 Horizontal interaction is a negative determinant of franchisees' dependence upon the franchisor.
- H27 The level of participation and formalization of the decision structure is a direct determinant of horizontal interaction.
- H28 The franchise network relationships model can be applied across countries.

8.1.6. Correlation analysis

At this stage of hypothesis testing, we use correlation coefficient analysis to corroborate our multivariate analyses and as a complement to modelling. Analysing correlation coefficients (Tables 8.17 and 8.18) can provide evidence of linear associations between variables. Correlation does not always reveal direct association because there could be a third variable that is causing both, without any direct relationship between the two (spurious correlation); on the other hand, it is very rare to find causation between variables without correlation.

Hypothesis H5 states that there is a (positive) relationship between non-economic power sources and dependence. In the Italian data set the correlation coefficients between dependence and expert and referent power sources are respectively .52 and .48, whereas in the British data set they are .68 and .55. In both countries the association between the two variables of dependence and non-economic power sources and the direction of this association are supported by correlation analysis.

Hypothesis H7 states that there is a (negative) relationship between non-economic power sources and conflict. In the Italian data set the correlation coefficients between conflict frequency and expert and referent power sources are respectively -.61 and -.50, whereas in the British data set they are -.55 and -.52. In both countries the association between the two variables of conflict and non-economic power sources and the direction of this association are supported by correlation analysis.

Hypothesis H9 states that there is a (positive) relationship between non-economic power sources and the decision structure. As a measure of the decision structure we only use participation, a multi-item measure that passed the reliability analysis (section 8.1.3.), and not formalization, which failed to pass the reliability tests in the British data set. In the Italian data set the correlation coefficients between participation and non-economic power sources (i.e., expert and referent power sources) are respectively .33 and .41, whereas in the British data set they are .60 and .63. In both countries the association between the two variables of conflict and non-economic power sources and the direction of this association are supported by correlation analysis.

Hypothesis H11 states that there is a (negative) relationship between the decision structure and conflict. In the Italian data set the correlation coefficient between participation and conflict frequency is -.26, whereas in the British data set it is -.44. In both countries the association between the two variables of participation and conflict and the direction of this association are supported by correlation analysis, even if the coefficient is not large in the Italian case.

Hypotheses H17, H18, and H19 state that there is a (negative) relationship between performance and conflict. In the Italian data set the correlation coefficients between the two measures of performance (Perf1 and Perf2) and conflict frequency are respectively -.33 and -.33, while in the British data set they are not significant at the .01 level. In Italy, the association between the two variables of performance and conflict and the sign of the association are supported by the data, even if the coefficients are not very big; on the other hand, correlation analysis shows no association between performance and conflict in the British data.

Hypothesis H20 states that there is a (positive) relationship between non-economic power sources and franchisees' performance. In the Italian data set, the correlation coefficients between Perf1 and Perf2 (the two measures of performance), and expert and referent power sources (the two measures of non-economic power sources) are respectively .20, .24, .18, .21, while in the British data set three out of four are not

significant at the .01 level (the correlation between Perf1 and referent power sources is .18). In Italy, the association between the two variables of non-economic power sources and performance and the sign of the association are supported by the data, even if the coefficients are not large; on the other hand, correlation analysis shows no association between non-economic power sources and performance in the British data.

Hypothesis H22 states that there is a (positive) relationship between horizontal interaction among franchisees and conflict. In the Italian data set the correlation coefficient between information exchange among franchisees (measuring the horizontal interaction between them) and conflict frequency is .19, while in the British data set it is .33. In both countries the association between the two variables of horizontal interaction and conflict is supported by the data regarding its direction, but the coefficients are not large, with that in the Italian data set being smaller than the British.

Hypothesis H25 states that there is a (positive) relationship between horizontal interaction among franchisees and dependence, while H26 states that horizontal interaction is negatively related to dependence (an opposite causal path). Both in the Italian and British data sets, the correlation coefficients between information exchange and dependence are not significant at the .01 level. Thus, correlation analysis shows no association between horizontal interaction and dependence.

Hypothesis H27 states a (positive) relationship between the level of participation and formalization of the decision structure and horizontal interaction. Both in the Italian and British data sets, the correlation coefficients between information exchange and participation are not significant at the .01 level. Thus, correlation analysis does not suggest any association between horizontal interaction and decision structure.

Hypotheses H13, H28, H21, H23, H24, H16 cannot be investigated with correlation analysis, and will be tested with structural equation modelling in section 8.1.7., together with the hypotheses already analyzed in this section.

Table 8.17 176 ITALIAN FRANCHISEES: CORRELATION MATRIX ¹

	Partic	Dep	Perf1	Perf2	Confreq	Horzinf	Expert	Refer
Partic	1.00							
Dep		1.00						
Perf1			1.00					
Perf2				1.00				
Confreq					1.00			
Horzinf						1.00		
Expert							1.00	
Refer								1.00

Table 8.18 177 BRITISH FRANCHISEES: CORRELATION MATRIX

	Partic	Dep	Perf1	Perf2	Confreq	Horzinf	Expert	Refer
Partic	1.00							
Dep		1.00						
Perf1			1.00					
Perf2				1.00				
Confreq					1.00			
Horzinf						1.00		
Expert							1.00	
Refer								1.00

¹. In Tables 8.17 and 8.18, we show coefficients for $p < .01$

8.1.7. Structural equation analysis

In section 8.1.6. some of the hypothesized relationships were tested using traditional correlation analysis. However, this technique has a number of shortcomings. In particular, zero-order correlation coefficients cannot identify situations in which the observed correlation between two variables is due to the confounding effect of a third. Also, common correlation analysis cannot be used either to test the direction of causality, nor to detect whether a variable has intervening effects on a causal relationship between two other variables. Regression analysis would not be very helpful because its parameters are often unreliable when there are measurement errors, and when the relationship of interest is among "true" (or "latent") variables (Joreskog and Sorbom, 1982). With structural equation modelling a hypothesized model can be tested as a whole. This means that it is possible to detect confounding effects of variables, direction of causality and any mediating effects, also measurement errors can be modelled (Joreskog and Sorbom, 1982; Bagozzi, 1980b). Another reason for using Lisrel in this thesis is that this technique was used by Brown, Lusch, and Muehling (1982) and by Schul and Babakus (1988); since we replicate some of their hypotheses, using the same analytical technique seems to be highly appropriate.

In this section relationships between franchisees and franchisors are modelled with Lisrel, which analyzes covariance matrices (Tables 8.19 and 8.20). The data come from 353 franchisees in Britain and Italy, and were collected through both personal interviews (30 observations in each country) and mail questionnaires (146 in Italy and 147 in Britain). Previous analysis (section 8.1.1.) showed that the method of collection did not affect the responses, so we analyse each country's full data set.

The reader who is familiar with structural equation modelling should continue reading this and the next sections of this chapter. The reader unfamiliar with either structural equation modelling or the Lisrel VII package should first read Appendix F.

The sections included in 8.1.7. report on different stages of the modelling procedure.

In section 8.1.7.1 we report on how we obtained a model that could be tested in both countries, with no parameter constraint across the two data sets (M1, Figure 9). We followed a two-step approach (Anderson and Gerbin, 1988), first estimating the measurement model alone, then developing full models. We present the measurement and structural parameters and the goodness-of-fit indicators resulting from the independent as well as the simultaneous estimation of the two data sets. We also compared this model with two alternative nested models (Hayduk, 1987; Joreskog and Sorbom, 1989; Anderson and Gerbin, 1988).

In sections 8.1.7.2. through 8.1.7.4., we present the analysis of the direction of causality of three pairs of variables included in the model: conflict-performance, conflict-information exchange, and dependence-information exchange. We followed the procedure developed by Bagozzi (1980a).

In section 8.1.7.5. we report on how we developed a version (EQ38, Figure 10) of the hypothesized model (M1, Figure 9) that not only holds across two countries with the same structural model, but also with all the same structural parameter estimates except for just three parameter estimates. It is shown that there is no significant difference between the hypothesized model and this more parsimonious and generalized version of it. We comment upon the hypotheses tested at this stage.

Section 8.1.7.6 summarizes the results of the structural equation analysis of the Italian and British samples of 353 franchisees.

8.1.7.1. Test of the hypothesized model

The first step in our structural modelling procedure is to test the hypothesized model (Figure 9) on each country's data set with multi-sample Lisrel and parameters unconstrained across the two data sets (see Appendix F).

As explained elsewhere (Appendix F), the full Lisrel model includes two sub-models, a measurement and a structural model, which are simultaneously estimated. A very interesting feature of Lisrel is that you can use your prior knowledge¹ about the variables under investigation as an input for a more parsimonious analysis. We used prior knowledge resulting from variable reliability and validity analysis to specify the measurement sub-model. In this sub-model, for the latent variables that were measured by one multi-item index, the parameters theta-epsilon (variance of the measurement errors when measuring each dependent latent variable) and theta-delta (variance of the measurement errors when measuring each independent latent variable) were estimated before performing Lisrel analysis². We computed the product of the variances of the multi-item indices by the difference between 1 and the Cronbach - alphas derived by the reliability analysis (see section 8.1.3.). This preliminary estimation (Table 8.21) allows the analyst to increase the number of degrees of freedom (fewer parameters to be estimated), and therefore perform a more parsimonious analysis (Hayduk, 1987; Joreskog and Sorbom, 1982; Joreskog and Sorbom, 1989).

¹. Such as starting values for the maximum likelihood estimation

². Which is estimating parameters and goodness-of-fit indicators

Table 8.19 176 ITALIAN FRANCHISEES: COVARIANCE MATRIX ³

	Partic	Dep	Perf1	Perf2	Confreq	Horzinf	Expert	Refer
Partic	2.744							
Dep	0.489	3.048						
Perf1	0.509	0.643	3.304					
Perf2	0.426	0.635	1.987	2.736				
Confreq	-0.512	-0.911	-0.720	-0.639	1.500			
Horzinf	0.310	0.216	-0.126	-0.065	0.292	1.560		
Expert	0.869	1.461	0.578	0.477	-1.172	-0.082	2.653	
Refer	0.956	1.179	0.619	0.483	-0.847	0.032	1.452	2.006

Table 8.20 177 BRITISH FRANCHISEES: COVARIANCE MATRIX

	Partic	Dep	Perf1	Perf2	Confreq	Horzinf	Expert	Refer
Partic	2.598							
Dep	1.150	2.806						
Perf1	0.591	0.314	3.257					
Perf2	0.295	0.081	1.425	2.248				
Confreq	-0.749	-0.538	-0.215	-0.116	1.144			
Horzinf	-0.149	-0.205	0.008	-0.096	0.376	1.162		
Expert	1.270	1.526	0.353	0.226	-0.775	-0.294	1.773	
Refer	1.411	1.276	0.455	0.253	-0.769	-0.203	1.366	1.927

³. In Tables 8.19 and 8.20 the coefficients are reported with three decimal figures, to allow the reader to perform exactly the same analysis as we did.

Figure 9

The Hypothesized Model - M1 -
a Testable Structural Model

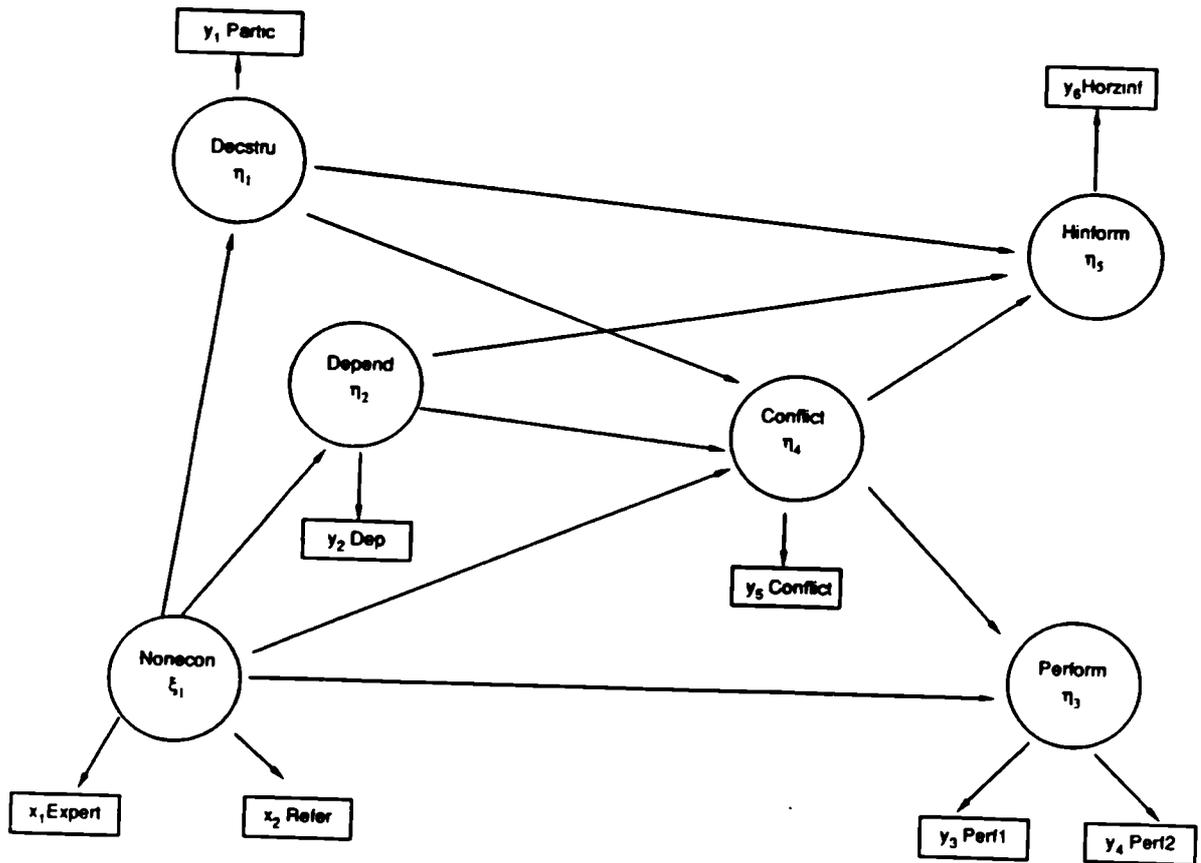


Table 8.21 Values of the measurement model estimated before the Lisrel analysis⁴

Variable measured by a multi-item index	Variance of the multi-item index		Cronbach's Alpha		θ , ⁵	
	GB	IT	GB	IT	GB	IT
Decision Structure (η_1)	2.60	2.74	.67	.71	.87	.79
Dependence (η_2)	2.81	3.05	.71	.79	.80	.65
Conflict (η_3)	1.14	1.50	.80	.86	.22	.21
Horizontal information exchange (η_4)	1.16	1.56	.89	.94	.13	.01

Before estimating the full Lisrel model, we tested the measurement model alone, following the two-step approach described by Anderson and Gerbin (1988). This approach acknowledges the importance of separate estimation and, if necessary, re-specifying the measurement model prior to simultaneous estimation of the measurement and structural sub-models. If a model is misspecified, a one-step approach in which the measurement and structural sub-models are estimated simultaneously will suffer from interpretation problems⁶. Thus, a confirmatory factor analysis of the measurement model is presented in Table 8.23. The goodness of fit indicators show a very good fit (d.f. = 22, $\chi^2 = 23.13$, p-value = .395, GFI > .98, RMR ≤ .093). This model is called M_s , because it is equivalent to a saturated structural model (Bentler and Bonnet, 1980; Anderson and Gerbin, 1988). A saturated model can be defined as one in which all parameters (i.e., unidirectional paths) relating the variables to one another are estimated. The concept of a saturated model

⁴. In this and in the following Tables of this Chapter, GB stands for Britain and IT for Italy.

⁵. Estimated variance of the measurement error when measuring the latent construct.

⁶. "Given acceptable unidimensional measurement, the pattern coefficients from the measurement model should change only trivially, if at all, when the measurement sub-model and alternate structural sub-models are simultaneously estimated. With a one-step approach, the presence of interpretational confounding may not be detected, resulting in fit being maximized at the expense of meaningful interpretability of the variables." (Anderson and Gerbin, 1988: p.418).

is useful in developing a systematic procedure to analyze and compare nested structural models. Also a null structural sub-model, M_n , has been developed, which can be defined as one in which all parameters relating the variables to one another are fixed at zero (i.e., there are no posited relations of the variables to one another).

Under a two-step approach, the analyst should begin by assessing whether there exists a structural model that would have acceptable goodness-of fit indicators. This is accomplished with a pseudo chi-square test (Bentler and Bonnet, 1980), in which a pseudo chi-square statistic is constructed from the chi-square value of M_s (the smallest value possible for any structural model) and the degrees of freedom of M_n (the largest number of degrees of freedom of any structural model). If this pseudo chi-square statistic is significant at, say, level .01 or even .5, then no structural model would give an acceptable fit, because it would have a chi-square value greater than or equal to the value for M_s , with fewer degrees of freedom than for M_n . Significance, then, would suggest that a fundamental misspecification of the measurement model needs to be remedied, rather than a need to estimate additional structural models. A researcher using a one-step approach would not know this (Anderson and Gerbin, 1988). In our research, the pseudo chi-square test shows $\chi^2=23.13$ (from M_s in Table 8.23) and d.f. =48 (from M_n in Table 8.23). The value is very insignificant (for example, much less significant than .2 level, which is the left-bottom-value in the chi-square distribution tables, available in all statistical textbooks). This means that we can proceed with the analysis and estimate our structural models, as we are unlikely to have major misspecification problems.

The hypothesized model (M1, Figure 9) produced a chi-square value of 31.17 (df=28; p=.310), a goodness-of-fit index (GFI) of .973, and a root mean square residual (RMR) of .071 for the British sample, and GFI of .982 and a RMR of .083 for the Italian sample (Table 8.23). These findings suggested that M1 produced a very good fit in both samples (Hayduk, 1987). The estimated values of the parameters and the goodness-of-fit indicators of M1 are reported in Table 8.22 and Table 8.23.

The simultaneous estimation of the parameters results in just one chi-square and p-

value for the two data sets. The chi-square value (with 28 degrees of freedom) is the sum of the chi-square values resulting from estimating parameters of the two data sets independently (14 d.f. each), while the resulting p-value is a mid-point (very close to the average) between the two p-values of the independent estimations (Table 8.24). The model fits both data sets well, even if the fit is better for the Italian than the British data set (results based on independent estimation are showed in Table 8.25: for the Italian sample, chi-square is 12.99, p-value is .527; for the British sample, chi-square is 18.18, p-value is .199). We used a simultaneous estimation procedure as the core of our analysis because it allows us to highlight similarities and differences across the two data sets⁷. We also report independent estimations of the goodness-of-fit indicators to show the sensitivity of each sample to changes in the structure of the model (comparison of nested models, see Appendix F), which is a further indicator of differences or similarities (Table 8.26).

Following the procedure indicated by Anderson and Gerbin (1988), we compare M1 with the saturated model M_s (Table 8.24): the two models are not significantly different from one another (d.f.=6, $\Delta\chi^2=8.04$, $p>.1$). This tells us that the chi-square value obtained from the hypothesized model M1 is not significantly different from the best (lowest) obtainable from the variables under investigation (given the measures available). The next step is to compare M1, still our working model, with other (rival) models, which are nested in it. The identification of the nested models proceeds from the analysis of estimated results of M1 (Table 8.22). Among the simultaneous estimation results, not all the parameters are equally significant across the two data sets. In the measurement model, all but one of the parameters are significant at least at .05 level ($\theta_{.33}$ is not significant in the British sample, which shows that one of the performance measures may be problematic in the British model). The total coefficient of determination, a measure of how well the indicators jointly serve the variables, produced, for the British data set, a reliability index of .999 for the dependent variables, and .875 for the independent variables; and for the Italian data set, a reliability index of 1.0 for the dependent variables, and .789 for the

⁷. We later (section 8.1.7.5.) present results obtained by constraining parameters to be equal across the two samples, which we did in order to check the common properties of the samples.

independent variables. These total coefficients of determination are high, indicating that the measurement model is acceptable (see Hallen, Johanson and Nazeem Seyed-Mohamed, 1991).

In the structural model, some of the parameters are equally or almost equally significant across countries (β_{54} , γ_{11} , γ_{21} , ϕ_{11} , ψ_{11} , ψ_{33} , ψ_{44} , ψ_{55} at least significant at .05); a few are significant at least at the .05 level in just one of the two samples (β_{34} , β_{42} , β_{51} , β_{52}) highlighting areas where differences between the two countries are more likely. Then, there are two parameters that are not significant in either sample (β_{41} and γ_{31}): in fact, according to the interpretation of the significance level, they are not significantly different from zero in either sample. β_{41} is the link between decision structure and conflict. Schul and Babakus (1988) found that decision structure played a role in the power conflict process, and concluded that the direct effect of power sources on conflict was not significant, compared to the indirect effect, through the decision structure (perception of participation and formalization of the decision structure). In our model, decision structure is influenced by power sources, but the effect of decision structure on conflict (β_{41}) is not significant in either sample. In the hypothesis section, we highlighted how non-economic power sources may affect franchisees' performance, not just through the mediating effect of conflict, but also directly. In M1, both the parameters which represent the direct link between non-economic power sources and performance (γ_{31}) are not significantly different from zero.

In a similar situation, Schul and Babakus (1988, p.398) chose the model with a non-significant structural parameter fixed to zero, in order to maintain parsimony. But this changed the model (and the underlying theory) without even achieving a better fit, and after only testing it on a single data set. The established literature on causal modelling (Bagozzi, 1980b; Joreskog and Sorbom, 1989; Hayduk, 1987) addresses this problem by saying that any modelling should be grounded in theory⁸. One should be careful in changing the hypothesized model by just keeping the significant

⁸. Otherwise one may be tempted to try all the possible combinations of variables in order to find the one which best fits the data, forgetting about theory and logical reasoning underlying it.

parameters and discarding (fixing to 0) those which are not significant. We believe that the hypothesized model should be changed only if we find that by erasing or adding a link between two variables (consistently with Lisrel modification indices and the other results from the modelling procedure) there is a significant improvement of fit which occurs systematically, across different data sets, and where there is a theoretical explanation.

Here we tried two more parsimonious models (M2 and M3) in addition to the hypothesized one; this was because their structural parameters were not significant across two different data sets, evidence which encouraged us to try to fix them to zero. Thus, two "rival" (in Lisrel terminology) models were developed; in the first (M2), β_{41} is fixed to 0 (ie. in model M2 we do not hypothesize any link between decision structure and conflict); in the second (M3), γ_{31} is fixed to 0 (ie. in model M3 we do not hypothesize any direct link between non-economic power sources and performance). The goodness-of-fit indicators of M2 and M3 are shown in Table 8.23. In Table 8.24 these indicators are compared with those of M1, following the standard Lisrel procedure for comparing nested models (see Appendix F). The differences in the chi-square values of the two pairs of models (M1-M2 and M1-M3) are not significant, (Table 8.24). Thus, the change in the fit indicators from M1 to M2 (d.f. =2, $\Delta\chi^2 = .23, p > .1$) and from M1 to M3 (d.f. =2, $\Delta\chi^2 = 2.55, p > .1$) capitalized on chance. These results mean that we do not yet have a model that fits our data any better than M1, but just two models (M2 and M3) that are more parsimonious, given no difference in goodness of fit.

As we said, other researchers in the field (see, for example, Schul and Babakus, 1988), when modelling franchisee-franchisor relationships with structural equations, changed the model when one parameter could be fixed to zero, without improving the fit, and did so when just analysing one data set. We believe that multi-sample modelling allows the analyst to be more prudent, trying, as we did, to fix to 0 just those parameters that resulted as non-significant in both data sets. But still, since Lisrel is mainly a theory-led analytical model, the hypothesized model should be altered when there are substantial and strong reasons for doing so, and supported by

theory. Thus, since we neither have improved the goodness of fit nor have strong theoretical reasons for changing a model which fits well two different data sets, we keep M1 as the working model ⁹. Future research should try to explore theoretical reasons that explain why non-economic power sources may not be significantly influencing performance, and why perception of a participative decision structure may not lead to a decrease in conflict. In the future, if some theoretical reasons were found to explain these deviations from the hypothesized model (for example a problem in measurement), M1, together with M2 and M3 should be tested; only then could additional inferences be made, and the model changed.

A sensitivity analysis and a further check of each country model can be obtained by observing the results of M2 and M3 when estimated independently in each data set (Table 8.25 and Table 8.26). When parameters are estimated independently in each country, chi-square values are obtained for each separate country model ¹⁰; the comparison (Table 8.26), shows that none of the models improved the initial estimations. No other alternative model was suggested from Lisrel outputs. The small values of the modifications indices indicated that no significant improvement to M1 could be achieved by relaxing any further parameter.

⁹. An interesting comment from Hayduk (1987), regarding the relationship between statistical outputs and theory is the following: "Coefficient estimates are not results. The results are the substantive implications of the estimates obtained through the combined force of the best available theory and data".

¹⁰. The values of the estimated parameters for the measurement and structural models are the same for independent and simultaneous estimations, and therefore the estimated parameters of ITM1 and GBM1 are not reported, being equal to those of M1.

Table 8.22 Estimated values of parameters of M1

Parameter	Lisrel Estimate		T-Value of the estimate ¹¹		Standardized Value ¹²	
	GB	IT	GB	IT	GB	IT
λ_{y11}	1.00	1.00			1.36	1.36
λ_{y22}	1.00	1.00			1.48	1.48
λ_{y33}	1.00	1.00			1.56	1.56
λ_{y43}	.55	.88	1.81*	5.21***	.86	1.36
λ_{y44}	1.00	1.00			1.05	1.05
λ_{y55}	1.00	1.00			1.12	1.12
λ_{x11}	1.00	1.00			1.28	1.28
λ_{x21}	.95	.80	13.89***	9.77***	1.21	1.03
β_{34}	-.002	-.51	-.01	-2.56**	-.001	-.35
β_{41}	-.01	.04	-.08	.48	-.02	.05
β_{42}	.43	-.02	2.40***	-.24	.61	-.03
β_{51}	.20	.22	1.31+	2.54**	.25	.26
β_{52}	-.09	.21	-.77	2.54**	-.12	.28
β_{54}	.52	.47	4.02***	4.27***	.49	.44
γ_{11}	.90	.51	10.16***	5.12***	.85	.49
γ_{21}	.99	.78	10.98***	7.49***	.86	.68
γ_{31}	.28	.06	1.57+	.34	.23	.05
γ_{41}	-.96	-.62	-3.50***	-4.84***	-1.17	-.75
ϕ_{11}			7.46***	6.06***		
ψ_{11}	.54	1.47	3.22***	5.80***	.29	.80
ψ_{22}	.57	1.28	3.39***	5.36***	.26	.58
ψ_{33}	2.46	1.83	1.73*	4.13***	1.02	.77
ψ_{44}	.39	.60	3.72***	5.49***	.35	.54
ψ_{55}	.85	1.21	7.36***	8.00***	.68	.97
θ_{c11}	.87	.79				
θ_{c22}	.80	.65				
θ_{c33}	.68	1.03	.49	2.44**		
θ_{c44}	1.46	.99	3.20***	3.01**		
θ_{c55}	.22	.21				
θ_{c66}	.13	.10				
$\theta_{\delta 11}$	.31	.82	4.52***	5.03***		
$\theta_{\delta 22}$	.62	.83	7.14***	6.61***		

¹¹. *** p < .001; ** p < .01; * p < .05; + p < .1

¹². Solutions standardized to a metric common to the two data sets.

Table 8.23 Goodness-of-Fit indicators for the measurement model (saturated structural model), the null structural model, the hypothesized structural model, and two rival nested structural models.

Parameters are estimated simultaneously in the two data sets.

Model	df	χ^2	p-value	GFI		RMR	
				GB	IT	GB	IT
Ms: measurement model, tested with confirmatory factor analysis (ML estimation), equivalent (chi-square) to a saturated full Lisrel model	22	23.13	.395	.982	.987	.090	.093
Mn: null structural model (only the number of degrees of freedom is under investigation)	48						
M1: hypothesized model, with all structural parameters unconstrained across the two data sets	28	31.17	.310	.973	.982	.071	.083
M2: same as M1, but $\beta_{41}=0$ (no link between decision structure and conflict)	30	31.40	.396	.973	.982	.071	.081
M3: same as M1, but $\gamma_{31}=0$ (no link between non-economic p.s. and performance)	30	33.72	.292	.970	.982	.107	.088

Table 8.24 Comparison between models (parameters estimated simultaneously in the two data sets)

Models compared	df	$\Delta\chi^2$	p-value
M _s -M1	6	8.04	> .1
M1-M2	2	.23	> .1
M1-M3	2	2.55	> .1

Table 8.25 Goodness-of-Fit indicators for the structural equation models (parameters estimated independently in each data set)

Model	df	χ^2	p-value	GFI	RMR
GBM1 (same as M1, but estimated only on the British sample)	14	18.18	.199	.973	.071
ITM1 (same as M1, but estimated only on the Italian sample)	14	12.99	.527	.982	.083
GBM2 (same as M2, but estimated only on the British sample)	15	18.18	.253	.973	.071
ITM2 (same as M2, but estimated only on the Italian sample)	15	13.21	.586	.982	.081
GBM3 (same as M3, but estimated only on the British sample)	15	20.62	.149	.970	.107
ITM3 (same as M3, but estimated only on the Italian sample)	15	13.10	.594	.982	.088

Table 8.26 Comparison between models (parameters estimated independently in each data set)

Models compared	df	$\Delta\chi^2$	p-value
GBM1-GBM2	1	0	> .1
ITM1-ITM2	1	.22	> .1
GBM1-GBM3	1	2.44	> .1
ITM1-ITM3	1	.11	> .1

8.1.7.2. Direction of causality: conflict-performance

A problem that was discussed in the hypothesis section (section 5.3) is whether we know enough to hypothesize not only an association, but also a direction of causality, in the relationship between conflict and performance. Lusch (1976a), recognized that even if his regression model showed that there was a negative relationship between conflict and performance, the direction of causality might be either way. In order to check this, and within the limits of what was said in Chapter 5 about the debate on causation in research methodology, we follow Bagozzi (1980a), and consequently Joreskog and Sorbom (1982), who more clearly specified Bagozzi's model. They analyzed a model of the relationship between sales force satisfaction and performance. First they checked whether the relationship between these variables was spurious (common antecedents but no causal link) in two ways: i) by computing the partial correlation; ii) by relaxing a parameter representing the error-covariance between the two endogenous variables (from the psi matrix). The decision rule suggested is the following: given that the two variables analyzed are correlated, if their partial correlation coefficients (after having controlled for antecedent variables) are close to the zero-order correlation coefficients; and if the parameter representing the error-covariance between the two endogenous variable is not significant; then, the analyst can assume that there exists a causal relationship. The direction of causality is then checked by relaxing both parameters representing the two causal "arrows" between the two variables. If just one of the two parameters is about twice as much as its standard error (significant, from the estimated t-value), the idea that causality is one-way is supported. If they are both significant, the causality is two-ways, and inferences can be made by looking at the standardized value of the parameters, in order to compare the strength of each of them within the double causal relationship¹. Some inference can also be made by developing two equal models, each with the arrow in one of the two ways, and checking the strength and significance of each of them, plus the sensitivity of other parameters to the change in the model.

¹. The standardized values, having the same scales with each other are fully comparable.

In our research, analysis of the relationship between conflict and performance is performed for the Italian sample, the data presented in the remainder of this section refer only to this sample (in the British sample, performance is not significantly associated with any other variable and the reason for this are analyzed in section 8.1.6.). The partial correlation coefficients between conflict and performance (controlled for the antecedent variables of non-economic power sources, Table 8.27) are very close to zero-order correlation coefficients. Thus, the correlation between them is not spurious, and we can check the direction of causality of the relationship. Following Bagozzi (1980a) and Joreskog and Sorbom (1982), in order to test both causal "arrows" between the variables under investigation (in our case conflict and performance), we needed to identify a simplified version of the main hypothesized model. The established approach for model identification was used, following Hayduk (1987; Chapter 5) and Joreskog and Sorbom (1982). "The solution to identification problem is to place further theoretical or data constraints on the coefficients" (Hayduk, 1987; p.140). It seems best to constrain to 0 the parameters which in previous analysis had the least significant effect (Joreskog and Sorbom, 1982). Given the t-values of the hypothesized model (M1, see Table 8.22, t-values of the parameters in the Italian data set), we fixed to 0 the parameters representing the links decision structure-conflict (β_{41}), dependence-conflict (β_{42}), non-economic power sources-performance (γ_{31}), which were not significant in M1. Hence, models ITM4, ITM5, ITM6, and ITM7 were developed from a simplified version of ITM1 (which in turn is the M1 version with a measurement model for the Italian data set).

In model ITM4, ψ_{43} , which is the parameter representing the error-covariance between conflict and performance, is relaxed. This model, as expected, has a very good fit (Table 8.28), and is not significantly different from that of the corresponding model ITM1, presented in Table 8.25. It is even more parsimonious than ITM1. This is good for our analysis, because it means that we can trust the estimated values of the parameters. Parameter ψ_{43} is not significant (Table 8.29, t-value = .31). Thus, the error terms of the equation estimating conflict and performance are not correlated, which confirms the evidence from the partial correlation coefficient: the correlation between conflict and performance is not spurious, but is a causal relationship, the

direction of which was investigated in models ITM5, ITM6, ITM7.

In ITM5, an additional parameter, β_{43} , which implies that performance is a causal antecedent of conflict, was relaxed. So, we tested a model with two-way causality between conflict and performance. The fit of ITM5 (Table 8.28) is very good, and not significantly different from that of the corresponding model ITM1, presented in Table 8.25. Again, since ITM5 is estimated with more degrees of freedom, it is an even more parsimonious than M1. The two parameters under investigation, β_{43} and β_{34} , have very different strengths, and are not equally significant.

β_{43} is very close to 0 (.03) and insignificant (t-value=.31); this means that a franchisee's performance does not significantly affect conflict between franchisee and franchisor. On the other hand, β_{34} is a strong parameter (-.60) and very significant (t-value=-3.59, significant at .001 level); this means that conflict is significantly affecting performance. These two coefficients show that there is no feed back effect of performance on conflict.

From the correlation matrix (Table 8.17), power sources seem to be associated with both conflict and performance; on the other hand the structural parameter linking power sources and performance is not significant (M1, see Table 8.25; $\gamma_{31}=.06$, t-value=.34). We want to check whether this relationship is spurious, and then check the role of power sources in the relationship between conflict and performance. This problem is investigated by developing models ITM6 and ITM7, and by checking the partial correlation between non-economic power sources and performance, controlled for the concept of conflict, related to both of them. In order to identify a simplified model with the parameter γ_{31} being estimated, starting from model ITM5, we relaxed γ_{31} , and fixed β_{34} to 0, following the procedure for model identification explained by Hayduk (1987). This model, ITM6, has the same goodness of fit indices as ITM4 and ITM5 (Table 8.28), and apparently puts our previous analysis into question. In fact, not only does the correlation between non-economic power sources and performance show up as a strong and significant structural parameter (in ITM6, Table 8.29, $\gamma_{31}=.37$, t-value=3.44, significant at .001 level), which would imply that non-economic power sources are a causal antecedent of performance; but also,

performance seems to be able to affect conflict ($\beta_{43} = -.15$, $t\text{-value} = -2.54$, significant at .01 level). Traditional statistical analysis (partial correlations), combined with structural equation modelling, can shed light on this apparently unclear matter. The parameter linking non-economic power sources to performance mirrors the spurious correlation between them. Model ITM7 suggests this. ITM7 was developed by just reversing the causality between conflict and performance in ITM6, i.e. fixing β_{43} to 0 and relaxing β_{34} . In ITM7 (with the same goodness of fit as ITM4, ITM5 and ITM6, see Table 8.28), non-economic power sources are not a significant causal antecedent of performance (Table 8.29, $\gamma_{31} = .05$, $t\text{-value} = .31$), and the performance is strongly affected by conflict ($\beta_{34} = -.52$, $t\text{-value} = -2.58$, significant at .01 level). Additional evidence showing that the relationship between non-economic power sources and performance is spurious came from the partial correlation coefficients (Table 8.30). All the partial coefficients between the measures are close to 0, showing that the significant zero-order correlations (from Table 8.17, also reported in Table 8.30) are spurious.

In conclusion, the analysis of the direction of causality between conflict and performance, shows that:

- a) The level of conflict between franchisees and franchisor affects the level of franchisees' performance;
- b) Franchisees' performance does not affect the level of conflict with the franchisor;
- c) In the data set examined, the correlation between non-economic power sources and performance is spurious, and there is no direct relationship between the two variables.

Table 8.27 Partial Correlation Coefficients between conflict and performance, controlled for non-economic power sources.

Variables Correlated		Variable controlled for	Partial Correlation Coefficient	Zero-Order Correlation Coefficient
Measure for conflict	Measure for performance	Measure for non-economic power sources		
confreq	Perf1	Expert	-.27	-.33
confreq	Perf2	Expert	-.28	-.33
confreq	Perf1	Refer	-.25	-.33
confreq	Perf2	Refer	-.26	-.33

Table 8.28 Goodness-of-Fit indicators for the structural equation models developed for testing the direction of causality between conflict and performance (parameters estimated for the Italian data set)

Model	df	χ^2	p-value	GFI	RMR
ITM4	16	13.34	.648	.981	.082
ITM5	16	13.34	.648	.981	.082
ITM6	16	13.34	.648	.981	.082
ITM7	16	13.34	.648	.981	.082

Table 8.29 Estimated parameter values of the models developed for testing the direction of causality between conflict and performance ²

Parameter ³	Lisrel Estimates			T-Value of the estimate ⁴			Standardized Value					
	ITM4	ITM5	ITM6	ITM7	ITM4	ITM5	ITM6	ITM7	ITM4	ITM5	ITM6	ITM7
β_{34}	-.60	-.60	fixed to 0	-.52	-3.59***	-3.59***		-2.58**	-.45	-.45		-.39
β_{43}	fixed to 0	.03	-.15	fixed to 0	.31	-2.54**			.04		-.20	
β_{41}	fixed to 0	fixed to 0	fixed to 0	fixed to 0								
β_{42}	fixed to 0	fixed to 0	fixed to 0	fixed to 0								
β_{31}	.22	.22	.22	.22	2.58**	2.58**	2.58**	2.58**	.26	.26	.26	.26
β_{32}	.21	.21	.21	.21	2.59**	2.59**	2.59**	2.59**	.27	.27	.27	.27
β_{34}	.47	.47	.47	.47	4.32***	4.32***	4.32***	4.32***	.44	.44	.44	.44
γ_{11}	.50	.50	.50	.50	5.13***	5.13***	5.13***	5.13***	.49	.49	.49	.49
γ_{21}	.79	.79	.79	.79	7.84***	7.84***	7.84***	7.84***	.69	.69	.69	.69
γ_{31}	fixed to 0	fixed to 0	.37	.05				.31				.05
γ_{41}	-.61	-.62	-.56	-.61	-8.78***	-8.11***	-7.81***	-8.78***	-.73	-.75	-.67	-.73
ψ_{43}	.05	fixed to 0	fixed to 0	fixed to 0	.31				.03			

². For simplicity, the estimated parameters of the measurement model are not reported. For all the models presented in this table, these parameters are virtually equal to the parameters in M1 (Table 8.23, estimated parameters of the Italian sample), the deviations being usually less than .005 and never larger than .05. The element Ψ_{31} (4.3) is reported because it is relevant for the analysis of reciprocal causation.

³. The parameters are presented in this order to focus the attention of the reader on the parameters concerning the direction of causality under investigation, which are listed first.

⁴. *** p < .001; ** p < .01; * p < .05; + p < .1

Table 8.30 Partial Correlation Coefficients between non-economic power sources and performance, controlled for conflict.

Variables Correlated		Variable controlled for	Partial Correlation Coefficient	Zero-Order Correlation Coefficient
Measure for non-economic power sources	Measure for performance	Measure for conflict		
Expert	Perf1	Conflict	-.01	.20
Refer	Perf1	Conflict	.09	.24
Expert	Perf2	Conflict	-.03	.18
Refer	Perf2	Conflict	.06	.21

8.1.7.3. Direction of causality: conflict-information exchange

Another problem of causality which we investigate is that between conflict and information exchange; in H23 (and in model M1, Figure 9), we hypothesized that vertical conflict is a positive determinant of horizontal interaction. The alternative is H24, horizontal interaction is a positive determinant of vertical conflict. To test these hypotheses, we follow the procedure of the previous section. Partial correlation coefficients between conflict and horizontal information exchange (controlled for the antecedent variables of non-economic power sources, Table 8.31: .21 and .22) are very close to zero-order correlation coefficients (.19). Thus, the correlation between them is not spurious, and we can check the direction of causality of the relationship. As before, we developed simplified versions (ITM8 and ITM9) from model M1. Given the t-values of M1 (Table 8.22), we fixed to 0 the links decision structure-conflict (β_{41}), dependence-conflict (β_{42}), non-economic power sources-performance (γ_{31}), which were not significant in M1. In model ITM8, ψ_{54} , which is the parameter estimating covariance between the error terms of the equations for conflict and information exchange, is relaxed. This model, as expected, has a very good fit (Table 8.32), and is not significantly different from that of the corresponding model ITM1, presented in Table 8.25 (and it is even more parsimonious than ITM1). This is good for our analysis, because it means that we can trust the estimated values of the parameters. ψ_{54} is not significant (Table 8.33, -.07, t-value = .40). Thus, the error terms of the equations estimating conflict and horizontal information exchange are not correlated, which confirms the evidence from the partial correlation coefficient: the correlation between conflict and horizontal information exchange is not spurious, but is a causal relationship, the direction of which is investigated in models ITM9.

The direction of this causal relationship is checked in ITM9 by estimating both parameters representing causal "arrows" between the two variables. If just one of the two parameters is about twice as much its standard error (significant, from the estimated t-value), we can state that the causality is one-way. If they are both significant, the causality is two-way, and we can make inferences by looking at the standardized value of the parameters, in order to compare the strength of each of

them within the double causal relationship¹. Thus, in ITM9, an additional parameter, β_{45} , which implies that information exchange is a causal antecedent of conflict, is relaxed. The fit of ITM9 (Table 8.32) is very good, and not significantly different from that of the corresponding model ITM1, presented in Table 8.25. Again, since ITM9 is estimated with more degrees of freedom, it is a more parsimonious model. Thus, we can trust the estimated values of the parameters. The two parameters under investigation, β_{54} and β_{45} , have very different strengths, and are not equally significant (Table 8.33). β_{45} is very close to 0 (-.04) and insignificant (t-value = -.27); this means that information exchange between franchisees does not significantly affect conflict between franchisee and franchisor. On the other hand, β_{54} is a strong parameter (.52) and very significant (t-value = 2.47, significant at .01 level); this means that conflict is significantly (and positively) affecting horizontal information exchange. These two coefficients show that there is no feed back effect of horizontal information exchange on conflict.

In conclusion, the analysis of the direction of causality between conflict and information exchange, shows that:

- a) The level of conflict between franchisees and franchisor affects the level of information exchange between franchisees;
- b) The level of information exchange between franchisees does not affect the level of conflict with the franchisor.

¹. The standardized values, having the same scales with each other are fully comparable.

Table 8.31 Partial Correlation Coefficients between conflict and horizontal information exchange, controlled for non-economic power sources.

Variables Correlated		Variable controlled for	Partial Correlation Coefficient	Zero-Order Correlation Coefficient
Measure for conflict	Measure for horizontal information exchange	Measure for non-economic power sources		
confreq	horzinf	expert	.21	.19
confreq	horzinf	refer	.22	.19

Table 8.32 Goodness-of-Fit indicators for the structural equation models developed for testing the direction of causality between conflict and horizontal information exchange (parameters estimated for the Italian data set)

Model	df	χ^2	p-value	GFI	RMR
ITM8	16	13.28	.652	.981	.087
ITM9	16	13.36	.646	.981	.086

Table 8.33 Estimated parameter values of the models developed for testing the direction of causality between conflict and horizontal information exchange ²

Parameter ³	Lisrel Estimates		T-Value of the estimate ⁴		Standardized Value	
	ГМ8	ГМ9	ГМ8	ГМ9	ГМ8	ГМ9
β_{34}	.55	.52	2.47**	2.47**	.51	.49
β_{45}	fixed to 0	-.04		-.27		-.04
β_{34}	-.56	-.56	-4.61***	-4.62***	-.43	-.43
β_{41}	fixed to 0	fixed to 0				
β_{42}	fixed to 0	fixed to 0				
β_{51}	.24	.23	2.57**	2.47**	.28	.27
β_{52}	.24	.23	2.25*	2.22*	.31	.29
γ_{11}	.50	.50	5.13***	5.10***	.49	.49
γ_{21}	.79	.78	7.85***	7.81***	.69	.69
γ_{31}	fixed to 0	fixed to 0				
γ_{41}	-.61	-.61	-8.79***	-8.63***	-.73	-.73
ψ_{34}	-.07	fixed to 0	-.40		-.05	

². For simplicity, the estimated parameters of the measurement model are not reported. For all the models presented in this table, these parameters are virtually equal to the parameters in M1 (tab. 10.23, estimated parameters of the Italian sample), the deviations being usually less than .005 and never larger than .05. The element Psi (5.4) is reported because it is relevant for the analysis of reciprocal causation.

³. The parameters are presented in this order to focus the attention of the reader on the parameters concerning the direction of causality under investigation, which are listed first.

⁴. *** p < .001; ** p < .01; * p < .05; + p < .1

8.1.7.4. Direction of causality: dependence-information exchange

In all the models tested from section 8.1.7.1., dependence was hypothesized as a causal antecedent of horizontal information exchange (H25). The alternative hypothesis is H26, i.e., horizontal interaction is a negative determinant of franchisees' dependence upon the franchisor. Partial correlation coefficients between dependence and horizontal information exchange (controlled for the antecedent variables of non-economic power sources, Table 8.34: .15 and .11) are very close to zero-order correlation coefficients (.10). Thus, the correlation between them (if there is one; in our data this is rather weak) is not spurious, and we can check the direction of causality of the relationship. As before, we developed simplified versions (ITM10 and ITM11) from model M1. Thus, given the t-values of the model M1 (Table 8.22), we fixed to 0 the links decision structure-conflict (β_{41}), dependence-conflict (β_{42}), non-economic power sources-performance (γ_{31}), which were not significant in M1. In model ITM10, ψ_{52} , which is the parameter estimating covariance between the error terms of the equations for dependence and information exchange, is relaxed. This model, as expected, has a very good fit (Table 8.35), and is not significantly different from that of the corresponding model ITM1, presented in Table 8.25 (and it is even more parsimonious than ITM1), which means that we can trust the estimated values of the parameters. ψ_{52} is not significant (Table 8.36, .12, t-value = .41). Thus, the error terms of the equations estimating dependence and horizontal information exchange are not correlated, which confirms the evidence from the partial correlation coefficient: the correlation between dependence and horizontal information exchange is not spurious, but is a causal relationship, the direction of which is investigated in models ITM11.

The direction of this causal relationship is checked in ITM11 by estimating both parameters representing causal arrows between the two variables. If just one of the two parameters is about twice as much its standard error (significant, from the estimated t-value), we can state that the causality is one-way. If they are both significant, the causality is two-way, and we can make inferences by looking at the standardized value of the parameters, in order to compare the strength of each of

them within the double causal relationship¹. Thus, in ITM11, an additional parameter, β_{25} , which implies that information exchange is a causal antecedent of dependence, is relaxed. The fit of ITM11 (Table 8.35) is very good, and not significantly different from that of the corresponding model ITM1, presented in Table 8.27. The two parameters under investigation, β_{52} and β_{25} have very different strength, and are not equally significant (Table 8.36). β_{25} is very close to 0 (-.09) and insignificant (t-value=-.44); this means that information exchange between franchisees does not significantly affect their dependence on the franchisor. On the other hand, β_{52} is significant (.27, t-value=1.73, significant at .05 level); this means that conflict is significantly (and positively) affecting horizontal information exchange. These two coefficients show that there is no feed back effect of horizontal information exchange on dependence.

In conclusion, the analysis of the direction of causality between dependence and information exchange, shows that:

- a) The level of dependence of franchisees on the franchisor positively affects (but not strongly) the level of information exchange between franchisees;
- b) The level of information exchange between franchisees does not affect the level of dependence on the franchisor.

¹. The standardized values, having the same scales with each other are fully comparable.

Table 8.34 Partial Correlation Coefficients between horizontal information exchange and dependence, controlled for non-economic power sources.

Variables Correlated		Variable controlled for	Partial Correlation Coefficient	Zero-Order Correlation Coefficient
Measure for horizontal information exchange	Measure for dependence	Measure for non-economic power sources		
horzinf	dep	expert	.15	.10
horzinf	dep	refer	.11	.10

Table 8.35 Goodness-of-Fit indicators for the structural equation models developed for testing the direction of causality between dependence and horizontal information exchange (parameters estimated for the Italian data set)

Model	df	χ^2	p-value	GFI	RMR
ITM10	16	13.28	.652	.981	.087
ITM11	16	13.23	.656	.981	.084

Table 8.36 Estimated parameter values of the models developed for testing the direction of causality between dependence and horizontal information exchange ²

Parameter ³	Lisrel Estimates		T-Value of the estimate ⁴		Standardized Value	
	ГТМ10	ГТМ11	ГТМ10	ГТМ11	ГТМ10	ГТМ11
β_{32}	.15	.27	.81	1.73*	.19	.35
β_{23}	fixed to 0	-.09		-.44		-.07
β_{34}	-.56	-.56	-4.61***	-4.62***	-.43	-.43
β_{41}	fixed to 0	fixed to 0				
β_{42}	fixed to 0	fixed to 0				
β_{31}	.24	.22	2.57**	2.43**	.28	.25
β_{34}	.43	.51	2.88**	3.56***	.40	.48
γ_{11}	.50	.50	5.13***	5.14***	.49	.49
γ_{21}	.79	.78	7.85***	7.65***	.69	.68
γ_{31}	fixed to 0	fixed to 0				
γ_{41}	-.61	-.61	-8.79***	-8.77***	-.73	-.73
ψ_{32}	.12	fixed to 0	.41		.06	

². For simplicity, the estimated parameters of the measurement model are not reported. For all the models presented in this table, these parameters are virtually equal to the parameters in M1 (tab. 10.23, estimated parameters of the Italian sample), the deviations being usually less than .005 and never larger than .05. The element Psi (5.2) is reported because it is relevant for the analysis of reciprocal causation.

³. The parameters are presented in this order to focus the attention of the reader on the parameters concerning the direction of causality under investigation, which are listed first.

⁴. *** p < .001; ** p < .01; * p < .05; + p < .1

8.1.7.5. The final model which holds across Nations

In section 8.1.7.1. the hypothesized structural model M1 (Figure 9), which showed high goodness-of-fit indicators (Table 8.23), was compared with rival models, M2 and M3. The goodness-of-fit indicators of these models were not significantly different from M1, and we kept the hypothesized model as our working model (see section 8.1.7.1.). In M1 the parameters were estimated simultaneously for the Italian and British data sets, and the estimated values were left free to vary across the two samples. In order to fully test hypothesis H28 (which states that the same model can be applied across countries), we now report on whether the same parameter estimates hold across the two data sets. This is an important first step establishing the generalizability of the findings. Also, locating deviations from the hypothesized model in each of the two countries can help our understanding of channel relationships.

In model EQALL¹, all structural parameters (betas and gammas, in Lisrel notation) of model M1 were constrained to be equal across the two countries. In order to prevent interpretation problems of the equality constraints, the lambda parameters of the measurement model were also constrained to be equal. One indicator of goodness-of-fit, GFI, showed acceptable results (above .95, Table 8.37). The others, especially the p-value of the chi-square statistic, were below the acceptable levels (p should at least be between .05 and .1; see: Hayduk, 1987; Joreskog and Sorbom, 1989; see also Appendix F). From the comparison of EQALL and M1 (Table 8.38), we find that EQALL has a significantly poorer fit than M1 (significance level < .001). Since the fit to both data sets of the same model (M1) is good (see Table 8.25) and some structural parameters are similar (see Table 8.22), it is still likely that a number of parameters can be constrained to be equal across the British and Italian samples. Thus, we performed a Portmanteau test, in order to systematically select those parameters that can be constrained to be equal, and let free those that cannot be constrained.

¹. Models for checking the equality constraint are referred to as EQ followed by a word or number.

In Table 8.37, the goodness-of-fit indicators of a series of models are presented. Each model differs from EQALL in that one less parameter is constrained. One at a time, each structural parameter is relaxed, keeping all the others constrained to be equal. For example, in EQ1 all structural parameters but γ_{11} (the link between non-economic power sources and decision structure) are constrained to be equal across the two samples. In turn, each all-parameters-equal-but-one model is compared to EQALL (Table 8.39). The decision rule is the following: if a model is significantly different from EQALL, we conclude that the improvement of fit did not capitalize on chance, and we can then compare this model with M1, our working model. If it is not significantly different from M1, it means that we have found a parameter which has to be relaxed (unconstrained) across countries, while all the others can be constrained to be equal across countries. Only EQ1 (where all structural parameters but γ_{11} are constrained to be equal across the two data sets), EQ7 (all parameters but β_{42} constrained), and EQ9 (all parameters but β_{52} constrained) are significantly different from EQALL at .01 level (Table 8.39). Thus, we compare EQ1, EQ7 and EQ9 to M1. The difference in Chi-square is significant at the .01 level, so none of the three models equals M1. This means that even by relaxing one structural parameter to be free and keeping all the others constrained we cannot maintain the same fit to the data as what we had with M1.

We repeat the procedure just followed, but this time trying to relax one more parameter (now two in each model). We start from models EQ1, EQ7 and EQ9, and we develop three series of models, one from each of them:

- a) models EQ11 to EQ19 (Table 8.38) differ from EQ1 because all the remaining structural parameters (one at a time) are unconstrained across the two data sets;
- b) models EQ20 to EQ28 (Table 8.38) differ from EQ9 because all the remaining structural parameters (one at a time) are unconstrained across the two data sets;
- c) models EQ29 to EQ37 (Table 8.38) differ from EQ7 because all the remaining structural parameters (one at a time) are unconstrained across the two data sets.

The 27 resulting models (EQ11 to EQ37) are even more different from EQALL than

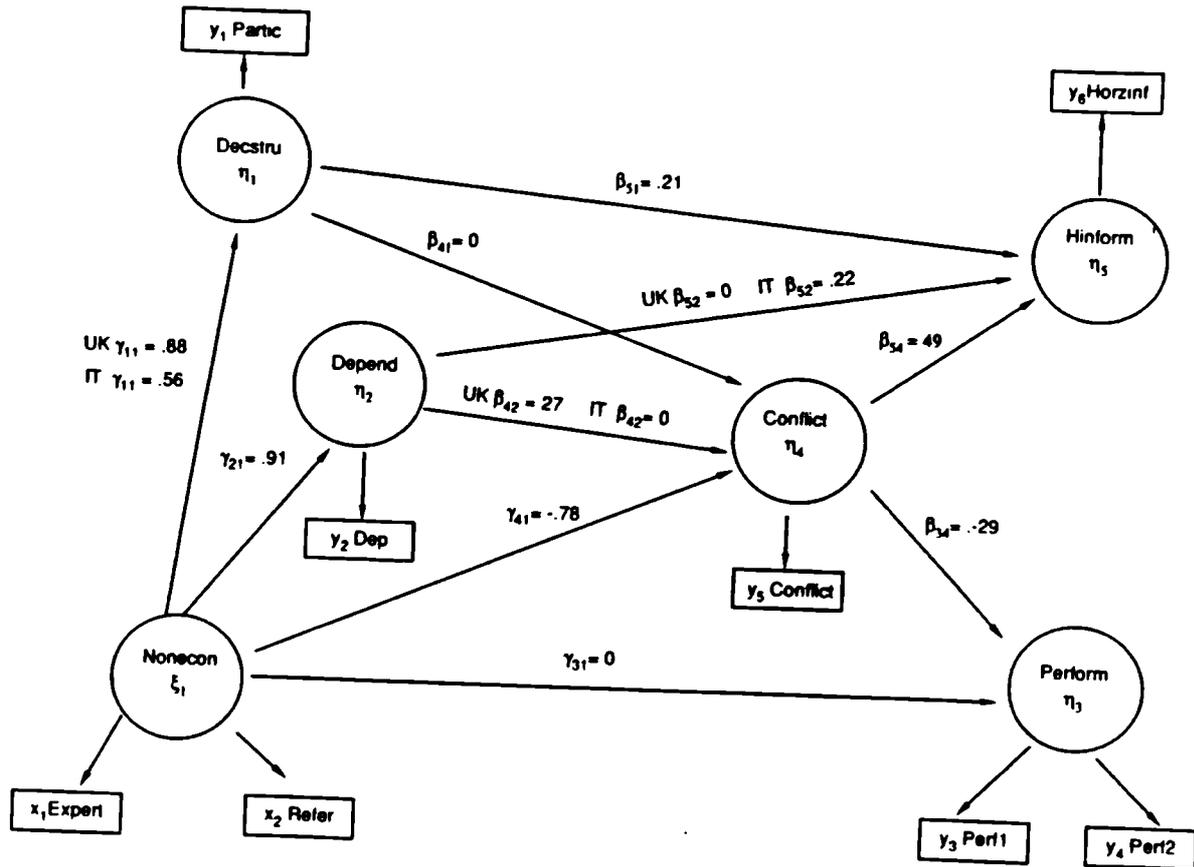
models EQ1, EQ7, and EQ9. The comparison of each of these 27 models to M1² resulted in the following situation: none of the significance levels of the pseudo chi-square tests were greater than .1, which is the cut-off point accepted for selecting equal models, so none of the models equals M1. Furthermore, the models that were closer to M1 are again those where the three parameters γ_{11} , β_{42} , and β_{52} are unconstrained. So, in the final model, EQ38, these three parameters are left unconstrained: this model is significantly different from both M1 and the saturated model M_s (the significance level of the pseudo chi-square test is $> .1$). This means that we have found a model that holds, with all parameters but three constrained to be equal across Italy and Britain. We can state that H28 is not rejected.

In order to test the other hypotheses listed in section 8.1.5., estimated values of the structural parameters of model EQ38 are presented (in Table 8.41, and Figure 10). In the remainder of this section, we again list the hypotheses, and comment on them in the light of the research findings.

². This to check whether we can find at least one model which is not significantly different from the working model M1 (unconstrained across countries)

Figure 10

The Constrained Model - EQ38 -



H5 The non-economic power sources perceived to be held and utilized by the franchisor will directly determine the franchisee's extent of dependence upon that franchisor.

This hypothesis is not rejected, because the parameter for the link between the two variables under investigation, γ_{21} , is very significant (t-value=13.07), and the sign of the parameter is positive. The strength of the parameter is equal in the two data sets; and it is so large (.92) that further research should try to investigate the respondents' ability to discriminate between the two concepts, which are theoretically different.

H7 The non-economic power sources perceived to be held and utilized by the franchisor will inversely affect the extent of conflict perceived by the franchisee.

This hypothesis is not rejected, because the parameter for the link between the two variables under investigation, γ_{41} , is very significant (t-value=-6.18), and the sign of the parameter is negative, as hypothesized. The impact of non-economic power sources on conflict is very strong ($\gamma_{41}=-.78$), and equal in the two data sets.

H9 The non-economic power sources perceived to be held and utilized by a franchisor will positively affect the perception of formalization and participation as elements of the decision structure.

Here only the effect of power sources on participation as a measure of decision structure is tested³. This hypotheses is not rejected, because the parameter for the link between the two variables under investigation, γ_{11} , is very significant in both samples (the t-value is 10.49 in the British and 5.19 in the Italian data sets), even if with different strength (.88 and .56 respectively). The sign of the parameter is positive as hypothesized.

³ In the structural equation modelling section, the decision structure construct was measured just by participation because the multi-item measure of formalization did not pass the reliability test.

H11 Channel members' perceptions of increased formalization and participation in the channel organization will have a negative impact on the level of intra-channel conflict.

This hypothesis is rejected, because the parameter β_{41} is equally insignificant in both countries ($\beta_{41} = .03$, $t\text{-value} = .39$, $p > .1$).

H13 The indirect effect of the use of non-economic power sources on intra-channel conflict will be significant while the direct effect will not be significant.

This hypothesis is rejected for the reason that there is a direct effect, and it is much stronger than the indirect effect. As for hypothesis H7, the parameter which represents the direct influence, $\gamma_{41} = -.78$, is equally strong and significant across the two data sets ($t\text{-value} = -6.18$). With regard to the indirect effect, the two data sets differ slightly from each other:

(i) in the Italian case there is no significant indirect effect, because the two parameters representing the indirect influence of non-economic power sources on conflict, β_{41} (equal to .03 in both data sets, $t\text{-value} = .39$) and β_{42} (equal to .06, $t\text{-value} = .74$) are not significantly different from 0.

(ii) in the British data set there is some indirect effect, through the influence of dependence on conflict ($\beta_{42} = .27$, $t\text{-value} = 2.65$, so $p < .01$).

H17 The level of performance is an inverse determinant of vertical conflict.

This hypothesis was rejected by the analysis of the relationships between the two variables (see section 8.1.7.2.). A double-causation model showed that the direction of causality is the one hypothesized in H18 and not in the rival hypothesis H17.

H18 The level of conflict is an inverse determinant of performance.

This hypothesis is not rejected, because the parameter β_{34} could be constrained to be equal across countries and obtained a significant value ($\beta_{34} = -.29$, $t\text{-value} = -1.97$, significant at .05 level), with a negative sign for the parameter, as hypothesized. This evidence should be considered with caution in the case of Britain. For this data set,

the parameter can be given the same value as for the Italian, and the fit is still good, but, if estimated independently for the British sample, it is not significant (see model M1). Thus, further research may be needed to check the stability of this estimate across countries.

H19 The level of performance is an inverse determinant of conflict and the level of conflict is an inverse determinant of performance.

As for H17, this hypothesis was rejected by the analysis of the relationships between the two variables (see section 8.1.7.2.). A double-causation model showed that the direction of causality is one-way, that hypothesized in H18.

H20 Non-economic power sources are a direct and positive determinant of franchisees' performance.

This hypotheses is rejected, because the parameter γ_{31} is equally insignificant in both samples ($\gamma_{31} = .17$, $t\text{-value} = 1.34$).

H21 Horizontal interaction is an intervening variable in the franchise network relationship model.

We hypothesized three possible relationships between horizontal information exchange and, in turn, conflict, decision structure, and dependence. For the first two relationships, we obtained parameters that were equal and significant across the two samples (see evidence about hypotheses H22, H23, and H27). For the third relationship, the parameter in the Italian sample is significant, while in the British sample it is not significant (see evidence about H25). This evidence shows that horizontal interaction plays a role in the model of franchise relationships, and hypothesis H21 is not rejected.

H22 Horizontal interaction is positively associated with vertical conflict.

The sign of the significant parameter β_{54} is positive, in both data sets (see evidence about H23), and H22 is not rejected.

H23 Vertical conflict is a positive determinant of horizontal interaction.

This hypothesis is not rejected; the parameter β_{54} is equal and significant across the two data sets ($\beta_{54}=.49$, t-value=6.15).

H24 Horizontal interaction is a positive determinant of vertical conflict.

This hypothesis was rejected by the analysis of the relationships between the two variables (see section 8.1.7.3.). A double-causation model showed that the direction of causality is the one hypothesized in H23 and not in the rival hypothesis H24.

H25 Dependence is a positive determinant of information exchange between franchisees.

Evidence concerning this hypothesis is not consistent across the two data sets:

(i) in the British data set, the parameter is not significant ($\beta_{52}=-.1$, t-value=-1.26), while (ii) in the Italian data set it is significant ($\beta_{52}=22$, t-value=3.06) and the sign is the one hypothesized. β_{52} is one of only three parameters that should not be constrained to be equal across the two data sets, otherwise the fit of the model would be affected significantly.

H26 Horizontal interaction is a negative determinant of franchisees' dependence upon the franchisor.

This hypothesis was rejected by the analysis of the relationships between the two variables (see section 8.1.7.4.). A double-causation model showed that the direction of causality is the one hypothesized in H25 and not in the rival hypothesis H26.

H27 The level of participation and formalization of the decision structure is a direct determinant of horizontal interaction.

This hypothesis is not rejected because parameter β_{51} is equal and significant in both data sets ($\beta_{51}=.21$, t-value=2.8).

H28 The franchise network relationships model can be applied across countries.

This hypotheses, as shown in this section, is strongly supported by the data. Not only were we able to fit the same hypothesized model to the two samples, but we also

showed evidence that all but three structural parameters can be considered equal across the two data sets, while maintaining the fit of the model (see Table 8.40, model EQ38 compared to models M1 and M₂). This is probably the most important hypothesis tested here because it is the first step towards generalization of our findings in the field of distribution channel relationships.

Table 8.37 Goodness-of-Fit indicators for the structural equation models developed to check the possibility of constraining all or all but one parameters across countries

Model (parameters constrained to be equal across Britain and Italy)	df	χ^2	p-value	GFI		RMR	
				GB	IT	GB	IT
EQALL (all parameters)	40	65.41	.007	.952	.959	.146	.191
EQ1 (all parameters but γ_{11})	39	58.61	.023	.955	.964	.123	.152
EQ2 (all parameters but γ_{21})	39	64.88	.006	.952	.959	.148	.188
EQ3 (all parameters but γ_{31})	39	63.47	.008	.953	.960	.132	.170
EQ4 (all parameters but γ_{41})	39	62.31	.010	.954	.962	.139	.179
EQ5 (all parameters but β_{34})	39	60.85	.014	.954	.962	.130	.167
EQ6 (all parameters but β_{41})	39	64.92	.006	.952	.960	.144	.189
EQ7 (all parameters but β_{42})	37	58.23	.024	.957	.964	.136	.177
EQ8 (all parameters but β_{51})	39	59.86	.017	.953	.963	.138	.187
EQ9 (all parameters but β_{52})	39	56.09	.037	.958	.965	.140	.191
EQ10 (all parameters but β_{54})	39	61.46	.012	.953	.962	.140	.186

Table 8.38 Goodness-of-Fit indicators for the structural equation models developed to check the possibility of constraining all but two parameters across countries

Model (parameters constrained to be equal across Britain and Italy)	df	χ^2	p-value	GFI		RMR	
				GB	IT	GB	IT
EQ11 (all parameters constrained to be equal across the two data sets but γ_{11} and γ_{21})	38	57.87	.020	.956	.964	.124	.149
EQ12 (all parameters but γ_{11} and γ_{31})	38	56.90	.025	.957	.965	.109	.129
EQ13 (all parameters but γ_{11} and γ_{41})	38	56.83	.025	.957	.965	.119	.148
EQ14 (all parameters but γ_{11} and β_{34})	38	54.33	.042	.957	.967	.107	.127
EQ15 (all parameters but γ_{11} and β_{41})	38	58.18	.019	.955	.965	.121	.149
EQ16 (all parameters but γ_{11} and β_{42})	38	53.41	.050	.959	.968	.118	.148
EQ17 (all parameters but γ_{11} and β_{41})	38	52.14	.063	.956	.970	.112	.136
EQ18 (all parameters but γ_{11} and β_{32})	38	48.16	.125	.962	.971	.111	.137
EQ19 (all parameters but γ_{11} and β_{34})	38	54.15	.043	.957	.968	.114	.139
EQ20 (all parameters but β_{32} and γ_{11})	38	48.16	.125	.962	.971	.111	.137
EQ21 (all parameters but β_{32} and γ_{21})	38	55.37	.034	.957	.965	.142	.185
EQ22 (all parameters but β_{32} and γ_{31})	38	54.23	.043	.958	.966	.124	.169
EQ23 (all parameters but β_{32} and γ_{41})	38	51.93	.065	.960	.968	.125	.166

to be
continued

Model (parameters constrained to be equal across Britain and Italy)	df	χ^2	p-value	GFI		RMR	
				GB	IT	GB	IT
EQ24 (all parameters but β_{32} and β_{34})	38	51.60	.070	.959	.968	.121	.165
EQ25 (all parameters but β_{32} and β_{41})	38	55.22	.035	.957	.966	.135	.183
EQ26 (all parameters but β_{32} and β_{42})	38	47.16	.147	.964	.971	.118	.160
EQ27 (all parameters but β_{32} and β_{31})	38	55.95	.030	.957	.965	.139	.191
EQ28 (all parameters but β_{32} and β_{34})	38	55.97	.030	.958	.965	.140	.191
EQ29 (all parameters but β_{42} and γ_{11})	38	53.41	.050	.959	.968	.118	.148
EQ30 (all parameters but β_{42} and γ_{21})	38	58.12	.019	.957	.964	.136	.176
EQ31 (all parameters but β_{42} and γ_{31})	38	56.24	.029	.959	.964	.126	.159
EQ32 (all parameters but β_{42} and γ_{41})	38	56.48	.027	.959	.966	.137	.179
EQ33 (all parameters but β_{42} and β_{34})	38	53.85	.046	.960	.966	.126	.158
EQ34 (all parameters but β_{42} and β_{41})	38	55.68	.032	.959	.966	.132	.173
EQ35 (all parameters but β_{42} and β_{32})	38	47.16	.147	.964	.971	.118	.160
EQ36 (all parameters but β_{42} and β_{31})	38	51.74	.068	.959	.969	.120	.160
EQ37 (all parameters but β_{42} and β_{34})	38	53.92	.045	.960	.967	.125	.164
EQ38 (all parameters but β_{42} , β_{32} , and γ_{11})	37	41.57	.279	.966	.976	.097	.118

Table 8.39 Comparison between models for checking equality constraint on all, or all but one, parameters across countries

Models compared	df	$\Delta\chi^2$	p-value
M1-EQALL	12	34.24	< .01
EQALL-EQ1	1	6.8	< .01
EQALL-EQ2	1	.53	> .01
EQALL-EQ3	1	1.94	> .01
EQALL-EQ4	1	3.1	> .01
EQALL-EQ5	1	4.56	> .01
EQALL-EQ6	1	.49	> .01
EQALL-EQ7	1	7.18	< .01
EQALL-EQ8	1	5.55	> .01
EQALL-EQ9	1	9.32	< .01
EQALL-EQ10	1	3.95	> .01
M1-EQ1	11	27.44	< .01
M1-EQ7	11	27.06	< .01
M1-EQ9	11	24.95	< .01

Table 8.40 Comparison between models for checking equality constraint on parameters across countries

Models compared	df	$\Delta\chi^2$	p-value
M1-EQ11	10	26.7	< .01
M1-EQ12	10	25.73	< .01
M1-EQ13	10	25.66	< .01
M1-EQ14	10	23.16	< .025
M1-EQ15	10	27.01	< .01
M1-EQ16	10	22.24	< .025
M1-EQ17	10	20.97	< .025
M1-EQ18	10	16.99	< .1
M1-EQ19	10	22.98	< .025
M1-EQ20	10	16.99	< .1
M1-EQ21	10	24.2	< .01
M1-EQ22	10	23.06	< .025
M1-EQ23	10	20.76	< .025
M1-EQ24	10	20.43	< .05
M1-EQ25	10	24.05	< .01
M1-EQ26	10	15.99	< .1
M1-EQ27	10	24.78	< .01
M1-EQ28	10	24.8	< .01
M1-EQ29	10	22.24	< .025
M1-EQ30	10	26.95	< .01
M1-EQ31	10	25.07	< .01

to be
continued

Models compared	df	$\Delta\chi^2$	p-value
M1-EQ32	10	25.31	< .01
M1-EQ33	10	22.68	< .025
M1-EQ34	10	24.51	< .01
M1-EQ35	10	15.99	< .1
M1-EQ36	10	20.57	< .025
M1-EQ37	10	22.75	< .025
M1-EQ38	9	10.4	> .1
M ₁ -EQ38	15	18.44	> .1

Table 8.41 Estimated values of parameters of EQ38 ⁴

Parameter ⁵	Lisrel Estimate		T-Value of the estimate ⁶		Standardized values ⁷	
	GB	IT	GB	IT	GB	IT
($\lambda_{\gamma_{11}}$)	1.00	1.00			1.36	1.36
($\lambda_{\gamma_{22}}$)	1.00	1.00			1.49	1.49
($\lambda_{\gamma_{33}}$)	1.00	1.00			1.48	1.48
($\lambda_{\gamma_{43}}$)	.78	.78	4.91***	4.91***	1.15	1.15
($\lambda_{\gamma_{44}}$)	1.00	1.00			1.05	1.05
($\lambda_{\gamma_{55}}$)	1.00	1.00			1.12	1.12
($\lambda_{\alpha_{11}}$)	1.00	1.00			1.24	1.24
($\lambda_{\alpha_{21}}$)	.9	.9	16.79***	16.79***	1.12	1.12
(β_{34})	-.29	-.29	-1.97*	-1.97*	-.21	-.21
(β_{41})	.03	.03	.39	.39	.04	.04
β_{42}	.27	.06	2.65**	.74	.39	.09
(β_{51})	.21	.21	2.8**	2.8**	.25	.25
β_{52}	-.1	.22	-1.26	3.06**	-.14	.30
(β_{54})	.49	.49	6.15***	6.15***	.46	.46
γ_{11}	.88	.56	10.49***	5.19***	.80	.51
(γ_{21})	.92	.92	13.07***	13.07***	.77	.77
(γ_{31})	.17	.17	1.34+	1.34+	.14	.14
(γ_{41})	-.78	-.78	-6.18***	-6.18***	-.92	-.92
ψ_{11}	.53	1.49	3.31***	5.83***	.29	.81
ψ_{22}	.64	1.18	3.89***	5.13***	.29	.53
ψ_{33}	1.78	2.15	3.81***	4***	.81	.98
ψ_{44}	.44	.56	5.23***	5.02***	.4	.51
ψ_{55}	.85	1.21	7.61***	8.03***	.68	.96
$\theta_{\epsilon_{11}}$	.87	.79				
$\theta_{\epsilon_{22}}$	.80	.65				
$\theta_{\epsilon_{33}}$	1.39	.78	3.07***	1.56+		
$\theta_{\epsilon_{44}}$	1.16	1.17	4.06***	3.67***		
$\theta_{\epsilon_{55}}$	.22	.21				
$\theta_{\epsilon_{66}}$	.13	.10				
$\theta_{\delta_{11}}$	.29	.94	4.21***	6.52***		
$\theta_{\delta_{22}}$	.63	.81	7.31***	6.71***		

⁴. Equal to M1 but with all parameters but γ_{11} , β_{42} and β_{52} constrained to be equal across the British and Italian data sets.

⁵. Parameters in brackets are constrained to be equal across the two data sets.

⁶. *** $p < .001$; ** $p < .01$; * $p < .05$; + $p < .1$

⁷. Values standardized to a metric common to both samples.

8.1.8. Summary

The hypothesized structural model (M1, Figure 9) holds when tested on two different data sets, one collected from 177 British franchisees, the other from 176 Italian franchisees. Not only the same model, but also the same values of the parameters, hold (with only three deviations) across the two samples (model EQ38, a constrained version of M1, Figure 10). The model EQ38 shows a good fit, and it is not significantly different from the best model obtainable (M_s), given the measures that were developed in this research. This evidence strongly support hypothesis H28: namely, our model of franchise network relationships can be applied across countries.

The one-to-one relationships in this model can be summarized as follows: Hypotheses H5 and H7, replicating the findings of Brown, Lusch, and Muehling (1983), are supported both from correlation analysis and structural equation modelling. Among the hypotheses replicating Schul and Babakus' (1988) research, H9 is supported both from correlation analysis and structural equation modelling; H11 is slightly supported by correlation analysis but not by structural equation modelling (which suggests that the correlation may be spurious); H13 is not supported by structural equation modelling, and was not among the hypotheses testable with correlation analysis.

Other than H28, a number of hypotheses extending the analysis to other variables or relationships were tested. H17, H21, H22, H23, H25, and H27 were supported by structural equation analysis (H25 only partially), of which H22 was also supported by correlation analysis. H18, H19, H20, H24, and H26 - mainly rival hypotheses of the previous ones - were not supported by structural modelling; also, the correlation coefficients supporting H20 were spurious.

8.2. Analysis of data collected from Italian and British franchisees during personal interviews (30 observations in each country)

Sixty franchisees (30 in each country) were personally interviewed by the writer. As reported in Chapter 6, the questionnaire used in this phase of the field research included more variables than those analyzed in section 8.1. In fact it included almost the full range of variables analyzed in the literature review, and presented as the Current Model (Figure 7)¹. In section 8.2., we explore the relationships between model M1 and the variables which were not included in the structural models of section 8.1 (M1 and EQ38, Figures 9 and 10 respectively). Specifically a few hypotheses about one-to-one relationships between variables are tested. In section 8.3. we again use these two small data sets from franchisees to draw a comparison between them and data collected from franchisors.

8.2.1. Variables analyzed

At this stage, the variables we analyse are the same as in section 8.1., with a few additions.

As in section 8.1.:

1. Expert power sources (3 items)
(of the franchisor over the franchisees);
2. Referent power sources (4 items)
(of the franchisor over the franchisees);
3. Participation (3 items)
(of the franchisees in the decision structure of the franchise);
4. Formalization (3 items)
(of the decision structure of the franchise); this variable was discarded because the multi-item measure was not reliable (section 8.1.3.).
5. Dependence (4 items)

¹. In Chapter 7 we showed averages of the mail survey and of the full data set (mail survey plus personal interviews).

- (of the franchisees on the franchisor);
6. Performance trend (1 item)
(of the franchisee);
 7. Actual performance compared to expected performance (1 item)
(of the franchisee);
 8. Conflict frequency (15 items)
(between franchisor and franchisees);
 9. Horizontal information exchange (15 items)
(among franchisees);

Additional variables:

10. Coercive power sources (3 items)
(of the franchisor over the franchisees);
11. Reward power sources (3 items)
(of the franchisor over the franchisees);
12. Legitimate power sources (3 items)
(of the franchisor over the franchisees);
13. Power (16 items)
(control of franchisor over franchisees' decisions);
14. Cooperation (6 items)
(between franchisor and franchisees).

8.2.2. Hypotheses tested at this stage

The hypotheses that are tested here are:

- H1 The extent of the franchisor power is directly determined by the franchisee's perception of his dependence upon the franchisor.
- H2 The economic power sources perceived to be held and utilized by a franchisor will directly determine the franchisee's perception of the extent of the franchisor's power.
- H3 The non-economic power sources perceived to be held and utilized by

a franchisor will directly determine the franchisee's perceptions of the extent of the franchisor's power.

- H4 The economic power sources perceived to be held and utilized by a franchisor will directly determine the franchisee's extent of dependence upon that franchisor.
- H6 The economic power sources perceived to be held and utilized by a franchisor will directly influence the franchisee's perceptions of the extent of conflict.
- H8 The franchisee's perceptions of the franchisor's extent of power directly affects the franchisee's perceptions of the degree of channel conflict.
- H10 The economic power sources perceived to be held and utilized by a franchisor will negatively affect the perception of formalization and participation as elements of the decision structure.
- H12 The indirect effect of the use of economic power sources on intra-channel conflict will be significant while the direct effect will not be significant.
- H14 The economic power sources perceived to be held and utilized by a franchisor will inversely affect the level of perceived intra-channel vertical cooperation.
- H15 The non-economic power sources perceived to be held and utilized by a franchisor will directly affect the level of perceived intra-channel vertical cooperation.
- H16 The levels of participation and formalization of the decision structure directly affects the level of vertical cooperation in the channel, and are intervening variables affected by power sources.

8.2.3. Reliability and Unidimensionality

In order to purify the multi-item measures, we follow the same procedure as used in section 8.1.3., and described in Chapter 6. Here we only report on the reliability (internal consistency) and unidimensionality of the additional variables; namely, coercive, reward, and legitimate power sources, power, and cooperation (Tables 8.42 to 8.46).

In both the British and Italian samples, measures of coercive and reward power sources were unreliable, with Chronbach alphas below our cut-off point of .6 (see Chapter 6 and section 8.1.3.). We know from the literature (Churchill, 1979; Peters, 1979) that alpha is sensitive to sample size, thus we cannot be sure that in a larger sample the value might not be higher; nevertheless, if we look at other measures, such as power and cooperation, we see that even with relatively small sample sizes the alphas of reliable multi-item measures are much higher.

Table 8.42 Legitimate power sources

	30 Italian Franchisees	30 British Franchisees
n. reliable items	3	3
alpha	.73	.68
% of variance accounted for first factor	65.0	61.2
item list		
III5	III5	III5
III8	III8	III8
III19	III19	III19

Legitimate power sources (Table 8.42) produced acceptable alphas (over .60); no items needed to be deleted. The percentages of variance explained by the first and

only significant factor (with an eigenvalue greater than 1), are reported for the purpose of uniformity, although factor analysis is not very appropriate procedure where there are so few items. Anyway it reflects the presence of inter-correlation between items, which supports the idea of unidimensionality.

Table 8.43 Power (16 items)

	30 Italian Franchisees	30 British Franchisees
n. reliable items	9	6
alpha	.85	.75
% of variance accounted for first factor	47	45.1
item list		
II1		II1
II2		
II3		
II4		II4
II5	II5	II5
II6	II6	
II7	II7	II7
II8	II8	
II9	II9	II9
II10	II10	
II11	II11	
II12	II12	
II13		
II14	II14	II14
II15		
II16		

For both country's data sets, the power multi-item measure (Table 8.43) produced very satisfactory results from the reliability analysis (.85 and .75 Italy and Britain respectively), even if a number of items were excluded. In both cases two factors had eigenvalue greater than one, but with one of them clearly prevailing over the other. Given the level of dominance here, we suggest the measure is essentially unidimensional (as argued in Section 8.1.3.). In Tables 8.44 and 8.45, the

eigenvalues and the percentage of variance explained by the factors are shown.

Table 8.44 Italian Franchisees; Power: Factor Analysis

Factors	Eigenvalue	% of variance
F1	4.23	47
F2	1.59	17.7

Table 8.45 British Franchisees; Power: Factor Analysis

Factors	Eigenvalue	% of variance
F1	2.70	45.1
F2	1.03	17.2

There is a big difference between the first and the other factors, in terms of eigenvalue and percentage of variance explained (ie. the first factor dominates). As a further check, we grouped the items in each of the two factors to see if these groups were correlated: in the Italian and British data sets, the correlation coefficients between F1 and F2 were respectively .47 and .46 (both significant at .01 level). Again, these findings confirm the idea that for practical purposes we can consider the measures unidimensional.

Table 8.46 Cooperation (6 items)

	30 Italian Franchisees	30 British Franchisees
n. reliable items	6	4
alpha	.81	.70
% of variance accounted for first factor	52.8	52.7
item list		
VII1B1	VII1B1	
VII1B2	VII1B2	VII1B2
VII1B3	VII1B3	
VII1B4	VII1B4	VII1B4
VII1B5	VII1B5	VII1B5
VII1B6	VII1B6	VII1B6

In both country's data sets, the cooperation measure (Table 8.46) passed the internal consistency test (alphas: .81 and .70), and factor analysis showed a one-factor solution. Thus, the measures are both reliable and unidimensional.

8.2.4. Correlation analysis and hypothesis testing

Here the hypotheses listed in section 8.2.2. are tested with a correlation analysis of the data collected from personal interviews among franchisees (30 in each country).

Table 8.47 30 ITALIAN FRANCHISEES: CORRELATION MATRIX ²

	Coopint	Legit	Power	Partic	Dep	Perf1	Perf2	Confreq	Horzinf	Expert	Refer
Coopint	1.00										
Legit	.34	1.00									
Power			1.00								
Partic	(.25)			1.00							
Dep	.54	.34			1.00						
Perf1					.32	1.00					
Perf2					(.27)	.61	1.00				
Confreq						-.55	-.57	1.00			
Horzinf						-.34	(-.26)	.52	1.00		
Expert						.34	.40	-.57		1.00	
Refer	.27			.38		.49	.36	-.54		.55	1.00

²: values for $p < .05$; in brackets are the values with $.1 < p < .05$; not reported values with $p > .1$.

Table 8.48 30 BRITISH FRANCHISEES: CORRELATION MATRIX ³

	Coopint	Legit	Power	Partic	Dep	Perf1	Perf2	Confreq	Horzinf	Expert	Refer
Coopint	1.00										
Legit	.44	1.00									
Power	(.27)	.41	1.00								
Partic	.55	.64	(.24)	1.00							
Dep	.41	.46	.46	.32	1.00						
Perf1	(.28)	(.28)		.32		1.00					
Perf2	.31	.31				.41	1.00				
Confreq		-.40	(-.29)	(-.30)	-.35			1.00			
Horzinf							-.31		1.00		
Expert	(.24)	.54	.54	.52	.62		(.25)	-.69		1.00	
Refer	.35	.54	.52	.63	.63			-.61		.82	1.00

³. values for $p < .05$; in brackets are the values with $.1 < p < .05$; not reported values with $p > .1$.

Hypotheses H2, H4, H6, H10, H12, H14, are not supported by data in either the Italian or British cases. This is because measures of reward and coercive power sources did not pass the reliability analysis, so it would not be meaningful to calculate the multi-item indices for them. In the distribution channel literature these power sources are very often combined, under the label of economic power sources, and this variable is related to the power-conflict process. The items that have been used in past research (and in our questionnaire administered during personal interviews) refer to possible threats from the franchisor (where, say, the franchisee does not comply with the franchisor's wishes) or rewards (which are related to compliance with the franchisor's requests).

From the 60 interviews the interviewer formed the impression that in business-format franchising, power is mainly used with a non-coercive (non-economic) management style. During the interviews with the franchisors, the interviewer was told things such as "the franchise relationship is a long term one, so we have to be very careful in dealing with the franchisees. Furthermore, we would not threaten to, say, open a new franchised shop close to an existing one, because we do not want to hurt our own profitability and image". Many franchisees expressed a very similar opinion. This is confirmed by the low values of the coercive and reward power sources (section 7.2.1.). Among what are usually regarded as economic power sources, only the items that were supposed to measure legitimate power sources gave an acceptable alpha (0.73). In the Italian data set, this variable is not correlated with any of the variables included in the hypothesized model (see section 8.1.), with the exception of a correlation of .34 with dependence (Table 8.47). On the other hand, in the British data set (Table 8.48), this variable is correlated with some others. The coefficients are all positive with power, participation, dependence, performance, and non-economic power sources, and negative with conflict. What the positive coefficients suggest is that in this data set the possession and use of legitimate power sources creates more power, more dependence (and this is consistent with the power sources theory, as described by French and Raven, 1959, and Emerson, 1962), and more performance. There is also a negative relationship between legitimate power sources and conflict. According to the theory of power-conflict in distribution channels, the

sign should be positive. Perhaps the franchisor is allowed to exercise power because of his knowledge, and not just because of the contract. Legitimation is in fact positively correlated to expert and referent power sources (.54), and may come within the domain of the latent variable of non-economic power sources.

Hypotheses H1, which establishes a relationship between power and dependence (Emerson, 1962), is not supported in the Italian data, but it is supported in the British case (Table 8.48: $r = .46$).

Again, contrasting results from the two countries are seen when we look at hypothesis H3, which deals with the positive influence of power sources (non-economic) on power. The British data would support H3 (Table 8.48, $r = .54$ and $.52$ respectively for expert and referent power sources). Whereas in the Italian data, there is a significant correlation of power only with expert power source (not with referent power source), and the sign is negative. This inconsistent result does not surprise us: Brown, Lusch, and Muehling (1983) were unable to show a positive relationship in their structural model, and the correlation between these variables was very close to 0. Non-coercive power sources are meant to be "soft" ways to exercise power, and therefore they may not be perceived by franchisees. Thus, there is little consistent support for H3.

Hypothesis H8 stated a positive relationship between power and conflict. This is not shown in the data we collected: in the Italian data the correlation is 0, while in the British data a weak, negative correlation is observed. H8 is not supported by the data. Power does not seem to increase the level of perceived conflict with the franchisor.

Hypothesis H15, borrowing from Sibley and Michie (1982), says that the non-economic power sources perceived to be held and utilized by the franchisor would be directly associated with the level of perceived intra-channel vertical cooperation. In both data sets, the correlation coefficient between non-economic power sources and cooperation is significant and positive for one of the two non-economic sources (referent power sources, $r = .27$ and $r = .35$ in the Italian and British data sets,

respectively). Thus, we found some support for hypothesis H15.

H16 states that power sources do not directly affect cooperation, but rather affect cooperation via the intervening variable of decision structure, that is to say decision structure directly affects the level of vertical cooperation in the channel, and is affected by power sources, while power sources and cooperation are not correlated. Direct and indirect effects between these variables cannot be properly tested using correlation alone, and future research may test them with structural modelling. Nevertheless, the three variables are correlated, so there is scope for saying that such an hypothesis deserves testing.

8.2.5. Summary

Franchisees perceptions of economic power sources are inconsistent across the items we used to measure them. This means that hypotheses based on these sources are not supported. H3 and H8 are not supported at all, whereas some support was found for H1 and H15.

From the correlation analysis it appears that an additional dependent variable could be included and linked to non-economic power sources, namely cooperation. The number of items we used to measure cooperation is not very large (6), and we suggest more items be included in the model. Interestingly, we did not find any link between cooperation and conflict. Neither in the Italian nor in the British data sets was the correlation between cooperation and conflict significant (see Table 8.47 and Table 8.48). Researchers and practitioners tend to assume that there is a negative relationship between these two variables, and we show that this is not necessarily the case. Also, the outcome of cooperation should theoretically be a higher performance, but in fact the correlation coefficients between cooperation and the two performance measures are not significant.

8.3. Exploration of perceptual data collected from franchisors, during personal interviews (30 observations in each country)

In previous sections of Chapter 8 (sections 8.1. and 8.2.) we analyzed data collected from franchisees, following the established strand of research including, for example, Stern and Reve (1980), Brown, Lusch and Muehling (1983), and Schul and Babakus (1988). In section 8.3 we break away from the main tradition of channel studies and explore data collected from 60 franchisors (30 in Britain and 30 in Italy)(see Appendix D). We build on the descriptive analysis presented in Chapter 7, where we first compared data from franchisors and franchisees, and investigate whether the same approach can be used on perceptual data from franchisors as well as franchisees. In so doing we check whether the model of channel relationships which we tested in section 8.1. is plausible for the data collected from franchisors. This section must be considered exploratory for at least three reasons:

- a) Previous research has always been performed using data collected from retailers or franchisees, not franchisors;
- b) The sample size of franchisors is small (30 in each of the two countries);
- c) The data collected from franchisors refers to their relationship with all the franchisees of each franchise; whereas the data collected from franchisees refers to the one-to-one relationship between each of them and their franchisor. The risk we run is that the opinions obtained from each franchisor are seen as "bland averages". In our favour, the method of data collection we use (personal interviews) ensures consistency, and the 60 sampled franchisors all belong to the same franchises as the sampled franchisees.

First (section 8.3.3.) we check the reliability of the multi-item measures. Then (section 8.3.4.), for each country data set, a correlation analysis of the variables sheds light on the nature of the channel relationships¹, as perceived by franchisors, and the comparison with the model derived from franchisees' data is drawn. In

¹. Structural equation modelling is not applicable to the model resulting from hypothesized one-to-one relationships between the variables, due to the small sample size. As a rule of thumb, we would need at least 100 observations (Hayduk, 1987). Thus, the model derived from correlation analysis is not estimated, but only supported by one-to-one relationships.

section 8.3.5., following John and Reve (1982), we directly compare franchisees' and franchisors' perceptions using multi-variable multi-method matrices.

8.3.1. Variables analyzed

The variables analyzed are the same as those considered in section 8.2., with the exception of horizontal information exchange, which was not included because franchisors cannot be aware of, or control, the level of information exchange between franchisees.

8.3.2. Hypotheses tested at this stage

Given the absence of previous research and the small sample sizes, the following hypotheses are purely exploratory. Hypothesis H29 is general:

H29 The same model of franchise network relationships can be applied to data collected both from franchisors and from franchisees.

Specifically, we want to understand the extent to which H29 is supported by the available data. In order to do so, we check which of the hypotheses listed in section 5.3. are supported by data from franchisees and from franchisors (section 8.3.4).

In what we call "key-informant" analysis (section 8.3.5.), we followed a procedure developed by John and Reve (1982), in order to test a general hypothesis of consistency between data reported from different channel participants, namely franchisees and franchisors (H30).

H30 There is no relationship between perceptual data reported from different channel participants of each franchise, namely franchisees and franchisors, about power-conflict processes.

8.3.3. Reliability and Unidimensionality

Throughout this research the multi-item measures have been purified using the procedure described in Chapter 6. In this section, we report results about the reliability (internal and external consistency) and unidimensionality of the measures, for each country's data set.

In Tables 8.49 through 8.59 summary results are reported; for each country's data set, we report those items which survived after the measure purification procedure, and compare them both across countries and to the original list of items that was used for the field research.

In both the British and Italian data sets, the expert power source measures did not exhibit any acceptable alpha (the inter-item correlation was about 0). The perception of franchisors is that these items are not consistent with each other. Also coercive and reward power source measures proved to be unreliable (Cronbach's alpha below .6)(see Chapter 6 and section 8.1.3.). We know from the literature (Churchill, 1979; Peters, 1979) that alpha is sensitive to sample size, thus we cannot exclude the possibility that in a larger sample the value might be higher; nevertheless, if we look at measures of other variables in this research, we see that even with relatively small sample sizes alpha can be high.

Table 8.49 Referent power sources (4 items)

	30 Italian Franchisors	30 British Franchisors
n. reliable items	2	2
alpha	.65	.71
% of variance accounted for first factor	74.2	77.2
item list III2 III3 III13 III18	III3 III13	III3 III13

For both country's data sets, the referent power sources measure (Table 8.49) produced acceptable results from the reliability analysis (.65 and .71 in the Italian and British cases); two items have been excluded. The two items that survived the analysis are the same across the two country's data sets. This gives us some evidence of external consistency.

Table 8.50 Participation (3 items)

	30 Italian Franchisors	30 British Franchisors
n. reliable items	0	2
alpha		.66
% of variance accounted for first factor		74.4
item list VI4 VI5 VI6		VI4 VI6

In the British data set, one item describing participation has been deleted, and the remaining two passed the internal consistency test (alpha: .66). On the other hand,

in the Italian sample, the highest possible alpha was .55, which is below the cut-off point of .60. Thus, the participation measure is not considered in the analysis of Italian franchisors.

Table 8.51 Formalization (3 items)

	30 Italian Franchisors	30 British Franchisors
n. reliable items	0	2
alpha		.83
% of variance accounted for first factor		85.2
item list		
VI1		VI1
VI2		
VI3		VI3

As for the participation measure, the multi-item measure of the perceived formalization of the franchise decision structure (Table 8.51), produced different results across the two data sets from the measure purification procedure. In the British data set, the multi-item measure produced an acceptable alpha (.83). On the other hand, the alpha of the measure in the Italian data set (.44) is below the cut-off point that has been chosen for our analysis (.60). The inter-item correlation is so low that even when deleting one item we cannot obtain any reliable measure. For reasons of comparability, the formalization variable is not considered in the analysis of Italian franchisors.

Table 8.52 Dependence (4 items)

	30 Italian Franchisors	30 British Franchisors
n. reliable items	3	3
alpha	.71	.61
% of variance accounted for first factor	63.2	56.5
item list		
III1	III1	III1
III6	III6	III6
III11		
III16	III16	III16

In the analysis of both country's data sets the dependence measure (Table 8.52) produced acceptable reliability results (alpha= .71 and .61 for the Italian and the British data), and one-factor solutions have been obtained in both cases. Three out of four items survived the purification procedure. The resulting multi-item measures are the same across the two country data sets. This also give us some evidence of external consistency.

Table 8.53 Conflict frequency (15 items)

	30 Italian Franchisors	30 British Franchisors
n. reliable items	5	10
alpha	.72	.82
% of variance accounted for first factor	47.3	38.9
item list		
IVB1		
IVB2		
IVB3	IVB3	IVB3
IVB4		
IVB5		
IVB6		IVB6
IVB7		IVB7
IVB8	IVB8	IVB8
IVB9	IVB9	IVB9
IVB10		IVB10
IVB11		IVB11
IVB12		IVB12
IVB13	IVB13	IVB13
IVB14		
IVB15	IVB15	IVB15

The conflict frequency measure produced high alphas, .72 and .82 respectively in the Italian and British data sets (Table 8.53). The purification procedures and the factor analysis are reported separately for the two data sets, because they result in slightly different sets of items.

In the analysis of the Italian data set, two items (IVB2 and IVB5) have been deleted before calculating any reliability score, because more than 1/6 of the respondents had not answered to them. The value of alpha with the remaining 13 items was acceptable (.70), but following the established procedure of refining, we deleted each item that was weakly correlated with the total measure ($r = > .35$) step-by-step. Five items survived this procedure, and factor analysis of the resulting measure showed a one-factor solution.

In the analysis of the British data set, four items (IVB1, IVB2, IVB4 and IVB5) were deleted before calculating any reliability score, because more than 1/6 of the respondents had not answered them. One more item was deleted during the purification procedure, having an item-total correlation smaller than .35.

Factor analysis of the multi-item measure shows three factors with eigenvalues greater than 1. The eigenvalues and the percentage of variance explained by the factors are shown in Table 8.54.

Table 8.54 British Franchisors, Conflict Frequency: Factor Analysis

Factors	Eigenvalue	% of variance
F1	3.89	38.9
F2	1.65	16.5
F3	1.17	11.7

As shown in Table 8.54, there is a big difference between the first and the other factors, in terms of eigenvalue and percentage of variance explained (ie. the first factor dominates). As a further check, we grouped the items in each of the three factors to see if these groups were correlated (Table 8.55). The correlation coefficients are all significant and again confirm the idea that for practical purposes we can consider the conflict measure unidimensional.

Table 8.55 British Franchisees, Conflict Frequency
Correlation matrix of the three initial factors

	F1	F2	F3
F1	1.00		
F2	.39	1.00	
F3	.30	.45	1.00

Table 8.56 Legitimate power sources (3 items)

	30 Italian Franchisors	30 British Franchisors
n. reliable items	3	0
alpha	.78	
% of variance accounted for first factor	69.5	
item list		
III5	III5	
III8	III8	
III19	III19	

In the Italian data set, the legitimate power sources measure (Table 8.56) produced acceptable alpha (over .60); no items needed to be deleted. The percentage of variance explained by the first and only factor has an eigenvalue greater than 1, and is reported for the sake of uniformity, even if this is not a very appropriate procedure where there are so few items. Anyway it reflects the presence of inter-correlation between items, which supports the idea of unidimensionality. On the other hand, in the British sample the measure is unreliable.

Table 8.57

Power (16 items)

	30 Italian Franchisors	30 British Franchisors
n. reliable items	5	7
alpha	.69	.81
% of variance accounted for first factor	45.2	47.8
item list		
II1		
II2		
II3		
II4	II4	II4
II5	II5	II5
II6		
II7	II7	
II8		II8
II9		II9
II10	II10	
II11		
II12		II12
II13		
II14		II14
II15		
II16	II16	

For both country's data sets, the power measure (Table 8.57) produced acceptable results from the reliability analysis (.69 and .81 in the Italian and British cases), even if a number of items were excluded. Factor analysis showed in both cases that the measure can be considered unidimensional. In the British data set, a one-factor solution was obtained. In the Italian data set two factors had eigenvalues greater than one, with one of them clearly prevailing over the other. The same comments as those in section 8.1.3. can be made to support the idea of unidimensionality.

Table 8.58

Italian Franchisors; Power: Factor Analysis

Factors	Eigenvalue	% of variance
F1	2.25	45.2
F2	1.07	21.5

The difference between the first and second factors (Table 8.58), in terms of eigenvalue and percentage of variance explained, is quite large (again we can state the dominance of the first factor) As a further check, we grouped the items in each of the two factors to see if these groups were correlated. The correlation coefficient between F1 and F2 is .65 (significant at .01 level). This finding confirms that for practical purposes we can consider the measure unidimensional.

Table 8.59 Cooperation (6 items)

	30 Italian Franchisors	30 British Franchisors
n. reliable items	4	4
alpha	.70	.73
% of variance accounted for first factor	53.3	55.4
item list		
VII1B1	VII1B1	
VII1B2	VII1B2	VII1B2
VII1B3	VII1B3	
VII1B4		VII1B4
VII1B5		VII1B5
VII1B6	VII1B6	VII1B6

In both country's data sets, the cooperation multi-item measure (Table 8.59) passed the internal consistency test (alphas: .70 and .73), and factor analysis showed a one-factor solution. Thus, the resulting measures are both reliable and unidimensional.

In summary, the two country's data sets are different with respect to the reliability

of a few measures, such as participation, formalization, and legitimate power sources; they are similar with respect to the others, such as the non-reliable expert, reward, and coercive power source measures, and the remaining, reliable measures. This suggests that the perceptual measures are much more unstable than those from franchisees, and this is an additional reason for interpreting the franchisors' data with caution.

8.3.4. Correlation analysis and hypothesis testing¹

Broadly speaking, the correlation coefficients between the variables are low (see Tables 8.60 and 8.61), showing weak relationships between them. Throughout the analysis, it is clear that the coefficients are always smaller than the corresponding coefficients in the data from franchisees. For example, the correlation coefficients between conflict frequency and referent power sources in the Italian franchisees' and franchisors' data sets are respectively $-.50$ and $-.21$ (see Tables 8.17 and 8.60); in the British franchisees' and franchisors' data sets they are respectively $-.52$ and $-.16$ (see Tables 8.18 and 8.61).

Two methodological and one substantive explanations can be given. The first refers to the fact that we collected data from franchisors regarding their relationship with all (and not just one) of their franchisees, which may partly hide (or "average out") the relationships. Secondly, franchisors are more likely to be influenced by corporate culture in reporting relationship data, which means that they may seek to give a positive image of their company and "dilute" data about conflict. A third explanation refers to the possibility that the mental model of franchisors is genuinely different from the franchisees'.

However, some inferences can still be drawn by observing the correlation coefficients and their signs, and also by looking at the consistency of the size and sign of coefficients across the two data sets. We refer to the core of channel relationship theory, which includes power sources, conflict, and their possible outcomes, such as performance. Power sources theory and its use in channel relationship studies (French and Raven, 1959; Brown, Lusch, and Muehling, 1983) is at the centre of the analysis of the link between power sources (divided into the two groups of economic and non-economic sources) and conflict. In data from franchisees and franchisors the multi-item measures of reward and coercive power sources (the two most typical categories

¹. In the Italian data, the expert power source and the participation scales were discarded because they were unreliable; in the British data, the legitimate and expert power sources were discarded because they were unreliable. Thus in the correlation matrices (Tables 8.61 and 8.62) no values are presented for them.

of economic power sources) failed to pass reliability tests, and were not considered in the model of channel relationships. The fact that these measures are generally unreliable suggests that coercive and reward power sources are not being consistently used in channel relationships. Legitimation is traditionally regarded as a source of economic power, but data from franchisees suggests it should be included in the non-economic sources group (section 8.2.). In the data from franchisors, as well as from franchisees, the sign of the correlation coefficients between legitimate and non-economic power sources (specifically referent sources) is positive (if small), which would support the idea that legitimation in franchise channels should be included in the non-economic group of power sources. In the data set collected from franchisors (specifically, in the Italian data set), there is no relationship between legitimate power sources and conflict. It is very likely that franchisors believe they hold legitimation power, whatever conflict goes on in the channel, and do not admit that this may not be recognized by franchisees.

In the data from franchisors, there is some relationship between non-economic power sources and conflict (not strong) (Tables 8.60 Table 8.61), and the negative signs of the coefficients support the rationale of the established findings obtained in analysing data from franchisees (sections 8.1 and 8.2) as well as in previous literature (see, for example, Brown, Lusch, and Muehling, 1983). Even if the values of the coefficients are small, this finding is suggested by the consistency of the result across the two samples (the correlation coefficient between referent power source and conflict is $r = -.21$ in the Italian sample and $r = -.16$ in the British sample). Although the coefficients shown in Tables 8.60 and 8.61 may not be very meaningful when considered independently, the accumulation of consistent results across different data sets, and across different informants of the franchise relationship, support the idea that the use of non-economic power sources is very likely to decrease the level of conflict, as perceived by both franchisees and franchisors.

In the British sample of franchisors, non-economic power sources (notably, referent power sources) are positively related to dependence and participation (Table 8.61: $r = .48$ and $.45$, respectively), almost the same way as in the British sample of

franchisees (Table 8.18: $r = .55$ and $.63$). On the other hand, in the Italian sample of franchisors, the relationship is weaker than in the British sample (Table 8.60: $r = .21$ for the relationship between referent power sources and dependence²) than in the British sample of franchisors, and again weaker than in the Italian sample of franchisees (Table 8.17: $r = .48$).

The relationship between referent power sources and cooperation is positive in all the samples, Italian as well as British, franchisees as well as franchisors. These results are largely consistent with each other, even if there are minor discrepancies. The coefficients are much greater in the British samples than in the Italian. In the Italian samples the correlation is stronger for franchisees than for franchisors (respectively, in Table 8.47, $r = .27$ and in Table 8.60, $r = .17$), while in the British samples the correlation is stronger for franchisors than franchisees (respectively, in Table 8.61, $r = .61$ and in Table 8.48, $r = .35$).

Consistent with results obtained in analysing data from franchisees is the discrepancy between the Italian and British samples of franchisors regarding the link between power sources and performance. Among the Italian franchisors, as for the Italian franchisees, there is a positive relationship between referent power source and performance (for the sample of franchisors, see Table 8.60: $r = .27$ and $.42$ for the two measures of performance; for the sample of franchisees, see Table 8.17: $r = .24$ and $.21$). On the other hand, the coefficients in the British samples are inconsistent and very close to 0 (see Table 8.61 and Table 8.18).

In both samples of franchisors, no relationship is suggested by the correlation coefficients between conflict frequency, and participation or dependence (see Table 8.60 and Table 8.61). These results differ from those of the franchisees (Table 8.17 and Table 8.18), where the coefficients were positive.

In both the samples of franchisors, as well as in all the samples of franchisees, no

². Participation multi-item measure did not pass the reliability test.

relationship appears to exist between conflict frequency and cooperation, the correlation coefficient being practically zero.

In our model, participation and cooperation are both causal consequences of the possession and use of non-economic power sources (positive relationship). Thus, we expect some kind of positive (even if spurious) relationship between participation and cooperation; this is verified in all the samples we collected. In the British sample of franchisors the correlation coefficient is .62, while in the British sample of franchisees it is .55. In the Italian sample of franchisees the coefficient is .25, while in the Italian sample of franchisors participation did not pass the reliability test. Overall, these findings add some proof of a relationship between power sources and their causal consequences.

Previous researchers (see for example Brown, Lusch and Muehling, 1983) showed a relationship between power, dependence and conflict. Power and dependence would be positively related (as causal antecedents) to conflict. An implicit assumption of distribution channel researchers is that conflict and cooperation are negatively related; according to this reasoning we might hypothesize that cooperation occurs when there is little dependence and little power. But our data show something different: we cannot trust results (inconsistent across data sets and so close to 0) about the variable power, because during personal interviews it became clear that what we were measuring was a "structural" issue more than a behavioral one. Dependence and cooperation are related, but with a positive sign for the coefficients. In both the British and Italian samples of franchisors the coefficient is .41 (Table 8.60 and Table 8.61). The results are not consistent in the samples of franchisees: in the Italian sample (Table 8.47) it is .54, while in the British it is 0 (Table 8.48).

In the samples of franchisees we found a peculiar difference between Italian and British franchisees in terms of the relationship between the variables conflict and performance: in the Italian sample there is a negative relationship between the conflict and the two measure of performance, while in the British sample the correlation coefficients are 0. In both Italian and British samples of franchisors the relationship

occurs, even if in the Italian sample the relationship seems to be stronger: the coefficients between conflict and the two measures of performance in the Italian sample are $-.34$ and $-.17$, while in the British sample they are $-.18$ and $-.17$. The coefficients are not large, but the fact that the same results occur consistently across different data sets and for two different measures may give added weight to this evidence.

The results of this correlation analysis are to be considered tentative, due to the small sample size. Nevertheless, we can try to summarize which parts of the model seem to hold for franchisors.

The relationship between non-economic power sources and conflict seems to be robust and strong enough to be confirmed from the samples of franchisors as well as franchisees. Legitimate power sources should be included in the non-economic side of power sources. Non-economic power sources are causal antecedents of participation and dependence. Conflict is very likely to decrease franchisees' performance. We do not have any evidence to support an association between conflict and cooperation. Finally, the more dependent franchisees are on the franchisor, the more there is cooperation.

Table 8.60 30 ITALIAN FRANCHISORS: CORRELATION MATRIX ³

	Legit	Expert	Refer	Power	Dep	Partic	Confreq	Coopint	Perf1	Perf2
Legit	1.00									
Expert		1.00								
Refer	.21		1.00							
Power	.12		.17	1.00						
Dep	.27		.21	.28	1.00					
Partic						1.00				
Confreq	-.01		-.21	.08	-.02		1.00			
Coopint	-.01		.17	.03	.41*		.05	1.00		
Perf1	-.12		.27	.21	.25		-.34*	.02	1.00	
Perf2	.07		.42*	.22	.27		-.17	.05	.71*	1.00

³. Values are shown even if p is not < .05. This is because we are dealing with an exploratory analysis here, and we want to get as many suggestions as possible from the available data (for example, about the sign of the associations).

* stands for coefficient with $p < .05$.

Table 8.61 30 BRITISH FRANCHISORS: CORRELATION MATRIX ⁴

	Legit	Expert	Refer	Power	Dep	Partic	Confreq	Coopint	Perfl	Perf2
Legit	1.00									
Expert		1.00								
Refer			1.00							
Power				1.00						
Dep					1.00					
Partic						1.00				
Confreq							1.00			
Coopint								1.00		
Perfl									1.00	
Perf2										1.00

⁴ Values are shown even if p is not < .05. This is because we are dealing with an exploratory analysis here, and we want to get as many suggestions as possible from the available data (for example, about the sign of the associations).

* stands for coefficient with p < .05.

8.3.5. Consistency of perceived dimensions of channel relationships across different key informants of the same franchise

The fact that different channel participants have different perceptions has been seen a key informant problem (John and Reve, 1982). The aggregation of attitudinal data from dyadic and group interactions has been described as extremely difficult. John and Reve (1982), analyzed a sample of 99 wholesaler-retailer dyads. In each wholesaler organization two informants were asked to answer the questionnaire (one of the two was obtained for a smaller sample), in the smaller retailer organizations only one informant was regarded as knowledgeable enough. The measures they used referred to structural form and collective sentiments (behavior) within the dyadic interaction. They tested for variable validity, using three dimensions: internal consistency, convergent validity and discriminant validity. They found that all measures were internally consistent and the measures of the structural form had convergent and discriminant validity, but the variable measuring sentiments failed to show adequate validity. They proposed alternative explanations for the behavioral variables which failed to show convergent and discriminant validity. One possibility they considered was that the items used for each variable did not tap the conceptual domains adequately. Another possibility they proposed was that the informants were not capable of making the complex social judgments required to estimate these attitudinal variables at the aggregate organizational level. But in the limited sample where two informants from the same side of the dyad were available, the intra-firm inter-informant reliability of the items was generally satisfactory. They concluded by saying that they believed the major problem was in "real" differences in perception between the informants across the dyad in relation to these variables. Thus, the reason for the lack of convergence might be a conceptual one rather than any problem associated with the key informant technique per se. It was reasonable, they said (following previous researchers), to expect differences in perceptions among the actors, because of their different roles in the channel system.

In our research, hypothesis H30 states that there is no relationship between perceptual data reported from different channel participants of each franchise, namely franchisees

and franchisors, about the power-conflict process. In Tables 8.62 and 8.63 multi-variable multi-method matrices are shown ⁵. The variables of these matrices are those analyzed in the model developed in Chapter 5 and tested in section 8.1. The "methods" are the two measures, one from franchisees (represented in the tables with "fe" for franchisees) and the other from franchisors ("fo"). For example, for the variable of dependence, the two "methods" are *fedep* (dependence according to the perception of franchisees) and *fodep* (dependence according to the perceptions of franchisors). We are in the fortunate position of having one data point (personal interview) with a franchisee and a franchisor of each of the 60 franchises (30 in Italy and 30 in Britain). Thus, we were able to compute correlation coefficients between the two "methods" across each franchise.

The results of this analysis confirm John and Reve's (1982) conclusions: perceptions of participants in organizations at different levels of the channel do not converge. In the British data sets (Table 8.63) all 10 correlation coefficients between the two methods for each variable (in the box with thick lines) are not significant. In the Italian data sets (Table 8.62) all but two of the 10 correlation coefficients between the two methods for each variable (in the box with thick lines) are not significant. The two that are significant (.34 for cooperation and .56 for one measure of performance) are inconsistent with results from the British sample. Moreover, the coefficient of one measure of performance is inconsistent with the coefficient for the other measure of performance. Thus, H30 is not rejected.

Franchise participants operate at different levels of the channel and have different perceptions of their relationship with other channel members⁶. Hence, we can say that the relationship is a powerful unit of analysis, because it allows analysis of aspects of the distribution channel systems that would not be captured when analysing single members. Marketing researchers should try to investigate the perceptions of

⁵. * stands for $p < .05$; blank cells stand for multi-item measures which did not pass reliability tests.

⁶. This was also suggested by the means in section 7.2.1., where we showed that franchisors rated higher values to the power sources.

both participants, because neither of the two participants can be regarded as a key informant for the whole relationship⁷.

⁷. In the following two Tables (8.62 and 8.63). * stands for coefficient with $p < .05$

Table 8.62 ITALIAN FRANCHISEES AND FRANCHISORS - MULTI-VARIABLE MULTI-METHOD MATRIX FOR KEY INFORMANT ANALYSIS

Variable	Cooperation		Legitimate power source		Power		Participation		Dependence		Perf1		Perf2		Conflict frequency		Expert power sources		Referent power sources		
	fecoop	focoop	felegit	folegit	fepower	fopower	fepartic	fopartic	fedep	fodep	fePerf1	foPerf1	fePerf2	foPerf2	feconfr	foconfr	feexpert	foexpert	ferrefer	forefer	
fecoop	1.00																				
focoop	.34*	1.00																			
felegit	.34*	.00	1.00																		
folegit	-.04	-.01	.04	1.00																	
fepower	.04	-.27	.22	.12	1.00																
fopower	-.05	.03	.00	.13	.20	1.00															
fepartic	.25	-.06	-.16	-.33*	-.12	-.33*	1.00														
fopartic							1.00														
fedep	.54*	.05	.34*	.10	.16	.14	-.02		1.00												
fodep	.29	.41*	-.07	.27	.15	.28	.13		.25	1.00											
fePerf1	.12	-.02	.03	.15	-.09	.22	.21		.33*	.25	1.00										
foPerf1	.18	.02	.08	-.12	-.05	.21	.17		.44*	.25	.56*	1.00									
fePerf2	.10	-.16	-.12	.28	.11	.01	.38*		.27	.25	.61*	.33*	1.00								
foPerf2	.16	.05	.16	.07	.10	.22	.20		.30	.27	.31*	.71*	.07	1.00							
fekonfr	-.15	-.21	.14	.01	.11	.22	-.36*		-.20	-.24	-.54*	-.48*	-.57*	-.28	1.00						
foconfr	-.14	.05	.12	-.01	-.29	.08	-.05		-.30	-.02	-.12	-.34*	-.17	-.17	.23	1.00					
feexpert	.15	.14	.02	.01	-.35*	-.24	.23		.30	.13	.34*	.24	.40*	.09	-.57*	-.05	1.00				
foexpert																	1.00				
ferrefer	.27	.11	.19	-.09	-.03	-.12	.38*		.20	.31*	.49*	.46*	.36*	-.52*	-.54*	-.04	.55*			1.00	
forefer	.25	.17	.35*	.21	.04	.17	.15		.29	.20	.03	.27	.09	.42*	.12	-.21	.09			.17	1.00

Table 8.63 BRITISH FRANCHISEES AND FRANCHISORS - MULTI-VARIABLE MULTI-METHOD MATRIX FOR KEY INFORMANT ANALYSIS

Variable	Cooperation		Legitimate power source		Power		Participation		Dependence		Perf1		Perf2		Conflict frequency		Expert power sources		Referent power sources		
	fecoop	focoop	felegit	folegit	fepower	fopower	fepartic	foartic	fedep	fodep	fePerf ₁	foPerf ₁	fePerf ₂	foPerf ₂	fecomfr	focomfr	feexpert	foexpert	ferrefer	forefer	
fecoop	1.00																				
focoop	-.15	1.00																			
felegit	.44*	-.19	1.00																		
folegit				1.00																	
fepower	.27	-.05	.41*		1.00																
fopower	.21	-.14	-.21		.14	1.00															
fepartic	.55*	.01	.64*		.24	-.10	1.00														
foartic	-.07	.62*	-.25		-.22	.04	.08	1.00													
fedep	.13	-.13	.41*		.46*	-.12	.32*	-.07	1.00												
fodep	-.09	.41*	-.07		.16	-.26	-.17	.18	.22	1.00											
fePerf1	.10	-.37*	.28		-.14	-.12	.32*	-.23	.16	-.18	1.00										
foPerf1	-.38*	.09	-.03		.31*	.01	-.07	-.18	.43*	.18	-.14	1.00									
fePerf2	-.17	-.20	.32*		-.11	-.25	.22	.06	.22	-.38*	.41*	-.02	1.00								
foPerf2	-.55*	.08	-.24		-.04	.20	-.37*	-.08	-.13	-.24	-.23	.57*	-.03	1.00							
fecomfr	-.24	-.09	-.40*		-.29	.11	-.30	.05	-.35*	.02	.07	.02	-.21	.23	1.00						
focomfr	-.18	-.10	-.14		-.10	.34*	-.24	.09	.00	-.02	-.01	-.18	.16	-.17	.23	1.00					
feexpert	.24	-.20	.54*		.54*	.03	.52*	-.12	.62*	-.10	.11	.23	.25	-.13	-.69*	1.00					
foexpert																1.00					
ferrefer	.35*	-.12	.54*		.51*	-.18	.62*	-.10	.63*	.09	.21	.13	.17	-.31*	-.61*	.82*				1.00	
forefer	.31*	.61*	.12		.02	-.14	.24	-.45*	.16	.48*	-.23	-.07	-.34*	-.21	-.05	.02				.22	1.00

8.3.6. Summary

In section 8.3. two issues were investigated: (i) Can the same model of channel relationships be applied to data collected from franchisors as well as franchisees ? (ii) Are the perceptions of franchisees and franchisors in the same franchise consistent, to the extent that either of them could be selected as a key informant ?

(i) An exploratory analysis on a sample of 60 franchises showed that part of the model holds when applied to data collected from franchisors. In particular, the relationship between power sources and conflict seems to have been replicated in enough different contexts to be established as a core finding. Thus, H29 ("the same model of franchise network relationships can be applied to data collected both from franchisors and from franchisees") is partly supported by our analysis of the core of power source theory, but not for the rest of our model.

(ii) In many respects the perceptions of franchisees and franchisors do not converge, so H30 ("there is no relationship between perceptual data reported from different channel participants of each franchise, namely franchisees and franchisors, about power-conflict process") is not rejected. This means that franchise relationships should be investigated by keeping separate the analysis of franchisees and franchisors, and by making the commonalities and differences very explicit.

8.4. Summary results regarding all hypotheses tested in this research

The hypotheses testing section of this research (Chapter 8), builds on previous research in distribution channel studies. In particular, partial replication of Brown, Lusch, and Muehling (1983) and Schul and Babakus (1988) is performed. A few hypotheses borrow from Sibley and Michie (1982) and Lusch (1976), while others refer to new variables (such as horizontal information exchange), or to new contexts in which hypotheses are tested (i.e. (a): cross-country comparison between Italian and British franchises; (b): comparison between the perceptions of franchisees and franchisors). Not all the hypotheses are equally important: hypotheses concerning the overall models (Figures 8, 9, and 10), their generalizability, and the methodological issues are "first order" hypotheses. On the other hand, hypotheses concerning one-to-one relationships between variables are "second order".

Here we summarize the hypothesis-testing section of this research. For all the hypotheses, methods of testing, estimated parameters or correlation coefficients, and/or goodness of fit indicators are reported. The reader will find that in parts of this section we repeat almost the same things as we said in each of the hypotheses testing sections, in a different sequence. The purpose of this section is to give the reader a report of hypothesis testing that is symmetrical to the original presentation of Chapter 5 (section 5.3.). The list in Chapter 5 sorted hypotheses according to their "distance" from previous research (from replication to extension), whereas during sections 8.1., 8.2., and 8.3. hypotheses were tested across different sub-samples (eg. franchisees, franchisors, personal interviews, mail survey).

Thus, this section aims to reconcile our analysis with the initial literature review and model development phase.

Hypotheses H1 through H8 are from Brown, Lusch and Muehling's (1983) research:

H1 The extent of the franchisor power is directly determined by the franchisee's perception of his dependence upon the franchisor.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2.). It is not supported in the Italian case, but is in the British case (Table 8.48: $r=.46$).

H2 The economic power sources perceived to be held and utilized by a franchisor will directly determine the franchisee's perception of the extent of the franchisor's power.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2). Reward and coercive power source multi-item measures did not pass the reliability analysis, so it would not be meaningful to calculate the multi-item index for them. Thus, it is not possible to directly test hypotheses concerning economic power sources through correlation analysis or structural equation modelling. Nevertheless, inferences can be made from the low average values that coercive and reward power sources showed (see Chapter 7), and from the fact that in the past many of the items used to measure them have failed to pass a reliability test (Brown, Lusch and Muehling, 1983). This hypothesis is not supported by data in either the Italian and British cases.

H3 The non-economic power sources perceived to be held and utilized by a franchisor will directly determine the franchisee's perceptions of the extent of the franchisor's power.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2). Hypothesis H3 gives contrasting results in the British and Italian data sets. The British data support H3 (Table 8.48, $r=.54$ and $.52$ respectively for expert and referent power sources). On the other hand, in the Italian data, there is only a significant correlation between power and expert power source (not with referent power source), and the sign is negative. Thus, H3 is not consistently supported by the data.

H4 The economic power sources perceived to be held and utilized by a franchisor will directly determine the franchisee's extent of dependence upon that franchisor.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2). The same comments made about hypothesis H2 also apply here, and therefore this hypothesis is not supported in either the Italian or British data sets.

H5 The non-economic power sources perceived to be held and utilized by the franchisor will directly determine the franchisee's extent of dependence upon that franchisor.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1); it is not rejected because the parameter linking the two variables under investigation, γ_{21} , is very significant (t-value=12.96), and the sign of the parameter is positive. The strength of the parameter is equal in the two data sets; and it is so large (.91) that further research should try to investigate the ability of the respondent to practically discriminate between the two concepts, which are theoretically different.

H6 The economic power sources perceived to be held and utilized by a franchisor will directly influence the franchisee's perceptions of the extent of conflict.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2). The same comments made about hypothesis H2, also apply here, and therefore this hypothesis is not supported in either the Italian or British data sets.

H7 The non-economic power sources perceived to be held and utilized by the franchisor will inversely affect the extent of conflict perceived by the franchisee.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1); it is not rejected because the parameter linking the two variables under investigation, γ_{41} , is very significant (t-value=-6.29), and the sign of the parameter is negative, as hypothesized. The impact

of non-economic power sources on conflict is very strong ($\gamma_{41} = -.80$), and equal in the two data sets.

H8 The franchisee's perceptions of the franchisor's extent of power directly affects the franchisee's perceptions of the degree of channel conflict.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2). No positive relationship between power and conflict is shown in the data we collected: in the Italian case the correlation is 0, whereas in the British case a weak correlation coefficient has a negative sign. Thus, H8 is not supported by the data.

Hypotheses H9 through H13, reformulated for this research design, are from Schul and Babakus's (1988) research:

H9 The non-economic power sources perceived to be held and utilized by a franchisor will positively affect the perception of formalization and participation as elements of the decision structure.

This hypothesis (relating to the only measure of participation) was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1); it is not rejected because the parameter concerning the link between the two variables under investigation ¹, γ_{11} , is very significant in both samples (t-value=10.76 in the British and 5.17 in the Italian data sets), even if with different strength (.93 in the British and .52 in the Italian data sets).

The sign of the parameter is the one hypothesized.

H10 The economic power sources perceived to be held and utilized by a franchisor will negatively affect the perception of formalization and participation as elements of the decision structure.

¹. In the structural equation modelling section the decision structure construct was only measured by participation because the multi-item measure of formalization did not pass the reliability test.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2). The same comments made about hypothesis H2 also apply here, suggesting that this hypothesis is not supported in either the Italian or British data sets.

H11 Channel members' perceptions of increased formalization and participation in the channel organization will have a negative impact on the level of intra-channel conflict

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1); it is rejected because the parameter β_{41} is equally insignificant in both countries ($\beta_{41}=.07$, $t\text{-value}=1.02$, $p>.1$).

H12 The indirect effect of the use of economic power sources on intra-channel conflict will be significant while the direct effect will not be significant.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2). The same comments made about hypothesis H2 also apply here, suggesting that this hypothesis be not supported in either the Italian and British data sets.

H13 The indirect effect of the use of non-economic power sources on intra-channel conflict will be significant while the direct effect will not be significant.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1); it is rejected because non-economic power sources affect both directly and indirectly intra-channel conflict. The parameter which represents the direct influence, $\gamma_{41}=-.80$, is equally strong and significant across the two data sets ($t\text{-value}=-6.29$). Two parameters represent the indirect influence of non-economic power sources on conflict, β_{41} (equal to .07 in both data sets, $t\text{-value}=1.02$, not significant) and β_{42} (equal to .16 in both data sets, $t\text{-value}=1.89$, significant at .05 level): some indirect influence of non-economic

power sources on conflict is given by the dependence variable (β_{42}).

H14 The economic power sources perceived to be held and utilized by a franchisor will inversely affect the level of perceived intra-channel vertical cooperation.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2). The same comments made about hypothesis H2 also apply here, suggesting that this hypothesis is not supported in either the Italian or British data sets.

H15 The non-economic power sources perceived to be held and utilized by a franchisor will directly affect the level of perceived intra-channel vertical cooperation.

This hypothesis was tested with correlation analysis on two country samples which together account for 60 franchisees (section 8.2). In the Italian data set, the correlation coefficient between non-economic power sources and cooperation is significant and positive in one of the two cases (with referent power source, $r=.27$). In the British data set, one of the coefficients is significant at $p > .05$ (with referent power source, $r=.35$) and one at $p > .1$ (with expert power source, $r=.24$). All that we can say is that there is some support for hypothesis H15.

H16 The levels of participation and formalization of the decision structure directly affect the level of vertical cooperation in the channel, and are intervening variables affected by power sources.

This hypothesis has been discussed in section 8.2., in the context of a correlation analysis on two country samples, which together account for 60 franchisees. Direct and indirect effects between these variables cannot be properly tested in a correlation analysis context, but in future research they might be tested with structural modelling. Nevertheless, the three variables included in this hypothesis are correlated, so there is scope for saying that such an hypothesis deserves to be tested.

H17 The level of performance is an inverse determinant of vertical conflict.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1). It is not rejected, because the parameter β_{34} could be constrained to be equal across countries and obtained a significant value ($\beta_{34} = -.27$, $t\text{-value} = -1.81$, significant at .05 level), with a negative sign of the parameter, as hypothesized. This evidence should be considered with caution with regard to Britain; if the parameter is estimated independently for this sample it is not significant (see model M1). Thus, further research may be needed to check the stability of this estimate across countries.

H18 The level of conflict is an inverse determinant of performance.

This hypothesis was tested with Lisrel model M1, on two country samples which together include 353 franchisees (section 8.1). It was rejected by the analysis of the relationships between the two variables (see section 8.1.7.2.). A double-causation model showed that the direction of causality is the one hypothesized in H17 and not in the rival hypothesis H18.

H19 The level of performance is an inverse determinant of conflict and the level of conflict is an inverse determinant of performance.

This hypothesis was tested with Lisrel model M1, on two country samples which together include 353 franchisees (section 8.1). As for H18, this hypothesis was rejected by the analysis of the relationships between the two variables (see section 8.1.7.2.). A double-causation model showed that the direction of causality is one-way, that hypothesized in H17, and not inverse or two-way, as in the rival hypotheses H18 and H19.

H20 Non-economic power sources are a direct and positive determinant of franchisees' performance.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1). It is rejected, because the parameter γ_{31} is equally insignificant in both samples ($\gamma_{31} = .19$, $t\text{-value} = 1.53$).

H21 Horizontal interaction is an intervening variable in the franchise network relationship model.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1). We hypothesized three possible relationships between horizontal information exchange and, in turn, conflict, decision structure, and dependence. For the first two relationships, we obtained parameters equal and significant across the two samples (see evidence about hypotheses H22, H23, and H27). For the third relationship, the parameter in the Italian sample is significant, whereas in the British sample it is not (see evidence about H25). This evidence shows that horizontal interaction plays a role in the model of franchise relationships, and hypothesis H21 is not rejected.

H22 Horizontal interaction is positively associated with vertical conflict.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1). The sign of the parameter β_{54} is positive, in both data sets (see evidence about H23), and therefore H22 is not rejected.

H23 Vertical conflict is a positive determinant of horizontal interaction.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples, which together include 353 franchisees (section 8.1). It is not rejected; the parameter β_{54} is equal and significant across the two data sets ($\beta_{54}=.48$, t -value=6.15).

H24 Horizontal interaction is a positive determinant of vertical conflict.

This hypothesis was tested with Lisrel model M1, on two country samples which together include 353 franchisees (section 8.1). This hypothesis was rejected by the analysis of the relationships between the two variables (see section 8.1.7.3.). A double-causation model showed that the direction of causality is the one hypothesized in H23 and not in the rival hypothesis H24.

H25 Dependence is a positive determinant of information exchange between

franchisees.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1). Evidence concerning this hypothesis is not consistent across the two data sets. In the British case, the parameter is insignificant ($\beta_{52} = -.09$, $t\text{-value} = -1.08$), whereas in the Italian case it is significant ($\beta_{52} = .21$, $t\text{-value} = 3.02$) and the sign is the one hypothesized. β_{52} is one of only two parameters that could not be constrained to be equal across the two data sets, without affecting the fit of the model.

H26 Horizontal interaction is a negative determinant of franchisees' dependence upon the franchisor.

This hypothesis was tested with Lisrel model M1, on two country samples which together include 353 franchisees (section 8.1). This hypothesis was rejected by the analysis of the relationships between the two variables (see section 8.1.7.4.). A double-causation model showed that the direction of causality is the one hypothesized in H25 and not in the rival hypothesis H26.

H27 The level of participation and formalization of the decision structure is a direct determinant of horizontal interaction.

This hypothesis (relating to the only measure of participation) was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1). It is not rejected, because the parameter β_{51} is equal and significant in both data sets ($\beta_{51} = .20$, $t\text{-value} = 2.73$).

H28 The franchise network relationships model can be applied across countries.

This hypothesis was tested with Lisrel models M1 and EQ38, on two country samples which together include 353 franchisees (section 8.1). It is strongly supported by the data. Not only were we able to fit the same hypothesized model in the two samples, but we also showed evidence that all the same structural parameters (with the exception of two) can be considered equal across the two data sets, without affecting the fit of the model (see Table 8.40, model EQ38 compared to models M1 and M_2).

This is probably the most important hypothesis tested in this research, because it is the first step in generalizing the results.

H29 The same model of franchise network relationships can be applied to data collected both from franchisors and from franchisees.

An exploratory analysis on a sample of 60 franchises (60 franchisors and 60 franchisees; section 8.3.) showed that part of our franchise relationship model (M1) holds when applied to data collected from franchisors as well as to data collected from franchisees. In particular, the relationship between power sources and conflict seems to have been replicated in enough different contexts to establish the nomological validity of these measures.

H30 There is no relationship between perceptual data reported from different channel participants of each franchise, namely franchisees and franchisors, about power-conflict processes.

This hypothesis was tested on two country samples together accounting for 60 franchisees and 60 franchisors (section 8.3), by building multi-variable multi-method matrices, where the "methods" are the two measures, one from franchisees and the other from franchisors. In the British data sets (Table 8.63) all 10 correlation coefficients between the two methods for each variable are insignificant. In the Italian data sets (Table 8.62) all but two of the 10 correlation coefficients between the two methods for each variable are insignificant. The two that are significant (.34 for cooperation and .56 for one measure of performance) are inconsistent with the results from the British sample. Moreover, the coefficient of one measure of performance is not consistent with the coefficient of the other measure of performance. Thus, H30 is not rejected.

PART V

CONCLUSIONS AND IMPLICATIONS

V CONCLUSIONS AND IMPLICATIONS

9. DISCUSSION OF RESULTS AND OPEN ISSUES

A number of issues concerning inter-organisational relationships in franchise channels have been analyzed and reported in this thesis. At the core lies a cross-country comparison of practices in Italy and Britain. Specifically, descriptive analyses (Chapter 7) shed light on channel members' perceptions of their interactions and behavior, while a section devoted to formal hypothesis testing (Chapter 8) enabled us to study a number of relational variables.

In this section we review results from these two Chapters in the light of the theories and methods presented earlier (Chapters 1 to 6). In section 9.1 we ask: "how appropriate was it to apply (a) power source theory, (b) resource dependence theory, and (c) exchange network theory?". In section 9.2 we turn to the methodological extensions and ask: "was it appropriate to undertake (a) two-sided analyses, and (b) cross-country comparisons?". Our purpose in asking these questions is to show how the findings reported in this thesis build on earlier work, and how they have revealed new areas of enquiry - some of which have been addressed and others remain as open issues for future research. Some practical issues are discussed in section 9.3., and technical points are commented upon in section 9.4.

9.1. Theoretical insights

Different theories contributed to our account of inter-organizational relationships in franchise channels; the three most significant theories are considered in the following paragraphs.

(a) On the appropriateness of power sources theory

The power source theory explains the variance in franchise channel member behavior

well. Both in Italy and Britain, non-economic power sources (expert and referent sources) are possessed and exercised to a larger extent than economic sources (coercive, legitimate, and reward) (see Table 7.15). In contrast with a conjecture we made in the discussion of open issues on power and power sources (section 2.1.8.), the fact that the franchisor is supplying a high percentage of the franchisee's assortment is not what stimulates the opportunistic behavior of the franchisor in terms of power sources. In fact, from Table 7.38 and Table 7.39 it is clear that franchisees who are very dependent on the franchisor for the supply of product perceive that the franchisor possesses non-economic power sources. This gives us evidence that the franchises where the franchisor has the know how and organizational structure to control the supply of product to the franchisees, are the franchises where services and expert advice are also provided. These non-economic sources were included in the hypothesized model as independent variables and were able to statistically explain the variance in channel members dependence, decision structure, conflict, information exchange, and (in one data set) performance.

Conflict is considered a central variable in understanding channel behavior, although in our field research it was not very frequent (Table 7.17). In the Italian sample we found that conflict negatively influences franchisees' performance, but the level of conflict is not influenced by the current level of performance. This helps address the classical question: "conflict, so what?", however more research should be done on the link between conflict and outcomes such as performance. The reason that in the British sample performance is weakly related to conflict might be that when we did the field research British retailing performance was poor (Table 7.21), and it is likely that this environmental contingency prevented the effect of conflict from being manifest. Future research should strengthen our research design about performance measures. More items of perceived performance should be introduced. In fact, a limitation of our design is that we used two one-item measures, while it would be preferable to use multi-item measures. Balance-sheet measures of performance might be compared across different franchises, sectors, and countries, only if it was felt that the measures were comparable.

(b) On the appropriateness of resource dependence theory

Power sources and their outcomes can be matched and integrated in a resource dependence framework (see section 8.1.): the more non-economic power sources are possessed and exercised by the franchisor, the greater the dependence of franchisees (and the less the franchisor is dependent on his franchisees). Managing the interdependencies is also important because dependence is a mediating variable between power sources and other behavioral processes such as information exchange and conflict. The fact that information exchange between franchisees does not feed back to decrease their dependence on the franchisor contrasts with a classical assumption of resources dependence theory, according to which channel members might collude in order to decrease their dependence. The reason could be that franchisees do not feel very dependent upon the franchisor (see Table 7.16) in the first place, so that they would not need to use information exchange in order to find ways to counteract the franchisor influence. Another reason is that the amount of information exchange accounted for from franchisees' data is small (see Table 7.18), so that it is not enough to feed back to the dependence variable. Instead, dependence is acting as an antecedent of information exchange: the more the franchisees are dependent, the more they communicate. The explanation could be twofold, and needs further research: (i) it could be that franchisees start a dynamic loop (when they are very dependent they exchange information in order to be less dependent), which would be a classical way to decrease their resource dependence. (ii) Alternatively, it could be that dependence is a mediating variable between non-economic power sources and information exchange, so that where the franchisor is doing the right job (ie. providing continuous know-how and services to his franchisees) the franchisees themselves are willing to exchange information amongst themselves in order to increase their capabilities.

(c) On the appropriateness of exchange network theory

In section 8.1 we were able to show that information exchange between franchisees ought to be included in any model of franchise channel member relationships. That is to say, a horizontal dimension needs to be included as well as a vertical (franchisor-franchisee) dimension. The exchange network approach encompasses such issues (see Chapter 4). The structural parameters of the model can be constrained to be equal across the two countries under investigation, which replicates and reinforces this result. However, a limitation of this analysis is that respondents gave little weight to information exchange (Table 7.18) - implying that information exchange between franchisees is infrequent or poorly perceived.

Future researchers should find other measures for horizontal information exchange, or other horizontal variables which play a role in the channel. The difficulty with horizontal variables probably lies in measuring them, rather than in their existence. Many of the interviewed franchisees underestimated the importance of their actual communication with other franchisees. For example, in the first place they tended to say that they did not exchange information with other franchisees. But when asked questions like "do you talk to them at all, at least on the telephone?", many of them answered positively, saying: "oh yes, almost every other day I talk to X". It may be that the sentence "exchange information" sounds too formal and structured a way of communication. Thus, we believe that horizontal communication has been underrated in our field research.

9.2. Methodological insights

The research reported in the preceding chapters belongs to a particular research tradition, and the methodology has been shaped by that tradition. The decision to use structured questionnaires, to ask respondents their perceptions, to define multi-item measures, to analyze these within the framework of Lisrel - all these methodological

decisions were heavily influenced by earlier pieces of research. In a couple of respects, however, the work reported here breaks away from previous research; the methodology is (a) two-sided, and (b) cross-country. We now comment on these two extensions.

(a) On the appropriateness of two-sided analyses

We showed how channel members, namely franchisees and franchisors, have different perceptions about channel relationships (section 8.3). Replicating results from John and Reve (1982) we showed that behavioral variables should be analyzed with a two-sided analysis instead of the traditional one-sided approach (section 5.1.); also, that the model we used to study franchisees is not readily applicable to franchisors. This raises questions about the validity of "key informant" approaches to relationships: it is not possible to select franchisees as respondents and claim to study channel relationships "in toto". Doing so we would only obtain part of the story. Franchisors and franchisees have such different perceptions about what happens in the channel that respondents in both roles should be investigated, and probably using different models. A very important open issue is what model should be adopted to investigate channel relationships using data from franchisors. Some tentative building blocks and conjectures are suggested by our limited study of 60 franchisors, such as the relation between non-economic power sources and conflict, and the relation between power sources and dependence.

(b) On the appropriateness of cross-country comparison

A central methodological concern of this research is studying the extent to which results can be generalized (see section 5.2.). A problem with previous research is that each researcher used a different research design and different measures to study similar variables within different models, with data from different samples. Thus,

results were not robust. By analysing two samples in two countries with the same research design we showed that results largely hold across Italy and Britain. Now it would be interesting to extend this work to a further country, using the same research design. Within the framework of multi-sample Lisrel structural parameters could be simultaneously constrained and estimated across the three countries. Generalizable results should be obtained not just (or not only) in order to "predict", say, the level of conflict in the channel, but mainly in order to understand whether channels of distribution can be managed the same way in different countries, and what are the causes of the differences in channel member behavior across different countries.

When the model (M1) was estimated on each data set, it showed acceptable goodness-of-fit indicators in both cases. A further step in the cross-country comparison was made by constraining the model parameters to be equal across the two country data sets. Not all parameters of the hypothesized model could be successfully constrained to be equal across Italy and Britain. In particular, three structural parameters had to be left free to be estimated unconstrained. Nevertheless, this procedure showed that not only the same model holds across two different country data sets, but also most of the measurement and structural parameters can be constrained to be equal across the two countries. A limitation of this part of the research is that, because only two data sets have been analyzed, it is hard to explain why the three nominated parameters cannot be constrained to be equal across the data sets. On the other hand, it is necessary to keep in mind that similarities (in this case: equality of parameters) are self explanatory: they give us evidence that no matter what distortions are produced by the environment, the sample selection process, and the culture, in Italy and Britain there is approximately the same inter-organizational pattern of channel member behavior. Furthermore, the fact that each country sample includes some different sectors increases the generalizability of our results.

9.3. Some managerial issues related to this research

The main managerial issue which this research addresses is the management of franchising in an international context. In the last twenty years franchising has developed extensively in many different countries, usually with a standardized front-of-house business format. The issue in this thesis has been the extent to which franchise management is also standardized, given that there are cultural and economic differences across countries.

We found that in two countries (Italy and Britain), where there are some economic and demographic similarities but differences in culture, traditions, climate, and regulations, the same model of channel member behavior holds very well. Broadly, this supports the idea that in these two countries managerial policies can be performed along similar lines. To be sure, we found some differences, but at present time we are not able to discuss them in-dept because not enough replication has been done.

We found that there are some differences between sectors, nevertheless the cross-sectional data-sets are meaningful and support relational patterns common to the franchise types of channels. Thus, managers can apply the same policies to franchise networks in different sectors.

Within the model we tested, a number of relations between variables can be of interest to managers. For example, the idea (that many franchise managers we personally interviewed had) that franchisors should try to prevent information exchange among franchisees is not supported by our results. This information does not decrease the level of dependence of the franchisees on the franchisors. Instead, the use of non-economic power sources is strongly recommended, because they tend to be beneficial to the channel operations, decision making processes, and performance. Conflict should be avoided, because it is likely to decrease franchisees' performance. Franchisees should not be worried about feeling dependent on the franchisor; this does not decrease their performance, but it is likely to increase it, via the mediated effect of a decreased conflict.

9.4. Some open issues

The theories and methods that underpin the analyses in this thesis are informative and versatile. But several un-answered questions remain: have potentially important variables been left out, on what basis can the causal structure that has been proposed and tested be considered reliable, has enough attention been paid to the impact of structured variables, what if we compare retail franchising with other forms of retailing or other types of franchising?

(a) Have potentially important variables been left out ?

The questionnaire was carefully designed to capture the main influences on relationships in franchise channels, as perceived and articulated by researchers, franchisors and franchisees. Nevertheless, it is possible that some influences are not easily perceived by the players themselves, or that they are not easily measured by researchers.

"Cooperation" and "Trust" are two variables that might deserve closer scrutiny. Cooperation might accurately describe relations both between franchisors and franchisees and among franchisees (it is a less formal concept than "information exchange"). While trust, as an element of expert and referent power sources, might be viewed either as a covariate of power sources or a new variable.

There is a trade-off here in that by including new variables the research task becomes more complex: extra questions have to be asked, comparability with earlier studies is lost and ways to measure nuances and subtleties are needed. There is a danger that as further variables are added we lose sight of the main relationships.

(b) Is the proposed causal structure reliable ?

Indeed, causality should be established by looking for convergent validity across several different methods. However, the use of different methods was precluded by the large number of personal interviews that had to be undertaken. All the effort had to be channelled into securing large enough samples for statistical analysis in each country, among both franchisees and franchisors. In effect, convergent validity using different methods was traded-off against the desire to replicate the analysis with different data sets.

The particular method that we adopted used a combination of (a) logical inference, (b) replication of results, and (c) structural equation modelling (as discussed in section 5.3.4.). An alternative approach would have been to monitor the unfolding of franchisee-franchisor relationships over time. Such an approach would facilitate causal modelling, and possibly lend convergent validity to the current study. Again, however, the data requirements would be high - a panel of franchises would have to be recruited and monitored for a long period of time - inevitably there would be a trade-off between longitudinal richness and sample size. At present therefore it would appear that the best we can hope is consistency.

(c) Has enough attention been paid to the impact of structural variables ?

The impact of structural variables on channel member behavior was assessed by performing a series of Chi-square tests in conjunction with the analysis of sub-group averages. Because the sub-group sizes are generally rather small, we regard these tests as mainly negative checks: if we find no association between two variables it is likely that they are not associated; when we find an association, caution has to be paid in interpreting this result before replications in larger samples and/or other contexts are performed.

In the Italian sample, structural variables such as the sector of activity and the length

of the relationships appear to be associated with the frequency of conflict between franchisees and franchisor, the exchange of information between franchisees, and their performance (see Table 7.22, and those that follow). For example, different managerial policies and environmental contingencies make the stationary sector, more conflictual than, say, the shoe sector. In particular, an analysis of sub-group averages shows that in the Italian sample the longer the franchise relationship, the greater the conflict and the smaller are perceived non-economic power sources, whereas in the British sample the opposite patterns occur (Table 7.34 and Table 7.35). This suggests a link between power-conflict and life-cycle which might be re-tested in future research. On the other hand, the geographical location of the franchisee's shop, the size of town the franchisee's shop is in, and the previous activity of the franchisee, do not affect channel member behavior and performance.

In the British sample (Table 7.23 and those that follow), the size of town where the franchisees are located is associated with the level of non-economic power sources possessed and used by the franchisor and the level of conflict between franchisees and franchisor (see Tables 7.23 and 7.33). In larger towns (over 100,000 people), franchisees perceive that fewer non-economic power sources are possessed and used, and that there is more conflict. Franchise size is associated with the dependence of franchisees; the franchisees of smaller franchises feel less dependent than those in larger franchises (Tables 7.23 and 7.25). The sector of activity is slightly associated with the degree of dependence of franchisees on the franchisor; franchisees operating in the furniture and houseware sector, for example, feel much less dependent than franchisees in the clothing and shoe sectors (Table 7.29). Conversely, the geographical location of the franchisee's shop and the previous activity of the franchisee do not have any influence on channel member behavior.

Structural variables that might be built into any future research design are the nature and content of the contract (e.g. whether specific clauses are included), and other measures of the franchisees' personality (eg. whether the franchisees are risk adverse).

(d) What if we compare retail franchising with other formats?

In this thesis the research design includes franchises from different sectors and has been replicated across different countries. However, the process of replication need not end there, and further research should be done to compare retail franchising with other forms of retailing (such as the relationships between head-quarters and individual outlets in a supermarket chain, or supplier and independent retailers) and other types of franchising (for example, plumbers and builders). It is likely that independent retailers experience less information exchange between each other than outlets in a chain, whereas it is difficult to hypothesize what sources of power and outcomes would be found in the other types of distribution channels.

The theoretical appeal of replication in different types of channels would be to provide inputs to make-or-buy decisions, as a complement to a traditional transaction cost approach. Specifically, organizations that want to develop a channel and who need to decide which form to adopt, not only should assess the cost structure of the alternative choices, but also check whether they possess the sources of power that are required to work in a specific type of channel. Also they should be aware of the outcomes of power sources on conflict, dependence, performance and information exchange in the different channels.

The challenge for the future is how to deal with the practical difficulties of this kind of research - the data collection task is daunting (especially if the aim is to make quantitative statements), and questionnaire design is tricky (that is, questions have to apply across several different contexts yet still be meaningful).

PART VI

APPENDICES

Appendix A **The Questionnaire used by Brown, Lusch, and Muehling
(1983)**

This questionnaire was written with U.S. retailers in mind - not European franchisees, and not franchisors - so it has been necessary to adapt it in the current research (see section 6.5.).



SCHOOL OF MANAGEMENT

Respondent No. _____

Hello,

My name is _____ and I am a graduate student in marketing at the School of Management, University of Buffalo. As part of a class project, we are conducting a study of retailers located in Erie County. The purpose of this study is to develop a better understanding of the relationships retailers have with their suppliers. We would very much like your participation in our study.

All responses to the survey will be accumulated and handled only in combined statistical form. Hence, we would appreciate your being most candid in answering the questions. Your individual responses will not be singled out for analysis.

If you have any questions about the study, please contact Dr. James E. Brown at the Department of Marketing, telephone: 831-5003.

Thank you very much for your participation.

STATE UNIVERSITY OF NEW YORK AT BUFFALO
CROSBY HALL 831-3533

Section I

This section aims at gathering general background information about your store.

1. Which brand accounts for the highest proportion of your sales of _____ ?

Throughout the remainder of this questionnaire, this brand will be called your major brand.

2. Who supplies you with your major brand of _____ ?

This supplier will be referred to as your major supplier throughout the rest of the questionnaire.

3. How many other brands of _____ do you carry?

4. How do you obtain your major brand? (PLEASE CHECK ONE)

- You manufacture it.
 You buy direct from the manufacturer.
 You buy from a wholesaler/distributor.
 You are supplied from a central warehouse owned by your company.
 Other (Please explain). _____

5. About how long have you been buying your leading brand from your current supplier?

- Less than six months.
 Six months to a year.
 Two to five years.
 Six to ten years.
 Eleven to twenty years.
 Over twenty years.

6. What type of an agreement regulates your relationship with the supplier of your leading brand? (PLEASE CHECK ONE).

- Corporate policy.
 Franchise contracts.
 Legal agreements with supplier (other than franchise contract).
 Informal agreements with supplier.
 No agreement at all with supplier
 Other (Please explain). _____

7. Your business

- is part of a nationwide chain.
- is part of a local chain with over five branches in this area.
- has one to five branches in this area.
- has no other branches in this area.

8. About what percent of the sales of your major brand goes to ultimate consumers rather than to other businesses or firms? (PLEASE CHECK ONE).

- 0 - 25% 51 - 75%
- 26 - 50% 76 - 100%

Section II

In this section we would like to know the extent to which you agree or disagree with various statements regarding your relationship with your major supplier. We are interested in your true feelings, attitudes and perceptions - so please be candid. Please circle the appropriate number.

	Strongly Agree					Strongly Disagree	
The information my major supplier provides me about how to better run my business makes sense.	1	2	3	4	5	6	7
I trust my major supplier's judgement.	1	2	3	4	5	6	7
In general, my major supplier's opinions and values are similar to mine.	1	2	3	4	5	6	7
My major supplier has the ability to reward me in some way if I do as he suggests.	1	2	3	4	5	6	7
Because of his position, my major supplier has the right to influence my behavior.	1	2	3	4	5	6	7
The information provided by my major supplier is logical.	1	2	3	4	5	6	7
If I do not do as my major supplier suggests, he will punish me.	1	2	3	4	5	6	7
My major supplier's expertise makes him more likely to be right.	1	2	3	4	5	6	7
I am obligated to follow my major supplier's suggestions.	1	2	3	4	5	6	7
Being similar to my major supplier is good.	1	2	3	4	5	6	7
My major supplier has a lot of experience and usually knows best.	1	2	3	4	5	6	7
My major supplier can harm me in some manner if I don't do as he suggests.	1	2	3	4	5	6	7
I want to do as my major supplier requests only because of the good things he will give me.	1	2	3	4	5	6	7
My major supplier might do something unpleasant to those who do not do as he requests.	1	2	3	4	5	6	7

	Strongly Agree							Strongly Disagree						
	1	2	3	4	5	6	7	1	2	3	4	5	6	7
My major supplier's products have good customer images.	1	2	3	4	5	6	7							
If I do not comply with my major supplier's wishes, I will not be as profitable.	1	2	3	4	5	6	7							
Legal agreements govern my relationship with my major supplier.	1	2	3	4	5	6	7							
Something bad will happen to me if I don't do as my major supplier asks and he finds out.	1	2	3	4	5	6	7							
My major supplier's knowledge usually makes him right.	1	2	3	4	5	6	7							
I usually consider my major supplier's requests because they are based on good reasoning.	1	2	3	4	5	6	7							
I generally like to act very similar to the way I think my major supplier would act.	1	2	3	4	5	6	7							
If I don't do as my major supplier asks, I won't receive good things from him.	1	2	3	4	5	6	7							
My major supplier is very knowledgeable.	1	2	3	4	5	6	7							
It is my duty to comply with my major supplier's requests.	1	2	3	4	5	6	7							
The only reason for doing as my major supplier asks is to receive good things in return.	1	2	3	4	5	6	7							
If I were to discontinue buying from my major supplier, it would be very difficult to find an alternate source of supply.	1	2	3	4	5	6	7							

Section III

In this section, we would like to determine the extent of overlap in decision-making between you and your major supplier. Please indicate who has the greater say in decisions about the following issues by circling the appropriate number.

	Completely up to you			About Equal		Decided by your major supplier			Not Applicable
	1	2	3	4	5	6	7	8	
Retail price charged to the consumer	1	2	3	4	5	6	7	8	
Product assortment carried by you	1	2	3	4	5	6	7	8	
Carrying competing brands	1	2	3	4	5	6	7	8	
Order size	1	2	3	4	5	6	7	8	
Co-operative advertising	1	2	3	4	5	6	7	8	
Provision of credit to customers	1	2	3	4	5	6	7	8	
Customer return policy	1	2	3	4	5	6	7	8	
Hours of operation	1	2	3	4	5	6	7	8	
In-store service of product	1	2	3	4	5	6	7	8	

	Completely up to you		About Equal		Decided by your major supplier		Not Applicable	
	1	2	3	4	5	6	7	9
Size of your retail territory	1	2	3	4	5	6	7	9
Price charged to you by supplier	1	2	3	4	5	6	7	9
Product display	1	2	3	4	5	6	7	9
Inventory level	1	2	3	4	5	6	7	9
Sales training	1	2	3	4	5	6	7	9
Store layout	1	2	3	4	5	6	7	9
Local advertising undertaken by you	1	2	3	4	5	6	7	9

Section IV

Here we would like to determine how often you and your major supplier disagree over the marketing of your major brand. Please circle the appropriate number which indicates how frequently you and your major supplier disagree over the following issues.

	Very Infrequently		Neutral		Very Frequently		Not Applicable	
	1	2	3	4	5	6	7	9
Advertising allowances provided by the supplier	1	2	3	4	5	6	7	9
Supplier's minimum order size	1	2	3	4	5	6	7	9
Product assortment carried by you	1	2	3	4	5	6	7	9
Size of your retail territory	1	2	3	4	5	6	7	9
Competing brands carried by you	1	2	3	4	5	6	7	9
Speed of supplier's delivery	1	2	3	4	5	6	7	9
Return of defective merchandise to supplier	1	2	3	4	5	6	7	9
Supplier's credit policy	1	2	3	4	5	6	7	9
Supplier's management assistances provided to you	1	2	3	4	5	6	7	9
Price you charge to consumers	1	2	3	4	5	6	7	9
Price supplier charges you	1	2	3	4	5	6	7	9
In store service of product	1	2	3	4	5	6	7	9
Catalogs and sales promotion literature provided to you by supplier	1	2	3	4	5	6	7	9
In-store product display	1	2	3	4	5	6	7	9
Your inventory levels of your major brand	1	2	3	4	5	6	7	9
Local advertising undertaken by you	1	2	3	4	5	6	7	9

Section V

In this section, we'd like to know about some of the problems involved in estimating how much inventory to carry. Please circle the appropriate number.

	Strongly Agree							Strongly Disagree
	1	2	3	4	5	6	7	
It is often difficult for me to determine how much inventory of our major brand to stock.	1	2	3	4	5	6	7	
Deliveries of our major brand are always on time.	1	2	3	4	5	6	7	
It is often difficult to obtain the information necessary to determine inventory levels for our major brand.	1	2	3	4	5	6	7	
Seasonal variations in required inventory levels for our major brand are very predictable.	1	2	3	4	5	6	7	
Our major supplier always ships the quantity and mix of goods we order.	1	2	3	4	5	6	7	
Our major supplier's prices are very stable.	1	2	3	4	5	6	7	
Our profitability is not influenced, one way or the other, by how well we estimate our inventory needs for our major brand.	1	2	3	4	5	6	7	
It is often difficult to determine if we've stocked enough of the right kinds of products.	1	2	3	4	5	6	7	
We always have all the information necessary to make inventory decisions.	1	2	3	4	5	6	7	
The market for our major brand is rapidly growing.	1	2	3	4	5	6	7	
Other than normal seasonal variations, the market for our major brand has been fluctuating tremendously over the past year.	1	2	3	4	5	6	7	
Competition among the various brands of _____ has not been very intense during the past year.	1	2	3	4	5	6	7	

Section VI

Finally we would like to obtain some general information about you and your major supplier.

1. During a typical month, about how many times do you communicate with or receive information from your major supplier?

By telephone: _____ times

By mail: _____ times

In person: _____ times

2. In general, how well would you say your store and your major supplier work together toward goals which both of you wish to attain?

Very Poorly

Very Well

1 2 3 4 5 6 7

3. In general, how would you describe the amount of conflict between you and your major supplier?
- | | | | | | | | |
|-----------------------|---|---|---|----------------------|---|---|----------------------|
| No Conflict
at all | | | | Moderate
Conflict | | | Constant
Conflict |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
4. How satisfied are you with the overall relationship with your major supplier?
- | | | | | | | | |
|----------------------|---|---|---|---------|---|---|-------------------|
| Very
Dissatisfied | | | | Neutral | | | Very
Satisfied |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
5. When it comes to the merchandising of your major brand, how similar do you think your views are to those of the supplier?
- | | | | | | | | |
|--------------------|---|---|---|---|---|---|-----------------|
| Very
Dissimilar | | | | | | | Very
Similar |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
6. In general, who do you feel has the most say in how your major brand is merchandised in your store?
- | | | | | | | | |
|-----|---|---|---|-------------|---|---|----------|
| You | | | | About Equal | | | Supplier |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
7. After a typical purchase from the supplier of your major brand, how do you usually feel?
- | | | | | | | | |
|--------------------------------------|---|---|---|-------------------------|---|---|--------------------------------------|
| Supplier
took advantage
of you | | | | Both got a
good deal | | | You took
advantage of
supplier |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
8. How does your major supplier spell out how he wants you to merchandise your major brand?
- | | | | | | | | |
|------------------------------|---|---|---|---|---|---|---|
| Very Informal
Discussions | | | | | | | Very Formal
Policies and
Procedures |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
9. During a typical month, how frequently do you receive computerized reports from your supplier?
- | | | | | | | | |
|------------------------|---------------|-------------------------|----------------|------------------------|-----------------|---------------------------|-------|
| Several Times
Daily | Once
Daily | Several Times
a Week | Once a
Week | Three Times
a Month | Once a
Month | Less Than Once
a Month | Never |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
10. In general, who would you say dominates your relationship with your major supplier?
- | | | | | | | | |
|----------|---|---|---|---------|---|---|-----|
| Supplier | | | | Neither | | | You |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
11. How similar is your record-keeping system to the one recommended by your major supplier?
- | | | | | | | | |
|--------------------|---|---|---|---|---|---|-----------------|
| Very
Dissimilar | | | | | | | Very
Similar |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |

12. If you were to change your major supplier, about what percentage of your present customers would be lost? _____ %
13. About what percentage of your store's sales come from your major brand? _____ %
14. About what percentage of your store's profits come from the major brand? _____ %
15. About what percent of your major supplier's business would you say comes from your store? _____ %
16. Except for your major supplier, how many other suppliers could you buy your major brand from? _____ suppliers
17. About how many total square feet of selling and display space do you have in your store? _____ square feet
18. About how much selling and display space is assigned for your major brand? _____ square feet
19. On the average, how many units of your major brand (regardless of specific products) do you carry in inventory? _____ units
20. On the average, what is your monthly sales of your major brand in units and in dollars?
_____ units
_____ dollars
21. About how much do you spend on advertising your major brand each month? _____ dollars
22. After you place an order with your major supplier, about how many days does it take, on the average, for the shipment to arrive? _____ days
23. About what gross margin (as a percent of selling price) do you make on your major brand? _____ %

THANK YOU VERY MUCH FOR YOUR
PARTICIPATION IN OUR SURVEY.

INSTRUCTIONS FOR INTERVIEWERS

1. The same questionnaire is being used for six different products. Therefore, on page one of the questionnaire it is necessary for you to fill in the name of the product assigned to you in the blank space provided after the words "major brand of", for questions 1, 2, 3 and the last question in Section V (e.g. ... major brand of TIRES ...). Do this for all seven of your questionnaires before you administer them.
2. All questions about a brand or supplier relate to the major brand or major supplier. The major brand (or leading brand) is that brand of beer/tires/automobiles/shoes/etc. which accounts for the highest proportion of the store's dollar sales of beer/tires/automobiles/shoes/etc.

The major supplier is the firm or organization which supplies the major brand to the store.
3. Complete the following information after conducting the interview:

Store name _____ Phone _____
Address _____
Town/City _____ Zip _____
Position/Title/Function of person interviewed _____
Name of Interviewer _____ Date _____
Comments _____

Appendix B

The Questionnaire Used for the Pilot Study

This questionnaire was used to personally interview franchisees; a similar questionnaire for franchisors is not reported for reasons of space. The font size of the questionnaire used for the pilot study was much larger than the example shown here, and it has been reduced simply to comply with margin requirements of this thesis.

Section I

This section aims to gather general background information about your franchise

- 1 How many outlets are owned by the parent company? _____
- 2 How many are the franchised outlets? _____
- 3 How long have you been a franchisee in this franchise?
 - less than 6 months
 - 6 months to 1 year
 - 2 to 5 years
 - 6 to 10 years
 - more than 10 years
- 4 What did you do before joining the franchise?
 - franchise in another franchise system
 - retailer in the same sector
 - involved in some other way in the same sector
 - retailer in another sector
 - autonomous worker in another sector
 - other (please specify) _____
- 5 What percentage of your assortment is supplied by the parent company? _____ %
- 6 What services does the parent company provide you with?

Initial help with the <ul style="list-style-type: none"> feasibility plan <input type="checkbox"/> initial financing <input type="checkbox"/> launch <input type="checkbox"/> personal presence <input type="checkbox"/> initial training <input type="checkbox"/> selection of the location <input type="checkbox"/> 	Ongoing help with <ul style="list-style-type: none"> accountancy and legal advice <input type="checkbox"/> merchandising <input type="checkbox"/> promotional supports <input type="checkbox"/> periodic training <input type="checkbox"/> on line connection for logistics <input type="checkbox"/>
---	---
- 7 What is your rate of turnover change over the past 3 years? _____ %
- 8 What is the rate of turnover change of your franchise system over the past 3 years? _____ %

Section IV

Here we would like to determine how you and the parent company think about the marketing of your business. Please cross the appropriate box which indicates how important the following issues are...how frequently you and your franchisor disagree over them...and how intense the disagreement is on these issues. If an item is not applicable to your firm, leave the relevant boxes blank.

	very unimportant	very important	you disagree with the parent company very infrequently	you disagree with the parent company very frequently	the disagreement is very unimpressive	the disagreement is very intense
1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section V

Here we would like to determine how you and other franchisees of your franchise system relate to each other. Please check the appropriate box which indicates how important the following issues are. How frequently you and the other franchisees disagree over them, and how intense the disagreement is on these issues. If an item is not applicable to your firm, leave the relevant boxes blank.

	very unimportant	very important	you disagree with other franchisees very infrequently	you disagree with other franchisees frequently	the disagreement is very unintense	the disagreement is very intense
1 From your viewpoint, advertising allowances provided by the parent company to other franchisees are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Size of their retail territory is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 The range of management assistance offered by the parent company to them is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 The actual prices other franchisees charge to customers are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Catalogs and sales promotion literature provided by the parent company to them are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Infringement of my territory by other franchisees is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Product assortment of other franchisees is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section VI

In this section we would like to understand some elements concerning how decisions are made in your franchise system (i.e. the system run by your parent company). Please cross the appropriate box according to your perception.

	strongly disagree	strongly agree
1 Procedures regarding how my business's performance is evaluated by the parent company are clearly defined	<input type="checkbox"/>	<input type="checkbox"/>
2 The rights and obligations of all parties concerned are clearly set out in the franchise contract	<input type="checkbox"/>	<input type="checkbox"/>
3 I am given written guidelines and careful instructions on how to manage my franchise operation	<input type="checkbox"/>	<input type="checkbox"/>
4 Franchisees are given an opportunity to provide input into the setting of overall standards	<input type="checkbox"/>	<input type="checkbox"/>
5 Franchisees are given a say in the allocation of the promotion budget	<input type="checkbox"/>	<input type="checkbox"/>
6 The parent company is interested in any local initiatives of mine	<input type="checkbox"/>	<input type="checkbox"/>
7 Franchisees are involved in decisions about the structure of your parent company's overall franchising system	<input type="checkbox"/>	<input type="checkbox"/>

Section VII

In this final section we would like to obtain some general information about you, the parent company, and other franchisees.

1. You work together with the parent company on the following policies. Please cross the appropriate box which indicates how important the following issues are to your firm. Leave the relevant boxes blank.

	very unimportant	very important	you work together with the parent company	this process is very unimpressive	this process is very intense
1 a Advertising expenditures are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 b Market planning is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 c Credit policy and procedures are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 d Customer service is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 e Pricing policies are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 f Product assortment is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. You work together with other franchisees of your franchise system on the following issues. Please cross the appropriate box which indicates how important the following issues are to your firm. Leave the relevant boxes blank.

	very unimportant	very important	you work together with other franchisees	this process is very unimpressive	this process is very intense
2 a Requests to the parent company are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 b Information exchange is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 c Product assortment is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 d Customer service is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 e Trade area is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 f Price is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 g Local promotions are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 h Franchisor's resource allocation is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The background to the current study is that in 1989 research was undertaken in the Italian franchise industry (Manaresi and Marcati, 1991). The research concerned the structure of Italian franchises; we wanted to test whether there were different ways franchisors could control franchisees, or if instead there was one pattern. During 16 in-depth structured interviews we collected some data that showed franchisees are controlled in different ways and that several different policies are used by franchisors to overcome franchisees' resistance to standardization of business operations, to avoid conflict, and to foster cooperation.

Fifteen other exploratory interviews were done in the Italian and British franchising industries in 1990, in order to highlight the most relevant issues in the management of channel relationships.

Finally, for the present study a pilot was undertaken in early 1991, in order to test the whole process of field research. Specifically we tested:

- * The survey instrument: the questionnaire, the wording, and the ordering.
- * The variables that were to be researched for the first time; to test whether they were really relevant to the practice of channel behaviour.
- * The problems of getting in contact with potential respondents and the number of calls necessary to arrive at a meeting.
- * The cost of administering the questionnaire (ie. time, materials, printing, stamps, phone calls and travel).
- * Appropriateness of the respondent (i.e. the role of the respondent, the degree to which he was able to cope with the questionnaire).
- * What incentives were necessary to secure the cooperation of respondents (eg. giving them a summary of the results).
- * The amount of editing needed to code the answers.
- * A preliminary data analysis to test the ease with which we could secure some meaningful results.

During the six interviews in the pilot study respondents were asked to fill-in the questionnaire, helped by the interviewer, who was myself.

The areas chosen for the pilot study were Northern Italy and South East England; these are the areas where most franchises have their headquarters and the largest number of outlets. Within these areas the companies were selected randomly, provided that they could be regarded as retail franchises. Four franchisors in England and two in Italy were contacted. This level of contact led to six useful interviews - two franchisors from British companies, one franchisee from each of the two British companies, and a franchisor and franchisee from different Italian companies.

The persons selected as key informants were the franchise managers in the case of the franchisor companies, and the franchisees in case of the franchisee companies. The latter seemed to be the only appropriate informant in the franchisee company. In the franchisor companies, especially in the big ones, other informants might have been suitable, although the most appropriate is likely to be the franchise manager.

No letter-of-introduction was sent to the respondent before the interview. The contacts and appointments were arranged by telephone. We also decided not to send the questionnaire before, so as not to influence the respondent.

Each interview took between one hour and an hour and a half. On average, 10 minutes were needed for the introduction, 35 minutes for filling the questionnaire, and 30 minutes for general discussion. It always took between 30 and 40 minutes to complete the questionnaire.

The process of contacting people was successful when the name of the person we wanted was known beforehand. Otherwise problems arose because the secretaries of the franchisor company would try to divert or postpone contact with the most appropriate person.

The interviewer found that franchisees thought the questionnaire was harder to

complete than franchisors, partly because they had less experience of marketing research. A very general introduction was given to respondents and the example responses were very general, in order not bias the answers that were to follow. In the main field research, to avoid possible biases, the examples were drawn from an unrelated context (sport, for example).

Not all the items measuring each variable were found to be relevant. Certainly there were differences across franchises and across sectors; and sometimes what the respondent said made us think about cutting or changing a few items.

The pilot study confirmed the importance of personally interviewing respondents (or, at the very least, personally interviewing a portion of respondents). Respondents rarely needed to have something clarified, but typically they were in such a hurry it was crucial for the interviewer to control the context of the interview.

In the following section a list of problems and solutions is reported. Most of the issues relate to the appropriateness of specific items:

Section I

Questions 7 and 8 were unclear and difficult to answer, especially in the English version. More understanding of simple financial performance measures was needed. We had to ask: are these answers telling us anything useful? Is the increase in sales a good and reliable measure of a good situation? If there is no increase in sales does this really mean the firm is in trouble? In a specific sector it may be that a sales increase of 5% per year over 3 years is a great performance, while in another it signals trouble. The solution proposed was simply to cut these two items, keeping the measure of perceived performance in the last section.

Section II

All items were fully understood by respondents.

Section III

In two cases (a franchisee and a franchisor) about half the items were considered inapplicable (though not necessarily the same items). This was not surprising, because the list included a broad range of marketing issues, some of which could not be applicable in specific cases. It is probably even more surprising that the other four respondents found all the issues applicable: it was decided to specify more clearly that non-applicable issues should be left blank.

Section IV

Responding to three different dimensions of conflict seemed to be too difficult and time-consuming. Given the level of collinearity between responses to the three dimensions, it was decided to cut one dimension.

Section V

This section created problems for respondents, in particular the variable of horizontal conflict. From the answers given and, even more clearly, from what the respondents said, this variable was not very well understood.

Section VI

The items generally proved to be very clear and relevant. Only item 7 caused problems; this was not because the answer was always the same (no involvement of the franchisee in deciding the overall structure of the franchise), but because it proved to be a characteristic of the franchising concept that the overall structure of the system was decided by the franchisor alone. Therefore, this item had to be cut.

Section VII

1. The first part of this section was about vertical cooperation (between franchisor and franchisee). All the items seemed to be applicable, comprehensive and understandable.

2. The variable of horizontal cooperation proved to be unclear. Even when they answered positively to some items, the respondents said that it was not all that important.

In one case the variable was said to be inapplicable, in all the others the level of

cooperation was very low. We decided not to keep this variable.

3., 4., and 5. The variable of horizontal competition was seen as irrelevant.

In the rest of the questionnaire some general questions about conflict, cooperation and performance were asked. No problems were encountered since the respondents were already familiar with the variables under investigation.

In conclusion, two principal changes to the questionnaire were made as a result of the pilot. (a) The conflict variable was simplified by measuring only two dimensions, not three. (b) Horizontal relationships (among franchisees of each franchise) were measured by asking questions about information exchange and organizational similarity. It was argued that once people knew each other they would exchange information, eg. over the telephone. Likewise, organizational similarity would lead to "social control" (rather than "formal control"). Both these variables were investigated in the main field research.

Appendix D The Questionnaire for the Field Research

Here six versions of the questionnaire are reported. For each country, there are two versions used for personally interviewing franchisees and franchisors, and one shorter version used for the mail surveys (addressed to franchisees). When interviews were done personally, the front page was filled-in by the interviewer to save time. These pages were completed in English. For the mail surveys the front page had to be written in the country language. The font size of the questionnaires has been reduced here in order to comply with the margin requirements of this thesis.

Code _____

FRANCHISING QUESTIONNAIRE
(UK Franchisee Version for Personal Interview)

1. Name of the parent company _____
2. Name of the franchise _____
3. Sector of activity _____
4. Name of the informant _____
5. Job title of the informant _____
6. Contact address _____
7. Contact phone number _____
8. fax _____
9. Region of operations of your shop
(See the attached map of Nielsen Regions):
 - London _____
 - Anglia _____
 - Southern _____
 - Wales, West and Westward _____
 - Midlands _____
 - Lancashire _____
 - Yorkshire _____
 - Tyne-Tees _____
 - Scotland _____
10. Is your shop in a town :
 - bigger than 100,000 people _____
 - smaller than 100,000 people _____
11. Date _____

Section III

In this section we would like to know the extent to which you agree or disagree with various statements regarding your relationship with the franchisor. We are interested in your feelings, attitudes and perceptions, so please be candid. Please check the appropriate box.

	strongly disagree	neither	strongly agree
1. If we were to discontinue the franchise agreement, it would be very difficult to achieve our business objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Our relationship with the franchisor is based on trust.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. In general, the franchisor's opinions and values are similar to ours.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The franchisor usually rewards us with material incentives if we do as it suggests.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Because of its position, the franchisor has the right to influence our behavior.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. If we were to discontinue the franchise agreement, it would be very difficult to find a source of managerial advice.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. If we do not do as the franchisor suggests, our life will be made difficult.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. In most areas of our operations, we are legally obliged to follow the franchisor's suggestions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. The franchisor has a lot of experience and usually has a better knowledge about the business than we do.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. We want to do as the franchisor requests only because of the benefits we will get.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. If we were to discontinue the franchise agreement, it would be very difficult to find a good source of finance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. The products we get from the franchisor (directly supplied or "controlled") have good customer images.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. We like to act in roughly the same way as the franchisor does.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. If we do not follow the franchisor's suggestions, it is likely to withdraw advertising or other promotional support.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. If we do not follow the franchisor's suggestions, it is likely to offer new franchisees advice in our trading area.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. If we were to discontinue the franchise agreement, it would be very difficult to find a good source of supply.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. We value the information we receive from the franchisor.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. We think that omitting the franchisor is a good thing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Very strict legal agreements govern our relationship with the franchisor.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. The more we follow the franchisor's guidelines, the more we receive support from it.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section IV

Here we would like to determine how you and the franchisee think about the marketing of your business. Please cross the appropriate box which indicates how important the following items are in running the business and how frequently you and the franchisee disagree over them. If an item is not applicable to your firm leave the relevant boxes blank.

	not important	quite important	very important	never disagree with the franchisee	sometimes disagree with the franchisee	very often disagree with the franchisee
1 Advertising allowances provided by the franchisee are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Minimum order size is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Product assortment carried by you is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Size of your retail territory is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Competing brands carried by you are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Speed of delivery is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Return of defective merchandise to the franchisee is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 Franchisee's credit policy is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 The range of management assistance offered by the franchisee is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 Prices you charge to consumers are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11 Prices franchisee charges you are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 Catalogues and sales promotion literature provided by you to the franchisee are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13 In store product display is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14 Your inventory levels are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15 Local advertising is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section VI

Now please tell us how decisions are **made** in your franchise.
Please cross the appropriate box according to your perceptions.

	strongly disagree	neither	strongly agree
1. Procedures regarding how my business performance is evaluated by the franchisor are clearly defined	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The rights and obligations of all parties concerned are clearly spelled out in the franchise contract	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. I am given written guidelines and careful instructions on how to manage my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The franchisor encourages me to be actively involved in the setting of overall standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The franchisor encourages me to be actively involved in allocating promotional budget	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The franchisor encourages me to be actively involved in taking local initiatives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section VII

In this final section we would like to obtain some general information about you and the franchisor.

1. You work together with the franchisor on the following policies. Please cross the appropriate box which indicates how important the following issues are in running the business, and how close is the cooperation. If an item is not applicable to your firm leave the relevant boxes blank.

	not important	quite important	very important	how much do you and the franchisor cooperate closely on each of the following issues?		
				not at all closely	quite a bit closely	a great deal closely
1 a Advertising expenditures are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 b Market planning is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 c Credit policy and procedures are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 d Customer service is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 e Pricing policies are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 f Product assortment is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. If you were to quit the franchise agreement, about what percentage of your present sales would be lost? %

	very poor	quite well	very well	worse than expected	as expected	better than expected
3. In general how well would you say you and the franchisor work together towards goals which both of you wish to obtain?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. In general how would you describe the amount of tension or conflict between you and the franchisor?	no conflict at all <input type="checkbox"/>	moderate conflict <input type="checkbox"/>	minimal conflict <input type="checkbox"/>	sharply decreasing <input type="checkbox"/>	no change <input type="checkbox"/>	sharply increasing <input type="checkbox"/>
5. We interact and cooperate with other franchisees a great deal	strongly disagree <input type="checkbox"/>	neither <input type="checkbox"/>	strongly agree <input type="checkbox"/>	How is your business performance this year living up to expectations? <input type="checkbox"/>		
6. The franchisor really control our business operations and strategy	strongly disagree <input type="checkbox"/>	neither <input type="checkbox"/>	strongly agree <input type="checkbox"/>	Recently, what is the trend of your performance? <input type="checkbox"/>		
				Any other comments that you would like to make on the issues that are here investigated <input type="checkbox"/>		

Code

FRANCHISING QUESTIONNAIRE

(UK Franchisor Version for Personal Interview)

- 1 Name of the parent company _____
- 2 Name of the franchise _____
- 3 Sector of activity _____
- 4 Name of the informant _____
- 5 Job title of the informant _____
- 6 Contact address _____
- 7 Contact phone number _____
- 8 fax _____
- 9 Context of the interview:
Private office _____
Shop _____
- 10 Date _____

Section I

This section aims to gather general background information about your franchise

- 1 How many outlets are owned by your company? _____
- 2 How many are the franchised outlets? _____
- 3 What percentage of the franchisees product/service range you supply directly or control? _____ %
- 4 Can you describe the growth of the franchise? _____
 approx number of franchisees year
 1980 _____
 1983 _____
 1986 _____
 1990 _____
- 5 What services do you provide the franchisees with?
 Initial help with the _____
 feasibility plan _____
 initial financing _____
 launch _____
 selection of the site _____
 initial training _____
 Ongoing help with _____
 accounts and legal advice _____
 merchandising _____
 promotional supports _____
 periodic training _____
 computer support _____
 personnel policy and practice _____
- 6 What type of contract do you make with your "franchisees"?
 franchise contract _____
 dealership contract _____
 other agreements _____
- 7 How much have the following items influenced you when you selected your franchisees?
 not important quite important very important
 financial resources _____
 previous experience in the same sector _____
 trading experience _____
 being a relative of an actual franchisee _____
 being a friend of an actual franchisee _____
 being an employee of your company _____
- 8 What approximately is the average size of the retail territory of your franchisees? _____

Section II

In this section we would like to determine the extent of agreeing in decision making between you and the franchisees. Please indicate who has the greater say in decisions about the following issues by crossing the appropriate box

- | | decided by the franchisee | about equal | decided by you |
|---|---------------------------|--------------------------|--------------------------|
| 1 Retail prices charged to the consumer | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 Carrying competing brands | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 Co-operative advertising | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 Customer return policy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 In store service of product | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 Frequency of reporting about sales data | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 Inventory level | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 Store layout | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9 Product assortment | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10 Order size | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11 Provision of credit to customers | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 12 Hours of operation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 13 Size of the retail territory | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 14 Product display | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 15 Sales training | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 16 Local advertising | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Section III

In this section we would like to know the extent to which you agree or disagree with various statements regarding your relationship with the franchisees. We are interested in your feelings, attitudes and perceptions, so, please be candid. Please cross the appropriate box.

	strongly disagree	neither	strongly agree
1. For most of our franchisees, if they were to discontinue the franchise agreement it would be very difficult for them to achieve their business objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The relationship with the franchisees is based on trust	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. In general, the franchisees' opinions and values are similar to ours	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. If franchisees do as we suggest, we usually reward them with material incentives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Because of our position, we have the right to influence the behaviour of the franchisees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. For most of our franchisees, if they were to discontinue the franchise agreement, it would be very difficult for them to find a good source of managerial advice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. If the franchisees do not do as we suggest, we will make their life difficult	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. In most areas of their operations, the franchisees are legally obliged to follow our suggestions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. We have a lot of experience and usually we have better knowledge about the business than franchisees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. The franchisees do as we request mainly because of the benefits they will get	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. For most of our franchisees, if they were to discontinue the franchise agreement, it would be very difficult for them to find a good source of finance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Our products have good customer images	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. The franchisees like to act in roughly the same way as we do	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Franchisees who do not follow our suggestions, may be withdrawn advertising or other promotional support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. If a franchisee does not follow our suggestions, we may offer a new franchisee, close to his trading area	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. For most of our franchisees, if they were to discontinue the franchise agreement, it would be very difficult for them to find a good source of supply	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. The franchisees always value the information I give them	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. Most franchisees think that imitating us is a good thing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Very strict legal agreements govern our relationship with the franchisees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. The more the franchisees follow our guidelines the more we give them support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section IV

Here we would like to determine how you and the franchisees think about the marketing of your business. Please mark the appropriate box which indicates how important the following issues are in running the business and how frequently you and your franchisees disagree over them. If an item is not applicable to your firm, leave the relevant boxes blank.

	not important	quite important	very important	never disagree with the franchisees	sometimes disagree with the franchisees	very often disagree with the franchisees
1 Advertising allowances provided by you are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Franchisee's minimum order size is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Product/service assortment carried by the franchisees is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Size of the retail territory is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Competing brands carried by the franchisees are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Speed of delivery is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Return of defective merchandise in you is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 Credit policy with the franchisees is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 The range of management assistance offered by you to the franchisees is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 Prices that the franchisees charge to consumers are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11 Prices you charge the franchisees are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 Catalogues and sales promotion literature provided to the franchisees by you are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13 In-store product display is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14 The franchisees' inventory levels are	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15 Local advertising is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section VII

In this final section we would like to obtain some general information about your franchise and your franchisees. You work together with the franchisees on the following policies. Please check the appropriate box which indicates how important the following issues are in running the business, and how close is the cooperation. If an item is not applicable in your firm, leave the relevant boxes blank.

	not important	quite important	very important	how much do you and your franchisees cooperate closely on each of the following issues?	quite a lot closely	a great deal closely	as expected	better than expected
1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	how much do you and your franchisees cooperate closely on each of the following issues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>		

Code _____

FRANCHISING QUESTIONNAIRE
(UK Franchisee Version for Mail Survey)

- 1 Name of the parent company _____
- 2 Name of the franchise _____
- 3 Sector of activity _____
- 4 Name of the informant _____
- 5 Job title of the informant _____
- 6 Contact address _____
- 7 Contact phone number _____
- 8 fax _____
- 9 Region of operations of your shop
(See the attached map of Nielsen Regions):
 - London _____
 - Anglia _____
 - Southern _____
 - Wales, West and Westward _____
 - Midlands _____
 - Lancashire _____
 - Yorkshire _____
 - Tyne-Tees _____
 - Scotland _____
- 10 Is your shop in a town :
 - bigger than 100,000 people _____
 - smaller than 100,000 people _____
- 11 Date _____

Section D

Please cross the appropriate box according to your perceptions.

	strongly disagree	neither	strongly agree
a	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
p	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
q	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
r	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
s	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section E

In this final section we would like to obtain some general information about you and the franchisor.

a	What is the distance between you and the closest franchisee ?	miles	
b	What is the distance between you and the second closest franchisee ?	miles	
c	What is the distance between you and the third closest franchisee ?	miles	
d	How is your business performance this year living up in expectations ?	worse than expected	as expected
e	Recently, what is the trend of your performance ?	sharply decreasing	no change
f	The franchisor really control our business operations and strategy	strongly disagree	neither
g	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
h	In general, how would you describe the amount of tension or conflict between you and the franchisor ?	no conflict at all	minimal conflict
i	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
j	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
k	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
l	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
m	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
n	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
o	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
p	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
q	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
r	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
s	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
t	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
u	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
v	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
w	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
x	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
y	We interact and cooperate with other franchisees a great deal	strongly disagree	neither
z	We interact and cooperate with other franchisees a great deal	strongly disagree	neither

Code _____

FRANCHISING QUESTIONNAIRE

(Italian Franchisee Version for Personal Interview)

1. Name of the parent company _____
2. Name of the franchise _____
3. Sector of activity _____
4. Name of the informant _____
5. Job title of the informant _____
6. Contact address _____
7. Contact phone number _____
8. fax _____
9. Context of the interview:
Private office _____
Shop _____
10. Date _____

Parte I

Questa prima parte intende raccogliere informazioni riguardanti la organizzazione di franchising di cui fate parte (che chiameremo anche "intestatario").
 Che tipo di contratto avete stipulato con il franchisor? contratto di franchising contratto di concessione contratto di amministrazione altro contratto _____

1 Che percentuale dell'assortimento dei vostri prodotti/servizi è direttamente fornito o controllato ("controllo" di prodotti forniti da altri) dal franchisor? _____ %

2 Da quanto tempo fate parte dell'attuale sistema di franchising?
 meno di 6 mesi da 6 mesi a 1 anno da 1 a 2 anni da 2 a 5 anni più di 5 anni

3 Quali servizi vengono forniti dall'impresa affiliante?
 Servizi iniziali permanenti
 piano di fattibilità consulenza legale e contabile
 finanziamento merchandising
 leasing supporti promozionali
 selezione dei locali addestramento periodico
 presenza diretta sul punto vendita servizi informatici
 politiche e gestione del personale

4 Che tipo di contratto avete stipulato con il franchisor?
 contratto di franchising contratto di concessione contratto di amministrazione altro contratto _____

5 Che distanza c'è tra voi e
 S i il più vicino affiliato? km _____
 S ii il secondo più vicino affiliato? km _____
 S iii il terzo più vicino affiliato? km _____
 Qual è la dimensione della vostra area commerciale? _____ km
 Quale attività svolgeva prima di diventare affiliato? _____ km per _____ km

6 Qual è la dimensione della vostra area commerciale? _____ km
 7. Quale attività svolgeva prima di diventare affiliato? _____ km per _____ km
 affiliato in un altro sistema di franchising
 dettagliante nello stesso settore
 impiegato nello stesso settore
 dettagliante in un altro settore
 proprietario/manager in un altro settore
 impiegato in un altro settore

Parte II

In questa parte vorremmo determinare chi, tra voi e il franchisor, ha la maggiore influenza nelle decisioni riguardanti le seguenti politiche aziendali.

	deciso completamente da voi	deciso completamente dall'impresa affiliante	deciso da entrambi	deciso completamente da Voi	deciso da entrambi	completamente dall'affiliante
1. Prezzi al dettaglio	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Tenere in assortimento marche concorrenti	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Pubblicità competitiva	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Politiche riguardanti i prodotti resi dal consumatore	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Servizi nel punto vendita riguardanti il prodotto	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Frequenza dell'invio di dati di vendita	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Livello di servizio	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Disposizione del negozio (layout interno)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Assortimento dei vostri prodotti	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Dimensioni degli ordini	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Fornitura di credito ai clienti	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Orari di attività	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Dimensioni del territorio di vendita	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Esposizione dei prodotti	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Addestramento alla vendita	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Pubblicità locale di vostra responsabilità	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Parte III

In questa parte vi saremmo spacciati fino a che punto Lei e' d'accordo con alcune affermazioni riguardanti la relazione con il franchisor. La preghiamo di rispondere in modo rapido e spontaneo. Per favore, faccia un segno nella casella appropriata

	del tutto in disaccordo	neutrale	del tutto d'accordo
1. Se dovessimo terminare l'accordo di affiliazione, sarebbe molto difficile raggiungere i nostri obiettivi commerciali	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. La nostra relazione con il franchisor e' basata sulla fiducia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. In generale, le opinioni e i valori del franchisor sono simili ai nostri	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Il franchisor di solito si ricompensa con incentivi tangibili se agiamo come viene suggerito	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. In virtù della posizione che ricopre, il franchisor ha il diritto di influenzare il nostro comportamento	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Se dovessimo terminare l'accordo di affiliazione, sarebbe molto difficile trovare una fonte di supporto manageriale altrettanto valida	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Se non agiamo secondo quanto suggerito dal franchisor, ci verranno create delle difficoltà	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Nella maggior parte delle nostre operazioni commerciali, siamo legalmente obbligati a seguire i suggerimenti del franchisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Il franchisor ha molta esperienza e di solito ha una migliore conoscenza di noi riguardo al business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Abbiamo la volontà di seguire le indicazioni del franchisor solo per i benefici che possiamo trarne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Se dovessimo terminare l'accordo di affiliazione, sarebbe molto difficile trovare una fonte di risorse finanziarie altrettanto valida	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. I prodotti che otteniamo dal franchisor (forniti direttamente o "controllati") hanno una buona immagine presso i consumatori	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. A noi piace agire più o meno allo stesso modo dell'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Se non seguiamo i suggerimenti del franchisor, e' probabile che ci vengano negati i supporti promozionali e pubblicitari	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Se non seguiamo i suggerimenti del franchisor e' probabile che offra una nuova affiliazione nei pressi della nostra area commerciale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Se dovessimo terminare l'accordo di affiliazione, sarebbe molto difficile trovare fonti di approvvigionamento altrettanto valide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. Noi apprezziamo le informazioni che riceviamo dal franchisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. Noi pensiamo che siano le politiche e la filosofia commerciale del franchisor su una buona cosa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. La nostra relazione con il franchisor e' regolata legalmente in modo molto stretto	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. Più seguiamo le direttive del franchisor, e più riceviamo supporto da lui	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Parte IV

Qui vorremmo determinare le modalità con cui Voi e il Franchisor considerate le problematiche di marketing. Per favore indicare la casella appropriata che indica quanto i seguenti argomenti siano importanti, e segnare l'appropriato numero di voti. Se un argomento non è applicabile alla vostra impresa, lasciate vuote le caselle relative ad esso.

	non importante	piuttosto importante	molto importante	non siete mai in disaccordo con il franchisor	talvolta	spesso in disaccordo con il franchisor
1 I contributi pubblicitari forniti dall'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 L'ordine minimo presso l'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 L'assortimento di prodotti/servizi tenuto da Voi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Le dimensioni della vostra area commerciale all'interno del sistema di franchising	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Le marche concorrenti tenute da Voi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 La velocità dell'affiliante nelle consegne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 La restituzione di merce difettosa all'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 Le politiche di credito dell'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 L'estensione dell'assistenza manageriale offerta dall'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 I prezzi praticati da Voi nei confronti dei consumatori	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11 I prezzi che l'impresa affiliante pratica nei vostri confronti	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 I cataloghi e i materiali promozionali forniti dall'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13 L'esposizione dei prodotti nel punto vendita	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14 Il livello delle scorte	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15 La pubblicità locale sostenuta da Voi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In questa parte vorremmo determinare che tipo di relazione esiste fra Voi e gli altri affiliati

Parte V

	nessuno	circa la metà	quasi tutti
1 Quanti altri affiliati alla vostra stessa insegna conoscete ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Quanti altri affiliati alla vostra stessa insegna incontrate regolarmente ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Con quanti affiliati alla vostra stessa insegna scambiate informazioni riguardanti il vostro business e la relazione con il franchisor ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Quanto siete simili ad altre organizzazioni affiliate alla vostra insegna riguardo ai seguenti argomenti	molto simile		
5 Stile di gestione del business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 I valori e gli atteggiamenti dei Vostri collaboratori	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 I valori e le capacità del management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Ora vorremmo indicare quanto spesso nello scorso anno avete scambiato informazioni con altri affiliati riguardo ai seguenti argomenti:</u>			
7 I contributi pubblicitari forniti dall'impresa affiliante	mai <input type="checkbox"/>	una volta ogni 6 mesi <input type="checkbox"/>	una volta ogni settimana <input type="checkbox"/>
8 Le vendite minime presso l'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 I assottimenti di prodotti/servizi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 Le dimensioni del vostro territorio commerciale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11 Le marche commerciali tenute in assortimento	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 La velocità delle consegne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13 La situazione di merce deficiente all'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14 Le politiche di credito dell'impresa affiliante	mai <input type="checkbox"/>	una volta all'anno <input type="checkbox"/>	una volta ogni 6 mesi <input type="checkbox"/>
15 L'estensione dell'assistenza manageriale offerta dall'imp. affiliante :	<input type="checkbox"/>	<input type="checkbox"/>	una volta la settimana o più <input type="checkbox"/>
16 I prezzi praticati da Voi nei confronti dei consumatori	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17 I prezzi che l'impresa affiliante pratica nei vostri confronti	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18 I cataloghi e i materiali promozionali forniti dall'impresa affiliante	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19 L'esposizione dei prodotti nel punto vendita	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20 Il livello delle scorte	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21 La pubblicità locale sottoscritta da Voi	si <input type="checkbox"/>	no <input type="checkbox"/>	<input type="checkbox"/>
22 Globalmente, per gli argomenti sui quali scambiate delle informazioni lo scambio informativo è intenso ?	si <input type="checkbox"/>	no <input type="checkbox"/>	<input type="checkbox"/>

Parte VI

Chi vi sottoponiamo alcuni elementi riguardanti le modalità secondo le quali le decisioni vengono prese nella vostra insegna

	completamente in disaccordo	neutrale	completamente d'accordo
1. Il metodo attraverso il quale vengono valutati i risultati della mia attività da parte dell'impresa affiliante è definito chiaramente	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Il diritto e gli obblighi di tutte le parti in causa nel nostro sistema di franchising sono chiaramente definiti nel contratto di affiliazione	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Mi vengono dati suggerimenti e istruzioni scritte su come gestire la mia attività	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Il franchisor si impegna ad essere altamente coinvolto nello stabilire gli standard dell'insegna	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Il franchisor si impegna ad essere altamente coinvolto nell'allocazione del budget promozionale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Il franchisor si impegna ad essere altamente coinvolto nel prendere iniziative locali	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Parte VII

In questa parte finale vorremmo ottenere alcune informazioni di carattere generale riguardanti Voi, l'impresa affiliata, e gli altri affiliati.

1. Vi pregiamo indicare al franchisor, le seguenti politiche. Per favore, indicare la casella appropriata che indica quanto i seguenti argomenti sono importanti e quanto stretta è la cooperazione tra Voi e il franchisor. Se un argomento non è applicabile alla vostra impresa, lasciate vuote le caselle relative ad esso.

	non importante	piuttosto importante	molto importante	quando strettamente Voi e il franchisor cooperare su ognuno dei seguenti argomenti?
1 a	Le spese pubblicitarie	<input type="checkbox"/>	<input type="checkbox"/>	per niente <input type="checkbox"/> parecchio <input type="checkbox"/> molto <input type="checkbox"/>
1 b	La pianificazione di marketing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 c	Le politiche di credito	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 d	I servizi alla clientela	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 e	Le politiche di prezzo	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1 f	L'assortimento dei prodotti/servizi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Se dovesse terminare l'accordo di affiliazione, approssimativamente quale percentuale del fatturato attuale non sarebbe mantenuta? _____ %

	più	paracaduto	molto	7	come sono quest'anno i Vostri risultati rispetto alle Vostre aspettative?	peggio di quanto previsto	come previsto	meglio del previsto
3	In generale quanto proficuamente collaborate con il franchisor verso gli obiettivi che entrambi vi proponete?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	In generale come descrivereste il livello di tensione nei rapporti con il franchisor?	per niente conflittuale <input type="checkbox"/>	moderatamente conflittuale <input type="checkbox"/>	continuamente conflittuale <input type="checkbox"/>	molto in calo <input type="checkbox"/>	stabile <input type="checkbox"/>	molto in crescita <input type="checkbox"/>	
5	Non abbiamo relazioni e comportiamo intenzionalmente con altri affiliati	molto in disaccordo <input type="checkbox"/>	neutrale <input type="checkbox"/>	molto d'accordo <input type="checkbox"/>	9. Potete fornirci i commenti sulle problematiche investigate in questo questionario?			
6	Il franchisor controlla regolarmente le nostre politiche commerciali e la nostra strategia	molto in disaccordo <input type="checkbox"/>	neutrale <input type="checkbox"/>	molto d'accordo <input type="checkbox"/>				

Code _____

FRANCHISING QUESTIONNAIRE

(Italian Franchisor Version for Personal Interview)

1. Name of the parent company _____
2. Name of the franchise _____
3. Sector of activity _____
4. Name of the informant _____
5. Job title of the informant _____
6. Contact address _____
7. Contact phone number _____
8. fax _____
9. Context of the interview:
Private office _____
Shop _____
10. Date _____

In questa parte vorremmo sapere fino a che punto Lei è d'accordo con alcune affermazioni riguardanti la relazione con gli affiliati. La preghiamo di rispondere in modo rapido e spontaneo. Per favore, faccia un segno nella casella appropriata.

Parte III

		del tutto in disaccordo	neutrale	del tutto d'accordo
1	Per la maggior parte dei nostri affiliati, se dovessero terminare l'accordo di affiliazione, sarebbe molto difficile raggiungere i loro obiettivi commerciali	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	La nostra relazione con gli affiliati è basata sulla fiducia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	In generale, le opinioni e i valori degli affiliati sono simili ai nostri	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Se gli affiliati fanno ciò che noi suggeriamo, li ricompensiamo con incentivi tangibili	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	In virtù della posizione di franchisor che ricopriamo, abbiamo il diritto di influenzare il comportamento degli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Per la maggior parte dei nostri affiliati, se dovessero terminare l'accordo di affiliazione, sarebbe molto difficile trovare una fonte di supporto manageriale altrettanto valida	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Se gli affiliati non agiscono secondo quanto da noi suggerito, creteremo loro delle difficoltà	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Nella maggior parte delle operazioni commerciali, gli affiliati sono legalmente obbligati a seguire i nostri suggerimenti.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Non abbiamo molta esperienza e di solito una conoscenza riguardo al business più ampia di quella che hanno gli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Gli affiliati seguono le nostre indicazioni solo per i benefici che possono trarne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Per la maggior parte dei nostri affiliati, se dovessero terminare l'accordo di affiliazione, sarebbe molto difficile trovare una fonte di risorse finanziarie altrettanto valida	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	I nostri prodotti hanno una buona immagine presso i consumatori	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Agli affiliati piace agire più o meno allo stesso modo della nostra impresa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Agli affiliati che non seguono i nostri suggerimenti, potrebbero venire negati i supporti promozionali e pubblicitari	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	Se un affiliato non segue i nostri suggerimenti, è probabile che offriamo una nuova affiliazione nei pressi della sua area commerciale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	Per la maggior parte dei nostri affiliati, se dovessero terminare l'accordo di affiliazione, sarebbe molto difficile trovare una fonte di approvvigionamento altrettanto valida	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	Gli affiliati apprezzano sempre le informazioni che noi forniamo loro	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	Molti affiliati pensano che imitare le nostre politiche e la filosofia commerciale sia una buona cosa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	La nostra relazione con gli affiliati è regolata legalmente in modo molto stretto	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	Per gli affiliati seguono le nostre direttive e più noi diamo a loro supporto	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Parte IV

Qui vorremmo determinare le modalità con cui Voi e gli affiliati considerate le problematiche di marketing. Per favore indicare la casella appropriata che indica quanto i seguenti argomenti sono importanti, e quanto frequentemente Voi e gli affiliati siete in disaccordo su di essi. Se un argomento non è applicabile alla vostra impresa lasciate vuote le caselle relative ad esso.

	non importante	piuttosto importante	molto importante	non siete mai in disaccordo con gli affiliati	talvolta	siete molto spesso in disaccordo con gli affiliati
1 I contributi pubblicitari forniti dalla vostra impresa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 L'ordine minimo degli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 L'assortimento di prodotti/servizi tenuti dagli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Le dimensioni dell'area commerciale degli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Le marche commerciali tenute in assortimento dagli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 La velocità nelle consegne agli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 La recitazione di merce difettosa da parte degli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 Le politiche di credito nei confronti degli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 L'estensione dell'assistenza manageriale offerta agli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 I prezzi praticati dagli affiliati nei confronti dei consumatori	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11 I prezzi che la vostra impresa applica nei confronti degli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 I cataloghi e i materiali promozionali forniti agli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13 L'organizzazione dei prodotti nel punto vendita	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14 Il livello delle scorte degli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15 La pubblicità locale sottoscritta dagli affiliati	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In questa parte vorremmo determinare che tipo di relazione esiste tra gli affiliati

Parte V

	nessuno	circa la metà	quasi tutti
1 Quanti affiliati alla vostra insegna conoscono altri affiliati alla stessa ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Quanti dei vostri affiliati si incontrano regolarmente ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Quanti dei vostri affiliati scambiano informazioni riguardanti il loro business e la relazione di franchising ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quanto sono simili tra loro gli affiliati, riguardo ai seguenti argomenti			molto simile
4 Stile di gestione del business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 I valori e gli atteggiamenti dei loro collaboratori	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 I valori e le capacità del loro management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Parte VI

Ora vi sottoporremo alcuni elementi riguardanti le modalità, secondo le quali le decisioni vengono prese nella vostra insegna

	completamente in disaccordo	neutrale	completamente d'accordo
1 Il metodo attraverso il quale valutiamo i risultati dell'attività degli affiliati è definito chiaramente	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 I diritti e gli obblighi di tutte le parti in causa nel nostro sistema di franchising sono chiaramente definiti nel contratto di affiliazione	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Diamo agli affiliati suggerimenti e istruzioni scritte su come gestire l'attività	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Incoraggiamo gli affiliati ad essere attivamente coinvolti nello stabilire gli standard dell'insegna	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Incoraggiamo gli affiliati ad essere attivamente coinvolti nell'attuazione del budget promozionale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Incoraggiamo gli affiliati ad essere attivamente coinvolti nel prendere iniziative locali	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Code _____

FRANCHISING QUESTIONNAIRE
(Italian Franchisee Version for Mail Survey)

1. Nome della società' _____
2. Nome dell'insegna _____
3. Settore di attività' _____
4. Nome di colui che
compila il questionario _____
5. Ruolo nell'impresa _____
6. Indirizzo _____
7. Numero di Telefono _____
8. Numero di fax _____
9. Regione nella quale ha sede
il negozio: _____
10. Il negozio affiliato e' in un
centro abitato da:
piu' di 100.000 persone
mezzo di 100.000 persone
11. Data _____

Parte C

In questa parte vorremmo determinare che tipo di relazioni esiste fra Voi e gli altri affiliati.

- | | | | |
|---|--------------------------|--------------------------|--------------------------|
| | nessuno | circa
la metà | quasi
tutti |
| 1. Quanti altri affiliati alla vostra stessa insegna conoscete ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Quanti altri affiliati alla vostra stessa insegna incontrate regolarmente ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Con quanti affiliati alla vostra stessa insegna scambiate informazioni riguardanti il vostro business e la relazione con il franchisor ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Quanto siete simili ad altre organizzazioni affiliate alla vostra insegna riguardo ai seguenti argomenti:

- | | | | |
|--|--------------------------|--------------------------|--------------------------|
| | molto
differente | | molto
simile |
| 4. Stile di gestione del business | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. I valori e gli atteggiamenti dei Vostri collaboratori | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. I valori e le capacità del management | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Ora vorremmo indicare quanto spesso nello scorso anno avete scambiato informazioni con altri affiliati riguardo ai seguenti argomenti.

- | | | | | | | | |
|--|--------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------|------------------------------------|-------------------------------|
| | mai | una volta
ogni
6 mesi | una volta
ogni
3 mesi | una volta
ogni
6 mesi | una volta
ogni
anno | una volta
la settimana
o più | una volta
al mese
o più |
| 7. I contributi pubblicitari forniti dall'impresa affiliante | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. L'ordine minimo presso l'impresa affiliante | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. L'assortimento di prodotti/servizi | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Le dimensioni del vostro territorio commerciale | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Le altre marche tenute da voi in assortimento | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. La velocità nelle consegne | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. La redditività di merce dirottata all'impresa affiliante | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. Le politiche di credito dell'impresa affiliante | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. L'assistenza manageriale offerta dall'impresa affiliante | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. I prezzi praticati da Voi nei confronti dei consumatori | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 17. I prezzi che l'impresa affiliante pratica nei vostri confronti | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 18. I cataloghi e i materiali promozionali forniti dall'impresa affiliante | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 19. L'esposizione dei prodotti nel punto vendita | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. Il livello delle sconti | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 21. La pubblicità locale sottoscritta da Voi | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

22. Globalmente, per gli argomenti sui quali scambiate delle informazioni, lo scambio informativo e' intenso ?
- si no

Parte D

Fate una crocetta nella casella appropriata secondo la vostra personale opinione.

	del tutto in disaccordo	neutrale	del tutto d'accordo
a	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
p	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
q	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
r	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
s	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Parte E

In questa parte finale vorremmo ottenere alcune informazioni di carattere generale riguardanti Voi, l'impresa affiliante, e gli altri affiliati.

a	Che distanza c'è tra voi e: a i il più vicino affiliato? km _____ a ii il secondo più vicino affiliato? km _____ a iii il terzo più vicino affiliato? km _____	d	Come sono questi anni i Vostri risultati rispetto alle Vostre aspettative?	peggio di quanto previsto come previsto meglio del previsto	
b	In generale, come descrivereste il livello di tensione nei rapporti con il franchisor?	per niente conflittuale moderatamente conflittuale continuamente conflittuale	e	Recentemente, qual è il trend della vostra redditività?	molto in calo stabile molto in crescita
c	Non abbiamo relazioni e cooperiamo internamente con altri affiliati?	molto in disaccordo neutrale molto d'accordo	f	Il franchisor controlla realmente le nostre politiche commerciali e la nostra strategia?	molto in disaccordo neutrale molto d'accordo

In the following table we list variables, measures, and codes. Most variables - such as "Power" and "Coercive Power Sources" - were measured using multi-item indices. The codes that were used to define these multi-item indices are reported here. Each code tallies with a question in one of the questionnaires used for the personal interviews¹ (see Appendix D). For example, the variable Power was measured with a multi-item index comprising 16 items. These items were coded with symbols II1, II2, II3,..II16 (see the questionnaires in Appendix D)²; in addition an overall measure of power (one item) was reported, and this was coded VII6.

In the table we also report the code names of the multi-item indices - in each case there are two codes, one based on the summation of all items and the other based on only the reliable items. For instance, Power1 is based on the summation of all 16 items in the index, whereas Power is based on only the reliable items (sometimes a different number across the sub-samples).

The measures are discussed in section 6.6.; and the reliability analyses are presented in Chapter 8, sections 8.1.3., 8.2.3., and 8.3.3. .

¹. The questionnaires used in the mail surveys include a smaller number of items; re-coding was necessary to fill the gaps created in the questionnaire by the deletion of the items which had to be left out. Thus, the questionnaires used in the mail surveys are coded differently, but the items have not been changed.

². II stands for the second section of the questionnaire, figures 1, 2, 3...16 stand for the item number within each section.

Table E.1 Variable Names, Measures and Codes

VARIABLE NAME	MEASURE	CODE	RANGE
POWER	-16 items for a multi-item measure:	II1 to II16	1-7
	-multi-item index (all items):	POWER1	1-7
	-multi-item index (reliab.items):	POWER	1-7
	-overall measure:	VII6	1-7
COERCIVE POWER SOURCE	-3 items for a multi-item measure:	III7, III14, III15	1-7
	-multi-item index (all items):	COERC1	1-7
	-multi-item index (reliab. items):	COERC	1-7
REWARD POWER SOURCE	-3 items for a multi-item measure:	III4, III10, III20	1-7
	-multi-item index (all items):	REWARD1	1-7
	-multi-item index (reliab. items):	REWARD	1-7
LEGITIMATE POWER SOURCE	- 3 items for a multi-item measure:	III5, III8, III19	1-7
	-multi-item index (all items):	LEGIT1	1-7
	-multi-item index (reliab.items)	LEGIT	1-7
EXPERT POWER SOURCE	- 3 items for a multi-item measure:	III9, III12, III17	1-7
	-multi-item index (all items):	EXPERT1	1-7
	-multi-item index (reliab.items)	EXPERT	1-7
REFERENT POWER SOURCE	-4 items for a multi-item measure:	III2,III3, III13, III18	1-7
	-multi-item index (all items):	REFER1	1-7
	-multi-item index (reliab.items):	REFER	1-7
DEPENDENCE	-4 items for a multi-item measure:	III1, III6, III11, III16	1-7
	-multi-item index (all items):	DEP1	1-7
	-multi-item index (reliab. items):	DEP	1-7
	-overall measure (% assort. ³):	PCENTASS (I1)	0-100
CONFLICT VARIABLES	-15 items for a multi-item frequency measure ⁴ :	IVB1 to IVB15	0-6
	-frequency multi-item index (all items):	CONFREQ1	0-6
	-frequency multi-item index (reliab.items):	CONFREQ	0-6
	-15 items for a multi-item frequency * importance measure:	IV1 to IV15	0-42
	-freq.*imp. multi-item index (all items):	CONF1	0-42
	-freq.*imp. multi-item i. (reliab.items):	CONF	0-42
-overall measure	VII4	1-7	
HORIZONTAL AWARENESS	-3 items for a multi-item measure:	V1, V2, V3	1-7
	-multi-item index (all items):	HORZREL1	1-7
	-multi-item index (reliab.items):	HORZREL	1-7
HORIZONTAL SIMILARITY	-3 items for a multi-item measure:	V4, V5, V6	1-7
	-multi-item index (all items):	HORZLIK1	1-7
	-multi-item index (reliab.items)	HORZLIK	1-7
			to be continued

³. Percentage of the products carried by the franchisee that was supplied or directly controlled by the franchisor.

⁴. The conflict variable was measured with two dimensions: frequency and importance. Two multi-item indices, were derived from these dimensions:

- (a) the first is frequency (items IVB1, IVB2, IVB3...IVB15, code: CONFREQ);
- (b) the second is the product of frequency times importance (items IV1=IVA1*IVB1, IV2=IVA2*IVB2...IV15=IVA15*IVB15,code: CONF).

VARIABLE NAME	MEASURE	CODE	RANGE
ONLY FOR FRANCHISORS			
IMPORTANCE OF CRITERIA FOR SELECTING FRANCHISEE	-1 item for financial resources:	RISFIN (17a)	1-7
	-1 item for experience in the sector	ESPSET (17b)	1-7
	-1 item for experience in trading	ESPCOM (17c)	1-7
	-1 item for being a relative of a f.ee	RELAT (17d)	1-7
	-1 item for being a friend of a f.ee	FRIEND (17e)	1-7
	-1 measure for being an employee	EMPLEE (17f)	1-7
SIZE OF THE FRANCHISE	-n. of outlets directly run by the f.or -n. of franchise shops in the franchise	NDIRECT NFRANC	0-inf. 5-inf.
GROWTH OF THE FRANCHISE	-n. of franchise shops in 1980	N1980	0-inf.
	-n. of franchise shops in 1983	N1983	0-inf.
	-n. of franchise shops in 1986	N1986	0-inf.
	-n. of franchise shops in 1990	N1990	0-inf.
ONLY FOR FRANCHISEES			
GEOGRAPHICAL AREA	-1 item for geographical area of Italy 1=north 2=center 3=south	REGIONIT	1-3
	-1 item for geographical area of Britain 1-10 :Nielsen areas	REGIONUK	1-10
	-1 item for size of town where the franchise shop is located 1 stands for < 100.000 people 2 stands for > 100.000 people	TOWNSIZE	1-2
HORIZONTAL INFORMATION EXCHANGE (frequency)	-15 items for a multi-item measure:	V7 to V21	0-4
	-multi-item index (all items):	HORZINF1	0-4
	-multi-item index (reliab.items):	HORZINF	0-4
HORIZONTAL INFORMATION EXCHANGE (intensity)	-overall measure:	V22	0-1

Appendix F Structural Equation Modelling and the LISREL Package

The Lisrel Model

Structural equation modelling provides researchers with a useful methodology for assessing two basic components of theory, namely, a means for assessing the adequacy with which variables have been measured, and a mechanism for investigating the hypothesized relationships between and among variables. Structural equation modelling in marketing has had a slow but steady growth since its inception about fifteen years ago. Indeed, it is now recognized as a general approach for integrating the theory-construction phase of research with the empirical and hypothesis-testing stages. In this respect, it can be used as (1) strictly a measurement tool to develop scales and indices and to assess reliability, (2) a procedure for examining the many forms of measure validity, or (3) a methodology for testing hypotheses, making predictions, or evaluating cause and effect.

Conventional regression parameters fail to give the relevant information in at least three situations: (1) when the observed measurements contain measurement errors, (2) when there is interdependence or simultaneous causation among the observed response variables, and (3) when important explanatory variables have not been observed (omitted variables).

Joreskog (1973, 1977) formulated a general model, the Lisrel model, for systems of structural equations. This model can accommodate all three situations mentioned and many others (Joreskog and Sorbom, 1982).

Social scientists have long recognized that the value of variables recorded during data collection do not correspond exactly with the variables of theoretical interest. The discrepancy between desired and achieved measurement is typically addressed under the topics of reliability and validity, where reliability refers to the stability of replicated measurements, and validity refers to whether the measure really measures

what it is supposed to measure. Discussions of measurement become so central that other equally important stages of research, such as theorizing, model development, model estimation, and discussion of results, tend to lose their own centrality. Lisrel integrates measurement concerns with structural equation modelling by incorporating both latent theoretical concepts and observed or measured indicator variables into a single structural equation model.

A Lisrel model has two parts: a measurement submodel and a structural-equation submodel. The measurement submodel specifies how latent variables are measured in terms of the observed variables, and it describes the measurement properties (validity and reliability) of the observed variables. The structural equation submodel specifies the causal relationships among the latent variables. It describes the causal effects and estimates the amount of unexplained variance.

The equations of a hypothesized model are presented in matrix form. The structural equations that need to be defined for any Lisrel analysis are the following:

Measurement Submodel: (1) $y = \Lambda_y \eta + \epsilon$

(2) $x = \Lambda_x \xi + \delta$

Structural Equation Submodel: (3) $\eta = \mathbf{B}\eta + \mathbf{\Gamma}\xi + \zeta$

Covariance Matrices: (4) $\Phi = \text{Cov}(\xi)$

(5) $\Psi = \text{Cov}(\zeta)$

(6) $\Theta_\epsilon = \text{Cov}(\epsilon)$

(7) $\Theta_\delta = \text{Cov}(\delta)$

Lisrel is based on the variance-covariance matrix of the measures of the independent and dependent variables (x's and y's) included in the model structure. It can be shown that this matrix is a function of eight matrices that have to be specified for any structural equation analysis: Λ_x , Λ_y , $\mathbf{\Gamma}$, \mathbf{B} , Φ , Ψ , Θ_ϵ , and Θ_δ (definitions and notations of all these matrices are provided in table F.1.). Elements of the matrices in the

Lisrel model may be either free or fixed. The free elements are estimated using the maximum likelihood method, with Joreskog and Sorbom's (1989) software package, Lisrel VII.

Lisrel calculates a value for each free parameter so that the estimated parameters are most similar to the observed covariance matrix. The value of the following function is minimized:

$$F = \log |\Sigma| + \text{tr}(\mathbf{S}\Sigma^{-1}) - \log |\mathbf{S}| - (m+n)$$

where \mathbf{S} is the observed variance-covariance matrix of the measures,
 Σ is the estimated variance-covariance matrix of the measures,
 m is the number of latent dependent variables, and n is the number of latent independent variables.

The logic of the estimation is to select as the best estimates those values that maximize the likelihood of any remaining differences being attributable to mere sampling fluctuations. Maximizing the likelihood minimizes what must be attributed to sampling fluctuations.

Quantifying the likelihood of a covariance matrix \mathbf{S} , appearing for a sample of cases randomly selected from a population having covariance matrix Σ , requires an assumption that the variables in the population are distributed according to a multivariate normal distribution.

One advantage of using Lisrel is that the minimum value of F (F_0), when multiplied by n , is approximately a χ^2 distribution with the following degrees of freedom (d.f.):

$$d. f. = (m+n) (m+n+1) / 2 - t$$

where t is the number of estimated parameters.

A chi-square test is therefore readily available for examining the goodness-of-fit of the estimated parameters of the hypothesized model, as F is a positive function of the discrepancies between the elements of S and Σ . It is generally accepted that χ^2 values with probabilities .10 and higher indicate a good fit of one's data to the tested model (Hayduk, 1987; Mulaik et al., 1989) ¹. The aim, then, is to have a well fitting model that comes close to duplicating the observed covariance matrix much more parsimoniously than merely allocating a single coefficient to each covariance. One should strive for models having as many degrees of freedom as possible (ie. models having few estimated coefficients) since the larger the d.f. the more parsimonious is the prediction of an acceptably fitting Σ .

Chi-square, however, is only an "omnibus test" of the model constraints. Finding an insignificant χ^2 does not prove that one has located the right model. It does indicate that one has located a model and a set of coefficient estimates that are consistent with the observed covariances, and that the model has survived a challenge that results in the failure of many models. In the light of these comments, structural equation modelling provides a theory-disconfirmation test. If a theorized model fits the data well, the theory is not disconfirmed.

A problem that can be solved by using the χ^2 distribution relates to choosing between alternative models. Consider estimating two models, one of which is nested within the other in that it can be created from the other model by imposing additional model constraints. These constraints may be the fixing of specific coefficients at zero, but

¹. Cut-off points lower than .10 are sometimes accepted; for example, in Hallen, Johanson, and Seyed-Mohamed (1991), the overall fit indicators are: $\chi^2=54.8$; d.f.=38, $p=.038$. The goodness-of-fit index is .960 and the root mean square residual is .048. The goodness-of-fit index, more than chi-square, is relatively independent of the sample size and relatively robust to departures from normality (Joreskog and Sorbom, 1988). Given that the authors had doubts about the normality of the variables, they accepted the model at a level of p lower than the usual cut-off point, due to the magnitude of the other indices.

constraining coefficients to be equal or to have specific non-zero values would also be acceptable (models based on different sets of observed variables cannot be nested). Imagine further that both models have been estimated, and the χ^2_1 with d.f.₁ appears for the basic model and χ^2_2 with d.f.₂ appears for the model with the additional restrictions. Model 2 with its additional restrictions should have a larger χ^2 than model 1, and the d.f. for model 2 should be larger than the d.f. for model 1, because fewer coefficients are estimated for the more restricted model. That is, $\chi^2_2 > \chi^2_1$ and d.f.₂ > d.f.₁.

We now use the fact that the difference between the two χ^2 s is also distributed as a χ^2 with degrees of freedom equal to the difference between the degrees of freedom for the two models. That is, we can create a χ^2_3 with d.f.₃ as $\chi^2_3 = \chi^2_2 - \chi^2_1$ and d.f.₃ = d.f.₂ - d.f.₁. Testing to see if χ^2_3 is significant with d.f.₃ (in the tables available in all statistical textbooks) indicates whether the additional constraints have significantly reduced the model's ability to fit the data. If the difference between the original model and the nested model is not significant, it means that the change in χ^2 merely capitalized on chance.

The strategy of using the difference between model χ^2 s as a test is applicable whenever one can create a more restricted model by placing additional constraints on some basic model. The procedure is also useful for testing the significance of improvements in an initially ill-fitting model. But this procedure should be used with caution.

There is an inherent and fundamental difference between using χ^2 for testing a model and using χ^2 as one of the tools for incrementally improving the fit of a model. From the viewpoint of pure testing, we have compromised the ability of χ^2 to test the ultimate model the instant we change anything about the model on the basis of the observed covariances or on the basis of previous attempts to fit the model to the data (and specifically the χ^2 for any previous attempts). Once the data has been used to fix the model, that data no longer provide a pure test of the model.

This principle provides an answer to another frequently encountered problem. Suppose we estimate an original model to find that several of its coefficients are insignificant. Should we omit the insignificant coefficients and re-estimate the model (with a reduced number of estimated coefficients and hence increased degrees of freedom), or should we report the model containing the insignificant coefficients? Unless there is some reason for omitting the coefficients beyond their mere insignificance, the foregoing argues that the model should not be re-estimated with the insignificant coefficients deleted. The insignificance of the coefficients is a function of the input data.

The idea of finding a model as parsimonious as possible for a given acceptable χ^2 may force the analyst to modify the model according to the specific output of the Lisrel package (low t-values). This procedure, however, alters the theory to be tested, and reasons beyond significance indicators should underlie the analyst's decision to change the model. The problem of theory building and modification is too broad to be included in this report. As a general indication, we suggest that statistical analysis should be matched with repeated tests of the same model on different data sets. If the same coefficients are significant across different data sets we will have greater confidence in the underlying theory.

The issue of minimum sample size may be decided on the basis of considerations other than χ^2 . Improper solutions (non-convergence of the iterative procedure, or negative error variance estimates) are reported to become bothersome if the sample is smaller than 100 (Hayduk, 1987). Even if some models produce convergent solutions at smaller sample size, a rule of thumb is to aim for at least 100 observations. The χ^2 is sensitive to sample size² and departures from multivariate normality of the observed variables.

Two other measures of overall fit are the goodness of fit index (GFI) and the root mean square residual (RMR). The goodness-of-fit index is defined as:

². Large sample sizes tend to increase χ^2 beyond the value expected from specification error in the model.

$$GFI = 1 - \frac{tr(\Sigma^{-1}S - I)^2}{tr(\Sigma^{-1}S)^2}$$

where Σ is the fitted matrix. The GFI is a measure of the relative amount of variance and covariance jointly accounted for by a model, and the analyst looks for a model with GFI as close as possible to 1. Unlike χ^2 , GFI is independent of the sample size and robust against departures from normality.

The root mean square residual is defined as:

$$RMR = [2 \Sigma \Sigma (s_{ij} - \sigma_{ij})^2 / k(k+1)]^{1/2}$$

where k is the total number of y and x variables in the model. It is a measure of the average of the residuals and can be interpreted only in relation to the sizes of the observed variances and covariances in S . The analyst looks for a model with RMR as close as possible to 0. The root mean square residual can be used to compare the fit of two different models for the same data. The goodness-of-fit index also can be used for this purpose, as well as to compare the fit of models for different data.

A more detailed assessment of fit can be obtained by an inspection of the normalized residuals. Lisrel reports residual covariances in real and standardized metrics. Residuals should be normally distributed. Departures from normality and residual values greater than +2 or less than -2 in Lisrel output provide a convenient way of locating the most poorly fitting covariances.

Having obtained estimates of the model coefficients and tested the fit of the overall model, we now look into the significance of individual coefficients. As in multiple regression, some of the estimated coefficients may imply large effects, whereas others are sufficiently close to zero that they are likely to be mere sampling fluctuations

around a zero population parameter. Following traditional hypothesis-testing procedures, we can reject a hypothesis that a population parameter is zero if we observe an estimate that is more than about two standard deviations (standard error) away from zero. Lisrel provides "t-values", which are the coefficient estimates divided by their standard errors. We select a desired level of significance and then inspect a normal probability table (not a t-table, which we might expect from the labelling of the Lisrel output) to obtain the corresponding critical value. If Lisrel's t-value is greater than the critical value, we can reject the null hypothesis of a zero parameter at the pre-selected level of significance.

Lisrel output provides the analyst with modification indices, which are based on partial derivatives of the fit function with respect to all of the coefficients in the model (both fixed and free). A large modification index for a parameter fixed to 0 suggests that χ^2 might be significantly improved by relaxing the specific parameter. Again, any change here should be consistent with theory. "Model modifications should be nine-tenths theory driven and only one-tenth data driven" (Hayduk, 1987, p.177).

Two-Step Approach to Structural Equation Modelling

As we said at the beginning of this appendix, the Lisrel model includes a measurement submodel and a structural submodel. The measurement model, in conjunction with the structural model, enables a comprehensive, confirmatory assessment of validity of measures. The measurement model provides a confirmatory assessment of convergent and discriminant validity. Given acceptable convergent and discriminant validities, the test of the structural model then constitutes a confirmatory assessment of nomological validity.

In traditional Lisrel estimation, the measurement and the structural models are estimated simultaneously (which we define as a "one-step approach").

For assessing the structural model under a two-step approach, Anderson and Gerbin (1988) recommend estimating a series of models. Firstly, a saturated structural submodel is estimated - this can be defined as one in which all parameters relating the variables to one another are estimated (this model is formally equivalent to a confirmatory measurement model). Secondly, a null structural submodel is estimated - this can be defined as one in which all parameters relating the variables to one another are fixed at 0 (i.e., there are no posited relations of the variables to one another).

A researcher could first see whether there exists a structural model that has an acceptable goodness of fit. This would be accomplished with a pseudo chi-square test (Bentler and Bonnet, 1980), in which a pseudo chi-square statistic is constructed from the chi-square value for the saturated model (the smallest value possible for any structural model) with the degrees of freedom for the null model (the largest number of degrees of freedom for any structural model). If this pseudo chi-square statistic is significant, then no structural model would give an acceptable fit, because it would have a chi-square value greater than or equal to the value for the saturated model with fewer degrees of freedom than for the null model. This would suggest a fundamental re-specification of the measurement model, rather than the need to estimate additional structural models. A researcher using a one-step approach would not know this.

Then, the researcher would estimate the hypothesized model and those nested models that are consistent with theory.

The procedure suggested by Anderson and Gerbin is very appropriate, even if they tend to be in favour of changing the hypothesized model according to any non-significant structural parameters, which we suggest should be done after testing the model on different data sets.

Multi-sample Lisrel

Results obtained from isolated statistical analyses are of little use for any scientific process of knowledge development. Thus, once a theoretically meaningful model has been tested on one data set, replication in different contexts is to be recommended. If a model holds across different data sets, for example different cities, countries, time periods, and different experimental conditions, the *accumulation* of evidence will go to support the theory. Also, if the model fits different data sets with the same structural coefficients, we increase the generalizability of results. Even when structural coefficients cannot be kept equal across different data sets, the external validity of the theory can be improved by understanding to what extent equal parameters unbalance the model (performing a sort of sensitivity analysis).

The Lisrel package includes the possibility of estimating structural parameters and overall fit of a model using more than one sample at the same time. Though each such group might be modelled with a separate Lisrel estimation, stacking groups together allows some of the coefficients to be constrained to be equal between the groups while other coefficients vary between the groups. Entering constraints on stacked groups (reflecting the ways the groups are thought to behave similarly) provides fewer coefficients to estimate and hence extra degrees of freedom. Coefficients can be estimated (free coefficients) or fixed to given values (for example fixed to 0). Either fixed or free coefficients can be constrained to be equal across samples.

The fit for any one group (the g^{th} group) can be represented as:

$$F_g = \text{tr}(\mathbf{S}_g \boldsymbol{\Sigma}_g^{-1}) + \log |\boldsymbol{\Sigma}_g| - \log |\mathbf{S}_g| - (m+n)$$

The fit of the overall stacked model is the weighted average of the fits achieved for each group separately, namely:

$$F = \sum \left(\frac{N_g}{N} \right) F_g$$

The general formula for the degrees of freedom in a stacked model is:

$$d. f. = (\text{number. of. groups}) (1/2) (m+n) (m+n+1) - t$$

where t is the number of estimated parameters.

The approach that we suggest is to first try to constrain all parameters of the structural submodel to be equal across the different data sets. If the model has acceptable indicators of fit, a comparison with the unconstrained model (based on the pseudo chi-square test for nested models discussed before) can be used to test whether the two models are significantly different.

Table F.1 Definitions and Notation Used in Lisrel Analysis

Notation		Definition	Abbreviation
p		number of observed dependent variables	
q		number of observed independent variables	
m		number of latent dependent variables	
n		number of latent independent variables	
y		$p \times 1$ vector of observed dependent variables	
η	eta	$m \times 1$ random vector of latent dependent variables	
ϵ	epsilon	$p \times 1$ vector of measurement errors in y	
x		$q \times 1$ vector of observed independent variables	
ξ	ksi	$n \times 1$ random vector of latent independent variables	
δ	delta	$q \times 1$ vector of measurement errors in x	
Λ_y	lambda-y	$p \times m$ matrix of coefficients of the regression of y on η	LY
λ_{y11}	lambda-y ₁₁	element 11 of matrix LY	
Λ_x	lambda-x	$q \times n$ matrix of coefficients of the regression of x on ξ	LX
λ_{x21}	lambda-x ₂₁	element 21 of matrix LX	
Γ	gamma	$m \times n$ matrix of coefficients of the ξ -variables	GA
γ_{11}	gamma ₁₁	element 11 of matrix GA	
B	beta	$m \times m$ matrix of coefficients of the η -variables	BE
β_{21}	beta ₂₁	element 21 of matrix BE	
ζ	zeta	$m \times 1$ vector of equation errors in the structural relationships between the latent independent and latent dependent variables (η and ξ)	
Φ	phi	$\text{Cov}(\xi)$, $n \times n$ covariance matrix of independent variables	PH
ϕ_{11}	phi ₁₁	element 11 of matrix PH	
Ψ	psi	$\text{Cov}(\zeta)$, $m \times m$ covariance matrix of equation errors	PS
ψ_{11}	psi ₁₁	element 11 of matrix PS	
Θ	theta-epsilon	$\text{Cov}(\epsilon)$, $p \times p$ covariance matrix of measurement errors in y	TE
θ_{11}	theta-epsilon ₁₁	element 11 of matrix TE	
Θ_δ	theta-delta	$\text{Cov}(\delta)$, $q \times q$ covariance matrix of measurement errors in x	TD
$\theta_{\delta 11}$	theta-delta ₁₁	element 11 of matrix TD	

PART VII

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VII REFERENCES¹

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