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A Conceptualization and Empirical Examination of the Effects of Marketing Alignment on Franchising Relationships

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A CONCEPTUALIZATION AND EMPIRICAL EXAMINATION OF THE EFFECTS OF MARKETING ALIGNMENT ON FRANCHISING RELATIONSHIPS

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Franchising is a widely utilized business format that continues to grow in popularity both domestically and abroad. Through the recruitment of franchisees as agents, franchisors are able to access additional resources and rapidly expand their networks. The marketing relationship between franchising partners presents unique opportunities and challenges due to this captive and codependent channel structure. In order to fill a gap in the literature and better understand franchisee-franchisor relationships, the author conceptualizes *marketing alignment* as being comprised of both agreement and cooperation across the dimensions of strategies, operations, and values. A conceptual model is developed that addresses the following research questions: 1) What is franchisee-franchisor marketing alignment?, 2) What effects does marketing alignment have on implementation and satisfaction?, and 3) What factors moderate (and how) the effects of marketing alignment on its outcomes? The model is tested in a sample of 110 current food and beverage franchisees representing 31 companies. The results show that (a) operational marketing alignment positively affects implementation, (b) strategic, operational, and values marketing alignment all positively affect satisfaction, and (c) franchising capability, franchisor marketing mix control, financial transparency, and idiosyncratic investment each play a unique role in moderating the main effects of

marketing alignment on its outcomes under specific conditions. The results imply that marketing managers can intentionally alter the degree of implementation and satisfaction that is achieved by franchisees through either greater alignment or by altering their own level of transparency, investment, and control.

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CHAPTER ONE
–INTRODUCTION–

INTRODUCTION

Franchising as a business model has existed in the United States for over a century (Rothenburg 1967). Franchising first originated in the form of voluntary and cooperative groups that sought economies of scale through vertical or horizontal expansion (Konopa 1963). During this time, franchising offered a cost-efficient way for companies to partner together and expand market presence. The concept soon progressed into franchise selling, or the practice of manufacturers allowing a limited number of retailers to sell their products for a fee (Konopa 1963). This type of franchising also led to faster expansion into the marketplace than could have otherwise been accomplished by these manufacturers given their limited internal resources. The practice of franchising continued to evolve into its present design of free-enterprise franchising, which is currently a well-established alternative marketing channel of distribution that has been widely adopted both domestically and internationally (Grünhagen, Witte, and Pryor 2010; Hackett 1976; Ni and Along 2010; Walker and Etzel 1973).

Overall, franchisees and franchisors represent a significant and specific type of marketing channel relationship that captures interactions between a manufacturer and its codependent retailers. Though relationships are at the heart of virtually all business, for franchisees and franchisors, the relationship structure has an additional layer of complexity. This complexity is due to the fact that there is a forced co-dependence without any guarantee that individual strategies, tactics, or values will align.

As a result of the potential for misalignment, many franchising relationships fall short of achieving their desired level of success (Gibson 2007; Holmberg and Morgan

2004). Reasons for lack of performance include having conflicting approaches to the market, poor relationship quality between franchising partners, as well as unrealistic financial, strategic, or operational expectations on the franchisee (Purvin 2008; Sniegowski 2012). Furthermore, a lack of agreement or cooperation across marketing efforts are often cited as critical factors (Frazer 2013; Mathews, DeBolt, and Percival 2011). There is a legitimate need to more thoroughly examine how franchisees and franchisors align on several important marketing issues.

As the presence of franchising systems continues to grow, so does the importance of better understanding the relationships between franchisees and franchisors from a marketing management perspective. Early research on this phenomenon found a variety of results that have an important impact on the quality and success of franchising relationships. For example, it was shown that a franchisor's use of non-coercive sources of power led to greater satisfaction for the franchisee (Hunt and Nevin 1974), that a variety of legal issues, such as trying agreements and full disclosure laws, have a significant impact on the franchise distribution channel (Hunt and Nevin 1975; Hunt and Nevin 1976), and that franchisee motivation is a critical driver of competitive advantage regardless of the lifecycle stage of the franchise (Lillis, Narayana, and Gilman 1976). Clearly, a variety of factors can affect the quality of relationship that exists between franchisees and franchisors. As such, a thorough review of past franchising research and current franchising practices in provided in Chapter Two.

Despite the array of extant research examining the dynamics of business channel relationships, including franchisee-franchisor interactions, the role of marketing alignment has received almost no attention; especially in terms of how it affects marketing-oriented strategic, operational, and values-based interactions between franchisees and franchisors. As such, it is important to build understanding of the role that marketing alignment plays in franchising relationships in order to better comprehend how it affects success for franchisees and franchisors alike. It is also critical to recognize different forms of marketing alignment as there is potential for each type to have varying levels of importance depending on the structure and expectations of the channel relationship.

RESEARCH OBJECTIVES

The purpose of this dissertation is to provide an examination of the complex marketing relationships that exists between franchisees and franchisors. Driving this purpose is the desire to utilize a better understanding of franchising relationships in order to increase the likelihood that franchisees are able to realize greater satisfaction and performance (e.g., Holmberg and Morgan 2004; Purvin 2008; Sniegowski 2012). Unlike extant literature that predominantly examines the franchise business model from the perspective of the franchisor (e.g., Brickley and Dark 1987; Kaufmann and Dant 1996; Ni and Alon 2012; Perryman and Combs 2012; Shane 1998), this dissertation investigates the phenomenon from the viewpoint of the franchisee. It is important to study franchisees because of the likelihood for varying viewpoints as well as the underlying role that franchisees fulfill in terms of the success of the overall franchise system.

Due to the codependence between franchisees and franchisors in terms of successfully running the business, there exists a heightened importance of marketing within their franchising relationship (Carney and Gedajlovic 1991; Dant and Kaufmann 2003). However, very little work has been completed that examines how well franchising partners match up or align across critical marketing activities, such as those centered around strategic planning and operational execution, or that are politically sensitive. This dissertation seeks to fill a gap in the literature by exploring, based on *Structural Alignment Theory* (e.g., Estes and Hasson 2004; Gentner 1983; Gentner and Markman 1997), the effects of strategic, operational, and values-oriented forms of marketing alignment. It is argued that such forms of marketing alignment directly affect implementation and franchisee satisfaction, which in turn both affect franchisee performance. By conceptualizing and empirically testing for the existence of marketing alignment, the author attempts to recognize, define, and capture critical components of franchising marketing relationships that have been previously ignored.

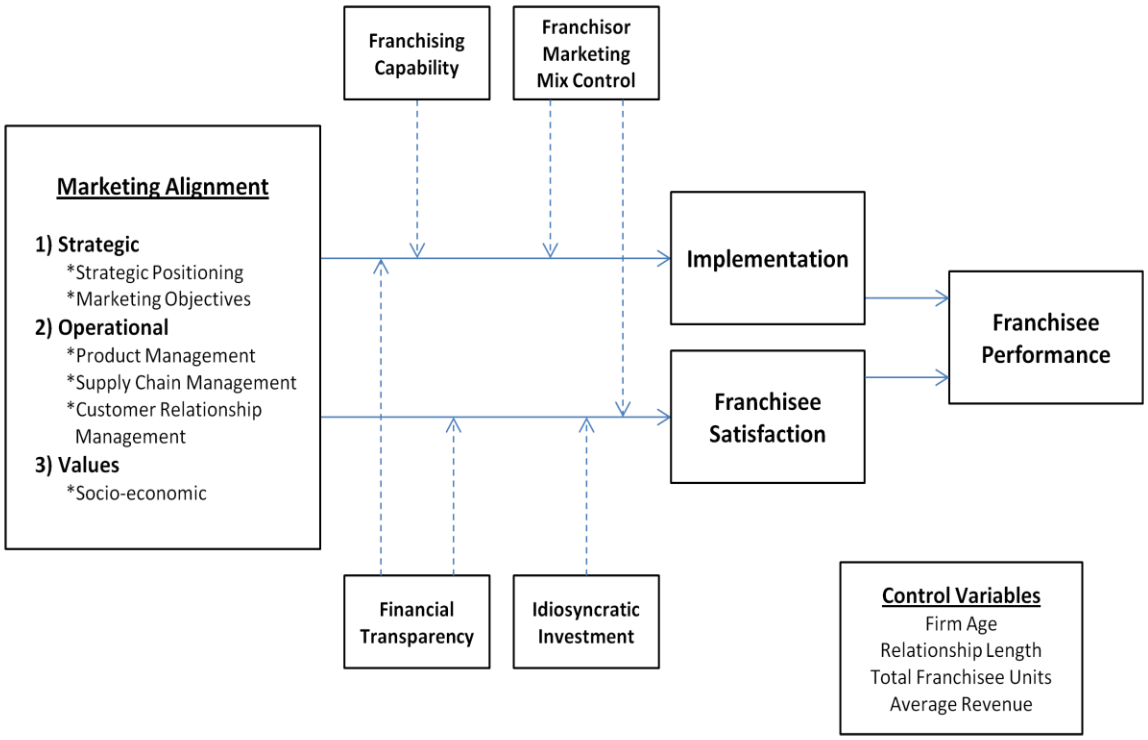
The following research questions are examined: a) What is franchisee-franchisor marketing alignment?, b) How does franchisee-franchisor marketing alignment affect the outcomes of implementation and franchisee satisfaction?, c) What factors affect the impact of franchisee-franchisor marketing alignment on implementation?, d) What factors affect the impact of franchisee-franchisor marketing alignment on franchisee satisfaction?, and e) How do implementation and franchisee satisfaction affect franchisee performance?

CONCEPTUAL MODEL

In an attempt to recognize relevant factors that assist franchisees in achieving greater success with their franchising ventures, it is proposed that marketing alignment plays a critical role in the implementation of marketing tasks as well as the overall satisfaction and performance of franchisees. Marketing alignment, formed by equal parts agreement and cooperation between partners, is conceptualized as comprising strategic, operational, and values-oriented dimensions. *Strategic marketing alignment* refers to the level of agreement and cooperation that exists between franchising partners in terms of their strategic positioning and big picture marketing objectives for the company. *Operational marketing alignment* refers to the level of agreement and cooperation that exists between franchising partners in terms of tactically managing the brand, supply chain, and customer relationships on a daily basis through the retail outlet. *Values marketing alignment* refers to the level of agreement and cooperation that exists between franchising partners in terms of their response to existing or potential socio-economic opportunities and threats.

To better understand the focal construct of franchisee-franchisor marketing alignment, a conceptual model (shown in Figure 1 below) is provided, comprised of the relevant outcomes and moderators of marketing alignment. The theoretical rationales and hypothesized relationships between variables are explored in greater detail throughout Chapter Three: Franchisee-Franchisor Marketing Alignment.

Figure 1 – Effects of Franchisee-Franchisor Marketing Alignment



INTENDED CONTRIBUTIONS

Theoretical Contributions

The intent of this dissertation is to contribute to marketing theory in multiple ways. First, this research provides additional insights into the dynamics of franchising relationships specifically (e.g., Dant and Schul 1992; Kashyap, Antia, and Frazier 2012; Lal 1990), as well as potentially to marketing channels relationships as a whole (e.g., Morgan and Hunt 1994; Nevin 1995; Weitz and Jap 1995). The conceptual model brings to light the importance of marketing alignment in terms of both agreement and cooperation between franchising partners.

Second, a new construct – marketing alignment – is conceptualized, defined, and empirically measured with both reliability and validity. The addition of this new, multi-dimensional construct to the discipline of marketing will provide increased knowledge and understanding of how channel partners successfully work together to accomplish a variety of marketing activities.

Third, the differences among strategic marketing alignment, operational marketing alignment, and values marketing alignment are parsed out into unique phenomenon. Since long-term strategies, daily operational tactics, and the influence of values structures are different in their consequences, it is important to recognize and determine the role that each uniquely fulfills in the relationship between franchisees and franchisors.

Fourth, the research intends to add quantitative empirical insights of not only the focal constructs but also the moderators and consequences of marketing alignment. This broader analysis of channel relationship variables as well as implementation, satisfaction, and performance based outcomes provides other researchers with a better understanding of influential factors that play a meaningful role in franchising relationships.

Lastly, this research joins only a handful of work that has applied structural alignment theory (Gentner 1983) to marketing strategy. Due to the critical importance of alignable and nonalignable attributes, structural alignment theory plays a meaningful role in how different forms of marketing alignment directly affect the outcomes of implementation and satisfaction.

Managerial Contributions

This research is also intended to provide actionable findings for franchising practitioners. First, this research provides a more meaningful understanding of what factors lead to some franchisees being more successful than others. By acknowledging the importance of marketing alignment between franchising partners, franchisees can better evaluate their current relationship with their franchisor as well as any future franchising opportunities. This is critically important since only 50% of franchisees make it to five years and only 33% of franchisees survive more than ten years (Sniegowski 2012), often as a result of misaligned strategies or operational tactics (Mathews et al. 2011; Purvin 2008).

Second, this research provides guidance on how to achieve greater success for franchisees and franchisors alike. More specifically, the model explains factors that could result in increased satisfaction and performance, thus helping to ensure greater levels of success for both franchising partners. As such, the research has the potential to actually assist franchisees and franchisors in maintaining superior marketing relationships with each other by explaining the role that marketing alignment plays and emphasizing the importance of evaluating alignment prior to investing in a franchise.

Third, the conceptual model suggests ways in which greater implementation of marketing mix activities between franchisees and franchisors can be enabled. Since the successful implementation of the marketing mix is an underlying basis for the existence of the franchising relationship, such potential for greater effectiveness should be a priority to franchising partners.

Fourth, for franchisees, the research provides guidance to help them better understand their own levels of strategic, operational, and values-based forms alignment as well as what drives these perceptions and how they affect marketing mix outcomes. For franchisors, the framework provides understanding of the moderators of marketing alignment so that they are able to more effectively alter the impact it has on the outcomes of implementation and satisfaction. Over time, a highly aligned relationship between franchisees and franchisors should lead to a continued and mutually beneficial relationship.

OVERVIEW OF RESEARCH

The remainder of the dissertation is structured as follows. Chapter Two contains an in-depth review of relevant franchising literature. Chapter Three discusses the field interviews that that were completed by the author with franchisees and is devoted to exploring the franchisee-franchisor marketing alignment model. This chapter includes rationale for moderators as well as arguments and theoretical support for hypotheses development. Chapter Four contains a discussion of the research methodology that was used to develop and conduct the quantitative study. Within this chapter the measure development and sampling plan are reviewed. Chapter Five contains the data analysis, including model estimation as well as all other relevant statistical tests of the data. Chapter Six provides a discussion of the results and final conclusions derived from the research. Lastly references are provided, followed by appendices containing construct definitions, survey documents, and part of a sample franchise disclosure document.

CHAPTER TWO
–A REVIEW OF THE FRANCHISING LITERATURE–

OBJECTIVES OF THE CHAPTER

The primary objective of this chapter is to review the extant literature related to franchisee-franchisor relationships. In this pursuit, the author completed a broad review of existing franchising literature as well as applicable work in the broader context of marketing channels relationships. Several areas are examined in detail including: a) franchising investment and growth, b) theories commonly applied to franchising, c) franchising and the marketing mix, d) franchising channel management, and e) franchising performance. The literature review was carried out in order to identify gaps in the subject area which this research aims to fill.

LITERATURE REVIEW

Franchising Investment and Growth

Franchising is an alternative type of marketing channel which manufacturers and retailers may choose to develop as the optimal structure for achieving their distribution objectives (Konopa 1963; Rothenburg 1967; Walker and Etzel 1973). One critical aspect of the franchising model is the need to both gain and retain franchisees (Kaufmann and Dant 1996; Watson 2008). Recruitment of new franchisees, as well as the success of existing franchisees, is necessary to the franchisor as both a revenue stream as well as for further extending the reach and value of the brand within its target markets (Keup and Keup 2012; Mathews et al. 2011). Due to this critical component of franchising, the overall attainment and supervision of franchisees requires consistent effort by the franchisor in order to most successfully operate the company across an expansive network.

Though financial benefits can be realized from both types, the growth achieved through successful expansion of franchisees is conceptually different from that which is achieved through new product development (e.g., Joshi and Sharma 2004; Leonard-Barton 1992). Simply put, new product development refers to the various processes firms undergo to bring new goods or services to market and represents an equally potential source of revenue to both franchisors and firms utilizing more traditional forms of marketing channel partnerships. This is important to note because it signifies that franchisors have an additional and unique way to generate revenue that is not available to other business formats. By recruiting franchisees, franchisors are able raise additional capital (Kaufmann and Dant 1996), expand their network more quickly (Combs and Ketchen 1999), and raise greater awareness of the brand (Keup and Keup 2012). As a result many franchisors concentrate on expansion strategies to grow the company, which in turn puts a major emphasis on acquiring investors that can help create and sustain long-term profitability through successful utilization of the existing business model (Kaufmann and Dant 1996; Mathews et al. 2011).

On a broader level, small business growth has been researched in a variety of ways. In terms of challenges to geographic expansion, it was found that successful expansion requires owners to be willing to evolve their plan as growth progresses and also to effectively delegate control (Greening, Barringer, and Macy 1996). Applied specifically to franchising, these findings emphasize the importance of recruiting qualified franchisees that are able to execute the pre-designed business model as well as the reality that expansion strategies will likely need to change as the overall scope and size of the franchise network increases. In terms of environmental effects and timing to the market, it was empirically shown that a variety of environmental factors such as product superiority and distribution channel decisions are differentially related to firm growth for pioneers and followers (Covin, Slevin, and Heeley 1999). In terms of diversification strategies driving small business growth, Lynn and Reinsch (1990) found that financial growth was the greatest motivating factor for small business owners; followed by family motivations, market demand, market share enhancement, and customer need.

More specific to the franchise relationship, franchising growth has also been studied. Shane (1998) examined the importance of minimizing agency costs in a newly expanding franchise system finding that passive ownership, an overly complex franchise system, and the existence of a master agreement that binds the franchisor's governance options all led to greater failure while a large cash investment by the franchisee, greater levels of franchisee experience, and a geographic concentration of the franchise system all had negative effects on failure. In terms of franchising as a mode of accessing capital, it was found that multi-unit franchising leads to much faster growth of the franchise system but also creates a decreased commitment by the franchisor towards continuing to franchise (Kaufmann and Dant 1996). These findings are especially important to the topics being investigated in this dissertation because they support the underlying notions that 1) a variety of factors at least partially controlled by the franchisee, franchisor, or both can affect the success of their marketing relationship and 2) the type, or aggressiveness, of expansion could suggest that a firm has chosen to franchise in order to rapidly finance growth as opposed to a legitimate commitment to long-term franchising relationships.

When looking at which firm-level factors drive the international expansion of fast-food franchises, Ni and Alon (2010) found that the existence of bonding and development agreements as well as the degree of dual distribution and geographic dispersion in the domestic franchise system all played a significant role. Lastly, the attributes and characteristics that prospective franchisees are seeking in a potential franchisor also have significant importance in terms of franchisee investment (Bennett, Frazer, and Weaven 2009). A consistent theme arising from these studies is that franchising growth is a very dynamic process which is affected by a variety of factors such as the scope of the franchise network, the franchisor's approach to control and governance, as well as multiple franchisee characteristics. It is these same types of factors that were considered for inclusion as boundary conditions of marketing alignment and its outcomes in subsequent chapters.

Every business is critically reliant on some type or types of resources that are available through the environment within which the company operates (Dwyer and Oh 1987). The ways in which companies acquire, manage, and allocate these resources directly affects their long-term viability. For firms seeking expansion through the utilization of franchising as their marketing channel, there is an ongoing need to both acquire new and also maintain current franchisees (Keup and Keup 2012; Watson 2008). Due to the critical role that franchisees fulfill as both sources of capital and also as ongoing channel partners, in many ways franchisees are the most vital resource for any franchisor. As such, the acquisition and management of franchisees requires ongoing and intentional focus by the franchisor in order to most successfully operate the company across a broad network. Discussed next are two well-established theories that have been repeatedly applied to help better understand the existence and ongoing management of franchise networks.

Theories Commonly Applied to Franchising

Resource Scarcity Theory. To develop a deeper understanding of the motivations behind franchising, the concept of resource scarcity has often been utilized. For many decades *Resource Scarcity Theory* has been applied as an underlying motivation for why firms select franchising as an expansion-based business model and the subsequent franchisee recruitment that this strategy entails (e.g., Castrogiovanni, Combs, and Justis 2006; Combs and Ketchen 1999; Hussain and Windsperger 2010; Norton 1988; Oxenfeldt and Kelly 1969). More specifically, resource scarcity theory has been utilized to argue that franchisors recruit franchisees due to the lack of firm resources that are required to otherwise effectively or efficiently grow the business (Grunhagen et al. 2008; Watson 2008). Research has repeatedly shown that by recruiting franchisees it is possible to expand quicker (Combs and Ketchen 1999; Kaufmann and Dant 1996), raise more capital (Kaufmann and Dant 1996; Watson 1988), increase brand awareness (Keup and Keup 2012), as well as ensure capable and motivated managers are in place at every outlet (Hussain and Windsperger 2010).

Furthermore, franchisee recruitment presents an opportunity for a firm to achieve economies of scale through a broad network of franchised locations when the franchisor lacks the necessary resources to do so independently (Castrogiovanni et al. 2006; Oxenfeldt and Kelly 1969). Though it has been repeatedly explored in detail empirically, there are mixed results as to whether a franchisor will cease to recruit and begin to re-purchase units once an adequate level of resources have been acquired by the parent firm (Dant, Paswan, and Kaufman 1997). Overall, applications of resource scarcity theory to franchising have consistently suggested that access to resources is a critically important aspect of why franchising exists as a system and has successfully grown into a global type of distribution channel. None the less, the concept is somewhat limited to explaining the existence or expansion of franchising as a channel system and does not assist in understanding which aspects of the ongoing franchisee-franchisor relationship are critical to marketing success nor how these relational elements interact with each other. As such, this dissertation moves beyond that which is established by resources scarcity theory in order to build deeper understanding of the ongoing marketing relationship between franchising partners.

Agency Theory. In addition to resource scarcity theory, *Agency Theory* has also often been applied to help explain the dynamics of the relationship between franchisees and franchisors (e.g., Carney and Gedajlovic 1991; Castrogiovanni et al. 2006; Dant and Kaufmann 2003; Lafontaine 1992). Agency theory examines the relationship between principles and agents, where the principle is the authoritative party that must delegate responsibility to the agent (Eisenhardt 1989a). Since both parties are assumed to have independent goals based on self-interests, the principal must expand resources to ensure the agent will act in a way that best serves the principal's needs or desires (Jensen and Meckling 1976). As applied to franchising, the franchisor is the principle that depends on its franchisees as independent agents and is constantly looking for the most efficient, or sometimes profitable, way to govern their relationships.

Empirical work applying agency theory to franchising has produced a variety of results. Within the franchising context, several studies have examined how agency theory affects channel coordination and control (e.g., Brickley and Dark 1987; Lal 1990; Mathewson and Winter 1985). Brickley and Dark (1987) concluded that when a high level of environmental uncertainty exists, thus making it difficult for the manufacturer to monitor agents, then franchising is preferred to vertical integration. The underlying reason for this outcome is that franchisees, as vested owners, are inherently more motivated to govern their own units than are store managers that are simply employees. Furthermore, within contexts of high environmental uncertainty, franchise royalty payments have been found to enhance efficiency in the distribution system between franchising partners when both the franchisee and franchisor are mutually investing in factors that improve retail sales (Lal 1990; Mathewson and Winter 1985). Lastly, agency theory has been used to explain why some franchisors seek multi-outlet owners or dual distribution strategies, finding that the former reduces overall agency costs and that the latter often occurs to fill system gaps left by franchisees (Perryman and Combs 2012).

Regardless of the motivation behind a firm’s decision to franchise, the success of the franchise network depends on both the ability of the franchisor to provide meaningful direction to franchisees and each franchisee’s ability to utilize such knowledge. However, since agency theory is so directly focused on governance issues, it is also limited in its explanation of critical relationship factors between the franchisee and franchisor that assist in consistently leading to marketing success. Due to this limitation, it is necessary to move away from agency theory and consider additional aspects of the marketing relationship between franchising partners in order to best investigate the research questions listed in Chapter One. In an effort to further this investigation, several examples of how the marketing mix is directly or uniquely applied to the franchising context are reviewed next.

Franchising and the Marketing Mix

Within franchising, as with other forms of business, the marketing mix concept refers to firm decisions concerning product, pricing, distribution, and promotion strategies or tactics (Borden 1964; Kotler 2009). A great amount of research has been conducted examining various applications of the marketing mix within a number of marketing contexts including classification of the marketing mix elements (e.g., Van Waterschoot and Van den Bulte 1992), the evolution of marketing paradigms (e.g., Gronroos 1997), brand equity (e.g., Yoo, Donthu, and Lee 2000), entry strategies (e.g., Robinson 1988), and technological innovation (e.g., Danaher, Hardie, and Putsis Jr. 2001). However, for franchising specifically, the ways in which various elements of the marketing mix are managed have an added layer of complexity due to the dual involvement of franchisees and franchisors.

For example, in terms of products and pricing, Desai and Srinivasan (1995) argue that price as a form of signaling is more complicated in franchising due to the level of overall market demand claimed by the franchisor being potentially different than the level of product demand experienced by a given franchisee. Such inconsistencies across territorial regions, even within a given geographic area, can lead to franchisee’s altering the price of their goods or services. For promotional efforts within a franchise network, it is common for franchisees to be required to pay into a regional or national advertising fund that is managed by the franchisor and used to advertise the brand (Desai 1997; Keup and Keup 2012; Mathews et al. 2011). Intuitively one might think such widespread practices would lead to greater levels of promotion across the system; however, due to the tendencies for opportunism and free riding when multiple entities invest into a shared asset, it has been found that franchise chains actually invest less in advertising than do corporate chains (Michael 2000). As a follow-up to this finding, Stassen and Mittelstaedt (2002) empirically determined that the reason franchises indeed advertise less is due to their level of competitive parity with corporate chains and that there would be little to no incremental gain from increasing marketing expenditures.

In terms of distribution, the franchise structure itself is a unique type of distribution channel (Konopa 1963; Walker and Etzel 1973). Unlike traditional marketing channels where partners have a greater degree of freedom to change channel partners as the market necessitates, franchising partners are more or less captive to each other. Furthermore, some franchising agreements even contain potentially questionable tying agreements (Petty 2002), effectively forcing franchisees to acquire certain additional products or supplies through a specific third party distributor through which the franchisor has initiated some sort of contract (Hunt and Nevin 1975). In terms of distribution channel governance specifically it has been found that increasingly thorough contracts lead to less monitoring and enforcement, whereas one-sided contracts lead to more monitoring and less enforcement, and offering incentives leads to more monitoring as well as enforcement (Kashyap et al. 2012). Previous work on contractual arrangement in franchising complements these findings, concluding that the greater the costs associated with monitoring contracts the less frequently that monitoring actually occurs (Agrawal and Lal 1995).

As alluded to in the studies just mentioned, *Transaction Cost Economics* (TCE) can also be applied to franchising (e.g., John 1984; Shelanski and Klein 1995) in order to better understand a firm's decision to franchise as well as to provide insight into the contractual nature of the ongoing relationship between franchising partners. TCE examines economic exchanges at a transactional level, suggesting that there are optimal ways in which to structure a firm based on whether free market or hierarchical means are more profitable to the company (Williamson 1979; Williamson 1981). Examples of transaction costs could include creating products in-house, developing channel relationships with suppliers or retailers, finding new customers, monitoring and enforcing contracts, as well as a variety of other necessary business activities (Rindfleisch and Heide 1997). Somewhat similar to the applications of resource scarcity and agency theories discussed previously, TCE can be argued to directly support the franchising structure as being a preferred form of distribution that allows franchisors to expand their market share through a more efficient and less costly network than could be accomplished internally. This is not to say that franchising is the most economical channel for all firms, but that for some companies it is a less costly approach than other alternatives. Though the franchise structure does in itself create additional costs through monitoring and enforcement, it is argued that franchisors select this channel structure because the costs of internal expansion would outweigh those necessary to govern their franchisees (Shelanski and Klein 1995; Williamson 1981).

Additional channel management issues such as information exchange, governance, power, conflict, commitment, and trust are addressed in greater detail in the following section. Overall, the firm decisions that encompass the marketing mix play a very important role in the relationship between franchising partners. Due to this, additional aspects of the marketing mix will be further discussed in Chapter Three, as they apply to the conceptual model.

Franchising Channel Management

Organizational Learning and Knowledge Exchange. A valuable source of sustainable competitive advantage comes from a company's ability to efficiently create and manage knowledge. In a world that continues to advance exponentially with technology, a true and reliable advantage is available to those firms that can consistently create or interpret new knowledge, manage it effectively, disseminate their knowledge throughout the organization as needed, as well as incorporate both new and existing knowledge into innovative products and technologies (Nonaka 1991). The concept of successful knowledge exchange is especially important for franchising partners. In fact, one could argue that the whole franchising structure is dependent on the exchange of knowledge. It is just as important for franchisors to disseminate consistent and specific operating information to their franchisees as it is for franchisees to share customer and other competitive information with their franchisors.

There are two underlying types of knowledge that are important to franchising relationships. Tacit knowledge represents internal knowledge that has become habit and can thus be more difficult to articulate; whereas explicit knowledge is accessible information that can be used to make guidelines, rules, or processes (Inkpen and Dinur 1998). Both types of knowledge are important and both types also present unique challenges to the successful exchange of information. Within franchising, it is the role of the franchisor to convert as much information as possible into explicit knowledge so that it can more easily be disseminated to every single franchisee in a very consistent and easily operationalized manner. Supporting this notion is the argument that coordination of information sharing leads to cost savings through better control over supply chain activities that could otherwise be extremely dynamic and unpredictable (Cachon and Fisher 2000; Chan and Chan 2009). Within the franchising structure, much of the information that is exchanged is done so in a very systematic way, typically as prescribed and even required by the franchisor.

Channel Governance. Many areas of channel management have an enhanced importance for franchisees and franchisors due to the increased dependency and long-term nature of their relationships. Several critical aspects of channel management that all play major roles in the relationships between franchising partners are power, conflict, trust, and commitment. Power can be understood as the ability of one channel member to control or change another channel member's behavior (Gaski 1984). There are generally considered to be five sources of power including coercive, expert, legitimate, referent, and reward; with some forms of power being perceived much more positively than others (Gaski 1984). Due to the very nature of franchise systems, the franchisor maintains an exponentially greater degree of power, and thus control, over the franchisee. Though this is generally understood to be inherent to franchising, an over abuse of power by any entity can lead to negative outcomes in the relationship. In some scenarios, cohesion between franchisors and franchisees can be achieved through the arrangement of mutually beneficial goals and activities (Skinner, Gassenheimer, and Kelley 1992; Williams and Hazer 1986). At other times, authoritative power is used by the franchisor in order to force the franchisee into taking some sort of action (Gaski 1984; Wilkinson 1981).

A major consequence of captive franchising relationships is a justifiable need to better manage conflict between franchisees and franchisors due to the long-term and highly negative impact that such conflict can have on satisfaction and performance, as well as on the franchisee's overall willingness to comply with the franchisor (Lusch 1976a; Winsor et al. 2012). Some work has shown that conflict between channel partners can be resolved through joint problem solving, although higher levels of dependency leads to a preference for third-party intervention (Dant and Schul 1992). Furthermore, it has been found that the greater the perceived use of power by a supplier, such as a franchisor, the greater the perceived conflict by the retailer, or franchisee (Brown, Lusch, and Muehling 1983). These findings further suggest a need for franchising partners to find mutually beneficial ways to work together that avoid an over-exertion of power-based or contractual methods of forcing control.

Trust plays a very important role as well in the relationships between franchisees and franchisors. It is suggested that multiple levels of trust exist that can lead to a competitive advantage including weak form trust, semi-strong form trust, and strong form trust (Barney and Hansen 1994). In general, as trust grows stronger, the need for governance control mechanisms by the franchisor decreases. It is argued that trust can be intentionally built through five different processes. These processes are: 1) calculative – trust is evaluated through cost/reward TCE approach; 2) prediction – confidence of trustworthiness is developed through being able to predict a partner's behavior; 3) capability – trust is based on the ability of the partner to fulfill their promises; 4) intentionality – trust evaluated based on partner's motivations; and 5) transference – trust is generated from other sources that prove partner is trustworthy in general (Doney and Cannon 1997).

Commitment is another vital aspect of channel management that directly applies to franchising relationships. Organizational commitment, such as that which is developed between franchisees and franchisors, is a complex concept that can be predicated with a realization and desire for compliance, identification, or internalization (O'Reilly and Chatman 1986). Furthermore, this type of commitment can be modeled as combination of perceptions, pledges, and relationship history (Anderson and Weitz 1992). It is important to note though, that commitment is most effective when mutually realized by all parties in order to develop reliable social norms. Unbalanced commitment between channel partners can actually lead to negative outcomes, such as opportunism by the less committed party (Gundlach, Achrol, and Mentzer 1995). As such, it is posited that franchising partners are best served when they can rise beyond more generic forms of governance, power, control, trust, and commitment in order to fully realize a mutually beneficial and synergistic relationship that is predicated on high levels of agreement and cooperation across a variety of critical marketing tasks.

Overall, exchange relationships and relationship management both play critical roles in successfully executing complex marketing tasks across a broad network (Frazier and Antia 1995; Heide 1994; Morgan and Hunt 1994). Three distinct control mechanisms – authoritative, contractual, and normative – have been identified as driving the coordination of marketing activities within corporate and conventional channels (Weitz and Jap 1995). Furthermore, such governance mechanisms can exist unilaterally or bilaterally (Heide 1994). While it is possible for any organization to employ multiple control mechanisms (Weitz and Jap 1995), franchising especially lends itself to utilizing all three types along with a greater potential for control mechanisms to be carried out in a bilateral format, thus creating a greater need for something beyond conflict resolution or basic coordination between franchisees and franchisors.

Franchising Performance

Performance is a critical metric for all types of companies, be it strategically or financially oriented (e.g., Ramani and Kumar 2008; Song and Parry 1997; Srinivasan and Hanssens 2009). Franchising performance takes on an added layer of complexity due to the possibility that a franchisee and franchisor could not only have different goals or outlooks on what comprises successful performance, but could also have different outcomes for a given measure of performance.

Much of the extant literature on franchising performance compares franchises to other small businesses. Some of this work suggests that franchising entails far less financial risk for equivalent performance (Bracker and Pearson 1986; Caldeira 2012), while other work suggests very similar levels of risk and performance (Purvin 2008; Sniegowski 2012), and still other work suggests that positive performance through franchising is more difficult to attain than similar levels of performance would be through starting an independent small business (Stanworth et al. 2001). Other work on franchising performance has found that formalized rules and procedures, concentrated decision making, and interfirm cooperation all directly or indirectly positively affect franchise revenues, while interpersonal trust actually has a negative effect (Nygaard and Dahlstrom 2000).

Throughout the varied work on franchising, performance has been measured in an assortment of different ways. Some scholars have suggested that typologies based on the type or lifecycle stage of the franchise should first be used to categorize franchised firms in order to better compare performance within each group (e.g., Carney and Gedajlovic 1991; Castrogiovanni, Bennett, and Combs 1995; Inma and Debowski 2006; Lillis et al. 1976). Regardless of whether typologies are utilized or not, franchising performance itself still needs to be either measured subjectively or represented by a proxy that is generated using accurate financial reports. Some studies have successfully represented franchising performance using publically reported information such as return on sales and return on assets (e.g., Barthelemy 2008), calculations of Tobin's Q to represent the firm's intangible value (e.g., Srinivasan 2006), average market share (e.g., Kashyap et al. 2012), the longitudinal change in sales per store (e.g., Stassen and Mittelstaedt 2002), or annual revenue (e.g., Nygaard and Dahlstrom 2000; Sorenson and Sorenson 2001).

Other researchers have used subjective survey measures such as asking franchises to compare performance to that of their competitors (e.g., Inma and Debowski 2006) or by requesting franchisees to self-report their financial performance as part of a survey instrument (e.g., Bracker and Pearson 1986). While using actual financial information reported directly from the company is intuitively the most accurate and thus arguably the better way to capture financial performance, it is often not feasible or even possible to collect. As such, utilizing subjective methods is an acceptable alternative.

When looking only at the aggregate level, the popularity and success of franchising appears to be widespread (Caldeira 2012). However, a great number of franchisees and franchisors alike are not successful (Purvin 2008; Sniegowski 2012).

The reality is that the causes of poor performance are numerous (e.g., Frazer 2013; Gibson 2007; Holmberg and Morgan 2004). One empirical examination of franchising found that even during a time of consistent economic growth franchising failure rates continued to increase (Holmberg and Morgan 2004), thus bringing legitimate attention to the need to further examine what leads to franchising success. In another study it was found that a franchisor's ability to build and manage strategic resources as well as their contractual design and policies each play a key role in the franchisee's survival (Michael and Combs 2008); however, more work needs to be completed in this area in order to gain a better understanding of why some franchisees are successful and why others have underperformed. Franchisee success is an underlying motivation for the models and research presented in this dissertation. As such, both franchisee satisfaction and franchisee performance are included in the hypothesized model and will be examined in greater detail in the subsequent chapter.

CHAPTER THREE
–FRANCHISEE-FRANCHISOR MARKETING ALIGNMENT–

OBJECTIVES OF THE CHAPTER

The primary objectives of this chapter are to conceptualize and advance the focal construct of *marketing alignment* as well as to provide theoretical and logical rationale in support of the hypothesized model. In this pursuit, several important areas are examined and integrated. First, the author conducted multiple exploratory interviews with franchisees. This qualitative fieldwork provides detailed background that could only be obtained through engaging with actual franchisees about their experiences. Second, a review of the alignment literature is conducted. Lastly, the focal construct of marketing alignment as well as its outcomes and moderators are all discussed. Specifically, the dimensions through which a franchisee perceives marketing alignment with their franchisor, the outcomes of implementation, franchisee satisfaction, and franchisee performance, as well as several moderating variables will all be thoroughly discussed. In addition, a complete set of hypotheses are provided for the model and examined in detail.

QUALITATIVE FIELDWORK

In order to improve understanding of current franchising practices and to better determine which constructs are most meaningful to marketing aspects of the franchising phenomenon, it was necessary to conduct depth interviews with actual franchisees that had invested in a variety of different business concepts. The food and beverage industry was selected as the context of focus due to the widespread use of franchising within the industry as well as the plethora of potential local franchised locations that could be contacted for interviews. Furthermore, since the food and beverage industry was also selected as the ideal industry for the quantitative study, it made sense to conduct the interviews in the same industry. To this end, fourteen qualitative interviews were completed by the author with both current and past franchisees, based in the United States, that owned one or more franchised units from one or more business concepts, almost completely within the food and beverage industry. More information about each participant is provided in Table 1 below.

Table 1 – Qualitative Interview Participants

Alias	**Industry**	**Franchising Experience**
Jill	Food & Beverage	Single Concept, Multiple Unit Franchisee
Michael	Food & Beverage	Single Concept, Multiple Unit Franchisee
Kurt	Food & Beverage	Single Concept, Multiple Unit ex-Franchisee
Darren	Food & Beverage	Single Concept, Multiple Unit Franchisee
Nick	Food & Beverage	Single Concept, Multiple Unit Franchisee
Angela	Food & Beverage	Single Concept, Single Unit Franchisee
Cathy	Food & Beverage	Single Concept, Multiple Unit Franchisee
Katie	Food & Beverage	Multiple Concept, Multiple Unit Franchisee
Steve	Food & Beverage	Single Concept, Multiple Unit Franchisee
Ryan	Food & Beverage	Single Concept, Multiple Unit Franchisee
Kyle	Food & Beverage	Multiple Concept, Multiple Unit Franchisee
Paul	Food & Beverage	Single Concept, Multiple Unit Franchisee
Jacob	Retail Goods	Single Concept, Single Unit Franchisee
Adam	Food & Beverage	Single Concept, Multiple Unit Franchisee

Franchisees were interviewed in depth about their marketing relationships with their franchisors through a series of questions that asked about topics such as communication, marketing strategies and objectives, operational tactics, investment and expansion, governance and control, benefits of working together with their franchisor or difficulties arising from conflicting approaches to the market, as well as how the franchisee's implementation, satisfaction, and performance are affected by their marketing relationship with the franchisor. The interviews were exploratory in nature with an underlying goal of assessing the nomological validity of the conceptual model. The interview guide is provided in Table 2. It is important to note that these questions were truly used as a guide. Furthermore, additional probing questions were asked when possible and participants were encouraged to freely expand into additional areas of the franchisee-franchisor marketing relationship.

Table 2 – Qualitative Fieldwork Interview Guide

Marketing Relationship and Communication
1) What is communication like between you and the franchisor? **-How are strategic plans or objectives typically communicated?** **-How much input do you have on marketing strategies?** **2) Who performs (better) market analysis, the franchisor or the franchisee?** **3) What happens when you don't want to implement a given marketing promotion?** **-Offer a specific product?** **-Pricing change?** **-Distribution source?** **4) Is coercion used in the relationship? (contracts, threats, intimidation, incentives, etc.)** **-What types are most prevalent?** **-Why?** **-Most effective/least effective?** **5) Do you feel the franchisor (franchisee) is ever opportunistic in the relationship?** **-What causes it? Reduces it?** **6) How does the relationship change over time between the franchisor and the franchisee?** **-Reduced opportunism?** **-Increased satisfaction, trust, commitment, and investment?** **-Improve with time?**

Table 2 – Qualitative Fieldwork Interview Guide Continued

Marketing Relationship and Communication Continued

7) How do changes in the franchisor's executive team affect franchisees?
-Potential changes to the 4 p's?
-Is it more often seen as a positive or negative?

8) How often does the franchisor majorly change marketing terms (4 p's) of the agreement?
-To what is this due? (environmental turbulence, new CEO, etc.)
-How is this handled/accepted by the franchisees?

9) Do you feel satisfaction (commitment) in your relationship with the franchisor?
-What increases satisfaction?
-What decreases satisfaction?

Franchising Structure

10) How many franchise units do you own?
-As a franchisee owns more & more units, how does this change the relationship?
-Would it ever make sense to own competing units (BK + McD + Wendy's)?

11) Does the franchisor allow for any customization of the menu?

12) Do you think the franchise business model is successful? Why?
-Shared resources & risk, captive partnership, quick, cost effective growth…

13) Why did you decide to purchase the franchise you currently own?

14) How did the franchisor sell you the franchise you currently own?

15) Was there any discussion of multiple units at the time of your first purchase?

16) Is there a difference to you between franchisors that only use franchisees as opposed to those that have both franchisee and firm owned locations (dual distribution)?
-What are the differences to franchisees?
-How does the franchisor's approach change?

17) How does the franchisor govern (regulation and monitoring) your franchise(s)?

18) Do you belong to any franchisee member organizations?
-Why did you join?
-What benefits do they provide?

19) How many franchise units is too many?
-For the franchisor, at what point do you turn down potential franchisees?
-For the successful franchisee, when do you stop obtaining additional units?

20) How do you evaluate performance?
-Does your franchise's performance typically meet your expectations?
-Who is more responsible for performance, franchisee or franchisor?

Participants were selected through either personal contacts or by visiting local franchise units and inquiring about the owner. Approximately 50 businesses were solicited for participation, resulting in 14 franchisees that were willing to be interviewed. The majority of interviews were completed over the phone, with three being completed in person per the franchisee's request. Since open-ended questions were asked of every franchisee that participated and each franchisee was given ample opportunity to expand the discussion into additional areas, interviews varied in length from 15 minutes to almost two hours. When permitted, the interviews were audio-taped and then transcribed for ease of review. Once all the interviews were complete, data was analyzed by dividing responses into themes. Overall, seven major themes were identified including 1) selection/recruitment, 2) relationship quality, 3) marketing alignment, 4) marketing mix input, 5) communication/transparency, 6) franchisor support, and 7) satisfaction with the franchise.

The selection/recruitment theme resulted from discussions about how the franchising partnership was originally initiated between the franchisee and the franchisor. In some cases franchisees were recruited by the franchisor either directly or as a result of the franchisor more broadly advertising an intentional desire to expand into a new region or market. In other cases, and more commonly, the franchisee initiated the selection process of searching out a franchise in which they wanted to invest.

The relationship quality theme captures the evaluation of how good or bad the franchisee feels their relationship is with the franchisor. It was discussed in terms of both the franchisee's own personal perspective as well as their opinion of what they felt the franchisor's perspective was concerning their partnership. The questions that often resulted in conversations contributing to this theme were intentionally not based around any given metric, such as performance or satisfaction, but instead were meant to create an open discussion on how the franchisee felt the franchising partners perceive each other based on their past interactions as well as how the relationship has evolved over time.

The marketing alignment theme arose from discussions with franchisees concerning the level to which they felt they were on the same page as their franchisor in terms of various marketing mix elements as well as how well they worked together as partners to accomplish these marketing mix activities. Though the questions were originally oriented around how franchising partners matched up on various strategic or operational aspects of doing business together, the notion of similar or conflicting values that affected their approach to or opinion of the business was occasionally discussed as well.

The marketing mix input theme resulted from discussions about both the level of control and governance that the franchisor maintains over products, prices, distributors, and promotions as well as the extent to which the franchisee is allowed or even encouraged to provide feedback and general input concerning the marketing mix. Though the franchising structure itself is designed to disseminate specific instructions for operationally handling various aspects of the marketing mix from the franchisor to the franchisee, there was actually a variety of ways in which some franchisees were able to provide input or even control some parts of the marketing mix.

The communication/transparency theme came about from discussions concerning the types, frequency, and ease of communication between franchising partners, as well as the overall exchange of information that occurs between the franchisee and franchisor.

Though some degree of communication has to exist in any franchising relationship, it was found to vary greatly not only across diverse companies, but was even found to be potentially dissimilar for different franchisees within the same franchise.

The franchisor support theme arose from discussions about the degree of support that the franchisee receives from their franchisor. This theme includes discussions about support received during the initial startup of the franchise – which was the most common and seemed to at least some degree to be universal across companies – as well as the type and level of ongoing support that the franchisee receives, or needs and does not receive, as they continue to operate their franchise.

The satisfaction with the franchise theme captures the general contentedness that the franchisee feels towards their relationship with the franchisor. Other topics that contributed to the categorization of this theme were topics such as commitment, trust, loyalty, and general discussions about what can increase or decrease the level of satisfaction that the franchisee experiences. Table 3 provides a list of the major themes that were most consistent across the franchisee interviews as well as example quotes for each theme.

Table 3 – Qualitative Fieldwork Major Themes

Major Themes and Examples

Selection / Recruitment

"If you view it as a hunting license, okay you're buying a hunting license but you have to follow all these rules or they're going to take it away from you. You really don't own anything other than the license to hunt in that area for a specific period of time." -Kurt

"They gave me a lot of information but still when it comes down to it you just got to decide is it going to be worth it, are you going to make money…so I got information from <firm> about thirteen other malls that had sales projections…and then I contacted a lot of franchisees…really did a lot of the homework myself just to decide if it was something I even wanted to do or not." -Katie

Relationship Quality

"They're happy we're doing it and they you know it's a win-win for both of us." and "They trust us…we know we're doing a good product and hopefully we're helping them." -Cathy

"I don't think they treat anybody differently, but you have some of the, you know, the bigger you are and the more involvement you have, um, you have some influence...I'm elected to various positions by the franchisors so I've been put in that position of being involved more...but it's hard not to be lost in the crowd." -Kyle

Marketing Alignment

“well you know we’re all in this together…they have the same goal that we do and that is to run profitable restaurants with sales and customer count increases” -Nick

“I don’t know what their strategic plan is other than to continue to grow the business” and “I don’t think our President right now has ever worked in a store seriously. He’s been through a couple of them but never worked in a store.” -Steve

Marketing Mix Input

“They changed cups and they went cheap and they were bad and we were constantly letting them know that customers, they were dissatisfied and our problems with it and eventually they did change them back to a better product.” -Jill

“There’s national advertising that, that we don’t have control of and then there’s regional advertising that we do have control of, so it’s split between the two.” -Darren

Communication / Transparency

“at that time our VP stood up and said at one of our meetings, said this will be mandatory in January, the equipment costs $3,000. So okay, January I’m looking at $10,000 outlay for equipment and I don’t want to spend that” -Steve

"It's improved over the years...everything is now communicated to us by <firm website>...they did an excellent job with putting everything you could possibly need, everything that we used to run around looking for in manuals and notebooks." and "They also do weekly updates that come every Monday morning. It’s a newsletter that just, that not only recaps things that they’ve done in the last week or two, or whatever might be coming up, it covers the new promotions and order dates and things such as that." –Nick

Table 3 – Qualitative Fieldwork Major Themes Continued

Major Themes and Examples Continued
Franchisor Support ***"I wouldn't grade them real high on that, I mean they have that ability but they're growing so fast I don't think they have the manpower to. We've kind of decided we're better off by ourselves without that help because we haven't felt like they've been real available." -Jill*** ***"In the beginning they were here almost every day for about a month. There were intervals of time they weren't here, but pretty much every day to help you get open and know the process." -Angela*** **Satisfaction with Franchise** ***"when you're satisfied, you have a satisfaction level (that) encourages you to reinvest in your business, expand, and for us, it fostered our goal. You know, if we weren't satisfied then we probably wouldn't have grown as, or if we didn't have confidence in the franchisor we wouldn't have grown at the level that we have done today so I'm sure it's contributed to our profitability." -Kyle*** ***"So sales were going up and we were increasing in size with the number of franchise locations but it wasn't real, it wasn't true there were no new franchisees showing up. It was corporate developing locations, spinning them off to an area developer and then buying them back after the first year." – Kurt***

Overall, the qualitative interviews provided an in-depth examination into the marketing-based relationships experienced by a variety of U.S. franchisees. Insight gained through the interviews as well as additional quotations will be provided throughout this chapter where applicable.

ALIGNMENT IN EXTANT LITERATURE

A consistent takeaway from both the franchising literature review in Chapter Two as well as the practitioner interviews just discussed is the important understanding that franchising partners may or may not always be on the same page and consistently working together to improve mutual profitability. Though franchisees and franchisors are captive partners in their marketing efforts, and one might intuitively assume that working together to achieve marketing activities is the norm, it is apparent that this type of alignment between franchising partners is sometimes lacking. As such, the potentially important and unrecognized role of marketing alignment needs to be examined. The alignment of multiple complex pieces into something superior as a whole is an important concept that can be applied to a variety of different business interactions and relationships. On a broad level, alignment can be understood as a functional agreement between different parts, people, or organizations in order to achieve optimum efficiency or effectiveness through cooperation (Merriam-Webster 2013; Sabherwal, Hirschheim, and Goles 2001). The concept of alignment, while not entirely novel to the literature, has lacked consistent application across research streams. Despite alignment having been examined in a variety of contexts, no definitive construct has been developed in order to consistently characterize and test for its existence as an organizational phenomenon.

Prior to discussing alignment, it is important to note that a notion similar to alignment that has been thoroughly explored in the literature is that of *strategic fit*. Strategic fit is often referred to as how an organization matches or fits with the environment within which it exists and competes (Chorn 1991; Zajac, Kraatz, and Bresser 2000). Though strategic fit is an established concept comparing a firm and its external environment (Ginsberg and Venkatraman 1985; Walker and Ruekert 1987), it has occasionally also been referred to as organizational alignment (Powell 1992). Despite the semantic potential to be used synonymously, strategic fit and alignment are actually very different concepts. While strategic fit pertains to how an organization approaches its environment, alignment better describes the synergistic relationship that can exist between two or more entities. Specific examples of how alignment has been applied to a variety of concepts are provided next.

Past work has examined alignment in terms of compatible interests, finding that they positively affect the formation of coalitions in multiparty negotiations and ultimately affect the allocation of resources (Polzer, Mannix, and Neale 1998). Other researchers have looked at alignment intra-organizationally in terms of how to best match information technology resources with the firm's business objectives (Henderson and Venkatraman 1991; Sabherwal et al. 2001; Smaczny 2001). Due to the complexity of organizational strategies and structures as well as the constant evolution of information technologies, multiple theories have been integrated to help explain these applications of alignment (Sabherwal et al. 2001). In another example of intra-organizational alignment, through surveying key respondents at five hundred Australian firms, Atuahene-Gima and Ko (2001) were able to show that the existence of alignment between market orientation and entrepreneurship orientation has a positive effect on product innovation. In this study alignment really refers to complementarities between different firm orientations, suggesting that such alignment has a significant benefit to new product development.

Additional research on internal forms of alignment look at the marketing organization's fit with the broader business strategy of the firm. Through an analysis involving both primary survey data and secondary performance data, Vorhies and Morgan (2003) argue that the three organizational strategic types of prospector, defender, and analyzer can lead to marketing effectiveness and marketing efficiency dependant on their alignment with the marketing organization. In this research, alignment refers to the fit between the marketing function of an organization and the configuration of that firm's strategy in order to achieve superior performance. Expanding on this work, Olson, Slater, and Hult (2005) found that the firm's strategic type can be complemented through better alignment with the marketing organization's characteristics (formalization, centralization, and specialization) as well as their strategic behaviors (customer, competitor, innovation, and cost control).

Though a definitive understanding of alignment has not yet been established, its underlying importance has been emphasized. Gottschalg and Zollo (2007) make an argument for motivational aspects of alignment to be added as a critical component to the comprehensive theory of competitive advantage. They suggest interest alignment as being equally important to traditional drivers of a sustainable competitive advantage such as assets, capabilities, and market positions (Gottschalg and Zollo 2007). Furthermore, due to increasingly dispersed marketing channel functions between producers and resellers, performance has been found to be enhanced by an alignment between strategic goals and channel partners (Achrol and Etzel 2003).

A lack of marketing alignment in terms of goals and orientations has also been examined. It has been empirically shown that this type of detachment can lead to negative headquarter stereotypes, which in turn can have negative effects on the outcomes of adherence to corporate strategy, customer orientation, and sales performance (Homburg et al. 2011). Lastly, Siguaw, Simpson, and Baker (1998) found that the supplier's market-orientation can directly and indirectly affect the distributor's market orientation, trust, cooperative norms, commitment, and satisfaction. This again suggests that marketing alignment between channel partners can positively or negatively affect a variety of other variables.

Within the franchising context, alignment has also been modestly addressed in the literature, for instance, when examining the franchisor's recruitment and selection of franchisees (e.g., Altinay 2006; Jambulingam and Nevin 1999; Zachary et al. 2011). While analyzing the selection of international franchisees, Altinay (2006) discusses the importance of having franchisor expectations in alignment with the franchisees' traits and capabilities. In addition, Jambulingam and Nevin (1999) found that the use of selection criteria by the franchisor explains up to 52% of the variance for satisfaction with the business decision, suggesting the possibility that proper selection criteria leads to better alignment between franchising partners and thus greater satisfaction.

Overall, the notion of alignment has been utilized to capture a variety of organizational and relational comparisons. Some concepts common to discussions about alignment include matching, fit, agreement, collaboration, cooperation, and coordination. This varied work applying alignment to marketing phenomena not only suggests a general focus on the importance of alignment within firms, but presents the prospect of alignment playing a critical role between entities as well. As specifically applied to channels relationships, marketing alignment can be used to capture agreement amongst multiple entities to a great enough degree that they are able to achieve synergy in their approach to the market. For example, Zappos.com has successfully differentiated itself as an online retailer and achieved enhanced customer loyalty as well as improved financial returns through their marketing alignment with UPS (Tice 2012). The high level of agreement and cooperation that exists between the two companies has even resulted in UPS firing a courier for providing less than expected service when delivering a Zappos.com package (Matyszczyk 2011). Due to the existence of a heightened degree of dependency, this level of marketing alignment is especially important for long-term business relationships (Ganesan 1994); such as firms that are working together as channel partners in order to achieve marketing-related strategies or objectives (Mohr and Nevin 1990).

Several gaps have been identified within existing literature and need to be further examined. First, past research has not examined the effects of franchisees and franchisors not being in-sync strategically or the effects that varying levels of alignment between franchising partners has on their marketing relationship. Second, past research has not specifically studied the potential benefits gained from highly aligned franchisees and franchisors operationally working together in a synergistic manner to accomplish marketing activities. Third, the role of alignment between franchising partners in terms of socio-economic values has also not been examined. There are a plethora of reasons, derived from both extant literature as well as the qualitative depth interviews, to believe that being on the same page is important to the success of the franchising relationship. This dissertation seeks to fill these gaps and in doing so, expand knowledge and understanding of the complex marketing relationship that exists between franchisees and franchisors. To accomplish this goal, the focal construct of marketing alignment, within the franchisee-franchisor context, is conceptualized and its relationships hypothesized.

FRANCHISEE-FRANCHISOR MARKETING ALIGNMENT

Despite the global popularity and large-scale success associated with franchising, as with any business venture, there is also the potential for lack of performance. In the practitioner press, there have been two different viewpoints concerning franchisee success. According to the president and CEO of the International Franchise Association, more than 90% of franchisees that reach the end of their terms renew franchise contracts with their franchisors (Caldeira 2012). This type of statistic has been utilized for decades by franchisors as a selling point to potential investors; however, it intentionally does not take into consideration franchisees that are not offered renewal as well as those that do not reach the end of their term due to selling the franchise or losing the franchise to bankruptcy (Purvin 2008). Two organizations not associated with the selling of franchises, the Small Business Association and the American Association of Franchisees and Dealers, have repeatedly calculated that approximately 50% of new franchisees survive more than five years and that 33% of franchisees survive more than ten years (Sniegowski 2012). Some of the reasons often cited in business press explaining this lack of success (e.g., Frazer 2013; Gibson 2007; Mathews et al. 2011) that were also mentioned by respondents during depth interviews are a need for greater agreement and cooperation between franchising partners across a variety of strategic, operational, and values based factors.

It is important to note that both agreement and cooperation (e.g., Dahlstrom and Nygaard 1999; Dant and Berger 1996; Heide and Miner 1992; Parkhe 1993) are necessary between franchising partners in order to gain the greatest benefits from their business relationship. Agreement alone simply ensures that both parties have the same viewpoint or are willing to affirm they believe a specific course of action is preferred given the information at hand. Similarly, cooperation alone only guarantees that franchisees and franchisors are working together towards the same goal, but does not necessarily mean that both parties believe it is the best course of action and are thus willing to put forth their full effort (Dant and Berger 1996). Nor does cooperation alone protect either party from opportunistic actions by their partner (Parkhe 1993). By comprising agreement as well as cooperation, marketing alignment encompasses both cognitive and behavioral components of doing business together. This means that franchising partners are both on the same page in terms of the business decisions that are being made and also are actively working towards accomplishing them either individually or together. Thus to truly achieve marketing alignment, it is necessary for business partners to strive for both agreement and cooperation.

Furthermore, agreement and cooperation are especially important to franchisees and franchisors due to the interdependent and captive nature of their franchising partnership (Dant, Grunhagen, and Windsperger 2011). A lack of agreement and cooperation inhibits the benefits typically realized from a marketing channels relationship due to the inefficiencies and conflict that can result from each party trying to operate independently from the other. Furthermore, there is an underlying need for agreement and cooperation in such relationships due to the synergies that can be realized by efficiently and effectively working together towards accomplishing various marketing tasks. There are different ways to examine the quality of franchising relationships. Based on an extensive literature review, the notion of *marketing alignment* is utilized in order to best understand the importance of agreement and cooperation within franchising relationships. The notion of marketing alignment is utilized because (a) being on the same page and working efficiently towards common goals is critical for captive channel relationships that exist through franchising, (b) alignment is dynamic in nature and can alter over time, and (c) the synergies that can be realized through high levels of consensus and collaboration can affect meaningful outcomes for franchisees and franchisors alike.

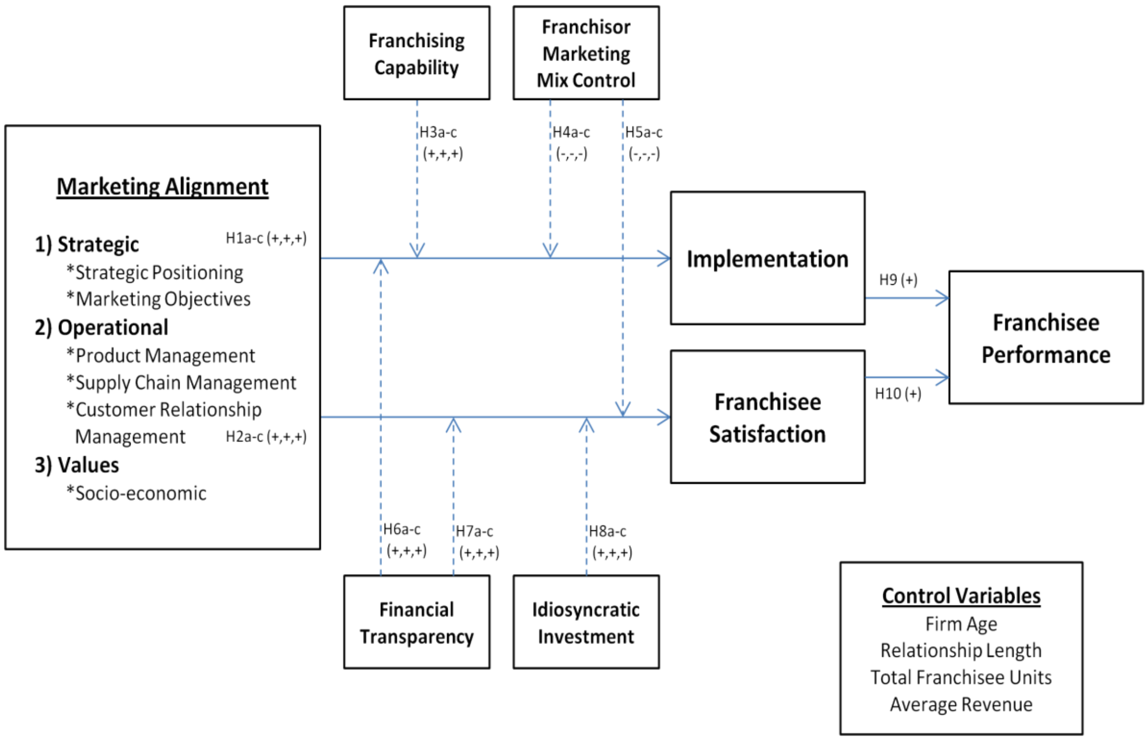
Hence, studying marketing alignment in the context of franchising relationships will help answer the research questions posed in Chapter One.

Franchisee-franchisor marketing alignment is defined in terms of both agreement and cooperation between franchising partners across the dimensions of marketing *strategies* (e.g., Anderson 1982; Burke 1984; Miles et al. 1978; Porter 1980), *operations* (e.g., Keller 1993; Mentzer et al. 2001; Payne and Frow 2005; Rao, Agarwal, and Dahlhoff 2004; Reinartz, Krafft, and Hoyer 2004; Saini, Grewal, and Johnson 2010; Thomas and Griffin 1996) and *values* (e.g., Hunt, Wood, and Chonko 1989; Vinson, Scott, and Lamont 1977). These three dimensions are critically important due to both their prevalence in the literature as well as their repeated discussion during depth interviews with franchisees. Being aligned means that the franchisee and franchisor collectively agree and cooperate across all three marketing dimensions. The concept of marketing alignment can be likened to that of mechanical alignment of an automobile (Nebot and Durrant-Whyte 1999). For an automobile to operate at its peak efficiency all of the mechanical parts need to not only agree with each other, or actually be compatible and physically fit together; but must also cooperate in their functioning in order to effectively create controlled power and movement. A well aligned marketing relationship between a franchisee and franchisor should operate similar to a well fitted mechanical system or machine. Hence, when the franchise partners are aligned, they create synergies that allow for more complex and large-scale marketing tasks to be accomplished. Examples of high levels of marketing alignment can be found between Zappos.com and UPS (Tice 2012) as well as within many of the franchising relationships from the food and beverage industries that were discussed in detail during qualitative interviews. When marketing alignment does not exist, the franchise may still operate but will be unable to maximize the potential of its original design.

If franchisees and franchisors do not agree about strategic, operational, or values based marketing factors then there exists a greater potential for conflict and divergence from the corporate business plan. It is even possible that the franchisee and franchisor will actually invest time and other resources into mutually exclusive or redundant efforts. Such courses of action would represent the opposite of cooperation. Similarly, if cooperation is low, then it is more likely that resources for either or both franchising partners could be under-utilized or even wasted. The negative fallout from a lack of marketing alignment could even harm customer relationships and their overall experience with the brand. Oppositely, high levels of marketing alignment allow franchising partners to better realize the benefits of working together synergistically in their pursuit of various marketing activities.

This essay seeks to fill a gap in the literature by examining the role that marketing alignment plays in the channel relationship between franchisees and franchisors. Strategic marketing alignment refers to the big picture approach to strategic positioning and marketing objectives. Operational marketing alignment refers to tactical management of the brand, supply chain, and customer relationships. Values marketing alignment refers to responses to potentially controversial socio-economic opportunities or threats. Each facet of marketing alignment is discussed next. The hypothesized measurement model for franchisee-franchisor marketing alignment is shown in Figure 2 below.

Figure 2 – Hypothesized Effects of Franchisee-Franchisor Marketing Alignment



Strategic Marketing Alignment

Strategic marketing alignment (SMA) is conceptualized as the extent to which the marketing relationship between the franchisee and franchisor is unified in terms of both mutual agreement and ongoing cooperation across two key areas: 1) *strategic positioning* (e.g., Park, Jaworski, and Maclnnis 1986; Porter 1996) and 2) *marketing objectives* (e.g., Anderson 1982; Burke 1984). In other words, SMA refers to the extent to which the franchisee and franchisor are both in agreement and also cooperating with each other towards accomplishing the firm's big picture marketing goals or strategic direction.

Franchisees and franchisors that maintain high levels of SMA have developed a quality partnership that includes a precedence of working together. For instance, one franchisee speaking on the topic of SMA stated that "*well you know we're all in this together…they have the same goal that we do and that is to run profitable restaurants with sales and customer count increases*" -Nick, Food and Beverage Franchisee. A lack of marketing alignment is argued to have an opposite and negative effect on the relationship between the franchisee and franchisor. In an example of low SMA, one franchisee made several statements including "*I don't know what their strategic plan is other than to continue to grow the business,*" "*I personally think that to a large extent, they're out of touch*," and "*I don't think our President right now has ever worked in a store seriously. He's been through a couple of them but never worked in a store.*" -Steve, Food and Beverage Franchisee.

When SMA does not exist, the franchise can still operate, but will be unable to maximize the potential of its original design. Thus a lack of SMA would signify that the franchising partners are functioning at a less than optimal level. It is argued that low SMA allows for greater misunderstanding, regret, and potential conflict because of the franchising partners being unable or unwilling to agree and cooperate with each other in their approach to key marketing functions. This in turn will negatively affect the performance of the franchisee. Oppositely, franchisees high on SMA are able to confidently move forward in the marketplace reliant on the knowledge that their franchisor is on the same page and directly supporting their activities.

The two areas in which franchising partners require SMA are *strategic positioning* and *marketing objectives*. These two, and only these two, specific areas were chosen for multiple reasons. First, some of the most important business decisions, that are highly critical to a firm's success, are those involving their strategic positioning towards the market (e.g., Park et al. 1986; Porter 1996). Franchisees and franchisors alike both play key roles in such decisions in terms of maintaining how their firm can differentiate itself to consumers by delivering a unique mix of value through the execution of specific marketing activities. Second, marketing objectives are also equally important to both franchising partners as they require mutual commitment by both parties in order to successfully and consistently realize such goals on an ongoing basis. These two areas encapsulate the strategic aspects of the franchising relationship that are most necessary for franchising partners to both agree and cooperate in order to maintain long-term success. Each will be discussed in greater detail next.

Strategic Positioning. Alignment of strategic positioning means that franchising partners are both in full agreement and also working cooperatively together towards accomplishing the firm's underlying strategic approach that is driving their activities in the market. A firm's strategic position is embodied by how they perform marketing activities differently than their competitors in order to deliver a unique mix of value (Park et al. 1986; Porter 1996). Strategic positioning can be based on a number of approaches including effectively or efficiently producing a selective portion of an industry's products, serving the majority or even all of the needs for a specific group of customers, segmenting customers by their accessibility and serving them in alternative ways, or utilizing multiple strategic positions simultaneously (Porter 1996). Since the strategic positioning pursued by the franchisor affects the ways in which the franchisee is required to approach the market, it is important that high levels of agreement and cooperation exists between franchising partners in order to best accomplish firm strategies in an integrated manner.

Marketing Objectives. Alignment of marketing objectives requires that the franchisee and franchisor are in agreement and also cooperating together in order to accomplish marketing goals for the franchise. Marketing objectives refer to goals such as market share, sales volume, customer satisfaction metrics, and profit margins (e.g., Fornell et al. 2006; Ramani and Kumar 2008; Srinivasan and Hanssens 2009). It is likely that each firm will have a relatively unique approach to which marketing objectives are most important as well as how these goals should be accomplished. Franchising partners with high levels of agreement and cooperation in terms of which marketing objectives are most critical will result in higher levels of SMA. Franchising partners that are unable to reach consensus or are unwilling to work together to accomplish the firm's marketing objectives will in turn have lower levels of SMA.

Regardless of the specific strategic positioning or marketing objectives, franchisees that are highly aligned with their franchisor fully agree with the strategic direction being pursued. This heightened degree of SMA leads to a more unified approach towards accomplishing the big picture marketing goals of the franchise as a whole. When franchising partners disagree on the strategic approach of the firm they will be at odds with their captive channel partner. Such inefficiencies prevent the franchising partners from realizing the positive benefits that could be gained through better marketing alignment.

Operational Marketing Alignment

Operational marketing alignment (OMA) is conceptualized as the extent to which the marketing relationship between the franchisee and franchisor is unified in terms of both mutual agreement and ongoing cooperation across three key activities: 1) *product* *management* (e.g., Keller 1993; Rao et al. 2004), 2) *supply chain management* (e.g., Mentzer et al. 2001; Thomas and Griffin 1996), and 3) *customer relationship management* (e.g., Payne and Frow 2005; Reinartz et al. 2004; Saini et al. 2010). In other words, OMA refers to the extent to which franchising partners are both in agreement and also cooperating with each other in terms of operationally managing their products, supply chains, and customer relationships on an ongoing basis at the retail level.

Franchisors routinely develop marketing mix efforts that are, in part, executed and maintained by their franchisees. These marketing activities can include launching new products, establishing pricing structures, executing promotional efforts, or managing distribution sources and could either be contractually required to be executed or contain optional components. Franchisees evaluate and decide if each new marketing activity is both reasonable and profitable. They must determine their levels of agreement and cooperation towards operationally managing franchisor-initiated marketing mix activities. The three most critical marketing areas through which franchising partners can and should operationally align are discussed next.

Product Management. Alignment of product management requires that franchisees and franchisors are in agreement and also cooperating together in order to tactically handle the firm's brand(s) in the marketplace. This could include communicating brand elements, maintaining brand quality, and even increasing brand value through daily operations and interactions with customers (Schmitt, Zarantolello, and Brakus 2009; Keller 1993). It is possible that franchisees and franchisors will have different operational approaches to how they believe their brand(s) can best be managed.

Franchising partners that are not only on the same page as far as how to best present their brand(s) to the market but are also cooperating in their communications and other efforts with each other in order to achieve greater brand recognition and loyalty from consumers, result in high levels of OMA. Oppositely, franchisees and franchisors that prefer to follow their own individual plan when tactically managing aspects of their brand(s) despite the knowledge, insight, or other resources being presented by their franchise partner, result in lower levels of OMA.

Supply Chain Management. Alignment of supply chain management means that franchisees and franchisors not only agree on their current distribution network of suppliers but also cooperate to more efficiently or effectively ensure that the right mix of products are available at all times. Supply chain management could include a varying mix of activities such as product and information flows, sources of supplies and negotiations with suppliers, the distribution tasks of order processing, transportation, handling, and storage, as well as ensuring the overall consistent quality and availability of goods or services (Cooper, Lambert, and Pagh 1997; Davis 1993; Mentzer et al. 2001; Thomas and Griffin 1996). Since many of these tasks are initiated through the franchisor's distribution network and operationally maintained by the franchisee, it is very important that both franchising partners are aligned in their approach to supply chain management.

Franchising partners can achieve high levels of OMA when a great degree of agreement in terms of flows, sources, volumes, and timing of product deliveries exists as well as when ongoing cooperation towards accomplishing these efforts also exists. Low levels of agreement and cooperation between franchising partners leads to low OMA, potentially manifesting in the form of inefficiencies in logistics which in turn could result in conflict with suppliers as well as lack of consistent product offerings or service standards in franchise locations due to the franchisee developing their own source of goods or services.

Customer Relationship Management. Alignment of customer relationship management refers to agreement and cooperation between franchising partners in terms of how interactions with customers should best be managed in order to gain and maintain a competitive advantage in the market. Customer relationship management is often discussed in terms of the actual technology (referred to as CRM) that is utilized to integrate a firm's marketing activities such as segmentation, targeting, order management, market research, and analytics (Boulding et al. 2005; Jayachandran et al. 2005; Saini et al. 2010). The underlying purpose of CRM is to automate the acquisition, retention, and profitability of a company's relationships with its customers (Homburg, Droll, and Totzek 2008; Payne and Frow 2005). It is important that franchising partners are operationally aligned in their approach to customer relationship management so that they are able to agree and cooperate in terms of which partner is responsible for activities such as maintaining the CRM database, tracking customer lifetime values, mining for new customer segments, and sending out promotional content to new or existing customers.

Franchising partners that agree on their approach to customer relationship management and also cooperate in its utilization will result in high levels of OMA. Oppositely, it is possible that the franchisor has firm level CRM systems in place but that the franchisee might disagree with the franchisor's approach on a local level and attempt to develop their own unique approach to managing customer relationships within their territory. The franchisee's local CRM system and tactics may or may not be supported by the franchisor, which will directly impact their level of OMA. When high levels of OMA do exist, both partners are able to confidently operate their business with the knowledge that their counterpart is in support of their activities.

Overall, OMA between franchisees and franchisors is critical across the dimensions of brand management, supply chain management, and customer relationship management. It is necessary for franchising partners to be in agreement and also to be cooperating in order to best accomplish all three areas. When franchising partners are not operationally aligned it is more likely that disruptions, conflict, and redundant efforts could occur, thus negatively affecting outcomes.

Values Marketing Alignment

In addition to strategies and operational tactics, the value system influencing a franchisee or franchisor can have a direct effect on the relationship with their franchising partner as well as on the success of the company as a whole. Franchisees and franchisors must determine the degree to which they are aligned with each other in terms of their socio-economic values, which in turn could influence and affect their approach to business. *Values marketing alignment* (VMA) is conceptualized as the extent to which franchising partners agree and also cooperate in terms of their personal values-based responses to potentially controversial socio-economic opportunities or threats.

Socio-Economic Values. Alignment of socio-economic values refers to the franchising partners' stances on socio-economic issues such as immigration reform, marriage equality, nationalized healthcare, religious tolerance, political regulation, or political affiliation (e.g., Rainey 1989; Tushman 1977). Alignment of socio-economic values is becoming increasingly important as information technology continues to allow for greater transparency in terms of consumers' ability to learn about, be influenced by, and respond to a firm's core values. Several widely publicized and politically controversial issues such as Chick-fil-A's stance against same sex marriage (Gray 2012) and Ben & Jerry's support of the Occupy Wall Street movement (Hines 2012) have very real effects on their franchisees' performance, as consumers tend to vote with their wallets.

Due to the connection between a business owner's personal values and the behavioral response of consumers (Vinson et al. 1977), it is important for a franchisee's socio-economic values to be aligned with the franchisor. Furthermore, the existence of, and agreement with, corporate values has been shown to have a very strong effect on organizational commitment (Hunt et al. 1989). If franchising partners have similar socio-economic values, are in agreement on the role those values should play in the business, and cooperate when publically expressing their values, then high levels of VMA exist.

Structural Alignment Theory

To help better understand the main effects of franchisee-franchisor marketing alignment, *Structural Alignment Theory* (Getner 1983) is utilized. Originally referred to as the structure-mapping theory, structural alignment theory was developed to assist in mapping knowledge about a base domain into an analogous target domain (Gentner 1983). Though examining the degree-of-overlap does provide some level of comparison between objects, it does not fully capture and explain relations between objects in a systematic way (Gentner 1983). In order to apply structural alignment theory, the following assumptions are made: 1) domains and situations are viewed in terms of objects, attributes, and relations, 2) knowledge is represented as whole concepts as well as propositions about the concepts, 3) attributes contain one argument while relations contain multiple arguments that can be first-order predicates or higher-order predicates, and 4) each representation reflects how a domain is construed as opposed to actual logical possibilities (Gentner 1983). Structural alignment theory was designed to assist with several domains including similarities, analogies, abstractions, and anomalies (Gentner 1983).

Since its conceptualization, structural alignment theory has been applied to a wide variety of areas such as similarity comparisons (Markman and Gentner 1993), analogies (Gentner and Markman 1997), categorizations (Goldstone 1994; Lassaline and Murphy 1998), memories (Markman and Gentner 1997), choices (Markman and Medin 1995), judgments (Goldstone, Medin, and Gentner 1991; Medin, Goldstone, and Gentner 1990), and differences (Gentner and Gunn 2001); as well as more targeted applications such as potential benefits from being nonalignable (Estes and Hasson 2004) and the structural alignment of information systems with the organization as a whole (Chan 2002). The basis behind structural alignment theory suggests that comparing related cognitive operations can be best accomplished by aligning one object, entity, or concept to another object, entity, or concept with which it is being compared (Estes and Hasson 2004; Gentner 1983). Making such comparisons requires the application of three important concepts that are uniquely used within structural alignment theory. Specifically, these are the notions of commonalities, alignable attributes, and nonalignable attributes (Gentner and Markman 1997).

Commonalities refer to similarities between entities (e.g., both franchisees and franchisors want the company to be successful). Alignable attributes exist when two or more entities share commonalities along the same dimension and also have the potential for those commonalities to align with each other (e.g., for the dimension of strategy – franchisees and franchisors both have ideal approaches to their strategic positioning and their marketing objectives OR for the dimension of operations – franchisees and franchisors both have ideal approaches to product management, supply chain management, and customer relationship management OR for the dimension of values – both franchisees and franchisors have specific socio-economic beliefs OR for an unrelated example, the dimension of personal preferences – two entities could align in terms of tastes or consumption habits). Nonalignable attributes exist when two or more entities have attributes that are not related to each other, or in other words, commonalities do not exist along the same dimension and thus do not have the potential for alignment (e.g., for the dimension of job ranking – franchisees are owners whereas franchisors are often a collection of employees OR for the dimension of work experience – franchisees and franchisors often follow very different career paths that have led them to their current position).

Alignable and nonalignable attributes are critical because they are used to evaluate similarity and agreement between concepts or entities. Furthermore, an underlying prediction of structural alignment theory is that alignable attributes are much more significant to the relationship between entities than are nonalignable attributes (Gentner and Markman 1997). It is argued that greater benefits exist in the relationship between entities when alignable attributes do indeed align; whereas conflict can arise when alignable attributes do not align, which is known as alignable differences (Gentner and Gunn 2001; Gentner and Markman 1997). In terms of franchising specifically, structural alignment theory can be applied to help explain the relationships between marketing alignment and its consequences. Since marketing strategies, operational tactics, and values are all alignable attributes, they are critical areas through which the franchisee and franchisor need to align in order to achieve the greatest benefits.

Based on the discussion of structural alignment theory, previously established constructs in marketing channels research, current practitioner practices, and depth interviews with franchisees, several outcomes and moderators of franchisee-franchisor marketing alignment were selected for inclusion in the hypothesized model. Each variable will be first introduced and then discussed in greater detail, complete with theoretical or logical arguments for their individually hypothesized effects.

OUTCOMES OF FRANCHISEE-FRANCHISOR MARKETING ALIGNMENT

The three outcomes presented in the model include *implementation*, *franchisee satisfaction*, and *franchisee performance*. These variables were chosen due to the important role they play in determining the success of the franchisee as well their common inclusion as outcomes in channel strategy literature (e.g., Dwyer and Gassenheimer 1992; Geyskens and Steenkamp 2000; Geyskens, Steenkamp, and Kumar 1999; Ramani and Kumar 2008; Sheng, Zhou, and Li 2011). Furthermore, implementation, franchisee satisfaction, and franchisee performance were all discussed by franchisees during depth interviews as relevant concepts that help to further expand understanding of the effects that marketing alignment has on franchising relationships. Implementation represents the degree to which the franchisee actually implements marketing mix activities according to the franchisor's plan (e.g., Moorman and Miner 1998; Noble and Mokwa 1999). Franchisee satisfaction represents how satisfied the franchisee is with their investment in the franchise, in terms of both economic and social perceptions (e.g., Dwyer and Gassenheimer 1992; Geyskens and Steenkamp 2000; Geyskens et al. 1999). Franchisee performance captures the financial benefits that the franchisee gains from owning the franchise (e.g., Ramani and Kumar 2008; Sheng et al. 2011).

Implementation

Independent of how franchisees feel about a given marketing mix element, there comes a point when they must decide whether or not to actually implement, as well as how it will be accomplished. The extent to which marketing mix activities can be implemented exists along a spectrum ranging from doing nothing to implementing exactly as the franchisor designed. *Implementation* captures the extent to which the franchisee actually implements marketing mix activities according to the franchisor's plan. Implementation refers to the actual execution of products, pricing structures, promotions, or distribution plans by the franchisee in terms of how each element is actually carried out as opposed to how it was strategically designed or tactically mandated by the franchisor (Noble and Mokwa 1999).

Marketing mix activities are initiated and mandated by a franchisor because they are strategic actions meant to lead to profitability for both the firm and business unit (Vorhies and Morgan 2003). Though many marketing mix efforts fail to achieve their desired effect, both franchisors and franchisees alike would not carry out such joint campaigns if successful performance was not the underlying goal. If franchising partners are aligned in terms of how the company should be differentiated in the marketplace, then they have realized high levels of SMA and will in turn be more motivated to successfully implement marketing mix efforts in the way that best achieves their agreed upon positioning. The reason for this increased motivation is the underlying human desire to successfully accomplish tasks or other efforts that they have personally bought into (Hackman and Oldham 1976; Ryan and Deci 2000. This is especially true considering that the specific differentiated approach to the market is likely preferred by the franchisee due to their belief that it would lead to greater success than alternative approaches. If SMA is low then a disconnection could exist between the strategic positioning or goals of the franchisor and the preferred strategic approach of the franchisee, thus creating potential for less than ideal implementation. When high SMA exists, franchisees are in agreement and cooperating with their franchisor in order to accomplish mutual sale goals, target volumes, or profit margins. As a result, these same franchisees will try harder to successfully implement due to their shared belief that such efforts will help achieve their marketing goals. Hence,

H1a: Strategic marketing alignment is positively associated with implementation.

When marketing alignment is high there exists in the franchisee a much stronger level of agreement and cooperation with the franchisor's operational approach to handling the marketing mix. In other words, high levels of OMA means that the franchisee is less likely to want to deviate from the blueprint because it is an operational plan that the franchisee believes in and supports. For example, a formalized supply chain is a critical component that is necessary for a network of franchisees to be able to implement marketing mix activities in the same way that they were designed by the franchisor. Franchising partners that agree on their suppliers and cooperate to maximize volume discounts or other benefits are realizing high levels of OMA and in turn will put genuine and consistent effort towards utilizing these benefits when implementing. Similarly, CRM can be considered for the critical role it plays in managing ongoing communications with customers. If franchising partners are highly aligned on how to communicate marketing mix efforts to their target market then they are also more likely to try and implement as planned in order to maintain uniformity in their interactions with customers. Hence,

H1b: Operational marketing alignment is positively associated with implementation.

When high levels of VMA exist, it means that franchising partners maintain a high degree of both agreement and cooperation in terms of their approach to socio-economic values. This in turn suggests that the franchisee and franchisor share a similar approach to how they view society as well as how they should respond to political or economic changes. For example, if franchisees and franchisors share the same outlook on socio-economic opportunities or threats and are intentionally upholding those values in their marketing efforts, it is argued that such franchisees are then more likely to seamlessly implement marketing activities due to their belief that doing so also directly supports their personal social or economic viewpoints. In other words, if franchising partners are aligned in terms of their social or economic approach being mutually supported by their value structures then it is likely the franchisee will put greater effort towards implementing such efforts because they more thoroughly and internally believe in the company's approach to how they publically represent their marketing mix efforts. Oppositely, a lack of VMA puts franchising relationships at risk due to the potential for the franchisee to not fully implement when they feel doing so is counter to their personal values. An example of low VMA can be found in Chick-fil-A franchisees that disagree with their company's public and controversial stance against marriage equality, which in turn continues to result in public protests, boycotting, and lost revenue (Gray 2012). Hence,

H1c: Values marketing alignment is positively associated with implementation.

Franchisee Satisfaction

Franchisee satisfaction refers to the extent to which the franchisee is satisfied with investing in their current franchise. Satisfied franchisees are more likely to view their franchising experience as successful. Within marketing channel relationships, satisfaction is commonly examined as economic satisfaction and non-economic, or social, satisfaction (Geyskens and Steenkamp 2000; Geyskens et al. 1999). Due to the long-term nature of franchisee-franchisor relationships, both economic and social satisfactions are considered important aspects of the ongoing process of doing business together (e.g., Lewis and Lambert 1991; Skinner and Guiltinan 1985). Economic satisfaction is defined as a positive affective reaction to the economic benefits that result from a channel relationship (Geyskens at al. 1999). This could include sales volumes or profit margins, and generally captures the financial approval or contentment of doing business together. Social satisfaction represents the franchisee's affective response to the non-economic outcomes of the franchisee-franchisor relationship. In non-financial terms, it captures how worthwhile, acceptable, and unproblematic the franchisee interprets working with the franchisor (Dwyer and Gassenheimer 1992). Franchisee satisfaction captures the dimensions of both economic and social forms of satisfaction.

For franchisees and franchisors that maintain high levels of SMA there exists a synergy in their approach to strategic positioning and marketing objectives, which in turn creates greater potential for the franchisee to be satisfied with the partnership. Such high levels of marketing alignment directly result in more positive feelings of social satisfaction towards the franchising relationship due to the franchisee being able to pursue the goals and strategies with which they personally agree. High levels of SMA should also result in greater economic satisfaction because a franchisee that is in agreement and actively cooperating to accomplish strategic marketing efforts will evaluate the economic results of these efforts more positively than if they were opposed to such efforts in the first place. For example, even if the financial outcomes are less than favorable, being aligned in the strategic approach means the franchisee has a sense of ownership over the outcome, which in turn allows them to better justify the negative results and perceive at least a slightly higher level of satisfaction than would have been realized if they had instead been forced to pursue a failed strategy that they never agreed with in the first place. Oppositely, if the franchising partners are consistently unaligned in terms of marketing strategies then it is possible either party will seek to sabotage or end the relationship due to ongoing frustration with their strategic approach to the market. Hence,

H2a: Strategic marketing alignment is positively associated with franchisee satisfaction.

When high levels of OMA exist, the franchising partners are on the same page and working together to best manage products, the supply chain, and customer relationships through their store operations on a daily basis. From a social perspective, this means that the franchisee has the permission and support of the franchisor to operationally manage their franchise in the same approach as that to which they personally prefer, thus leading to increased social satisfaction. This idea is supported by the findings that when a firm is pleased with their channel relationship, they view their partner as a helpful entity and enjoy working together with them (Geyskens et al. 1999). High OMA will also help prevent franchising partners from wasting time and other resources on redundant efforts, which in turn should lead to greater economic satisfaction. Overall, the greater the degree of OMA, the more likely the franchisee is to be increasingly satisfied with their investment in the franchise. Hence,

H2b: Operational marketing alignment is positively associated with franchisee satisfaction.

A higher level of VMA means that franchising partners share similar values in terms of how to best respond to socio-economic opportunities or threats, which in turn should lead to a feeling of comradery with the franchisor due to the elevated degree of agreement and cooperation concerning personal values that exists in the partnership. This mutual feeling of comradery causes the franchisee to view the franchisor as a caring partner, thus creating a sense of social satisfaction as they continue to work together (Dwyer and Gassenheimer 1992; Geyskens et al. 1999; Lewis and Lambert 1991). In addition, being in a captive business relationship with a partner that responds to socio-economic opportunities or threats with the same degree of values allows the franchisee to be more satisfied with economic outcomes than would a franchisee that feels their resources are being used to pursue marketing activities that are counter to their personal value structure. Examples of a lack of VMA leading to decreased satisfaction in franchisees can be found in Chick-fil-A's corporate stance against marriage equality (Gray 2012) as well as Ben & Jerry's support of the Occupy Wall Street movement (Hines 2012). Hence,

H2c: Values marketing alignment is positively associated with franchisee satisfaction.

MODERATORS OF FRANCHISEE-FRANCHISOR MARKETING ALIGNMENT

The four moderators included in the model are *franchising capability*, *franchisor marketing mix control*, *financial transparency*, and *idiosyncratic investment*. These moderators were selected due to their established roles in marketing channels research as well as their prevalence in current industry practices that were discovered during the depth interviews with franchisees. Furthermore, each of these moderating conditions are important because they represent factors that can be controlled by either the franchisee or franchisor, thus allowing for intentional manipulation of the otherwise normal effects that marketing alignment would have on its outcomes. For example, if various forms of marketing alignment are low, it might still be possible for the franchisor to realize greater implementation or satisfaction by the franchisee through adjusting their firm's approach to idiosyncratic investment or financial transparency.

Franchising capability represents the extent to which the franchisee has the skills needed to successfully manage their franchise within its given industry (e.g., Day 1994; Saini and Johnson 2005; Vorhies and Morgan 2005). Franchisor marketing mix control captures the level to which the franchisor maintains strict control over the firm's marketing mix decisions (e.g., Payne, Storbacka, and Frow 2008). Financial transparency involves how clearly understandable the franchisor's financial requirements are to the franchisee (e.g., Bandsuch, Pate, and Thies 2008; Salvioni 2002). Idiosyncratic investment represents the amount of marketing channel related resources that the franchisor commits to their relationship with the franchisee (e.g., Bensaou and Anderson 1999; Weitz and Jap 1995; Williamson 1979).

Franchising Capability

The success of franchising as a system is largely dependent on the franchisor's ability to very systematically replicate a well-defined business concept in a wide range of markets through the utilization of independent owners (Mathews et al. 2011). It has been argued that an ideal franchisee is someone that is more prone to following orders than to creating original business concepts (Ramirez-Hurtado et al. 2011). As such, not everybody is cut out to be a franchisee in a particular industry. To be successful demands a core set of talents and practices that can be used to yield economic benefits. *Franchising capability* refers to the extent to which a franchisee has the skills needed to successfully run a franchise within their selected industry. Similar to other types of firm capabilities examined in the literature (e.g., Day 1994; Saini and Johnson 2005; Vorhies and Morgan 2005), franchising capability includes the dimension of skills as it is a vital component in determining a franchisee's ability to consistently be successful at running their business.

Based on the understanding that having the necessary capabilities means that a given franchisee is better suited to excel at running their store unit(s) than another franchisee that does not have the necessary capabilities, it is argued that franchisees high in franchising capability will realize an amplified effect of marketing alignment on implementation. Structural alignment theory supports the argument that high marketing alignment between franchising partners across the dimensions of strategies, operations, and values will lead to greater levels of implementation. A franchisee high in franchising capability has the skills in place to do a superior job of converting these aligned marketing factors into far greater implementation than does a franchisee with low franchising capability.

In terms of SMA specifically, a highly capable franchisee is better suited to fully comprehend the reasons behind their firm's chosen strategic positioning or marketing objectives and in turn is able to realize an amplified benefit of SMA on implementation. Similarly, when agreement and cooperation are high between franchising partners the franchisee is less likely to disrupt the current strategic plans, further resulting in SMA leading to better implementation. Superior franchising capability should also enhance the positive effect that OMA has on implementing marketing mix activities. This relationship is supported by the understanding that superior levels of capabilities allow entities to consistently utilize their skills to convert resources into superior outcomes (Vorhies and Morgan 2005). For franchisees maintaining high levels of franchising capability, the enhanced outcome of OMA on implementation is due to their increased ability to better manage products, suppliers, and customers in pursuit of their aligned operational approach. Lastly, for VMA, an aligned stance on how values should affect the franchising partners' approach to the market combined with a highly capable franchisee should result in superior implementation than would exist with high levels of

VMA alone. Put differently, when franchising capability is low the normally positive effect of VMA on implementation will be diminished due to the franchisee's limited ability to successfully respond to socio-economic opportunities or threats. Hence,

H3a: The greater the franchising capability of the franchisee, the stronger the positive effect of strategic marketing alignment on implementation.

H3b: The greater the franchising capability of the franchisee, the stronger the positive effect of operational marketing alignment on implementation.

H3c: The greater the franchising capability of the franchisee, the stronger the positive effect of values marketing alignment on implementation.

Franchisor Marketing Mix Control

The marketing mix is a well-established concept that captures firm decisions about products, prices, distribution, and promotions (Borden 1964; Kotler 2009). *Franchisor marketing mix control* refers to the extent to which the franchisor maintains strict control over marketing mix decisions. The extent of this control over the marketing mix affects the degree to which the franchisee perceives their own level of freedom when operating their franchise unit(s). Too much control by the franchisor could signal a one-way relationship, leaving the franchisee feeling that their opinions and decisions might not be respected or even matter at all to the franchisor, thus eliminating benefits typical derived through co-creation between channel partners (Payne et al. 2008).

For a franchisee high in marketing alignment, too great a degree of marketing mix control by the franchisor will erode the franchisee's confidence that the franchising partners actual do agree and cooperate in their approach to marketing strategies, operational tactics, and values. If the franchisee and franchisor are truly on the same page and actively working together, then micro-managing every marketing mix decision will seem completely out of place. In turn, this frustration and uncertainty will negatively affect the normally positive effect that marketing alignment has on implementation.

Despite the existence of a high level of SMA between the franchisor and any given franchisee, it is possible that the parent firm has an encompassing policy to maintain a great degree of control over marketing mix activities. When a franchisor exercises such a high degree of marketing mix control it attempts to force the franchisee to act in a specific way in terms of how they handle products, prices, distribution, or promotions. For those franchising partners that maintain high SMA, such activities undermine the positive benefits that are inherent to the relationship between SMA and implementation due to the unnecessary coercion or manipulation being negatively perceived by the franchisee (Frazier and Summers 1986; Scheer and Stern 1992). In terms of OMA, lower marketing mix control by the franchisor creates opportunity to fully realize the collaborative implementation that would normally occur with high levels of agreement and cooperation. The more that marketing mix control is maintained by the franchisor, the weaker the effect of OMA on implementation due to the franchisee perceiving that their own management of products, the supply chain, and customer relationships is not being legitimately taken into consideration in the channel relationship with the franchisor. Similarly, the positive effect of VMA on implementation is also reduced by high levels of franchisor marketing mix control. An underlying benefit of VMA is that it allows the franchisee to confidently approach the market knowing that the franchisor shares their values and supports their stances. High marketing mix control hinders this benefit, possibly forcing a franchisee to miss out on a socio-economic opportunity that they would have otherwise pursued. Hence, *H4a: The greater the franchisor marketing mix control, the weaker the positive effect of strategic marketing alignment on implementation.*

H4b: The greater the franchisor marketing mix control, the weaker the positive effect of operational marketing alignment on implementation.

H4c: The greater the franchisor marketing mix control, the weaker the positive effect of values marketing alignment on implementation.

The moderating implications of how franchisor marketing mix control affects the relationship between marketing alignment and franchisee satisfaction are mainly due to the overwhelming importance of cultivating mutually beneficial relationships between channel members (Frazier and Summers 1986). While it is typical that channel members have different amounts of power and authority, over-exertion of negatively perceived control tactics can lead to an undesirable partnership from the perspective of the weaker entity (Geyskens et al. 1999; Lusch 1976b). It is argued that franchisor marketing mix control plays a moderating role that reduces the impact that marketing alignment has on franchisee satisfaction.

For franchising relationships characterized by SMA, high franchisor marketing mix control will create an unnecessary feeling of coercion that is negative perceived by the franchisee and in turn causes a reduction in the positive effect of SMA on franchisee social satisfaction. These negatively perceived activities create significantly less conviction towards the franchising partners' agreed upon and cooperatively pursued strategies due to the franchisee no longer feeling that their input matters, thus leading to less economic satisfaction for the franchisee than would have normally been realized through high levels of SMA. In terms of OMA, an abuse of control over aspects of the marketing mix by the franchisor greatly hinders the ability of the franchisee to successfully operate their store(s) due to the need to constantly evaluate their own course of action in order to ensure they are in line with the requirements of the franchisor. This apparent disconnect between perceived marketing alignment and actual reality will decrease, or hinder, the positive effect of OMA on franchisee satisfaction. Furthermore, when high VMA exists, an abuse of marketing mix control by the franchisor causes the franchisee to doubt the level of respect, loyalty, and shared values that really exist in the relationship; thus reducing the effect of VMA on franchisee satisfaction. Hence,

H5a: The greater the franchisor marketing mix control, the weaker the positive effect of strategic marketing alignment on franchisee satisfaction.

H5b: The greater the franchisor marketing mix control, the weaker the positive effect of operational marketing alignment on franchisee satisfaction.

H5c: The greater the franchisor marketing mix control, the weaker the positive effect of values marketing alignment on franchisee satisfaction.

Financial Transparency

Due to the variation and complexity associated with how each unique franchisor handles fees, royalties, supply surcharges, and national marketing contributions, there exists a legitimate need for the franchisee to understand and be able to profitably operate the franchise within the design of the franchisor's cost structures (Mathews et al. 2011; Purvin 2008). In order to do so successfully, the franchisee requires clear and accurate information from the franchisor concerning potential expenses that could be incurred. *Financial transparency* refers to the extent to which the franchisor openly explains their financial requirements in a clearly understandable way, as they pertain to the franchisee.

If franchisors openly provide accurate and meaningful financial information to their franchisees then they are able to foster greater appreciation and trust within the franchising relationship (Bandsuch et al. 2008; Salvioni 2002). Furthermore, transparency of financial obligations allows the franchisee to better plan for long-term investments and strategic expenditures, thus further enhancing the benefit that high levels of SMA has on implementation. In terms of OMA, financial transparency of supply chain relationships could allow the franchisee to realize economies of scale or scope that the franchisor has negotiated for their network of franchised locations. In turn, this will strengthen the effect that OMA has on implementation, given that a franchisee is less likely to expend time and effort in pursuing alternative suppliers as a result of uncertainty. As applied to VMA, a lack of financial transparency could create doubt towards the franchisor as to where the franchisee's fees and other contributions are being spent, as well as what they are potentially being used to support. As a result, the franchisee will not realize as great of a benefit to implementation from VMA as they would if financial transparency were higher and they were more confident in their franchisor's approach to socio-economic opportunities or threats. Overall, advantages from high levels of financial transparency should assist the franchising partners in strengthening the benefits they are already receiving from aligning with each other's marketing strategies, operational tactics, and values. Hence,

H6a: *The greater the financial transparency of the franchisor, the stronger the positive effect of strategic marketing alignment on implementation.*

H6b: *The greater the financial transparency of the franchisor, the stronger the positive effect of operational marketing alignment on implementation.*

H6c: *The greater the financial transparency of the franchisor, the stronger the positive effect of values marketing alignment on implementation.*

Franchisors high in financial transparency make it easier for franchisees to accept, understand, and operate successfully within the cost structures being utilized. Such franchisors that maintain high levels of financial transparency have the potential to develop a more satisfied relationship with their franchisees by enhancing the effect that marketing alignment has on franchisee satisfaction. From a strategic standpoint, greater financial transparency should lead to increased understanding of the big picture reasons for needing to comply with various fees, surcharges, and contributions by the franchisee, thereby amplifying the positive effect that SMA has on franchisee economic satisfaction. Oppositely, franchisees experiencing low financial transparency are likely to constantly second guess additional operating costs, such as new equipment or branding materials, that are presented by the franchisor and thus will not realize as positive of an effect from OMA to satisfaction as could occur when greater levels of transparency exist. Furthermore, by openly providing clear and accurate financial information, franchisors are able to build greater appreciation and trust in their relationships with franchisees (Bandsuch et al. 2008; Salvioni 2002). These benefits should serve to amplify the positive effect that VMA has on social satisfaction due to the franchisee's increased awareness of how their money is being utilized. Hence,

H7a: The greater the financial transparency of the franchisor, the stronger the positive effect of strategic marketing alignment on franchisee satisfaction.

H7b: The greater the financial transparency of the franchisor, the stronger the positive effect of operational marketing alignment on franchisee satisfaction.

H7c: The greater the financial transparency of the franchisor, the stronger the positive effect of values marketing alignment on franchisee satisfaction.

Idiosyncratic Investment

Ongoing investments by the franchisor that assist in the franchisee's daily operations can enhance the benefits realized through mutual agreement and cooperation between franchising partners. *Idiosyncratic investment* refers to the extent of channel relationship investments made by the franchisor to the franchisee. Such investments could be made in the form of ongoing training, equipment upgrades, shared systems, promotional supplies, or other elements that support the marketing channel relationship (Williamson 1979). The value of investing resources in the franchisee is three-fold. First, it supports a positive and collaborative relationship between the franchisor and the franchisee (Williamson 1983). Second, it enhances the franchisees general ability to successfully operate the franchise (Weitz and Jap 1995). Third, it reinforces alignment of the franchisee's strategies, operations, and values with the franchisor due to their appearance of benevolence (Chiou and Droge 2006).

By investing operational resources into the franchisee, the franchisor is signaling an enduring desire to be in-sync and work effectively together in their partnership. As the franchisee continues to receive and recognize the benefits of these investments, they are likely to reinforce their existing level of marketing alignment with the franchisor. The benefits realized by the franchisee from agreeing and cooperating in terms of their strategies, operational tactics, and values will continue to be magnified moving forward due to the ongoing commitment shown through increased investment by the franchisor. As such it is argued that higher levels of idiosyncratic investment by the franchisor will strengthen the effect of marketing alignment on franchisee satisfaction.

It is true that the underlying rationale for strategic alliances is the value-creation potential formed by combining resources (Das and Teng 2000). This line of thought certainly applies to franchising, as resource scarcity has been repeatedly established as a critical driver of the franchise business model (e.g., Castrogiovanni et al. 2006; Hussain and Windsperger 2010). By investing time and money into the franchisee, the franchisor is signaling a greater desire to stay on the same page and continue working effectively together in their partnership. These activities should strengthen the benefits derived from franchising partners' high levels of agreement and cooperation across marketing strategies, and in doing so enhance the positive effect of SMA on franchisee satisfaction. Oppositely, if idiosyncratic investment is low then the franchisee is more likely to feel that they are on their own in running their store unit(s). In terms of OMA in this scenario, there still exists a positive benefit on satisfaction, though it is not as strong as it could be if it was further enhanced by the franchisor through a greater amount of idiosyncratic investment. For VMA it is also argued that higher levels of idiosyncratic investment by the franchisor will result in an amplified effect of marketing alignment on franchisee satisfaction. For example, since franchising partners that maintain shared values concerning their public approach to socio-economic opportunities or threats already positively affects satisfaction, then franchisors that further support the channel relationship through investments are able to reinforce these values through their actions and dollars, thus creating a stronger effect of VMA on satisfaction. Hence,

H8a: The greater the idiosyncratic investment by the franchisor, the stronger the positive effect of strategic marketing alignment on franchisee satisfaction.

H8b: The greater the idiosyncratic investment by the franchisor, the stronger the positive effect of operational marketing alignment on franchisee satisfaction.

H8c: The greater the idiosyncratic investment by the franchisor, the stronger the positive effect of values marketing alignment on franchisee satisfaction.

FRANCHISEE PERFORMANCE

Strategic and financial forms of performance are important outcomes for all companies (Ramani and Kumar 2008; Song and Parry 1997; Srinivasan and Hanssens 2009). Within franchising, performance is not only critical to the system as a whole but equally vital to each individual entity. Due to the ongoing requirement of franchisees to pay royalties and contribute to regional or national marketing campaigns, franchisees typically see lower profit margins per unit than do independent business owners (Mathews et al. 2011, Purvin 2008). As such, financial performance is often more critical than strategic performance to the long-term survival of the franchisee. *Franchisee performance* refers to the extent to which the franchisee realizes financial returns from owning the franchise. Metrics of franchisee performance include sales, market share, profitability, growth rate, and return on investment (Ramani and Kumar 2008; Sheng et al. 2011).

The manner in which any given marketing mix activity is actually implemented will produce a positive, neutral, or negative result in terms of financial performance for the company. This level of implementation is a vital link between the plans of the firm and the achievement of superior performance (Colgate and Danaher 2000; Noble and Mokwa 1999). As with most new product development efforts, new marketing mix activities developed by franchisors are often first tried in test markets in order to gauge success and acceptance (e.g., Cooper 1979; Song and Parry 1997). In order to match or even enhance the cognitive positioning that the firm holds with its customer base, it is intuitive to think that marketing mix activities will ideally fit the strategy, tactics, and values of the franchise system as a whole. Given the design and structure of franchising as a business model, it also makes sense that franchisees are intended to implement marketing mix activities as close to how they were designed by the franchisor as is reasonably possible. Based on the understanding of the link between marketing implementation and performance (Colgate and Danaher 2000; Noble and Mokwa 1997; Vorhies and Morgan 2003), it is argued that greater effort put towards accurately implementing marketing mix activities will also lead to higher levels of franchisee performance. If marketing mix activities are not accurately implemented by the franchisee then it is argued that franchisee performance will be lower as well. Hence,

H9: Implementation is positively associated with franchisee performance.

The vast majority of franchisees invest in their chosen company with the intent of generating some degree of economic gain. When franchisees are satisfied with both economic and social aspects of their relationship with the franchisor, they are more motivated to work hard and realize improved performance. In support of this notion, Eisenhardt (1989b) found that executive teams that consistently achieved above-average performance were prone to proactively handle conflict and integration of ideas when working towards various marketing activities. Furthermore, high levels of economic and social forms of satisfaction have been found to be associated with many relational benefits such as increased trust, respect, commitment, productivity, and a consistently more positive evaluation of the business partnership (Geyskens et al. 1999; Geyskens and Steenkamp 2000; Lewis and Lambert 1991; Schul, Little, and Pride 1985). As such, franchising partners that are able to work together to the degree necessary to achieve high levels of satisfaction should also realize greater financial returns than those that do not due to the cohesion that they have realized within their partnership. Put differently, franchisees that are highly satisfied are happy in their channel partnership and in turn will continue to put greater effort towards successfully managing their franchise, thus leading to increased performance. Hence,

H10: Franchisee satisfaction is positively associated with franchisee performance.

The concept of franchisee-franchisor marketing alignment plays a meaningful and significant role in better explaining the intricacies of franchising relationships. By building better theoretical understanding of the moderators and consequences of this focal concept it is possible to not only expand knowledge of the phenomena, but also to gain substantive insight into how and why some franchisees have greater success than others. The research methodology, including the measure development and sampling plan, is discussed in the following chapter.

CHAPTER FOUR
–RESEARCH METHODOLOGY–

OBJECTIVES OF THE CHAPTER

The primary objective of this chapter is to describe the research methodology that was utilized to collect quantitative data and subsequently test the relationships hypothesized in Chapter Three. First the measure development, construct definitions, and measurement scales are provided. Then the sampling frame and survey procedures will be discussed.

MEASURE DEVELOPMENT

Where possible, existing scales were utilized to measure the constructs included in the hypothesized model. For the remaining constructs that had either no existing or no reliable measures, new scales were developed. Consistent with construct development standards (e.g., Churchill 1979; Rossiter 2002), specific construct definitions were first created. Following definitions, item lists were developed using a mix of existing literature and qualitative depth interviews. These scales were then reviewed by academics established in the subject matter, reviewed by academics specializing in survey methodology, and pre-tested by franchisees in two separate stages. In line with Churchill (1979), appropriate changes were made during all iterations of the testing process.

The preliminary version of the questionnaire and the subsequent revised version of the questionnaire were pre-tested by two current franchisees at each stage. During both sets of pre-tests, the following aspects were observed: the time taken to complete the questionnaire, obstacles or problems in the physical layout of the questionnaire, as well as any problems in comprehension of items. Furthermore, all four pre-tests were completed in person and divided into two distinctive steps. First, respondents were given unlimited time on their own to complete the questionnaire. Second, a debriefing occurred where the investigator and the franchisee went item-by-item through the questionnaire soliciting candid feedback.

The first stage of franchisee pre-testing resulted in a variety of constructive suggestions and general observations. The feedback that resulted in changes (along with the corrective steps taken in parentheses) includes: 1) the questionnaire took longer to complete than desired (some repetitive items as well as four constructs that were not necessary for the study but had been added as potential future research opportunities were removed, resulting in an approximately 20% reduction in total length), 2) several individual items were found to use marketing lingo that was potentially confusing to the franchisees (such vocabulary was changed to reflect more commonly used practitioner terms), and 3) the performance measures originally asked franchisees to rate their performance as compared to both external competitors as well as other franchisees in their network, though not one franchisee was confident in their ability to accurately make these comparisons (the question stem was changed to instead ask for their own performance). No issues with the physical layout were uncovered.

The second stage of franchisee pre-testing resulted in two important outcomes that led to the investigator determining sufficient pre-testing had been accomplished. First, the total time needed to complete the questionnaire was reduced to 20-25 minutes for both participants. Second, the only suggested changes were very minimal modifications to wording on just a handful of items. During this stage, the investigator also inquired if any of the questions were requesting information that was perceived as being sensitive or confidential in nature, to which no concerns of this type were raised.

All constructs are considered reflective unless specifically stated otherwise. The measurement items for each construct, as well as the actual survey instrument, can be found in Appendix A and Appendix B, respectively. Construct definitions and other details concerning how each of the constructs is measured are provided next.

MEASUREMENT

Focal Construct

Marketing alignment is conceptualized as the extent to which the marketing relationship between channel partners is unified in terms of both mutual agreement and ongoing cooperation across the dimensions of strategic marketing alignment, operational marketing alignment, and values marketing alignment. Within this dissertation, and specifically the hypothesized model, marketing alignment is often referred to as franchisee-franchisor marketing alignment as it is being examined in the context of franchising relationships. The measurement items and survey instrument reflect this context as well, though it is important to note that each could easily be converted to examine the degree of marketing alignment that exists in other types of channel relationships. It is also possible, and even likely, that the individual dimensions of marketing alignment actually have unique and distinctive roles independent of the other dimensions. As such, each dimension of marketing alignment was conceptualized, measured, and tested as if it were its own unique construct.

Strategic marketing alignment (SMA) is conceptualized as the extent to which the marketing relationship between the franchisee and franchisor is unified in terms of both mutual agreement and ongoing cooperation across two key areas: 1) *strategic positioning* (e.g., Park et al. 1986; Porter 1996) and 2) *marketing objectives* (e.g., Anderson 1982; Burke 1984). SMA is formative (strategic positioning + marketing objectives). Strategic positioning is formative (agreement + cooperation). Marketing objectives is formative (agreement + cooperation). Agreement and cooperation are both reflective. SMA is specified as a formative construct because 1) strategic positioning and marketing objectives both cause SMA, as opposed to SMA causing strategic positioning or marketing objectives, 2) if agreement and cooperation between franchising partners for either strategic positioning or marketing objectives increases (even if the other does not change), then SMA increases, and 3) strategic positioning and marketing objectives are not interchangeable with any other indicators in order to accurately determine SMA (Diamantopoulos and Winklhofer 2001). These same reasons apply to why both strategic positioning and marketing objectives are each individually formative in terms of agreement and cooperation. SMA is captured through a total of 26 items, half utilizing a 7-point Likert type scale that ranges from ‘strongly disagree’ to ‘strongly agree’ and the other half utilizing a 7-point Likert type scale that ranges from ‘no cooperation’ to ‘high cooperation’.

Operational marketing alignment (OMA) is conceptualized as the extent to which the marketing relationship between the franchisee and franchisor is unified in terms of both mutual agreement and ongoing cooperation across three key activities: 1) *product management* (e.g., Keller 1993; Rao et al. 2004), 2) *supply chain management* (e.g., Mentzer et al. 2001; Thomas and Griffin 1996), and 3) *customer relationship management* (e.g., Payne and Frow 2005; Reinartz et al. 2004; Saini et al. 2010). OMA is formative (product management + supply chain management + customer relationship management). Product management is formative (agreement + cooperation). Supply chain management is formative (agreement + cooperation). Customer relationship management is formative (agreement + cooperation). Agreement and cooperation are both reflective. OMA is specified as a formative construct because 1) product management, supply chain management, and customer relationship management all cause OMA (Srivastava, Shervani, and Fahey 1999), as opposed to OMA causing product management, supply chain management, or customer relationship management, 2) if agreement and cooperation between franchising partners for product management, supply chain management, or customer relationship management increases (even if the others do not change), then OMA increases, and 3) product management, supply chain management, and customer relationship management are not interchangeable with any other indicators in order to accurately determine OMA (Diamantopoulos and Winklhofer 2001). These same reasons apply to why product management, supply chain management, and customer relationship management are each individually formative in terms of agreement and cooperation. OMA is captured through a total of 44 items, half utilizing a 7-point Likert type scale that ranges from 'strongly disagree' to 'strongly agree' and the other half utilizing a 7-point Likert type scale that ranges from 'no cooperation' to 'high cooperation'.

Values marketing alignment (VMA) is conceptualized as the extent to which the marketing relationship between the franchisee and franchisor is unified with mutual agreement and also ongoing cooperation in terms of their personal values-based responses to potentially controversial socio-economic opportunities and threats. VMA is formative (agreement + cooperation). Agreement and cooperation are both reflective. VMA is captured through a total of 10 items, half utilizing a 7-point Likert type scale that ranges from ‘strongly disagree’ to ‘strongly agree’ and the other half utilizing a 7-point Likert type scale that ranges from ‘no cooperation’ to ‘high cooperation’.

Outcome Variables

Implementation refers to the extent to which the franchisee actually implements marketing mix activities according to the franchisor’s plan. Implementation is captured through a new, 6-item, 7-point Likert type scale ranging from ‘strongly disagree’ to ‘strongly agree’.

Franchisee satisfaction refers to the extent to which the franchisee is satisfied with investing in their current franchise. Franchisee satisfaction is formative (economic satisfaction + social satisfaction). Economic satisfaction and social satisfaction are both reflective. Franchisee satisfaction is captured through a 14-item, 7-point Likert type scale ranging from ‘strongly disagree’ to ‘strongly agree’ that was adapted from Geyskens and Steenkamp (2000).

Franchisee performance refers to the extent to which the franchisee realizes worthwhile financial returns from owning the franchise. Franchisee performance is captured through a 7-item, 7-point Likert type scale ranging from ‘far below expectations’ to ‘far above expectations’ that was adapted from Ramani and Kumar (2008) and Sheng et al. (2011).

Moderating Variables

Franchising capability refers to the extent to which the franchisee has the skills needed to successfully run a franchise within their selected industry. Franchising capability is captured through a new 5-item, 7-point Likert type scale ranging from ‘strongly disagree’ to ‘strongly agree’.

Franchisor marketing mix control refers to the extent to which the franchisor maintains strict control over marketing mix decisions. Franchisor marketing mix control is captured through a new 4-item, 7-point Likert type scale ranging from ‘very low extent’ to ‘very high extent’.

Financial transparency refers to the extent to which the franchisor openly explains their financial requirements in a clearly understandable way, as it pertains to the franchisee. Financial transparency is captured through a new 5-item, 7-point Likert type scale ranging from ‘strongly disagree’ to ‘strongly agree’.

Idiosyncratic investment refers to the extent of channel relationship investments made by the franchisor to the franchisee. Idiosyncratic investment is captured through a 6-item, 7-point Likert type scale ranging from ‘strongly disagree’ to ‘strongly agree’ that was adapted from Bensaou and Anderson (1999).

Control Variables

Firm strata refers to the unique code assigned to each company strata that is included in the study. Firm strata is assigned by the primary investigator and used to statistically partition out between and within group variances.

Firm age refers to the number of years the parents firm has been in operation. Firm age is captured through a blank text field, though it was also verified through public information.

Relationship length refers to the number of years the franchisee has been partnered with their franchisor. Length of relationship is captured through a blank text field.

Total franchisee units refers to the total number of franchise locations the franchisee owns for the given franchisor. Total franchisee locations is captured through a blank text field.

Average revenue refers to the average amount of annual revenue that each of the franchisee's units earn. Average revenue is captured is terms of dollar amount by the participant selecting one of ten possible ranges in a checkbox format.

Questionnaire Development

The finalized version of the questionnaire that was used for data collection totals 14 pages in length. This includes a one page cover, a one page introduction, and 12 pages of survey questions. The questionnaire was printed two-sided, thus totaling seven actual pages of paper, and was physically administered offline. Further specifics about the data collection procedures are provided in the following section.

Common method variance (CMV) describes measurement error that is caused by using a single method to measure all variables, suggesting the data might represent something slightly different than the measures were intended to collect (Podsakoff et al. 2003). Questionnaire design was used to reduce the risk of CMV through two specific steps. First, participants were assured both anonymity and also that there are no actual right or wrong answers in order to eliminate apprehension and social desirability (Podsakoff et al. 2003). Second, several different question formats were utilized within the survey in order to create greater variety in how the constructs are represented and measured. Overall, a total of five different formats are utilized, with attempts made to alternate between formats where possible throughout the questionnaire. These formats include using tables to list each measurement item in its own box, repeating the scales between measurement items in order to help break them up, formatting so that question stems are on the left and scales are on the right, using free form text answers, and providing ranged checkbox options.

Each survey also includes a tracking number so that a follow-up packet can be sent to non-respondents. Furthermore, it is also possible for respondents to include their contact information on the introduction page of the survey in order to receive summarized results upon completion of the study. The tracking numbers are managed in a database containing contact information that is updated to show when a completed survey has been returned by a given participant and whether they have elected to receive a summary of results or not. No responses or other survey data are recorded in this database. A complete copy of the questionnaire can be found in Appendix B.

SAMPLING FRAME AND SURVEY PROCEDURES

Due to the conceptual model and subsequent hypotheses being formulated from the perspective of the franchisee, the sampling frame is made up of only franchisees. Furthermore, it is important to study marketing alignment from this viewpoint because of the variation among franchisees as well as the underlying role it plays in the long-term success of franchise systems as a whole. Lastly, much of the extant work in franchising has been completed in terms of franchisors, so providing another perspective on franchising relationships adds to the richness of marketing research, ideally providing new and valuable insight into the phenomenon.

In order to allow for greater generalizability, the sample needs to capture a heterogeneous population of franchisees. To ensure that a statistically comparable dataset is collected, a single industry within a single country has been selected for the sampling frame. This approach is in line with past work on franchising which has consistently been conducted within a single industry, typically the automotive or food and beverage industries (e.g., Grünhagen, Flight, and Boggs 2010; Krueger 1991; Lillis, Narayana, and Gilman 1976; Ni and Alon 2010; Srinivasan 2006).

The food and beverage industry was chosen as the research context for this study for multiple reasons: (a) big picture strategies are important because of high competition, thus providing a good context to study strategic marketing alignment, (b) the food and beverage industry is characterized by frequent tactical marketing actions, thus providing a good context to study operational marketing alignment, (c) economic and political values have been repeatedly found to affect franchisees in the food and beverage industry, thus providing a good context to study values marketing alignment, and (d) it is an attractive industry in the U.S. with Americans spending $529.7 billion annually on eating out during 2012, according to the Bureau of the Census.

The unit of analysis is potentially any U.S. food and beverage franchisee that owns one or more franchised units from one or more business concepts. All franchisors must legally maintain official paperwork commonly referred to as Franchise Disclosure Documents (FDDs). A sample FDD can be found in Appendix C, though due to these documents typically being several hundreds of pages long only a select preview of the first several pages are included as an example. FDDS are annually updated legal agreements that are provided to all franchisees in the network and are also registered with every state in which the franchise operates. The documents cover all aspects of purchasing, owning, and running the franchise. FDDs also typically contain a list of every franchisee currently in the network as well as some degree of contact information for each franchisee.

In order to acquire a broad and representative sample of franchisees, a comprehensive list of food and beverage franchise concepts was obtained from an Entrepreneur Magazine publication (Keup and Keup 2012). Using this list as an exhaustive guide the author was able to acquire more than 50 FDDs. Every FDD was updated and registered in 2013, and each contained some degree of information about the franchisees in their system. Through analysis of these documents, companies were deemed usable for the study based on two conditions: 1) the FDD contained all necessary and current franchisee contact information and 2) there existed at least 50 unique franchisees currently operating in the company's network. This resulted in more than 23,000 food and beverage franchisees across 32 firms (examples include Applebee's, Arby's, Auntie Anne's Pretzels, Burger King, Chick-fil-A, Dairy Queen, Famous Dave's, McDonald's, Orange Julius, Scooter's Coffee, Steak n Shake, Taco Time, and Village Inn).

Derived from the FDDs just described, a database was created containing 1000 participants that were randomly selected using a stratified approach. In total 32 strata were developed, one for each firm included in the study. First, the number of franchisees that would be selected from each company was determined based on a variety of factors such as the total number of franchise locations and whether the contact information was for store units or franchisee offices. Next, a skip value was created by taking the total number of franchise locations for a given company divided by the total number of participants that would be selected from that company. After that, a start number was randomly generated for each company that was between 1 and the total number of franchise locations. Lastly, franchisees were selected beginning with the random start number and then the skip value was repeatedly added in order to select subsequent franchisees. If the skip value happened to land on a franchisee that was already included in the study then the next franchisee was selected. This process allowed for a random, yet equally distributed selection of franchisees regardless of how they were listed in their respective FDDs (e.g., alphabetically, by state, by number of units, etc.).

For example, the Cold Stone Creamery FDD listed 997 franchised units and it was determined that 35 unique franchisees would be selected. The rounded skip value (997/35) equals 28 and, for the sake of this example, the randomly generated start value is 456. As such the 456th franchisee in the list would be selected for the database, then the 484th, then the 512th, then the 540th, and so on (starting over at the beginning of the franchisee list when necessary), until all 35 franchisees have been selected. If the 512th franchisee was a repeat, then the 513th franchisee was selected instead (or the 514th if the 513th was also a repeat, and so on). Even if the subsequent franchisee was selected due to a repeat, the following franchisee was still selected per the original skip value (thus the 540th franchisee on the list in the example just discussed) in order to ensure both random and equal distribution throughout the entire FDD.

Once the participant database was created, it was necessary to ensure that the franchisee contact information it contained was both valid and current prior to physically mailing the survey packets. To this end, approximately 25% of the franchisees in every stratum were randomly selected and called. For those firms in which the contact information was for store units, the investigator would speak to the store manager. For those firms in which the contact information was for franchisee offices, the investigator would speak to either an administrative assistant or the actual franchisee. The underlying goals of all calls was to ensure that 1) the contact information was correct and 2) if a survey packet was mailed to the address listed, that it would indeed be received by or forwarded to the actual franchisee. Less than 1% of the calls resulted in faulty contact information. In such rare cases, the franchisee was replaced with the next one on the list, similar to the process described above for repeat franchisees. Based on the extremely high success rate of the subset of calls, the list was deemed both valid and acceptable. These results are not surprising considering the FDDs for all companies in the study had been updated and legally registered within nine months of creating the list.

In total, 1000 unique franchisees were mailed survey packets that included the cover letter, printed survey, crisp $1 bill, and return envelope with postage paid. Overall, four packets were returned as undeliverable, six packets were returned by franchisees stating they chose not to participate, nine surveys were returned only partially completed, and 85 surveys were returned complete. This resulted in a 10% total response rate and an 8.5% effective response rate. Follow-up packets were sent to the 896 non-respondents four weeks after the original mailing. A four week delay was chosen based on the time taken for the majority of the original packets to be returned. This timeframe was slightly slower than expected and likely due to the need for many of the surveys to be forwarded from store units to the actual franchisees. The follow-up mailing resulted in zero packets that were returned as undeliverable, three packets that were returned by franchisees stating they chose not to participate, three incomplete surveys, and 25 complete surveys. This follow-up resulted in a 3.5% total response rate and a 2.8% effective response rate.

Overall, a total of 131 surveys were received back from participants for a 13.1% response rate. Due to incomplete surveys and participants opting out, 21 franchisees were removed from the sample. This left 110 complete and usable surveys for an effective response rate of 11%, which consists of data from 31 of the 32 franchises originally included in the study. In order to evaluate the risk of non-response bias, an extrapolation method was utilized that compared early respondents with late respondents (Armstrong and Overton 1977). No evidence was found that supports the existence of a non-response bias. Some of the univariate t-tests for key indicator differences between the original respondents and the follow-up respondents are provided in Table 4. Additional information about respondent and firm profiles is provided in Table 5.

Table 4 – Non-Response Bias Assessment

Construct	Mean Score (1st Wave)	Mean Score (2nd Wave)	Difference (at $\alpha = .05$)
Strategic Marketing Alignment	4.38	4.69	Not Significant
Operational Marketing Alignment	4.54	5.03	Not Significant
Values Marketing Alignment	4.42	4.82	Not Significant
Franchising Capability	6.30	6.26	Not Significant
Idiosyncratic Investment	4.43	4.51	Not Significant
Financial Transparency	5.89	5.97	Not Significant
Franchisor Marketing Mix Control	5.41	5.55	Not Significant
Implementation	5.83	5.98	Not Significant
Franchisee Satisfaction	4.69	4.71	Not Significant
Franchisee Performance	4.43	3.98	Not Significant

Table 5 – Respondent and Firm Profile

	Frequency	Percent of Total
Total Franchise Concepts Owned		
1 concept	84	76.4%
2-5 concepts	22	20.0%
>5 concepts	4	3.6%
Total Units Owned of Main Concept		
1 unit	37	33.6%
2-5 units	45	40.9%
>5 units	28	25.5%
Average Revenue per Unit		
< $100,000	7	6.4%
$100,000-$499,000	30	27.3%
$500,000-$999,000	39	35.5%
$1,000,000-$1,999,999	19	17.3%
$2,000,000-$2,999,999	5	4.5%
> $3,000,000	10	9.1%
Relationship Length		
1-5 years	31	28.2%
6-10 years	27	24.5%
11-20 years	18	16.4%
21-30 years	19	17.3%
>30 years	15	13.6%
Franchisor Firm Age		
1-10 years	10	9.1%
11-20 years	25	22.7%
21-30 years	15	13.6%
31-40 years	11	10.0%
41-50 years	19	17.3%
>50 years	30	27.3%
Network Scope of Franchisor		
Regional	14	12.7%
National	46	41.8%
International	50	45.5%

CHAPTER FIVE
–DATA ANALYSIS–

OBJECTIVES OF THE CHAPTER

The objectives of this chapter are to discuss the analysis of the collected data, purification of measurement items, and hypotheses testing discussed in Chapter Three. To this end, the quality of the data collection is ensured through multiple statistical tests including verifying reliability of measures as well as checking for convergent validity and discriminant validity. The hypotheses are tested using multiple regression analysis.

RELIABILITY AND VALIDITY

Reliability

High reliability is important because it ensures less error exists in the measures, thus suggesting that the construct in question repeatedly and consistently captures that which it represents. Two alternative approaches were utilized to evaluate reliability. First, coefficient alphas were computed for each scale in order to assess that they were greater than the suggested minimum value of 0.7 (Nunnally 1978). Second, a confirmatory factor analysis (CFA) was completed for each construct in order to calculate the average variance extracted (AVE) and composite reliability. If composite reliabilities are large and AVEs are greater than 0.5 then reliability can be assumed (Fornell and Larcker 1981). Items for which these conditions do not apply were evaluated and in some cases dropped from the analysis. Only one construct – franchisor marketing mix control – had less than optimal reliability, though items could not be removed and it is still included in the analysis. Individual construct alphas, AVEs, composite reliabilities, and CFA fit statistics are all reported in Tables 6-25. Overall, the constructs are considered to have very good reliability and are acceptable to use for testing the model.

Table 6

Strategic Marketing Alignment - Strategic Positioning Agreement

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Strategic Marketing Alignment - Strategic Positioning Agreement	**Source** (New Scale)		
Please indicate the extent to which you have the same viewpoint as your franchisor concerning the company's marketing strategies or objectives, or in other words, the level of agreement that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Long-term strategies for the company	0.86	0.91	0.94
2. Big picture direction of the company	0.85	0.91	0.94
3. How to perform marketing activities differently than our competitors	0.83	0.91	0.85
4. How to best serve different segments of customers	0.79	0.92	0.83
5. Which customers needs to fulfill	0.74	0.93	0.76
FINAL COEFFICIENT ALPHA	**0.93**		

Fit Indices for Strategic Marketing Alignment - Strategic Positioning Agreement Scale

χ^2 (4) = 12.75, $p<0.05$

CFI = 0.98

RMSEA = 0.14

SRMR = 0.02

Composite Reliability (CR) and Average Variance Extracted (AVE)

(Fornell and Larcker 1981)

CR = 0.92

AVE = 0.71

Table 7

Strategic Marketing Alignment - Strategic Positioning Cooperation

Scale Type: Seven-point Likert type scale ranging from No Cooperation to High Cooperation

Scale for Strategic Marketing Alignment - Strategic Positioning Cooperation	**Source** (New Scale)		
Please indicate the extent to which you actively work together with your franchisor concerning the company's marketing strategies or objectives, or in other words, the level of cooperation that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Pursuing long-term strategies for the company	0.89	0.93	0.95
2. Pursuing the big picture direction of the company	0.90	0.93	0.96
3. Performing marketing activities in a different way than our competitors	0.84	0.94	0.86
4. Serving different segments of customers	0.87	0.94	0.89
5. Deciding which customer needs to fulfill	0.80	0.95	0.81
FINAL COEFFICIENT ALPHA	**0.95**		

Fit Indices for Strategic Marketing Alignment - Strategic Positioning Cooperation Scale

χ^2 (4) = 9.61, $p<0.05$
CFI = 0.99
RMSEA = 0.11
SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.94
AVE = 0.76

Table 8

Strategic Marketing Alignment - Marketing Objectives Agreement

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Strategic Marketing Alignment - Marketing Objectives Agreement	**Source** (New Scale)		
Please indicate the extent to which you have the same viewpoint as your franchisor concerning the company's marketing strategies or objectives, or in other words, the level of agreement that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Goals for market share	0.77	0.91	0.82
2. Goals for sales volume	0.91	0.90	0.93
3. Goals for profit margin	0.76	0.92	0.80
4. Goals for customer satisfaction metrics	0.73	0.92	0.77
5. Goals for annual growth	0.84	0.91	0.86
6. Goals for marketplace reputation	0.73	0.92	0.78
FINAL COEFFICIENT ALPHA	**0.93**		

Fit Indices for Strategic Marketing Alignment - Marketing Objectives Agreement Scale

χ^2 (8) = 9.42, p>0.05

CFI = 0.99

RMSEA = 0.04

SRMR = 0.02

Composite Reliability (CR) and Average Variance Extracted (AVE)

(Fornell and Larcker 1981)

CR = 0.92

AVE = 0.67

Table 9

Strategic Marketing Alignment - Marketing Objectives Cooperation

Scale Type: Seven-point Likert type scale ranging from No Cooperation to High Cooperation

Scale for Strategic Marketing Alignment - Marketing Objectives Cooperation	**Source** (New Scale)		
Please indicate the extent to which you actively work together with your franchisor concerning the company's marketing strategies or objectives, or in other words, the level of cooperation that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Achieving goals for market share	0.90	0.94	0.92
2. Achieving goals for sales volumes	0.94	0.94	0.94
3. Achieving goals for profit margins	0.86	0.95	0.88
4. Achieving goals for annual growth	0.91	0.94	0.92
5. Achieving goals for marketplace reputation	0.80	0.96	0.81
FINAL COEFFICIENT ALPHA	**0.96**		

Fit Indices for Strategic Marketing Alignment - Marketing Objectives Cooperation Scale

χ^2 (4) = 8.09, $p>0.05$
CFI = 0.99
RMSEA = 0.1
SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.96
AVE = 0.81

Table 10

Operational Marketing Alignment - Product Management Agreement

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Operational Marketing Alignment - Product Management Agreement	**Source** (New Scale)		
Please indicate the extent to which you have the same viewpoint as your franchisor concerning the operational management of your franchise, or in other words, the level of agreement that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. How to best represent products to consumers at the retail level	0.86	0.85	0.89
2. How to best maintain consistency of product offerings to consumers at the retail level	0.86	0.86	0.89
3. How to best manage the quality of product offerings to consumers at the retail level	0.79	0.88	0.81
4. How to best communicate product features to consumers at the retail level	0.68	0.92	0.69
FINAL COEFFICIENT ALPHA	**0.91**		

Fit Indices for Operational Marketing Alignment - Product Management Agreement Scale

χ^2 (2) = 5.0, p>0.05
CFI = 0.99
RMSEA = 0.12
SRMR = 0.02

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.91
AVE = 0.72

Table 11

Operational Marketing Alignment - Product Management Cooperation

Scale Type: Seven-point Likert type scale ranging from No Cooperation to High Cooperation

Scale for Operational Marketing Alignment - Product Management Cooperation	**Source** (New Scale)		
Please indicate the extent to which you actively work together with your franchisor to accomplish operational management of your franchise, or in other words, the level of cooperation that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Representing products to consumers at the retail level	0.87	0.93	0.88
2. Maintaining consistency of product offerings to consumers at the retail level	0.85	0.93	0.91
3. Managing the quality of product offerings to consumers at the retail level	0.90	0.92	0.92
4. Communicating product features to consumers at the retail level	0.86	0.93	0.89
5. Maximizing profitability of product offerings at the retail level	0.79	0.94	0.80
FINAL COEFFICIENT ALPHA	**0.95**		

Fit Indices for Operational Marketing Alignment - Product Management Cooperation Scale

χ^2 (2) = 2.09, p>0.05

CFI = 1.0

RMSEA = 0.02

SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)

(Fornell and Larcker 1981)

CR = 0.93

AVE = 0.74

Table 12

Operational Marketing Alignment - Supply Chain Management Agreement

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Operational Marketing Alignment - Supply Chain Management Agreement	**Source** (New Scale)		
Please indicate the extent to which you have the same viewpoint as your franchisor concerning the operational management of your franchise, or in other words, the level of agreement that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. How to best ensure that the right mixes of products are consistently available from our suppliers	0.80	0.94	0.82
2. How order processing should best be handled throughout our supply chain	0.86	0.93	0.87
3. How transportation of products should best be handled throughout our supply chain	0.89	0.93	0.90
4. How storage of products should best be handled throughout our supply chain	0.87	0.93	0.89
5. How logistics information should best be communicated throughout our supply chain	0.85	0.93	0.86
FINAL COEFFICIENT ALPHA	**0.94**		

Fit Indices for Operational Marketing Alignment - Supply Chain Management Agreement Scale

χ^2 (4) = 5.21, $p>0.05$
CFI = 0.99
RMSEA = 0.05
SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.95
AVE = 0.79

Table 13

Operational Marketing Alignment - Supply Chain Management Cooperation

Scale Type: Seven-point Likert type scale ranging from No Cooperation to High Cooperation

Scale for Operational Marketing Alignment - Supply Chain Management Cooperation	Source (New Scale)		
Please indicate the extent to which you actively work together with your franchisor to accomplish operational management of your franchise, or in other words, the level of cooperation that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Ensuring that the right mixes of products are consistently available from our suppliers	0.82	0.96	0.83
2. Handling order processing in our supply chain	0.86	0.96	0.86
3. Transporting products throughout our supply chain	0.94	0.94	0.94
4. Storing products throughout our supply chain	0.91	0.95	0.92
5. Communicating logistics information throughout our supply chain	0.91	0.95	0.93
FINAL COEFFICIENT ALPHA	**0.96**		

Fit Indices for Operational Marketing Alignment - Supply Chain Management Cooperation Scale

χ^2 (5) = 10.66, p>0.05
CFI = 0.99
RMSEA = 0.1
SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.96
AVE = 0.83

Table 14

Operational Marketing Alignment - Customer Relationship Management Agreement

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Operational Marketing Alignment - Customer Relationship Management Agreement	**Source** (New Scale)		
Please indicate the extent to which you have the same viewpoint as your franchisor concerning the operational management of your franchise, or in other words, the level of agreement that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. How to profitably target new customer segments	0.75	0.94	0.78
2. Which customer relationship management (CRM) technologies to utilize	0.80	0.93	0.82
3. Which promotional content is used to attract or retain customers	0.85	0.92	0.86
4. How often promotional content is used to attract or retain customers	0.88	0.91	0.94
5. How much promotional content is used to attract or retain customers	0.88	0.91	0.93
FINAL COEFFICIENT ALPHA	**0.94**		

Fit Indices for Operational Marketing Alignment - Customer Relationship Management Agreement Scale

χ^2 (3) = 4.64, $p>0.05$
CFI = 0.99
RMSEA = 0.07
SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.92
AVE = 0.71

Table 15

Operational Marketing Alignment - Customer Relationship Management Cooperation

Scale Type: Seven-point Likert type scale ranging from No Cooperation to High Cooperation

Scale for Operational Marketing Alignment - Customer Relationship Management Cooperation	**Source** (New Scale)		
Please indicate the extent to which you actively work together with your franchisor to accomplish operational management of your franchise, or in other words, the level of cooperation that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Selecting customer relationship management (CRM) technologies to utilize	0.86	0.96	0.92
2. Maintaining our customer relationship management (CRM) database	0.87	0.96	0.93
3. Selecting which promotional content is used to attract or retain customers	0.93	0.95	0.95
4. Deciding how promotional content is used to attract or retain customers	0.92	0.95	0.96
5. Choosing the amount of promotional content that is used to attract or retain customers	0.91	0.95	0.95
FINAL COEFFICIENT ALPHA	**0.96**		

Fit Indices for Operational Marketing Alignment - Customer Relationship Management Cooperation Scale
χ^2 (4) = 6.2, p>0.05
CFI = 0.99
RMSEA = 0.07
SRMR = 0.01
Composite Reliability (CR) and Average Variance Extracted (AVE) (Fornell and Larcker 1981)
CR = 0.95
AVE = 0.81

Table 16

Values Marketing Alignment - Agreement

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Values Marketing Alignment - Agreement	**Source** (New Scale)		
For the next two sets of items, socio-economic represents how you feel – based on your own value system – about social or economic issues such as immigration reform, marriage equality, nationalized healthcare, religious tolerance, political regulation, or political affiliation. Please indicate the extent to which you have the same viewpoint as your franchisor concerning socio-economic values, or in other words, the level of agreement that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Socio-economic viewpoints	0.94	0.97	0.94
2. Responding to socio-economic opportunities	0.92	0.97	0.94
3. Responding to socio-economic threats	0.93	0.97	0.95
4. Socio-economic beliefs	0.92	0.97	0.94
5. Socio-economic values	0.94	0.97	0.95
FINAL COEFFICIENT ALPHA	**0.98**		

Fit Indices for Values Marketing Alignment - Agreement Scale

χ^2 (4) = 9.37, p>0.05

CFI = 0.99

RMSEA = 0.11

SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)

(Fornell and Larcker 1981)

CR = 0.97

AVE = 0.88

Table 17

Values Marketing Alignment - Cooperation

Scale Type: Seven-point Likert type scale ranging from No Cooperation to High Cooperation

Scale for Values Marketing Alignment - Cooperation	**Source** (New Scale)		
For the next two sets of items, socio-economic represents how you feel – based on your own value system – about social or economic issues such as immigration reform, marriage equality, nationalized healthcare, religious tolerance, political regulation, or political affiliation. Please indicate the extent to which you actively work together with your franchisor to uphold your socio-economic values when approaching the market, or in other words, the level of cooperation that exists between you and your franchisor on the following items:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Socio-economic viewpoints	0.98	0.99	0.98
2. Responding to socio-economic opportunities	0.97	0.99	0.98
3. Responding to socio-economic threats	0.96	0.99	0.97
4. Socio-economic beliefs	0.98	0.99	0.99
5. Socio-economic values	0.98	0.99	0.98
FINAL COEFFICIENT ALPHA	**0.99**		

Fit Indices for Values Marketing Alignment - Cooperation Scale

χ^2 (3) = 5.0, p>0.05

CFI = 0.99

RMSEA = 0.08

SRMR = 0.00

Composite Reliability (CR) and Average Variance Extracted (AVE)

(Fornell and Larcker 1981)

CR = 0.99

AVE = 0.95

Table 18
Franchising Capability

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Franchising Capability	**Source** (New Scale)		
Please rate the extent to which you agree with the following statements about yourself as a franchisee:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. I have the skills needed to successfully manage my franchise.	0.83	0.87	0.87
2. I am very skilled at running my franchise.	0.72	0.89	0.80
3. I am fully capable of being successful as a franchisee.	0.83	0.87	0.84
4. I have the skills needed to profitably manage my franchise.	0.79	0.87	0.81
5. I have the skills required to grow as a franchisee.	0.68	0.90	0.73
FINAL COEFFICIENT ALPHA	**0.90**		

Fit Indices for Franchising Capability Scale

χ^2 (4) = 6.64, p>0.05
CFI = 0.99
RMSEA = 0.08
SRMR = 0.02

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.91
AVE = 0.68

Table 19

Franchisor Marketing Mix Control

Scale Type: Seven-point Likert type scale ranging from Very Low Extent to Very High Extent

Scale for Franchisor Marketing Mix Control	**Source** (New Scale)		
Please circle the appropriate answer to the following questions regarding your main franchise. To what extent:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Does your franchisor control product development decisions?	0.46	0.61	0.48
2. Does your franchisor control pricing decisions for your products or services?	0.34	0.69	0.34
3. Does your franchisor control promotion decisions for your products or services?	0.54	0.52	0.58
4. Does your franchisor control distribution decisions?	0.51	0.54	0.56
FINAL COEFFICIENT ALPHA	**0.66**		

Fit Indices for Franchisor Marketing Mix Control Scale

χ^2 (2) = 0.27, p>0.05

CFI = 1.0

RMSEA = 0.0

SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)

(Fornell and Larcker 1981)

CR = 0.71

AVE = 0.4

Table 20

Financial Transparency

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Financial Transparency	**Source** (New Scale)		
Thinking about your main franchise, please rate your agreement with the following statements. We are clearly informed about:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Franchising fees that we are required to pay.	0.63	0.80	0.74
2. Royalty fees that we are required to pay.	0.56	0.82	0.72
3. Supply surcharges that we are required to pay.	0.64	0.80	0.70
4. Marketing contributions that we are required to make.	0.74	0.76	0.75
5. New equipment or remodeling for which we are required to pay.	0.67	0.79	0.70
FINAL COEFFICIENT ALPHA	**0.83**		

Fit Indices for Financial Transparency Scale

χ^2 (3) = 4.74, $p>0.05$

CFI = 0.99

RMSEA = 0.07

SRMR = 0.02

Composite Reliability (CR) and Average Variance Extracted (AVE)

(Fornell and Larcker 1981)

CR = 0.83

AVE = 0.50

Table 21

Idiosyncratic Investment

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Idiosyncratic Investment	**Source** (Bensaou and Anderson 1999)		
Please rate the extent to which you agree that your main franchisor has made major investments in its relationship with you in terms of:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient (r)**
1. Training	0.64	0.88	0.67
2. In store equipment	0.53	0.90	0.55
3. Supporting your operations	0.80	0.85	0.80
4. Tailoring products to match your needs	0.79	0.85	0.88
5. Tailoring promotions to match your needs	0.78	0.86	0.88
6. Developing the relationship	0.71	0.87	0.73
FINAL COEFFICIENT ALPHA	**0.89**		

Fit Indices for Idiosyncratic Investment Scale

χ^2 (6) = 8.36, $p>0.05$
CFI = 0.99
RMSEA = 0.06
SRMR = 0.04

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.87
AVE = 0.55

Table 22
Implementation

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Implementation	**Source** (New Scale)		
Thinking about your main franchise, please rate the extent to which you agree with the following statements:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. We sell products and services how the franchisor wants us to.	0.52	0.88	0.56
2. We use only the suppliers and distributors that the franchisor approves.	0.55	0.88	0.60
3. We follow promotional activities according to how the franchisor plans them.	0.79	0.81	0.83
4. We implement marketing activities as close to how the franchisor designs them as possible.	0.84	0.80	0.92
5. We follow the franchisor's plans as closely as possible when implementing new marketing activities.	0.8	0.81	0.9
FINAL COEFFICIENT ALPHA	**0.87**		

Fit Indices for Implementation Scale

χ^2 (4) = 6.65, p>0.05
CFI = 0.99
RMSEA = 0.08
SRMR = 0.03

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.87
AVE = 0.59

Table 23

Franchisee Satisfaction - Economic

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Franchisee Satisfaction - Economic	**Source** (Geyskens and Steenkamp 2000)		
Thinking about your main franchise, please rate the extent to which you agree with the following statements:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Our relationship with the franchisor has provided us with a dominant market position in our region.	0.72	0.93	0.79
2. Our relationship with the franchisor has provided us with a profitable market position in our region.	0.90	0.90	0.90
3. We are very pleased with the return on our investment in the franchise.	0.88	0.91	0.95
4. We are very pleased with the profitability achieved by owning this franchise.	0.87	0.91	0.95
5. The marketing policy of our franchisor helps us to profitably run our franchise.	0.75	0.93	0.77
FINAL COEFFICIENT ALPHA	**0.93**		

Fit Indices for Franchisee Satisfaction - Economic Scale

χ^2 (2) = 5.17, p>0.05

CFI = 0.99

RMSEA = 0.12

SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)

(Fornell and Larcker 1981)

CR = 0.93

AVE = 0.72

Table 24

Franchisee Satisfaction - Social

Scale Type: Seven-point Likert type scale ranging from Strongly Disagree to Strongly Agree

Scale for Franchisee Satisfaction - Social	**Source** (Geyskens and Steenkamp 2000)		
Thinking about your main franchise, please rate the extent to which you agree with the following statements:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. The working relationship with our franchisor is characterized by feelings of satisfaction.	0.92	0.94	0.93
2. Interactions between our franchise unit(s) and the franchisor are viewed very positively.	0.86	0.95	0.86
3. We find working with our franchisor to be very worthwhile.	0.87	0.95	0.90
4. We find working with our franchisor to be unproblematic.	0.83	0.96	0.86
5. We find working with our franchisor to be very satisfactory.	0.95	0.94	0.95
FINAL COEFFICIENT ALPHA	**0.96**		

Fit Indices for Franchisee Satisfaction - Social Scale

χ^2 (5) = 11.05, p>0.05
CFI = 0.99
RMSEA = 0.11
SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.96
AVE = 0.83

Table 25
Franchisee Performance

Scale Type: Seven-point Likert type scale ranging from Far Below Expectations to Far Above

Scale for Franchisee Performance	**Source** (Ramani and Kumar 2008; Sheng, Zhou, and Li 2011)		
Please circle the response that best describes your overall performance for your main franchise over the past year on:	**Item-to-Total Correlation**	**Alpha if Deleted**	**Correlation Coefficient**
1. Sales	0.85	0.96	0.91
2. Sales growth rate	0.87	0.96	0.94
3. Market share	0.86	0.96	0.91
4. Market share growth	0.89	0.96	0.94
5. Profits	0.88	0.96	0.94
6. Profit growth rate	0.9	0.96	0.95
7. Return on investment	0.91	0.96	0.92
FINAL COEFFICIENT ALPHA	**0.97**		

Fit Indices for Franchisee Performance Scale

χ^2 (5) = 9.61, $p>0.05$
CFI = 0.99
RMSEA = 0.09
SRMR = 0.01

Composite Reliability (CR) and Average Variance Extracted (AVE)
(Fornell and Larcker 1981)

CR = 0.96
AVE = 0.78

Validity

Convergent validity was determined by looking at the results of the CFAs. Standardized factor loadings, or beta weights, need to be highly significant, exceed 0.5, and also have at least twice the standard error for the same item in order to establish convergent validity (Anderson and Gerbing 1988). These three assessments were true for every scale except for one single item on franchisor marketing mix control which had a factor loading below 0.5, but was highly significant and had a loading that was more than double the standard error for that item. Furthermore, as shown in the previous tables, the AVE for all constructs except franchisor marketing mix control are above the recommended value of 0.5, further supporting the case for convergent validity (Bagozzi and Yi 1988; Fornell and Larcker 1981). Overall convergent validity is deemed to exist for all constructs, with a slight level of concern for franchisor marketing mix control.

Discriminant validity was established according to the procedure developed by Anderson and Gerbing (1988) where for any two constructs, a model is first solved that allows the correlation to vary and be solved for by the CFA. Then, a second model is defined in which this correlation (phi) is fixed to 1. Each of the two solutions has a chi-square (X^2) measure of fit of the model to the data, with the second solution having one more degree of freedom than the first. A test of the difference between the two X^2 values, with 1 degree of freedom, can then be performed, with the difference considered significant if it exceeds 3.84 (assuming a probability of a type I error of .05). A significant difference between the X^2 values is an indication that the model with phi constrained to one is a worse fit to the data than the first model, which would imply that the two constructs are not equal, and thus have discriminant validity. In all comparisons of constructs contained in the model, discriminant validity was found to exist.

MODEL ESTIMATION

There are two possible ways to analyze the hypothesized model. Structural equation modeling (SEM) is ideal as it is more robust and allows for testing of the entire model at once. However, SEM also requires a much larger sample size than was feasible to collect. As a result, multiple regression analysis was instead used to test the hypotheses for each individual dependant variable. After measure refinement, but prior to performing regression, composite scales were calculated for each construct and subsequently mean-centered. Since strategic marketing alignment, operational marketing alignment, values marketing alignment, and franchisee satisfaction are all second-order formative constructs, composites were first created for each of their respective reflective components and then these composites were averaged in order to calculate the overall value of the higher ordered construct. In addition, interaction effects were created by calculating new variables that were equal to the product of each antecedent and moderator combination. Once the data was properly formatted, regression analysis was completed using MPlus Version 6.0.

Controlling for Multiple Franchisors

The sample includes data from 110 franchisees across 31 unique franchisors. As such, it is intuitive to think that differences exist between franchisees solely based on their parent firm. Even though each franchise is operating within the food and beverage industry as a whole, there still exists the potential for major variations between individual companies. For example, a franchisee for McDonald's has inherent differences from a franchisee for Applebee's due to one being a fast food establishment and the other providing more formal dining. Similarly, a franchisee for Scooter's Coffee is intrinsically different than Salsarita's given that one specializes in coffee and pastries while the other offers an array of meals and alcoholic beverages. Furthermore, franchisees for Kona Ice, which is operated out of a mobile truck, or Dippin' Dots, which are typically located in malls or sports stadiums, provide additional diversity among franchise structures. Due to this reality that different firms face a variation of strategic and operational challenges, as well as the existence of other unique firm factors, it is necessary to first take such variance into consideration before drawing meaningful conclusions from the data.

Fortunately there are statistical techniques that can be utilized to control for this type of variance. The steps used to partition out this variance are explained next. First, a *firm strata* variable was added to the data set. To do this, the data was sorted alphabetically by franchisor. All franchisees representing the first franchisor firm were assigned a 1; those belonging to the second firm were assigned a 2, and so on until all 110 data points were assigned to an appropriate stratum between 1 and 31. It is important to note that the size of the number assigned bears no weight, but instead acts to separate each franchise into its own group. All of the remaining steps are completed within the MPlus program and are described next.

In order to actually control for the assortment of franchises that are included in the sample and to partition out the variance that is solely related to franchisor firm strata, the cluster variable command is used. To accurately use the cluster command, the analysis type is set to complex and the estimation technique is set to maximum likelihood robust.

The cluster command is then defined with the rest of the variables and is set to equal the franchisor firm strata variable that was added to the dataset. This approach allows for random intercepts and slopes which vary across the clusters of firms existing within the hierarchical data; thus modeling the non-independence of observations and removing this variance from the reported model (Muthén and Muthén 2010). In other words, the steps just described program MPlus to partition all variance due to the franchisor firm strata and effectively remove it from the model prior to reporting the results of the regression analysis. In order to verify that this method was successful the analysis was completed twice, once utilizing the method just described and once without. As expected, this resulted in different outcomes. The results that include the firm strata control were deemed more accurate due to the fact that they take into account the multitude of franchisors included in the study.

Regression Analysis and Results

The correlation matrix with summary statistics and the results of the regression models are displayed below in Table 26 and Tables 27-29, respectively. For all explanatory variables, including interactions terms, variance inflation factor (VIF) scores were calculated using SPSS Version 21. The highest value was 5.8, with the vast majority of scores being below 5.0. Since all values are well below the recommended cutoff of 10.0, it indicates that multicollinearity is likely not an issue. The equations for the three regression models are explained next.

$$
\begin{aligned}
Implementation = \; & \alpha + \beta_1 S + \beta_2 O + \beta_3 V \\
& + \beta_4 M_1 + \beta_5 M_2 + \beta_6 M_3 \\
& + \beta_7 I_1 + \beta_8 I_2 + \beta_9 I_3 + \beta_{10} I_4 + \beta_{11} I_5 + \beta_{12} I_6 + \beta_{13} I_7 + \beta_{14} I_8 + \beta_{15} I_9 \\
& + \beta_{16FrmAge} + \beta_{17RelLen} + \beta_{18FeeUnt} + \beta_{19AveRev} + \varepsilon
\end{aligned}
$$

In this model $\beta_{1\text{-}3}$ represent the coefficients for strategic marketing alignment, operational marketing alignment, and values marketing alignment; $\beta_{4\text{-}6}$ represent the coefficients for moderator main effects for franchising capability, franchisor marketing mix control, and financial transparency; $\beta_{7\text{-}15}$ represent the coefficients for all nine possible combinations of interaction effects; and $\beta_{16\text{-}19}$ are the control variables of firm age, relationship length, total franchisee units, and average revenue.

$$
\begin{aligned}
\textit{Satisfaction} = \quad & \alpha + \beta_1 S + \beta_2 O + \beta_3 V \\
& + \beta_4 M_1 + \beta_5 M_2 + \beta_6 M_3 \\
& + \beta_7 I_1 + \beta_8 I_2 + \beta_9 I_3 + \beta_{10} I_4 + \beta_{11} I_5 + \beta_{12} I_6 + \beta_{13} I_7 + \beta_{14} I_8 + \beta_{15} I_9 \\
& + \beta_{16FrmAge} + \beta_{17RelLen} + \beta_{18FeeUnt} + \beta_{19AveRev} + \varepsilon
\end{aligned}
$$

In this model $\beta_{1\text{-}3}$ represent the coefficients for strategic marketing alignment, operational marketing alignment, and values marketing alignment; $\beta_{4\text{-}6}$ represent the coefficients for moderator main effects for franchisor marketing mix control, financial transparency, and idiosyncratic investment; $\beta_{7\text{-}15}$ represent the coefficients for all nine possible combinations of interaction effects; and $\beta_{16\text{-}19}$ are the control variables of firm age, relationship length, total franchisee units, and average revenue.

$$
\begin{aligned}
\textit{Performance} = \quad & \alpha + \beta_1 I + \beta_2 S \\
& + \beta_{3FrmAge} + \beta_{4RelLen} + \beta_{5FeeUnt} + \beta_{6AveRev} + \varepsilon
\end{aligned}
$$

In this model β_1 represent the coefficient for implementation, β_2 represent the coefficient for franchisee satisfaction, and $\beta_{3\text{-}6}$ are the control variables of firm age, relationship length, total franchisee units, and average revenue.

Table 26
Descriptive Statistics: Means, Standard Deviations, and Correlations

Measure	Mean	STD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Strategic Marketing Alignment	4.44	1.45	1.00													
2. Operational Marketing Alignment	4.63	1.31	.76**	1.00												
3. Values Marketing Alignment	4.54	1.42	.64**	.63**	1.00											
4. Franchising Capability	6.29	0.71	.18*	.23*	.14	1.00										
5. Idiosyncratic Investment	4.49	1.55	.73**	.63**	.50**	.09	1.00									
6. Financial Transparency	5.93	1.24	.34**	.31**	.20*	.19*	.47**	1.00								
7. Franchisor Marketing Mix Control	5.40	1.20	.11	.02	-.10	.10	-.01	-.04	1.00							
8. Implementation	5.90	1.08	.28**	.34**	.21*	.23*	.44**	.40**	.13	1.00						
9. Franchisee Satisfaction	4.71	1.63	.79**	.71**	.65**	.21*	.71**	.39**	-.10	.24**	1.00					
10. Franchisee Performance	4.32	1.49	.53**	.38**	.37**	.26**	.42**	.22*	.07	.03	.68**	1.00				
11. Firm Age (years)	39.00	23.27	-.12	-.02	-.15	.12	-.03	-.03	.08	-.06	-.11	-.08	1.00			
12. Relationship Length (years)	14.48	11.88	-.04	.11	.06	.14	-.03	.06	-.04	.02	.02	-.12	.43**	1.00		
13. Franchisee Locations	0.65	0.48	.05	.04	.09	.07	-.07	.10	-.14	-.01	.00	-.13	.13	.23*	1.00	
14. Average Revenue	4.78	2.46	.08	.18	.04	.26	.10	.13	.12	-.01	.06	.06	.53**	.36**	.04	1.00

Franchisee locations is dummy coded, where single unit franchisees=0 and multi-unit franchisees=1.

Average revenue is categorical, with 10 options ranging from <$100k to >$3mil annually per unit.

*p≤.05, **p≤.01

Table 27
Multiple Regression Results

	Implementation			
Explanatory Variable	**Unstandardized Parameter Estimate**		**Standard Error**	**T-Value**
Strategic Marketing Alignment (SMA)	-.142		.097	-1.464
Operational Marketing Alignment (OMA)	.308	***	.094	3.277
Values Marketing Alignment (VMA)	.027		.066	.409
Franchising Capability (FC)	.124		.144	.861
Financial Transparency (FT)	.240	***	.078	3.077
Franchisor Marketing Mix Control (FMMC)	.155	**	.065	2.385
SMA x FC	-.106		.162	-.654
SMA x FT	.062		.122	.508
SMA x FMMC	.139	***	.054	2.574
OMA x FC	.212		.132	1.606
OMA x FT	-.022		.109	-.202
OMA x FMMC	-.177	**	.077	-2.299
VMA x FC	-.293	**	.115	-2.548
VMA x FT	-.140	*	.074	-1.892
VMA x FMMC	.027		.080	.338
Firm Age (years)	.001		.005	.200
Relationship Length (years)	-.004		.008	-.500
Franchisee Locations (single=0, multi=1)	-.132		.149	-.886
Average Revenue (dollars-categorical)	-.039		.034	-1.147
			$R^2 = .411$	

*p≤.10,
**p≤.05
***p≤.01

Table 28
Multiple Regression Results

	Franchisee Satisfaction			
Explanatory Variable	**Unstandardized Parameter Estimate**		**Standard Error**	**T-Value**
Strategic Marketing Alignment (SMA)	.396	***	.140	2.829
Operational Marketing Alignment (OMA)	.273	**	.112	2.438
Values Marketing Alignment (VMA)	.240	***	.074	3.243
Idiosyncratic Investment (II)	.181	**	.085	2.129
Financial Transparency (FT)	.161	**	.066	2.439
Franchisor Marketing Mix Control (FMMC)	-.167	***	.061	-2.738
SMA x II	-.023		.059	-.390
SMA x FT	.116	**	.049	2.367
SMA x FMMC	.055		.055	1.000
OMA x II	.114	*	.059	1.932
OMA x FT	-.029		.078	-.372
OMA x FMMC	.134	*	.074	1.811
VMA x II	-.155	***	.047	-3.298
VMA x FT	.030		.060	.500
VMA x FMMC	-.053		.057	-.930
Firm Age (years)	-.001		.004	-.250
Relationship Length (years)	-.001		.011	-.091
Franchisee Locations (single=0, multi=1)	-.111		.159	-.698
Average Revenue (dollars-categorical)	-.010		.033	-.303
			$R^2 = .773$	

*$p \leq .10$
**$p \leq .05$
***$p \leq .01$

Table 29
Multiple Regression Results

	Franchisee Performance			
Explanatory Variable	**Unstandardized Parameter Estimate**		**Standard Error**	**T-Value**
Implementation	-.194		.121	-1.603
Franchisee Satisfaction	.651	***	.084	7.750
Firm Age (years)	.001		.009	.111
Relationship Length (years)	-.018	*	.010	-1.800
Franchisee Locations (single=0, multi=1)	-.354		.244	-1.451
Average Revenue (dollars-categorical)	.039		.077	.506
		$R^2 = .503$		

*p≤.10
**p≤.05
***p≤.01

HYPOTHESIS TESTING

A total of 26 hypotheses were tested across the three models just discussed. The results of these hypotheses are detailed next; whereas a discussion of the outcomes, contributions, and limitations of the research is provided in Chapter Six. For the following section, the hypotheses are grouped by their respective models as opposed to the order they originally appeared in Chapter Three. Figure 3 shows the hypothesized effects of the franchisee-franchisor marketing alignment model and Figure 4 shows the actual effects in terms of significance and direction for the franchisee-franchisor marketing alignment model.

Figure 3 – Hypothesized Effects of Franchisee-Franchisor Marketing Alignment

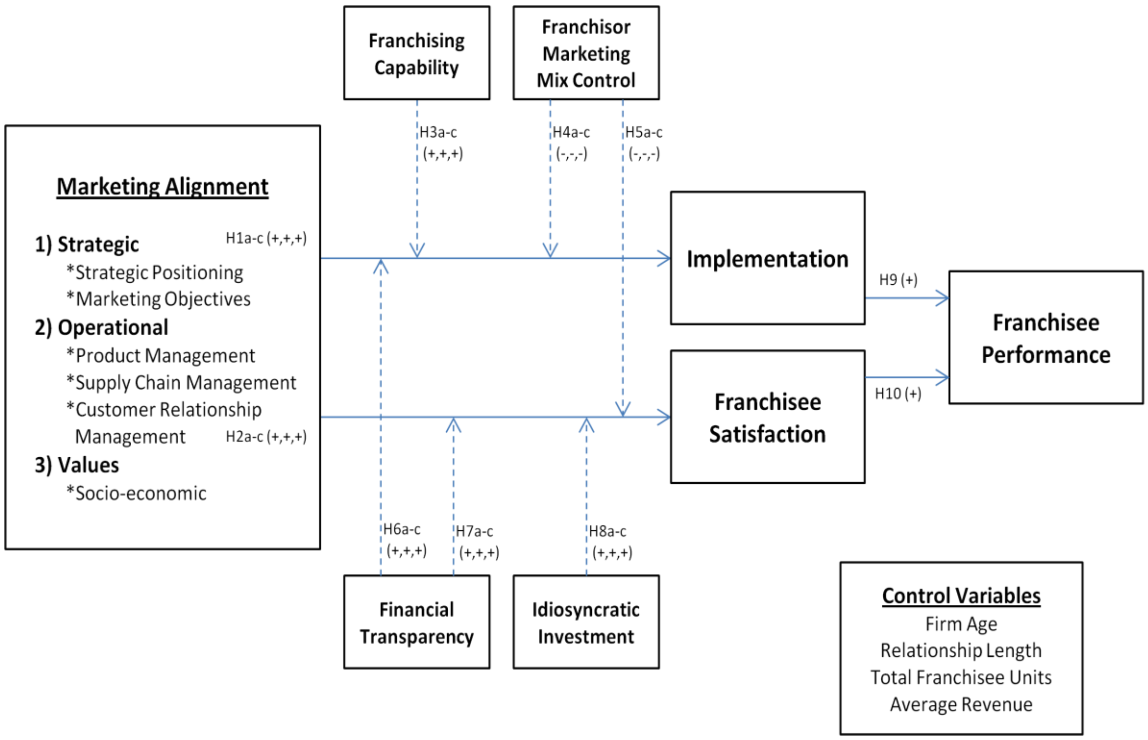
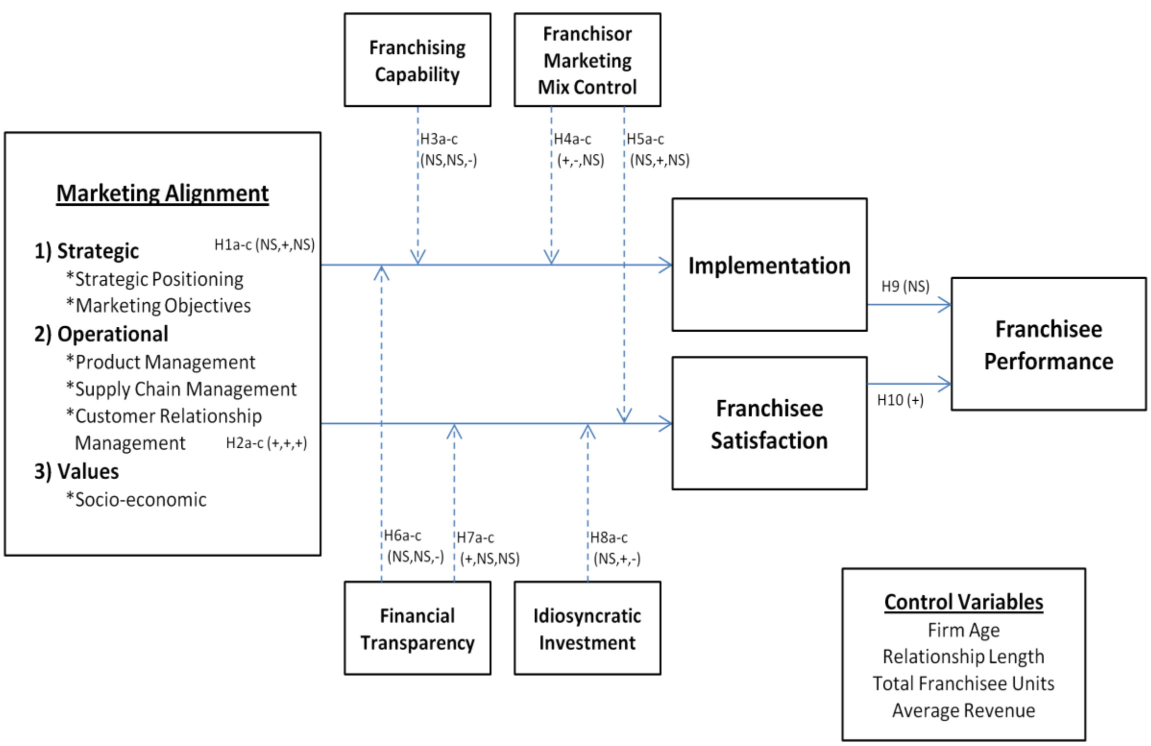


Figure 4 – Actual Effects of Franchisee-Franchisor Marketing Alignment



Implementation

The main effect hypotheses for marketing alignment on implementation are shown below. Among the three forms of marketing alignment, only H1b (β=.31, p<.01) was found to be supported. Both H1a and H1c are not supported (β=-.14, p>.1 and β=.03, p>.1 respectively).

H1a: Strategic marketing alignment is positively associated with implementation.

H1b: Operational marketing alignment is positively associated with implementation.

H1c: Values marketing alignment is positively associated with implementation.

The moderating hypotheses for how franchising capability alters the effects of marketing alignment on implementation are shown below. Among the three forms of marketing alignment, only H3c (β=-.29, p<.05) was found to be significant, though the effect is in the opposite direction as hypothesized. Both H3a and H3b are not supported (β=-.11, p>.1 and β=.21, p>.1 respectively).

H3a: The greater the franchising capability of the franchisee, the stronger the positive effect of strategic marketing alignment on implementation.

H3b: The greater the franchising capability of the franchisee, the stronger the positive effect of operational marketing alignment on implementation.

H3c: The greater the franchising capability of the franchisee, the stronger the positive effect of values marketing alignment on implementation.

The moderating hypotheses for how franchisor marketing mix control alters the effects of marketing alignment on implementation are shown below. Among the three forms of marketing alignment, both H4a (β=.14, p<.01) and H4b (β=-.18, p<.05) were found to be significant, though the effect for H4a is in the opposite direction as hypothesized and thus only H4b is supported. H4c is not supported (β=.03, p>.1).

> ***H4a:*** ***The greater the franchisor marketing mix control, the weaker the positive effect of strategic marketing alignment on implementation.***
>
> ***H4b:*** ***The greater the franchisor marketing mix control, the weaker the positive effect of operational marketing alignment on implementation.***
>
> *H4c:* *The greater the franchisor marketing mix control, the weaker the positive effect of values marketing alignment on implementation.*

The moderating hypotheses for how financial transparency alters the effects of marketing alignment on implementation are shown below. Among the three forms of marketing alignment, only H6c (β=-.14, p<.1) was found to be significant, though the effect is in the opposite direction as hypothesized. Both H6a and H6b are not supported (β=.06, p>.1 and β=-.02, p>.1 respectively).

> *H6a:* *The greater the financial transparency of the franchisor, the stronger the positive effect of strategic marketing alignment on implementation.*
>
> *H6b:* *The greater the financial transparency of the franchisor, the stronger the positive effect of operational marketing alignment on implementation.*
>
> ***H6c:*** ***The greater the financial transparency of the franchisor, the stronger the positive effect of values marketing alignment on implementation.***

Overall, there were found to be five significant effects in the implementation model. These effects include the positive main effect of OMA on implementation, the interaction of franchising capability with VMA, the interaction of franchisor marketing mix control with SMA, the interaction of franchisor marketing mix control with OMA, and the interaction of financial transparency with VMA. Figure 5 provides a graphical version of the implementation model, including the unstandardized parameter estimates and p-value significance levels for each of the hypothesized effect. Figures 6-9 show charted representations of the interaction effects.

Figure 5 – Effects of Franchisee-Franchisor Marketing Alignment on Implementation

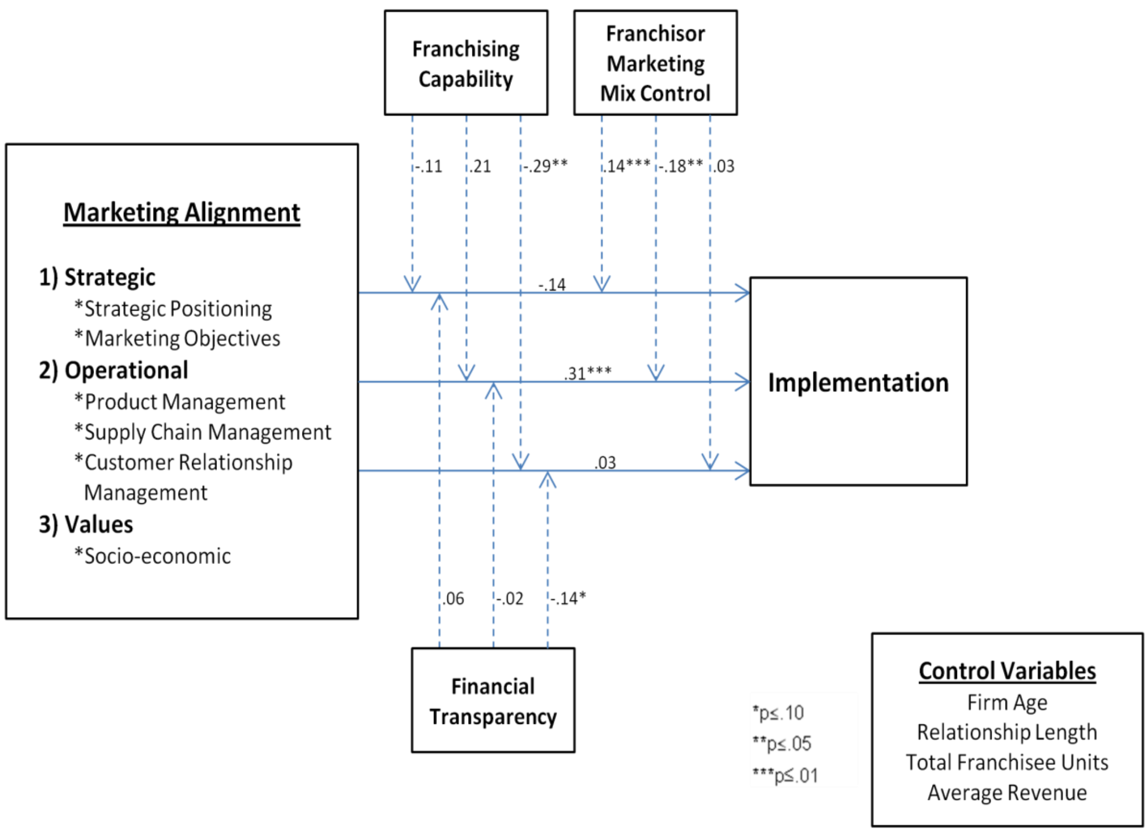


Figure 6 – Interaction of Franchising Capability with Values Marketing Alignment

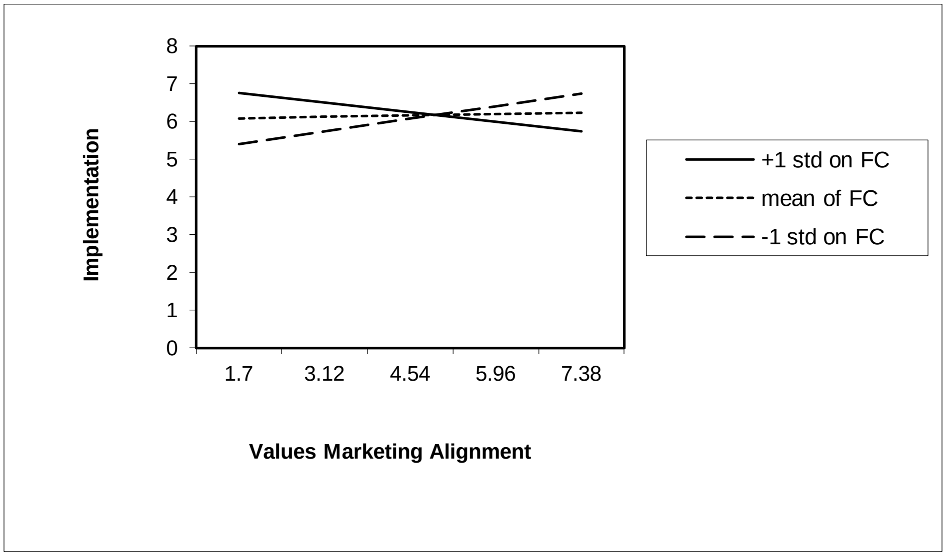


Figure 7 – Interaction of Franchisor Marketing Mix Control with Strategic Marketing Alignment

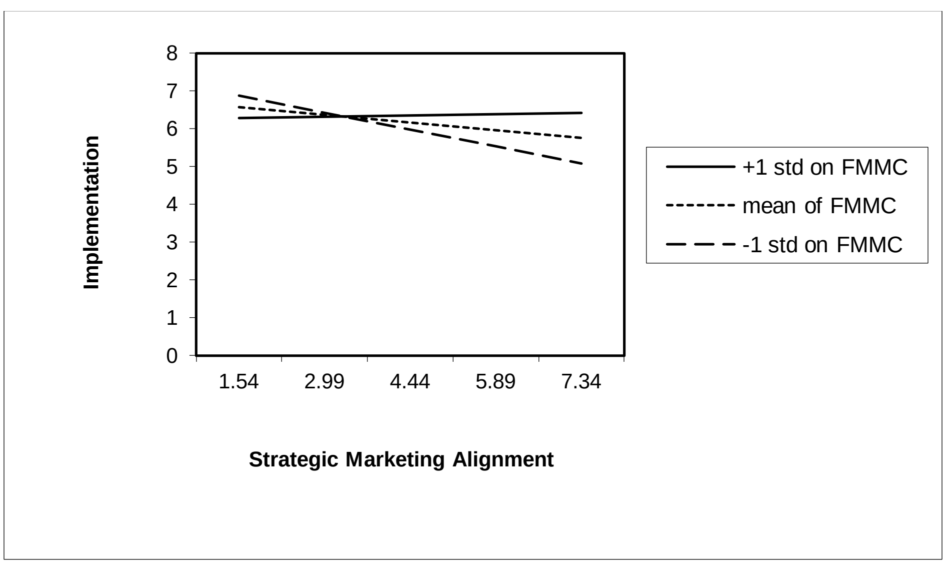


Figure 8 – Interaction of Franchisor Marketing Mix Control with Operational Marketing Alignment

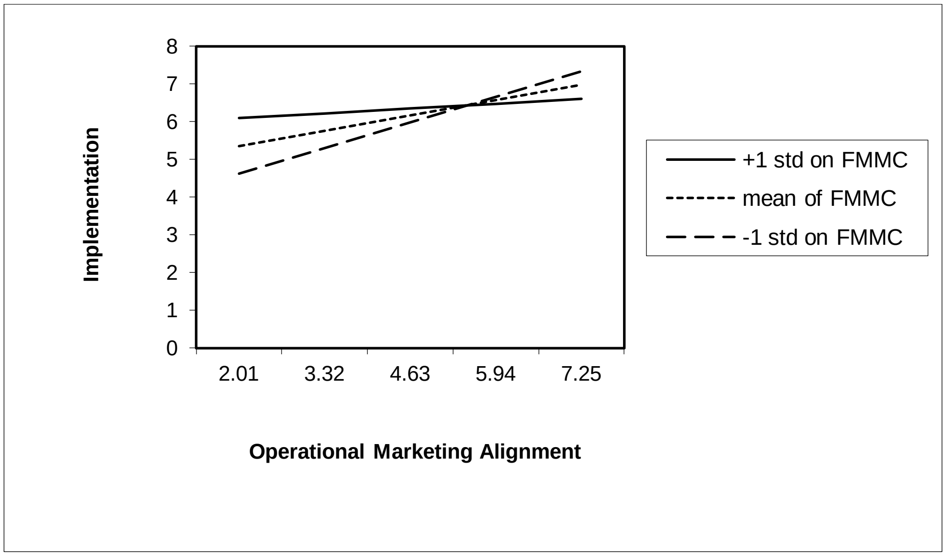
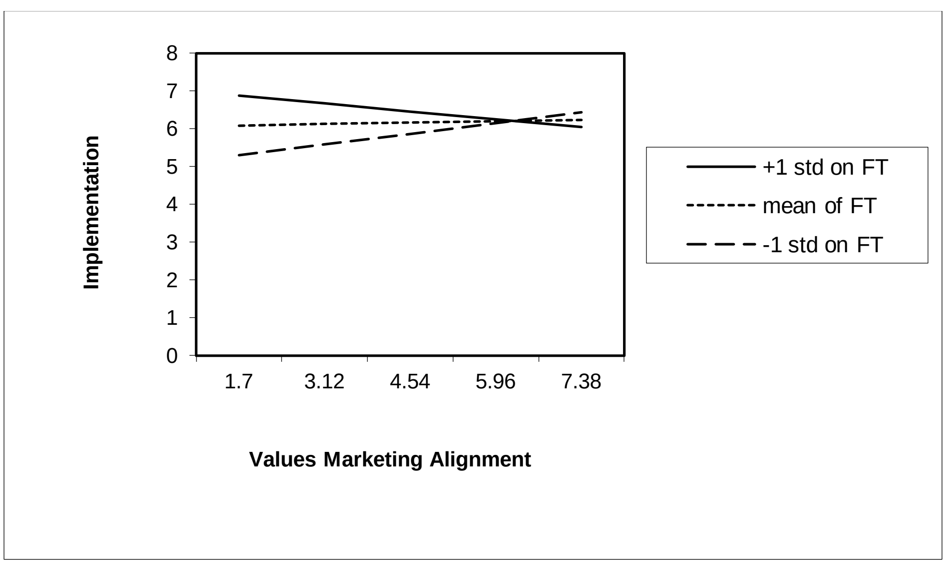


Figure 9 – Interaction of Financial Transparency with Values Marketing Alignment



Franchisee Satisfaction

The main effect hypotheses for marketing alignment on franchisee satisfaction are shown below. Among the three forms of marketing alignment, H2a (β=.4, $p<.01$), H2b (β=.27, $p<.05$), and H2c (β=.24, $p<.01$) were all found to be supported.

H2a: Strategic marketing alignment is positively associated with franchisee satisfaction.

H2b: Operational marketing alignment is positively associated with franchisee satisfaction.

H2c: Values marketing alignment is positively associated with franchisee satisfaction.

The moderating hypotheses for how franchisor marketing mix control alters the effects of marketing alignment on franchisee satisfaction are shown below. Among the three forms of marketing alignment, only H5b (β=.13, $p<.1$) was found to be significant, though the effect is in the opposite direction as hypothesized. Both H5a and H5c are not supported (β=.06, $p>.1$ and β=-.05, $p>.1$ respectively).

H5a: The greater the franchisor marketing mix control, the weaker the positive effect of strategic marketing alignment on franchisee satisfaction.

H5b: The greater the franchisor marketing mix control, the weaker the positive effect of operational marketing alignment on franchisee satisfaction.

H5c: The greater the franchisor marketing mix control, the weaker the positive effect of values marketing alignment on franchisee satisfaction.

The moderating hypotheses for how financial transparency alters the effects of marketing alignment on franchisee satisfaction are shown below. Among the three forms of marketing alignment, only H7a (β=.12, $p<.05$) was found to be supported. Both H7b and H7c are not supported (β=-.03, $p>.1$ and β=.03, $p>.1$ respectively).

> ***H7a: The greater the financial transparency of the franchisor, the stronger the positive effect of strategic marketing alignment on franchisee satisfaction.***
>
> *H7b: The greater the financial transparency of the franchisor, the stronger the positive effect of operational marketing alignment on franchisee satisfaction.*
>
> *H7c: The greater the financial transparency of the franchisor, the stronger the positive effect of values marketing alignment on franchisee satisfaction.*

The moderating hypotheses for how idiosyncratic investment alters the effects of marketing alignment on franchisee satisfaction are shown below. Among the three forms of marketing alignment, both H8b (β=.11, $p<.1$) and H8c (β=-.16, $p<.01$) were found to be significant, though the effect for H8c is in the opposite direction as hypothesized and thus only H8b is supported. H8a is not supported (β=-.02, $p>.1$).

> *H8a: The greater the idiosyncratic investment by the franchisor, the stronger the positive effect of strategic marketing alignment on franchisee satisfaction.*
>
> ***H8b: The greater the idiosyncratic investment by the franchisor, the stronger the positive effect of operational marketing alignment on franchisee satisfaction.***
>
> ***H8c: The greater the idiosyncratic investment by the franchisor, the stronger the positive effect of values marketing alignment on franchisee satisfaction.***

Overall, there were found to be seven significant effects in the satisfaction model. These effects include the positive main effect of SMA on franchisee satisfaction, the positive main effect of OMA on franchisee satisfaction, the positive main effect of VMA on franchisee satisfaction, the interaction of franchisor marketing mix control with OMA, the interaction of financial transparency with SMA, the interaction of idiosyncratic investment with OMA, and the interaction of idiosyncratic investment with VMA. Figure 10 provides a graphical version of the satisfaction model, including the unstandardized parameter estimates and p-value significance levels for each of the hypothesized effect. Figures 11-14 show charted representations of the interaction effects.

Figure 10 – Effects of Franchisee-Franchisor Marketing Alignment on Satisfaction

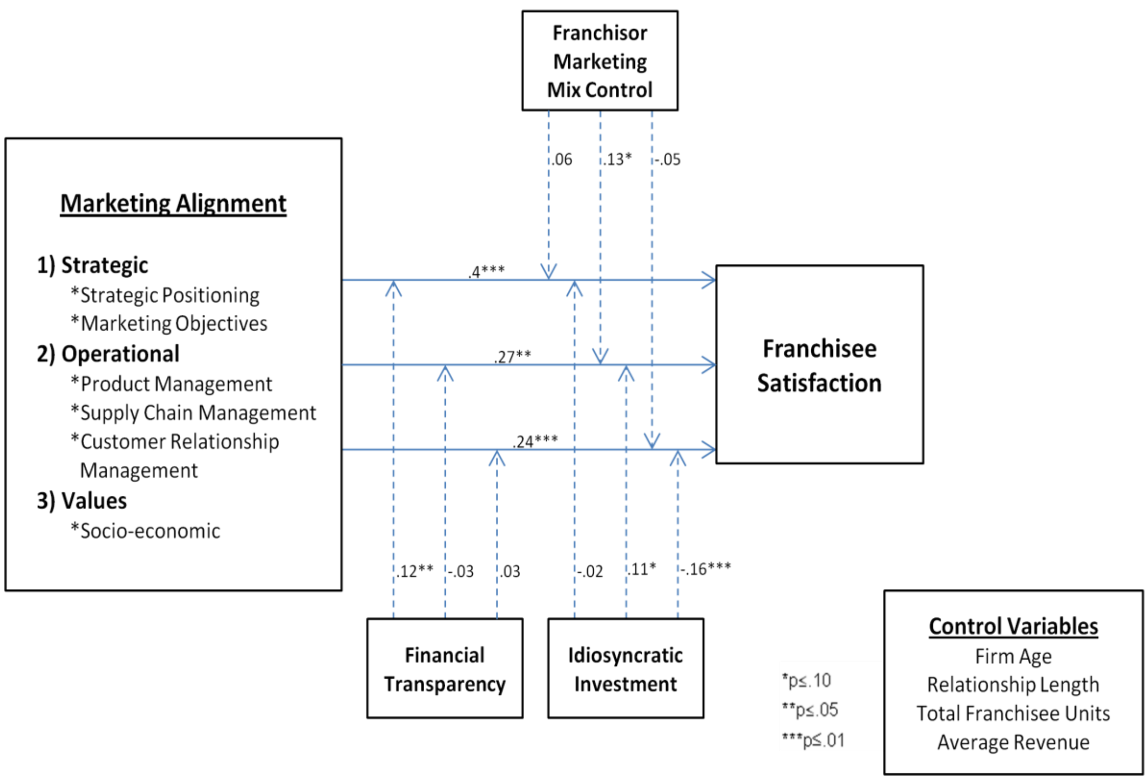


Figure 11 – Interaction of Franchisor Marketing Mix Control with Operational Marketing Alignment

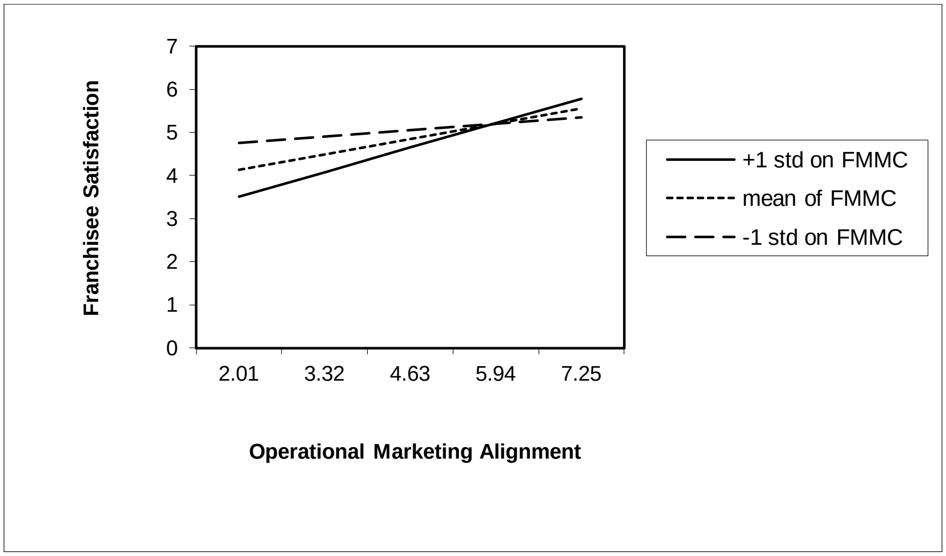


Figure 12 – Interaction of Financial Transparency with Strategic Marketing Alignment

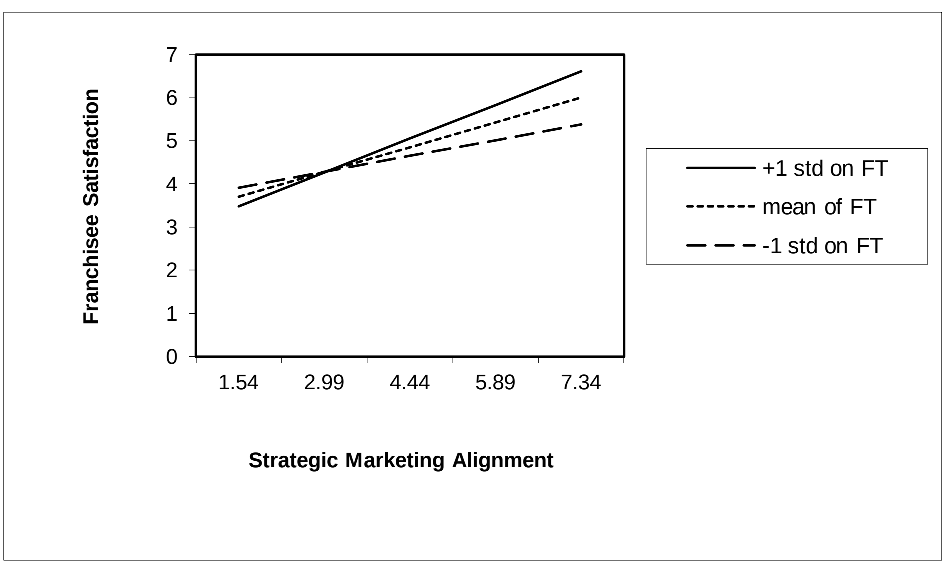


Figure 13 – Interaction of Idiosyncratic Investment with Operational Marketing Alignment

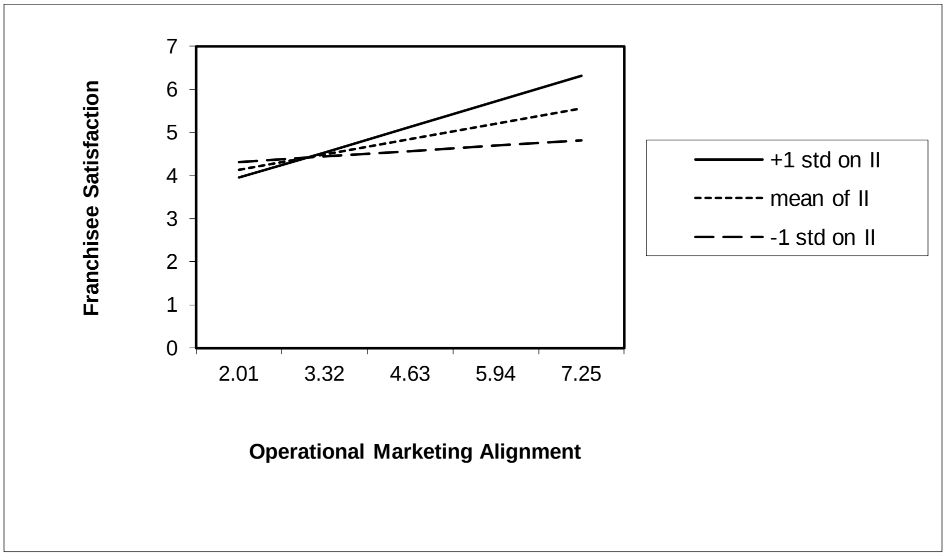
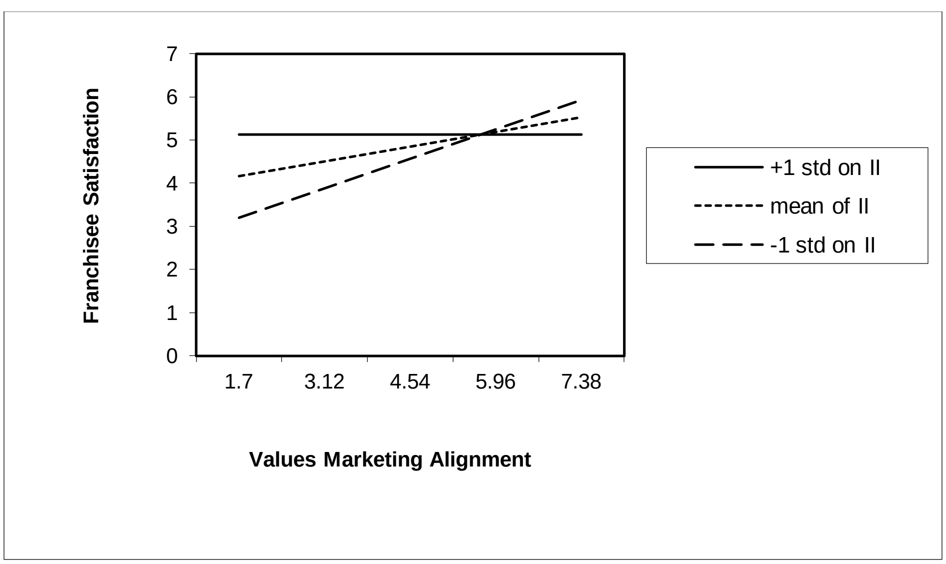


Figure 14 – Interaction of Idiosyncratic Investment with Values Marketing Alignment



Franchisee Performance

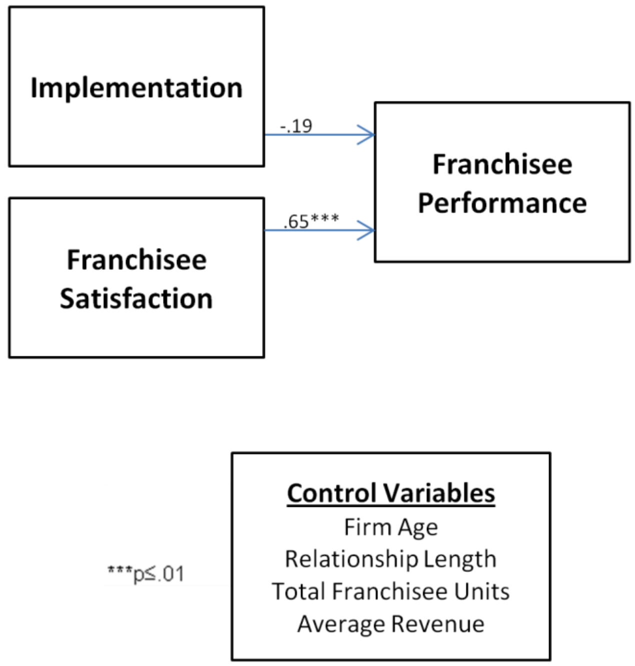
The main effect hypotheses for implementation and franchisee satisfaction on franchisee performance are shown below. The positive hypothesized effects of franchisee satisfaction H10 (β=.65, $p<.01$) was found to be supported, whereas the hypothesized effects of implementation H9 (β=-.19, $p>.01$) was not supported.

H9: Implementation is positively associated with franchisee performance.

H10: Franchisee satisfaction is positively associated with franchisee performance.

Overall, there was found to be one significant effect in the performance model. This effect was the positive main effect of franchisee satisfaction on franchisee performance. Figure 15 provides a graphical version of the performance model, including the unstandardized parameter estimates and p-value significance levels for each of the hypothesized effect. The implications of these results will be discussed next in Chapter Six.

Figure 15 – Effects of Implementation and Franchisee Satisfaction on Performance



CHAPTER SIX
–DISCUSSION–

OBJECTIVES OF THE CHAPTER

The primary objective of this chapter is to discuss the results of the analysis that was performed in Chapter Five. First, all of the results from the hypothesized model are interpreted. Next, several theoretical and managerial oriented contributions are offered. Lastly, limitations of the study and potential areas for future research are discussed.

DISCUSSION

The intent of this dissertation was to examine the complex marketing relationships that exist between franchisees and franchisors. The motivation driving this effort was a desire to gain a better understanding of franchising relationships in order to help increase the likelihood that franchisees are able to realize greater satisfaction and performance through their marketing efforts within their franchise. In this pursuit, the following research questions were examined: a) What is franchisee-franchisor marketing alignment?, b) How does franchisee-franchisor marketing alignment affect the outcomes of implementation and franchisee satisfaction?, c) What factors affect the impact of franchisee-franchisor marketing alignment on implementation?, d) What factors affect the impact of franchisee-franchisor marketing alignment on franchisee satisfaction?, and e) How do implementation and franchisee satisfaction affect franchisee performance?

Main Effects of Franchisee-Franchisor Marketing Alignment

The results provide a variety of insights that help to answer the research question posed and also assist in achieving the underlying goals of this dissertation. For instance, it is clear that strategic marketing alignment (SMA), operational marketing alignment

(OMA), and values marketing alignment (VMA) are indeed valuable constructs in that they not only have convergent validity independently (as well as discriminant validity between them), but each also has unique effects on the outcomes of implementation and satisfaction.

The results of the study show that OMA has a significant effect on the implementation of marketing mix activities by the franchisee. This makes intuitive sense considering that a franchisee high in OMA maintain high levels of both agreement and cooperation with their franchisor, specifically in terms of how to best operationally handle products, the supply chain, and customer relationships within their store unit(s). As such, OMA can be considered an important driver that helps result in franchisees implementing marketing mix activities according to how they are designed and intended to be executed.

The analysis also suggests that SMA and VMA do not impact implementation. For SMA, this lack of significance is likely due to there not being a guaranteed connection between the formulation of big picture strategies and actual hands-on implementation. In other words, high SMA is caused by both agreement and cooperation in terms of positioning or objectives, yet does not directly apply to the physical execution of marketing mix activities. It is possible that despite high SMA, the franchisee is still going to independently implement how they think is best, which may or may not be how it was designed by the franchisor. For VMA, it is likely that this form of alignment does not have a significant impact on implementation due to the reality that values (except for in a rare handful of highly publicized cases) simply do not affect execution of the marketing mix by franchisees.

In terms of franchisee satisfaction, all three forms of alignment – SMA, OMA, and VMA – each have a significant impact. This is not surprising given that satisfaction captures both the long-term economic benefits resulting from the franchising partnership (Geyskens at al. 1999) as well as how worthwhile, acceptable, and unproblematic the franchisee interprets working with the franchisor on a continual basis (Dwyer and Gassenheimer 1992). As such, the alignment of strategies, operations, and values all play important roles in determining how satisfied a franchisee is with their investment in the franchise as well as in their underlying relationship with the franchisor.

Moderators of Franchisee-Franchisor Marketing Alignment

The four moderating variables included in the analysis – franchising capability, franchisor marketing mix control, financial transparency, and idiosyncratic investment – each have at least one significant moderation effect on the outcomes of implementation and satisfaction, though some are in the opposite direction than what was hypothesized. These four moderating variables as well as potential conclusions that can be drawn from their significant effects are discussed next.

Franchising Capability. It was expected that franchising capability would enhance the relationship between VMA and implementation, as well as that VMA itself would have a positive main effect on implementation. Despite the hypothesis only being partially supported due to VMA's main effect being non-significant, it is interesting to note that franchising capability actual has an opposite interaction, or interference effect, as applied to the relationship of VMA on implementation. This is possibly due to the reality that highly capable individuals are experts in their given areas and that experts are prone to doing things the way they do by relying on their own skills and expertise as opposed to being externally influenced. When high franchising capability exists, the positive benefit of VMA on implementation loses its impact due to the franchisee relying on their own capabilities as opposed to allowing their aligned values with the franchisor to affect their approach to implementation, thus leading to the interference effect that is found in the data.

Franchisor Marketing Mix Control. As compared to the other three moderating variables, franchisor marketing mix control has the most total moderation effects with three out of six possible being significant. It was expected that franchisor marketing mix control would negatively affect the relationship between SMA and implementation, as well as that SMA itself would have a positive main effect on implementation. Though the main effect of SMA on implementation was not significant, franchisor marketing mix control was found to have a significant positive interaction effect that would enhance the relationship between SMA and implementation. This finding suggests that marketing mix control by the franchisor could assist in augmenting the positive effects of SMA on implementation and thus could be intentionally utilized to increase the overall level of implementation beyond that which would otherwise have normally occurred.

It was also expected that franchisor marketing mix control would negatively affect the relationship between OMA and implementation, as well as that OMA itself would have a positive main effect on implementation. As hypothesized, the data supports not only the significant main effect of OMA on implementation, but there also exists a full interference interaction in terms of franchisor marketing mix control negatively moderating the impact of OMA on implementation. This effect is likely due to the negative impact that over-exertion of control by the more powerful entity can have on the weaker partner even despite the benefits from being highly aligned. For example, high OMA means that franchising partners agree and cooperate in their approach to managing products, the supply chain, and customer relationships. When a high degree of marketing mix control is being imposed by the franchisor, it hinders the franchisee's ability to freely operate their store units and causes them to question the true degree of operational alignment that actually exists with their franchisor, thus leading to the reduced benefit of OMA on implementation that is found in the data.

Lastly, it was expected that franchisor marketing mix control would negatively affect the relationship between OMA and franchisee satisfaction, as well as that OMA itself would have a positive main effect on franchisee satisfaction. While the main effect is indeed supported, there also exists a fully supported synergistic interaction in terms of franchisor marketing mix control positively moderating the impact of OMA on franchisee satisfaction. This is opposite of the hypothesized moderation effect, but can be explained as follows. High OMA exists as a result of high levels of both agreement and cooperation between franchising partners in terms of operationally managing the franchise. In turn, this suggests that the franchisee is completely bought-in to how the marketing mix should be handled across the entire franchise network. If the franchisor forces all other franchisees to handle the marketing mix in the same specific way, it could be viewed positively by the franchisee and thus lead to the enhanced effect of OMA on satisfaction as moderated by marketing mix control.

Financial Transparency. Financial transparency plays a role in the outcomes of both implementation and satisfaction, having one partially supported and one fully supported significant effects total across the two models, respectively. It was hypothesized that financial transparency would enhance the relationship between VMA and implementation, as well as that VMA itself would have a positive main effect on implementation. It was found that financial transparency has a significant negative interference interaction on the effect of VMA on implementation. This interaction effect is opposite of what was hypothesized. Considering high VMA is argued to lead to greater implementation, the data suggests that the existence of financial transparency by the franchisor actually hinders this main effect. This is likely due to financial transparency being negatively perceived by franchisees that agree and cooperate with their franchisor's socio-economic values, thus reducing the positive impact that VMA would have had on implementation were it significant. A possible reason for this negative perception is that franchising partners with shared socio-economic values might see forced transparency of financial requirements as a form of subtle coercion. If such franchisees and franchisors are aligned in terms of how to approach socio-economic opportunities or threats, then additional transparency could come across as the franchisor attempting to force, or even just draw excessive attention to, expenses that the franchisee has otherwise willingly accepted.

It was also expected that financial transparency would positively affect the relationship between SMA and franchisee satisfaction, as well as that SMA itself would have a positive main effect on franchisee satisfaction. Both of these hypotheses are supported. There exists a synergistic interaction in terms of financial transparency positively moderating the impact of SMA on franchisee satisfaction. This is likely due to the superior benefit that clearly understandable financial information has on a franchisee's ability to plan strategically, thus leading to the enhanced effect of SMA on franchisee satisfaction. In other words, franchisees that maintain high levels of SMA agree as well as cooperate in their approach to the big picture strategic positioning and marketing objectives for the firm. Franchisors that also provide a high degree of financial transparency are able to reinforce and enhance this synergistic approach. This is an important finding in that it provides an actionable step that franchisors can take in order to create even greater satisfaction for their franchisees than would have normally occurred through high levels of SMA alone.

Idiosyncratic Investment. As compared to the other three moderating variables, idiosyncratic investment has the highest proportion of moderation effects with two out of three possible being significant. It was expected that idiosyncratic investment would positively affect the relationship between OMA and satisfaction, as well as that OMA itself would have a positive main effect on franchisee satisfaction. As hypothesized, both effects were found to be significant. Idiosyncratic investment has a synergistic interaction effect that enhances the positive effects of OMA on franchisee satisfaction. The more a franchisor invests resources in the franchisee, the greater the degree of satisfaction resulting from high OMA will be enhanced. Similarly to the previous discussion, this finding also provides direct managerial implications that can be utilized by the franchisor to increase overall satisfaction for the franchisee.

It was also hypothesized that idiosyncratic investment would positively affect the relationship between VMA and satisfaction, as well as that VMA itself would have a positive main effect on franchisee satisfaction. Though the main effect was supported, the moderating effect is actually opposite of what was expected. Idiosyncratic investment was found to have an interference interaction with the effects of VMA on franchisee satisfaction. This suggests that the higher the level of idiosyncratic investment, the weaker the positive effect of VMA on franchisee satisfaction. It is possible that franchisees that are highly aligned in terms of socio-economic values see unexpected investments by the franchisor as a reason to be suspicious, cautious, and generally less satisfied than would have normally occurred with a high level of VMA alone.

Franchisee Performance

The performance model provides both interesting and counter-intuitive results. It was expected that franchisee satisfaction would have a positive main effects on franchisee performance. The analysis shows that satisfaction does indeed positively impact performance. This makes sense for two reasons: 1) franchisee satisfaction captures some degree of economic elements as part of its measurement and 2) many of the positive aspects of satisfaction are argued to positively influence performance (e.g., Eisenhardt 1989b; Geyskens and Steenkamp 2000; Lewis and Lambert 1991).

It was also hypothesized that implementation would positively affect franchisee performance; however, the analysis found that the link between implementation and performance is not a significant. It should be noted that low implementation does not inherently mean a lack of marketing execution all together. Instead, low implementation suggests that the franchisee is executing the marketing mix the way they see best as opposed to how it was designed by the franchisor. The lack of a significant relationship between implementation and franchisee performance suggests that implementing the marketing mix exactly as prescribed by the franchisor perhaps does not directly lead to or positively impact performance. A possible reason for this is the ivory tower argument, suggesting that the franchisor is somewhat out of touch with what is actually happening at the retail level. In other words, the franchisee believes that the franchisor designs marketing mix efforts from their corporate offices without taking into full consideration what is truly required to implement such activities within their store unit(s). In turn, the franchisee partially dismisses the franchisor's expertise as being more theoretical than practical and decides to tweak the implementation in order to more accurately fit their reality as a retailer. Another possible explanation is that the franchisee is simply better suited to run their actual store unit(s) than is the franchisor. In other words, within their store(s), the franchisee handles products, pricing, promotions, and distribution decisions the way they see fit in terms of leading to the greatest performance, regardless of how the franchisor prefers or even requires these marketing mix activities to be implemented.

CONTRIBUTIONS

Theoretical Contributions

This dissertation contributes to marketing theory in multiple ways. First, it provides meaningful and deeper insight into the dynamics of franchising relationships than was previously available. Specifically, this research brings to light the important role that marketing alignment – in terms of both agreement and cooperation – fulfills in the partnership between franchisees and franchisors.

Second, a brand new construct – marketing alignment – is conceptualized, defined, and empirically measured with both reliability and validity. Furthermore, the differences among strategic marketing alignment, operational marketing alignment, and values marketing alignment are parsed out into unique phenomenon. Since it has been statistically shown that the alignment of long-term strategies, operational tactics, and personal values structures are different in their consequences, it is important to recognize the individual role that each uniquely fulfills in the relationship between franchisees and franchisors. Overall, adding this new and multi-dimensional construct to the discipline of marketing helps to provide increased knowledge and understanding to how franchising partners successfully work together to accomplish a variety of marketing activities.

Third, the research is this dissertation also adds empirical insight into the moderators and consequences of marketing alignment. This broader analysis of channel relationship variables as well as implementation, satisfaction, and performance based outcomes provides researchers with a better understanding of influential factors that play a meaningful role in franchising relationships. While it is both possible and likely that other factors also play an important role between franchisees and franchisors, the model analyzed in this dissertation provides an excellent starting point for examining the marketing alignment phenomenon and better understanding its impact on marketing channel relationships.

Lastly, this research applies structural alignment theory to marketing strategy and in doing so incorporates an underutilized theory into the discipline of marketing. This additional theoretical understanding could be used again in the future to support other marketing relationships.

Managerial Contributions

In addition to the theoretical contributions just discussed, there are also several actionable findings for franchising practitioners derived from this research. Most importantly, this dissertation provides a meaningful explanation of how and why the three dimensions of marketing alignment lead to greater implementation and satisfaction.

By embracing the importance of marketing alignment, franchisees and franchisors alike can better evaluate their current franchising relationships as well as any future franchising opportunities in order to determine the degree of marketing alignment that exists and how this will impact the ongoing partnership.

Similarly, this dissertation provides guidance on how to achieve greater success for both franchisees and franchisors. By focusing on the factors that are likely to result in increased implementation and satisfaction (e.g., SMA, OMA, and VMA, as well as franchisor marketing mix control, financial transparency, and idiosyncratic investment as moderators under specific conditions), it is possible to ensure greater levels of success than would naturally occur. As such this research should assist franchisees and franchisors in maintaining superior marketing relationships with each other, especially if the level of marketing alignment that exists between franchising partners is evaluated prior to investing in a franchise.

Finally, for franchisees, this dissertation provides guidance that helps them better understand their own levels of strategic, operational, and values-based forms alignment as well as how each type affects the relationship with their franchisor. For franchisors, this research provides valuable understanding of the roles that moderators of marketing alignment play so that they are able to more effectively alter the impact that varying levels of SMA, OMA, and VMA have on the outcomes of implementation and satisfaction. Over time, a highly aligned marketing relationship between franchisees and franchisors should lead to a continued and mutually beneficial partnership.

LIMITATIONS AND FUTURE RESEARCH

As with all research, there exists a variety of limitations and possible future research extensions. The following ideas can be used by me as well as other academics to either improve the existing study or to take the application of marketing alignment to the next level. First limitations of the study presented in this dissertation will be discussed and then several future research opportunities will be presented.

Possibly the largest limitation is the sample size. Though the effective survey response rate was acceptable at 11%, and also very similar to other work in franchising; the total sample size should have ideally been three to five times larger in order to have enough power to test the entire model using SEM. This was cost prohibitive at the dissertation stage as mailing the 1,896 original and non-respondent follow-up packets already entailed a significant investment. However, with the appropriate research budget it would be possible to complete a larger second data collection in order to increase the sample size.

Another limitation of the study is its generalizability. Though the food and beverage industry provides a robust sample with which to investigate marketing alignment in the franchising context, it is possible the results of this study would not apply to other commonly franchised industry such as automobiles, retailing, and hospitality. It is also not clear if the results of this study apply to other channel relationships outside the context of franchising.

This dissertation was intentionally designed to examine marketing alignment from the perspective of the franchisee and as such, the data collection and the analysis are both focused on that point of view. It could be considered a limitation that data was not also collected from the franchisors in an attempt to perform a dyadic analysis.

Lastly, almost all of the data collected was perception based data. There was no real use of secondary data to complement what was collected directly from franchisees. As always, there are limitations with perception-based data that had to be addressed in the analysis.

Many of the future research opportunities are derived from remedying the limitations to the dissertation and in doing so, improving the data collection and subsequent conclusions drawn from the results of the analysis. Instead of simply doubling or tripling the sample size of the current study, I would instead perform a larger second study in a different industry such as automobiles, retailing, or hospitality. If the results from the second, larger sample match what was found in the food and beverage industry then it would strengthen the findings from both studies. If the analysis from the second study did not match the findings from the first study then further investigation would be required to determine if the differences were due to industry, sample, or some other reason.

Another possibility would be to collect data from the 31 franchisors that are represented in the sample population. This would require some reimagining of the model in order to show meaningful dyadic-based outcomes but is doable and would likely provide additional insight into the complex franchisee-franchisor marketing relationship. Instead of pursuing dyadic data, it might be more valuable to the existing model to seek actual performance data in order to either compliment or replace the perceived performance data. Doing so would provide a more accurate look at how implementation and franchisee satisfaction truly affect performance.

Due to the evidence that marketing alignment does indeed exist across the dimensions of strategies, operations, and values as well as that the different types of marketing alignment each have unique effects on implementation and satisfaction, it would be extremely interesting to see the role that the three types of marketing alignment play in other, less captive channel relationships. It is possible that marketing alignment affects a variety of relationship structures each in diverse ways; however, different contexts will need to be investigated to know for certain.

Lastly, it would also be interesting to see how marketing alignment changes over time. Since franchising relationships, like many marketing channel partnerships, are designed and intended to last long-term, it would be valuable to understand how marketing alignment changes over the course of the relationship. Ideally, I would start by surveying new franchisees that have been active with their current franchise for less than a year. Then I would survey them again at the five year mark and one last time at the ten year mark. As valuable as this analysis could be, the obvious downside is the minimum of a ten year time commitment to complete it.

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APPENDICES

APPENDIX A: CONSTRUCTS AND MEASURES

Strategic Marketing Alignment (SMA) is conceptualized as the extent to which the marketing relationship between the franchisee and franchisor is unified in terms of both mutual agreement and ongoing cooperation across two key areas: 1) strategic positioning (e.g., Park et al. 1986; Porter 1996) and 2) marketing objectives (e.g., Anderson 1982; Burke 1984). SMA is formative (strategic positioning + marketing objectives). Strategic positioning is formative (agreement + cooperation). Marketing objectives is formative (agreement + cooperation). Agreement and cooperation are both reflective. SMA (new) is captured through a total of 26 items, half utilizing a 7-point Likert type scale that ranges from 'strongly disagree' to 'strongly agree' and the other half utilizing a 7-point Likert type scale that ranges from 'no cooperation' to 'high cooperation'.

Please indicate the extent to which you have the same viewpoint as your franchisor concerning the company's marketing strategies or objectives, or in other words, the level of agreement that exists between you and your franchisor on the following items:

1. Long-term strategies for the company
2. Big picture direction of the company
3. How to perform marketing activities differently than our competitors
4. How to best serve different segments of customers
5. What products to offer in our industry
6. Which customer needs to fulfill
7. Goals for market share
8. Goals for sales volume
9. Goals for profit margin
10. Goals for customer satisfaction metrics
11. Goals for annual growth
12. Goals for marketplace reputation
13. Goals for consistency of product offerings

Please indicate the extent to which you actively work together with your franchisor to accomplish your company's marketing strategies or objectives, or in other words, the level of cooperation that exists between you and your franchisor on the following items:

1. Pursuing long-term strategies for the company
2. Pursuing the big picture direction of the company
3. Performing marketing activities in a different way than our competitors
4. Serving different segments of customers
5. Deciding what products to offer in our industry
6. Deciding which customer needs to fulfill
7. Achieving goals for market share
8. Achieving goals for sales volumes
9. Achieving goals for profit margins
10. Achieving goals for customer satisfaction metrics
11. Achieving goals for annual growth
12. Achieving goals for marketplace reputation
13. Achieving goals for consistency of product offerings

Operational Marketing Alignment (OMA) is conceptualized as the extent to which the marketing relationship between the franchisee and franchisor is unified in terms of both mutual agreement and ongoing cooperation across three key activities: 1) product management (e.g., Keller 1993; Rao et al. 2004), 2) supply chain management (e.g., Mentzer et al. 2001; Thomas and Griffin 1996), and 3) customer relationship management (e.g., Payne and Frow 2005; Reinartz et al. 2004; Saini et al. 2010). OMA is formative (product management + supply chain management + customer relationship management). Product management is formative (agreement + cooperation). Supply chain management is formative (agreement + cooperation). Customer relationship management is formative (agreement + cooperation). Agreement and cooperation are both reflective. OMA (new) is captured through a total of 44 items, half utilizing a 7-point Likert type scale that ranges from 'strongly disagree' to 'strongly agree' and the other half utilizing a 7-point Likert type scale that ranges from ‘no cooperation’ to ‘high cooperation’.

Please indicate the extent to which you have the same viewpoint as your franchisor concerning the operational management of your franchise, or in other words, the level of agreement that exists between you and your franchisor on the following items:

1. How to best represent products to consumers at the retail level
2. How to best maintain consistency of product offerings to consumers at the retail level
3. How to best manage the quality of product offerings to consumers at the retail level
4. How to best communicate product features to consumers at the retail level
5. How to maximize profitability of product offerings at the retail level
6. How to best handle product complaints at the retail level
7. Which suppliers to use for our products
8. How to best negotiate with our suppliers
9. How to best ensure that the right mixes of products are consistently available from our suppliers
10. How order processing should best be handled throughout our supply chain.
11. How transportation of products should best be handled throughout our supply chain
12. How storage of products should best be handled throughout our supply chain
13. How logistics information should best be communicated throughout our supply chain
14. How to best acquire new customers
15. How to best retain existing customers
16. How to best maximize profitability from each customer
17. How to profitably target new customer segments
18. Which customer relationship management (CRM) technologies to utilize
19. Who is responsible for maintaining our customer relationship management (CRM) database
20. Which promotional content is used to attract or retain customers

21. How often promotional content is used to attract or retain customers
22. How much promotional content is used to attract or retain customers

Please indicate the extent to which you actively work together with your franchisor to accomplish operational management of your franchise, or in other words, the level of cooperation that exists between you and your franchisor on the following items:

1. Representing products to consumers at the retail level
2. Maintaining consistency of product offerings to consumers at the retail level
3. Managing the quality of product offerings to consumers at the retail level
4. Communicating product features to consumers at the retail level
5. Maximizing profitability of product offerings at the retail level
6. Handling product complaints at the retail level
7. Interacting with suppliers of our products
8. Negotiating with our suppliers
9. Ensuring that the right mixes of products are consistently available from our suppliers
10. Handling order processing in our supply chain
11. Transporting products throughout our supply chain
12. Storing products throughout our supply chain
13. Communicating logistics information throughout our supply chain
14. Acquiring new customers
15. Retaining existing customers
16. Maximizing profitability from each customer
17. Targeting new customer segments
18. Selecting customer relationship management (CRM) technologies to utilize
19. Maintaining our customer relationship management (CRM) database
20. Selecting which promotional content is used to attract or retain customers
21. Deciding how promotional content is used to attract or retain customers
22. Choosing the amount of promotional content that is used to attract or retain customers

Values Marketing Alignment (VMA) is conceptualized as the extent to which the marketing relationship between the franchisee and franchisor is unified with mutual agreement and also ongoing cooperation in terms of their personal values-based responses to potentially controversial socio-economic opportunities and threats. VMA is formative (agreement + cooperation). Agreement and cooperation are both reflective. VMA (new) is captured through a total of 10 items, half utilizing a 7-point Likert type scale that ranges from 'strongly disagree' to 'strongly agree' and the other half utilizing a 7-point Likert type scale that ranges from 'no cooperation' to 'high cooperation'.

For the next two sets of items, socio-economic represents how you feel – based on your own value system – about social or economic issues such as immigration reform, marriage equality, nationalized healthcare, religious tolerance, political regulation, or political affiliation.

Please indicate the extent to which you have the same viewpoint as your franchisor concerning socio-economic values, or in other words, the level of agreement that exists between you and your franchisor on the following items:

1. Socio-economic viewpoints
2. Responding to socio-economic opportunities
3. Responding to socio-economic threats
4. Socio-economic beliefs
5. Socio-economic values

Please indicate the extent to which you actively work together with your franchisor to uphold your socio-economic values when approaching the market, or in other words, the level of cooperation that exists between you and your franchisor on the following items:

1. Socio-economic viewpoints
2. Responding to socio-economic opportunities
3. Responding to socio-economic threats
4. Socio-economic beliefs
5. Socio-economic values

Implementation is conceptualized as the extent to which the franchisee actually implements marketing mix activities according to the franchisor's plan. Implementation (new) is captured through a 6-item, 7-point Likert type scale ranging from 'strongly disagree' to 'strongly agree'.

Thinking about your main franchise, please rate the extent to which you agree with the following statements:

1. We sell products and services how the franchisor wants us to.
2. We charge the prices that the franchisor assigns for our products or services.
3. We use only the suppliers and distributors that the franchisor approves.
4. We follow promotional activities according to how the franchisor plans them.
5. We implement marketing activities as close to how the franchisor designs them as possible.
6. We follow the franchisor's plans as closely as possible when implementing new marketing activities.

Franchisee Satisfaction is conceptualized as the extent to which the franchisee is satisfied with investing in their current franchise. Franchisee satisfaction is formative (economic satisfaction + social satisfaction). Economic satisfaction and social satisfaction are both reflective. Franchisee satisfaction is captured through a 14-item, 7-point Likert type scale ranging from 'strongly disagree' to 'strongly agree' that was adapted from Geyskens and Steenkamp 2000.

Thinking about your main franchise, please rate the extent to which you agree with the following statements:

1. Our relationship with the franchisor has provided us with a dominant market position in our region.
2. Our relationship with the franchisor has provided us with a profitable market position in our region.
3. We are very pleased with the return on our investment in the franchise.
4. We are very pleased with the profitability achieved by owning this franchise.
5. The marketing policy of our franchisor helps us to profitably run our franchise.
6. The franchisor provides us with high quality marketing and sales support.

7. The working relationship with our franchisor is characterized by feelings of satisfaction.
8. The franchisor expresses criticism tactfully.
9. Interactions between our franchise unit(s) and the franchisor are viewed very positively.
10. The franchisor informs us about things we need to know to successfully run our franchise.
11. The franchisor adequately explains the reasons for its policies.
12. We find working with our franchisor to be very worthwhile.
13. We find working with our franchisor to be unproblematic.
14. We find working with our franchisor to be very satisfactory.

Franchisee Performance is conceptualized as the extent to which the franchisee realizes worthwhile financial returns from owning the franchise. Franchisee performance is captured through a 7-item, 7-point Likert type scale ranging from 'far below expectations' to 'far above expectations' that was adapted from Ramani and Kumar (2008) and Sheng et al. (2011).

Please circle the response that best describes your overall performance for your main franchise over the past year on:

1. Sales
2. Sales growth rate
3. Market share
4. Market share growth
5. Profits
6. Profit growth rate
7. Return on investment

Franchising Capability is conceptualized as the extent to which a franchisee has the skills and resources needed to successfully run a franchise within their selected industry. Franchising capability is formative (skills + resources). Skills and resources are both reflective. Franchising capability (new) is captured through a new 8-item, 7-point Likert type scale ranging from ‘strongly disagree’ to ‘strongly agree’.

Please rate the extent to which you agree with the following statements about yourself as a franchisee:

1. I have the skills needed to successfully manage my franchise.
2. I am very skilled at running my franchise.
3. I am fully capable of being successful as a franchisee.
4. I have the skills needed to profitably manage my franchise.
5. I have the skills required to grow as a franchisee.
6. I have the financial resources that are necessary to successfully manage my franchise.
7. I have the non-financial resources (such as time, knowledge, or other assets) that are required to successfully manage my franchise.
8. I have all the resources in place that are needed to be successful as a franchisee.

Franchisor Marketing Mix Control is conceptualized as the extent to which the franchisor maintains strict control over marketing mix decisions. Franchisor marketing mix control (new) is captured through a 4-item, 7-point Likert type scale ranging from ‘very low extent’ to ‘very high extent’.

Please circle the appropriate answer to the following questions regarding your main franchise.

To what extent:

1. Does your franchisor control product development decisions?
2. Does your franchisor control pricing decisions for your products or services?
3. Does your franchisor control promotion decisions for your products or services?
4. Does your franchisor control distribution decisions?

Financial Transparency is conceptualized as the extent to which the franchisor openly explains their financial requirements in a clearly understandable way, as it pertains to the franchisee. Financial transparency (new) is captured through a 5-item, 7-point Likert type scale ranging from ‘strongly disagree’ to ‘strongly agree’.

Thinking about your main franchise, please rate your agreement with the following statements.

We are clearly informed about:

1. Franchising fees that we are required to pay
2. Royalty fees that we are required to pay
3. Supply surcharges that we are required to pay
4. Marketing contributions that we are required to make
5. New equipment or remodeling for which we are required to pay

Idiosyncratic Investment is conceptualized as the extent of channel relationship investments made by the franchisor to the franchisee. Idiosyncratic investment is captured through a 6-item, 7-point Likert type scale ranging from ‘strongly disagree’ to ‘strongly agree’ that was adapted from Bensaou and Anderson (1999).

Please rate the extent to which you agree that your main franchisor has made major investments in its relationship with you in terms of:

1. Training
2. In store equipment
3. Supporting your operations
4. Tailoring products to match your needs
5. Tailoring promotions to match your needs
6. Developing the relationship

APPENDIX B: SURVEY DOCUMENTS

UNIVERSITY OF Nebraska Lincoln

COLLEGE OF BUSINESS ADMINISTRATION
MARKETING DEPARTMENT

INFORMED CONSENT FORM

IRB# 13182

Franchising

This is an exploratory research project that will examine marketing related interactions between franchisors and franchisees. You must be 19 years of age or older to participate.

Participation in this study will require approximately 20 minutes of your time. You will participate in this project as an interviewee. The interview will be carried out via telephone. During the interview you will be asked to respond to a number of general questions related to your relationship and interactions with your franchisor concerning marketing activities. Further, I would like to obtain your permission to audiotape the interview so that I can get an accurate transcription of the interview.

No intentionally sensitive questions will be asked during the interview. There are no known risks or discomforts associated with this research.

You may find the interview experience enjoyable. The information may be helpful to you in your own planning abilities in your company. The information gained from this study may help us to better understand the franchise relationships in the United States.

Any information obtained during this study which could identify you will be kept strictly confidential. Also, all name references will be replaced with pseudonyms during the transcription. Further the interview recordings will be stored in a locked cabinet in the investigator's office and will only be seen by the investigators during the study. The recordings will be destroyed after the transcription is complete. The information obtained in this study may be published in academic journals or presented at academic meetings. As indicated, any references to individual participants of this study will involve the use of pseudonyms in order to guarantee participant anonymity.

There will be no compensation for participating in this research. You may ask any questions concerning this research and have those questions answered before agreeing to participate in or during the study. Or you may call the investigator at any time, office phone, (402) 472-3384, or after hours (402) 578-9936. If you have questions concerning your rights as a research subject that have not been answered by the investigator or to report any concerns about the study, you may contact the University of Nebraska-Lincoln Institutional Review Board, telephone (402) 472-6965.

You are free to decide not to participate in this study or to withdraw at any time without adversely affecting your relationship with the investigators or the University of Nebraska-Lincoln. Your signature certifies that you have decided to participate having read and understood the information presented. You will be given a copy of this consent form to keep.

___________ Check if you agree to be audio taped during the interview.

Signature of Participant:

______________________________________ ___________________________

Signature of Research Participant *Date*

Name and Phone number of investigator(s)

Joseph Matthes, Principal Investigator *Office Tel: (402) 472-3384, Fax:* (402) 472-9777
Amit Saini, Secondary Investigator *Office Tel: (402) 472-2344*

330a CBA / P.O. 880492 / Lincoln, NE 68588-0492

University of Nebraska Lincoln

COLLEGE OF BUSINESS ADMINISTRATION
MARKETING DEPARTMENT

IRB# 20140113841 EX

Franchisee-Franchisor Marketing Alignment Study

Dear <NAME>,

My name is Joseph Matthes and I am a Ph.D. student at the University of Nebraska–Lincoln. I am researching marketing relationships between franchising partners. You have been randomly selected from a list of over 20,000 U.S. franchisees in the food and beverage industry to receive this study.

This is an exploratory research project that will examine marketing related interactions between franchisees and franchisors. You must be 19 years of age or older to participate. Participation in this study will require approximately 30 minutes of your time. If you choose to participate, you will do so by completing the attached survey.

No intentionally sensitive or proprietary questions are asked in the survey. There are no known risks or discomforts associated with this research. You may find the survey enjoyable to complete. The information may be helpful to your own marketing efforts within your franchise. The information gained from this study may help us to better understand franchising relationships in the United States.

Any information obtained during this study which could identify you will be kept strictly confidential. Additionally, only members of the research team will have access to the survey data. The researchers will only analyze the data in aggregate form. Also, all records pertaining to the study will be securely locked within the principal investigator's office. Once the study is completed, everything concerning your survey will be destroyed.

There is compensation for participating in this research. The attached $1 bill is yours to keep in appreciation for your consideration to participate. You may also choose to receive an executive summary of the results once the study is complete. The information obtained in this study may be published in academic journals or presented at academic meetings. As indicated, this is done only in summary form and never at the individual response level. Furthermore, it will be impossible to match your name to your responses. If you choose to identify yourself in the survey, such information will be removed from the data and stored in a separate location.

You may ask any questions concerning this research and have those questions answered before agreeing to participate in or during the study. You may call the investigator at any time, office phone, (402) 472-3384, or after hours (402) 578-9936. If you have questions concerning your rights as a participant that have not been answered by the investigator or to report any concerns about the study, you may contact the University of Nebraska–Lincoln Institutional Review Board, telephone (402) 472-6965.

You are free to decide not to participate in this study or to withdraw at any time without adversely affecting your relationship with the investigators or the University of Nebraska–Lincoln. By completing and returning the attached survey, your consent to participate is implied. Please keep this cover letter for your personal records. Thank you for your time and consideration.

Sincerely,

Name and Phone number of investigator(s)

Joseph Matthes, Principal Investigator *Office Tel: (402) 472-3384, Fax (402) 472-9777*
Amit Saini, Secondary Investigator *Office Tel: (402) 472-2344*

Franchisee-Franchisor Marketing Alignment Study

Marketing Department

Joseph Matthes
JMatthes@huskers.unl.edu

Amit Saini
ASaini2@unl.edu

Survey on Marketing Alignment between Franchising Partners

This study is strictly CONFIDENTIAL. Your individual responses will only be used in summary form and will not be released to anyone.

This survey concerns the degree of marketing alignment that exists between franchisees and franchisors. Marketing alignment is defined in terms of both agreement and cooperation between franchising partners. When responding, please provide the response that best reflects your experiences as a **franchisee**. There is no right or wrong answer. If you are a franchisee of multiple business concepts, then please complete the survey in terms of whichever franchise represents your largest or most significant investment.

We would be happy to share an executive summary of the findings of this study. If you would like a copy of the executive summary of the results, please either fill in a mailing address or attach a business card.

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Section A

We would like to assess your experiences and opinions on a variety of areas related to marketing alignment within the franchising context (please circle a number for your response on the scales shown below).

If you are a franchisee of multiple business concepts, then please complete the survey in terms of whichever franchise represents your largest or most significant investment (referred to as your '*main franchise*' in this survey).

Please think back to when <u>you originally invested in your main franchise</u>. Thinking about that time, please rate your agreement with the following statements:

	Strongly Disagree						Strongly Agree
I put a lot of effort into determining which franchise I would invest in.	1	2	3	4	5	6	7
I thought a great deal about which franchise I should invest in.	1	2	3	4	5	6	7
I was very careful when deciding which specific franchise to invest in.	1	2	3	4	5	6	7
Selecting the franchise I currently own required careful consideration prior to investing.	1	2	3	4	5	6	7
I was very selective when choosing the franchise in which I invested.	1	2	3	4	5	6	7
I deeply considered the quality of the franchise's brand prior to investing.	1	2	3	4	5	6	7

Please rate the extent to which you agree with the following statements about <u>yourself as a franchisee</u>:

	Strongly Disagree						Strongly Agree
I play it safe when making strategic moves.	1	2	3	4	5	6	7
Most consider me conservative in my approach to business.	1	2	3	4	5	6	7
I am generally more risk taking than most.	1	2	3	4	5	6	7
I am daring when making business decisions.	1	2	3	4	5	6	7
The industry culture rewards taking chances.	1	2	3	4	5	6	7
When the situation calls for it, I am willing to take risks.	1	2	3	4	5	6	7
I am willing to make major strategic decisions even if the potential outcome could be negative.	1	2	3	4	5	6	7

Please rate the extent to which you agree with the following statements about yourself as a franchisee:

I have the skills needed to successfully manage my franchise.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

I am very skilled at running my franchise.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

I am fully capable of being successful as a franchisee.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

I have the skills needed to profitably manage my franchise.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

I have the skills required to grow as a franchisee.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

I have the financial resources that are necessary to successfully manage my franchise.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

I have the non-financial resources (such as time, knowledge, or other assets) that are required to successfully manage my franchise.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

I have all the resources in place that are needed to be successful as a franchisee.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Please rate the frequency with which your main franchisor uses the following activities to influence your actions as a franchisee (if an activity never occurs, please select 1):

	Rarely						**Often**
Threats	1	2	3	4	5	6	7
Promises	1	2	3	4	5	6	7
Contractual references	1	2	3	4	5	6	7
Rational arguments	1	2	3	4	5	6	7
Leverages information	1	2	3	4	5	6	7
Leverages resources	1	2	3	4	5	6	7
Strongly recommends actions	1	2	3	4	5	6	7

Please rate the extent to which you agree that <u>your main franchisor has made major investments in its relationship with you</u> in terms of:

	Strongly Disagree						Strongly Agree
Training	1	2	3	4	5	6	7
In store equipment	1	2	3	4	5	6	7
Supporting your operations	1	2	3	4	5	6	7
Tailoring products to match your needs	1	2	3	4	5	6	7
Tailoring promotions to match your needs	1	2	3	4	5	6	7
Developing the relationship	1	2	3	4	5	6	7

Please circle the appropriate answer to the following questions regarding your main franchise.

To what extent:

Does <u>your franchisor</u> control product development decisions?

Very Low Extent 1 2 3 4 5 6 7 **Very High Extent**

Does <u>your franchisor</u> control pricing decisions for your products or services?

Very Low Extent 1 2 3 4 5 6 7 **Very High Extent**

Does <u>your franchisor</u> control promotion decisions for your products or services?

Very Low Extent 1 2 3 4 5 6 7 **Very High Extent**

Does <u>your franchisor</u> control distribution decisions?

Very Low Extent 1 2 3 4 5 6 7 **Very High Extent**

Do <u>you</u> have control over the decisions to develop new products or services?

Very Low Extent 1 2 3 4 5 6 7 **Very High Extent**

Do <u>you</u> control pricing decisions for your products or services?

Very Low Extent 1 2 3 4 5 6 7 **Very High Extent**

Do <u>you</u> have control on a local level over the decisions to develop new promotions for your products or services?

Very Low Extent 1 2 3 4 5 6 7 **Very High Extent**

Do <u>you</u> control the selection of your suppliers?

Very Low Extent 1 2 3 4 5 6 7 **Very High Extent**

Thinking about your main franchise, please rate your agreement with the following statements.

We are clearly informed about:

Franchising fees that we are required to pay

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Royalty fees that we are required to pay

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Supply surcharges that we are required to pay

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Marketing contributions that we are required to make

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

New equipment or remodeling for which we are required to pay

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Thinking about your main franchise, please rate the extent to which you agree with the following statements:

Competition in our industry is cutthroat.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

There are many "promotion wars" in our industry.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Anything one competitor offers can readily be matched by other competitors.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Price competition is a hallmark of our industry.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

One hears of a new competitive move in our industry almost every day.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Our competitors are formidable adversaries.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Please indicate the <u>extent to which you have the same viewpoint as your franchisor</u> concerning the company's marketing strategies or objectives, or in other words, the <u>level of agreement that exists between you and your franchisor</u> on the following items:

	Strongly Disagree						**Strongly Agree**
Long-term strategies for the company	1	2	3	4	5	6	7
Big picture direction of the company	1	2	3	4	5	6	7
How to perform marketing activities differently than our competitors	1	2	3	4	5	6	7
How to best serve different segments of customers	1	2	3	4	5	6	7
What products to offer in our industry	1	2	3	4	5	6	7
Which customer needs to fulfill	1	2	3	4	5	6	7
Goals for market share	1	2	3	4	5	6	7
Goals for sales volume	1	2	3	4	5	6	7
Goals for profit margin	1	2	3	4	5	6	7
Goals for customer satisfaction metrics	1	2	3	4	5	6	7
Goals for annual growth	1	2	3	4	5	6	7
Goals for marketplace reputation	1	2	3	4	5	6	7
Goals for consistency of product offerings	1	2	3	4	5	6	7

Please indicate the <u>extent to which you actively work together with your franchisor</u> to accomplish your company's marketing strategies or objectives, or in other words, the <u>level of cooperation that exists between you and your franchisor</u> on the following items:

	No Cooperation						**High Cooperation**
Pursuing long-term strategies for the company	1	2	3	4	5	6	7
Pursuing the big picture direction of the company	1	2	3	4	5	6	7
Performing marketing activities in a different way than our competitors	1	2	3	4	5	6	7
Serving different segments of customers	1	2	3	4	5	6	7
Deciding what products to offer in our industry	1	2	3	4	5	6	7
Deciding which customer needs to fulfill	1	2	3	4	5	6	7
Achieving goals for market share	1	2	3	4	5	6	7
Achieving goals for sales volumes	1	2	3	4	5	6	7
Achieving goals for profit margins	1	2	3	4	5	6	7
Achieving goals for customer satisfaction metrics	1	2	3	4	5	6	7
Achieving goals for annual growth	1	2	3	4	5	6	7
Achieving goals for marketplace reputation	1	2	3	4	5	6	7
Achieving goals for consistency of product offerings	1	2	3	4	5	6	7

Please indicate the <u>extent to which you have the same viewpoint as your franchisor</u> concerning the operational management of your franchise, or in other words, the <u>level of agreement that exists between you and your franchisor</u> on the following items:

	Strongly Disagree						**Strongly Agree**
How to best represent products to consumers at the retail level	1	2	3	4	5	6	7
How to best maintain consistency of product offerings to consumers at the retail level	1	2	3	4	5	6	7
How to best manage the quality of product offerings to consumers at the retail level	1	2	3	4	5	6	7
How to best communicate product features to consumers at the retail level	1	2	3	4	5	6	7
How to maximize profitability of product offerings at the retail level	1	2	3	4	5	6	7
How to best handle product complaints at the retail level	1	2	3	4	5	6	7
Which suppliers to use for our products	1	2	3	4	5	6	7
How to best negotiate with our suppliers	1	2	3	4	5	6	7
How to best ensure that the right mixes of products are consistently available from our suppliers	1	2	3	4	5	6	7
How order processing should best be handled throughout our supply chain.	1	2	3	4	5	6	7
How transportation of products should best be handled throughout our supply chain	1	2	3	4	5	6	7
How storage of products should best be handled throughout our supply chain	1	2	3	4	5	6	7
How logistics information should best be communicated throughout our supply chain	1	2	3	4	5	6	7

	Strongly Disagree						**Strongly Agree**
How to best acquire new customers	1	2	3	4	5	6	7
How to best retain existing customers	1	2	3	4	5	6	7
How to best maximize profitability from each customer	1	2	3	4	5	6	7
How to profitably target new customer segments	1	2	3	4	5	6	7
Which customer relationship management (CRM) technologies to utilize	1	2	3	4	5	6	7
Who is responsible for maintaining our customer relationship management (CRM) database	1	2	3	4	5	6	7
Which promotional content is used to attract or retain customers	1	2	3	4	5	6	7
How often promotional content is used to attract or retain customers	1	2	3	4	5	6	7
How much promotional content is used to attract or retain customers	1	2	3	4	5	6	7

Please indicate the <u>extent to which you actively work together with your franchisor</u> to accomplish operational management of your franchise, or in other words, the <u>level of cooperation that exists between you and your franchisor</u> on the following items:

	No Cooperation						**High Cooperation**
Representing products to consumers at the retail level	1	2	3	4	5	6	7
Maintaining consistency of product offerings to consumers at the retail level	1	2	3	4	5	6	7
Managing the quality of product offerings to consumers at the retail level	1	2	3	4	5	6	7
Communicating product features to consumers at the retail level	1	2	3	4	5	6	7
Maximizing profitability of product offerings at the retail level	1	2	3	4	5	6	7
Handling product complaints at the retail level	1	2	3	4	5	6	7
Interacting with suppliers of our products	1	2	3	4	5	6	7
Negotiating with our suppliers	1	2	3	4	5	6	7
Ensuring that the right mixes of products are consistently available from our suppliers	1	2	3	4	5	6	7
Handling order processing in our supply chain	1	2	3	4	5	6	7
Transporting products throughout our supply chain	1	2	3	4	5	6	7
Storing products throughout our supply chain	1	2	3	4	5	6	7
Communicating logistics information throughout our supply chain	1	2	3	4	5	6	7

	No Cooperation						**High Cooperation**
Acquiring new customers	1	2	3	4	5	6	7
Retaining existing customers	1	2	3	4	5	6	7
Maximizing profitability from each customer	1	2	3	4	5	6	7
Targeting new customer segments	1	2	3	4	5	6	7
Selecting customer relationship management (CRM) technologies to utilize	1	2	3	4	5	6	7
Maintaining our customer relationship management (CRM) database	1	2	3	4	5	6	7
Selecting which promotional content is used to attract or retain customers	1	2	3	4	5	6	7
Deciding how promotional content is used to attract or retain customers	1	2	3	4	5	6	7
Choosing the amount of promotional content that is used to attract or retain customers	1	2	3	4	5	6	7

For the next two sets of items, *socio-economic* represents how you feel – based on your own value system – about social or economic issues such as immigration reform, marriage equality, nationalized healthcare, religious tolerance, political regulation, or political affiliation.

Please indicate the extent to which you have the same viewpoint as your franchisor concerning socio-economic values, or in other words, the level of agreement that exists between you and your franchisor on the following items:

	Strongly Disagree						**Strongly Agree**
Socio-economic viewpoints	1	2	3	4	5	6	7
Responding to socio-economic opportunities	1	2	3	4	5	6	7
Responding to socio-economic threats	1	2	3	4	5	6	7
Socio-economic beliefs	1	2	3	4	5	6	7
Socio-economic values	1	2	3	4	5	6	7

Please indicate the extent to which you actively work together with your franchisor to uphold your socio-economic values when approaching the market, or in other words, the level of cooperation that exists between you and your franchisor on the following items:

	No Cooperation						**High Cooperation**
Socio-economic viewpoints	1	2	3	4	5	6	7
Responding to socio-economic opportunities	1	2	3	4	5	6	7
Responding to socio-economic threats	1	2	3	4	5	6	7
Socio-economic beliefs	1	2	3	4	5	6	7
Socio-economic values	1	2	3	4	5	6	7

Thinking about your main franchise, please rate the extent to which you agree with the following statements:

	Strongly Disagree						**Strongly Agree**
We sell products and services how the franchisor wants us to.	1	2	3	4	5	6	7
We charge the prices that the franchisor assigns for our products or services.	1	2	3	4	5	6	7
We use only the suppliers and distributors that the franchisor approves.	1	2	3	4	5	6	7
We follow promotional activities according to how the franchisor plans them.	1	2	3	4	5	6	7
We implement marketing activities as close to how the franchisor designs them as possible.	1	2	3	4	5	6	7
We follow the franchisor's plans as closely as possible when implementing new marketing activities.	1	2	3	4	5	6	7

Thinking about your main franchise, please rate the extent to which you agree with the following statements:

	Strongly Disagree						Strongly Agree
Our relationship with the franchisor has provided us with a dominant market position in our region.	1	2	3	4	5	6	7
Our relationship with the franchisor has provided us with a profitable market position in our region.	1	2	3	4	5	6	7
We are very pleased with the return on our investment in the franchise.	1	2	3	4	5	6	7
We are very pleased with the profitability achieved by owning this franchise.	1	2	3	4	5	6	7
The marketing policy of our franchisor helps us to profitably run our franchise.	1	2	3	4	5	6	7
The franchisor provides us with high quality marketing and sales support.	1	2	3	4	5	6	7
The working relationship with our franchisor is characterized by feelings of satisfaction.	1	2	3	4	5	6	7
The franchisor expresses criticism tactfully.	1	2	3	4	5	6	7
Interactions between our franchise unit(s) and the franchisor are viewed very positively.	1	2	3	4	5	6	7
The franchisor informs us about things we need to know to successfully run our franchise.	1	2	3	4	5	6	7
The franchisor adequately explains the reasons for its policies.	1	2	3	4	5	6	7
We find working with our franchisor to be very worthwhile.	1	2	3	4	5	6	7
We find working with our franchisor to be unproblematic.	1	2	3	4	5	6	7
We find working with our franchisor to be very satisfactory.	1	2	3	4	5	6	7

Please circle the response that best describes <u>your overall performance for your main franchise</u> over the past year on:

	Far Below Expectations						Far Above Expectations
Sales	1	2	3	4	5	6	7
Sales growth rate	1	2	3	4	5	6	7
Market share	1	2	3	4	5	6	7
Market share growth rate	1	2	3	4	5	6	7
Profits	1	2	3	4	5	6	7
Profit growth rate	1	2	3	4	5	6	7
Return on investment	1	2	3	4	5	6	7

Section B

Please provide the following demographic information about you and your firm.

Total number of different business concepts of which you own at least one franchise unit:

____

Please answer all remaining questions in regards to the same franchise for which you were answering questions in Section A. In other words, if you are a franchisee of multiple business concepts then please continue to answer questions in terms of the franchise that represents your largest or most significant investment (referred to as your '*main franchise'*).

The brand name of your main franchise chain: ________________________________

Year your main franchisor's firm came into existence: __________________________

Years as a franchisee with your main franchise: _______________________________

Total number of store units you own with your main franchise: _________________

What does your main franchise primarily sell? (please check one)

☐ Physical goods ☐ Services ☐ Both equally

The scope of your main franchisor's network: (please check one)

☐ Local ☐ Regional ☐ National ☐ International

The brand image of my main franchise is much greater than that of my competitors.

Strongly Disagree 1 2 3 4 5 6 7 **Strongly Agree**

Total employees across all of the store units you own of your main franchise: ______

Average number of employees for each store unit you own of your main franchise: (please check one)

☐ 1 – 5	☐ 26 – 30
☐ 6 – 10	☐ 31 – 35
☐ 11 – 15	☐ 36 – 40
☐ 16 – 20	☐ 41 – 45
☐ 21 – 25	☐ More than 45: _____________

Average annual 2013 sales revenue for each store unit you own of your main franchise: (please check one)

☐ Less than $100,000	☐ $1,000,000 – $1,499,999
☐ $100,000 – $249,999	☐ $1,500,000 – $1,999,999
☐ $250,000 – $499,999	☐ $2,000,000 – $2,499,999
☐ $500,000 – $749,999	☐ $2,500,000 – $2,999,999
☐ $750,000 – $999,999	☐ More than $3,000,000: _____________

Amount paid annually to franchisor marketing contribution fund for your main franchise:
(please check one)

☐ $0	☐ $10,000 – $19,999
☐ $1 – $2,499	☐ $20,000 – $29,999
☐ $2,500 – $4,999	☐ $30,000 – $39,999
☐ $5,000 – $7,499	☐ $40,000 – $49,999
☐ $7,500 – $9,999	☐ More than $50,000: _____________

Percentage of gross sales paid annually to franchisor marketing contribution fund for your main franchise: (please check one)

☐ 1% or less	☐ 6%
☐ 2%	☐ 7%
☐ 3%	☐ 8%
☐ 4%	☐ 9%
☐ 5%	☐ 10% or more: _____________

To what degree do you face internal competition from other franchisees of the same parent firm or from franchisor-owned units?

None at all 1 2 3 4 5 6 7 **Intense Competition**

How would you rate employee turnover at your franchise location(s)?

Low 1 2 3 4 5 6 7 **High**

To what degree do you perceive frequent employee turnover to be a problem in your franchise unit(s)?

None at all 1 2 3 4 5 6 7 **Major Problem**

To what degree are you actively involved in managing your franchise?

Not at all 1 2 3 4 5 6 7 **Very involved**

To what degree are you knowledgeable about the topics that were addressed in this survey?

Not at all 1 2 3 4 5 6 7 **Very Knowledgeable**

How often do you communicate with your franchisor about the topics that were addressed in this survey?

Rarely 1 2 3 4 5 6 7 **Regularly**

WE THANK YOU FOR YOUR PARTICIPATION AND GREATLY APPRECIATE YOUR SUPPORT FOR OUR RESEARCH

Note: This serial number is for tracking purposes only. Once we have received your response, we will not send any further materials. No franchisee or company will be identified in any way.

APPENDIX C: SAMPLE FRANCHISE DISCLOSURE DOCUMENT

FRANCHISE DISCLOSURE DOCUMENT

McDonald's USA, LLC
a Delaware limited liability company
One McDonald's Plaza
Oak Brook, Illinois 60523
(630) 623-3000
www.mcdonalds.com

The franchisee will own and operate a quick service restaurant offering a limited menu of value-priced foods using the McDonald's System.

The total investment necessary to begin operation of a traditional McDonald's franchise ranges from $1,031,350 to $2,182,050 (see Item 7 for small town oil, small town retail, and Satellite locations). This includes an initial franchise fee of $45,000.00 (see Item 5 for small town oil, small town retail, and Satellite locations) that must be paid to the franchisor.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document**.

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact the Franchise Practice Group at 2915 Jorie Boulevard, Oak Brook, IL 60523 and (630) 623-6934.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

Issuance Date: May 1, 2013, as amended October 25, 2013

STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the state franchise administrator listed in Exhibit P for information about the franchisor or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

1. THE FRANCHISE AGREEMENT STATES THAT ILLINOIS LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.

2. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Effective Date: See the next page for state effective dates

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Item 1
The Franchisor and any Parents, Predecessors, and Affiliates

The Franchisor is McDonald’s USA, LLC, which will be referred to in this disclosure document as “McDonald’s”, “we”, “us” or “our”. A person who buys a franchise from McDonald’s will be referred to in this disclosure document as “you”.

We are a Delaware limited liability company. Our principal place of business is One McDonald’s Plaza, Oak Brook, Illinois, 60523. We currently do business under the name of McDonald’s USA, LLC. Our agents for service of process are disclosed in Exhibit O. We are a wholly-owned subsidiary of our parent and predecessor, McDonald’s Corporation, a Delaware corporation. Our predecessor’s principal place of business is One McDonald’s Plaza, Oak Brook, Illinois, 60523. Our predecessor currently does not offer franchises. Neither we nor our predecessor have ever offered franchises in any other line of business.

We have domestic affiliates and international affiliates. Some of our international affiliates offer McDonald’s franchises outside of the United States. None of them have offered franchises in any other line of business. These international affiliates are disclosed in Exhibit Q.

We develop, operate, franchise, and service a system of restaurants that prepare, assemble, package, and sell a limited menu of value-priced foods under the McDonald’s System in the U.S. The “McDonald’s System” is a concept of restaurant operations that includes, among other things, certain rights in trademarks, manuals, and other confidential business information; operational, real estate, and marketing information; and the expertise and continuing information that we provide. All McDonald’s restaurant businesses in the U.S. are operated under franchise agreements and are owned by franchisees who are independent third parties, by affiliates operating as joint partnerships, or by our wholly-owned subsidiaries (“McOpCo companies”). Currently, about 89% of all U.S. restaurants are franchised to independent franchisees or affiliates operating as joint partnerships, and about 11% are franchised to McOpCo companies.

McDonald’s restaurants offer the public a high standard of quality and uniformity in food, service, and decor. McDonald’s restaurants are located in freestanding buildings, storefronts, food courts, and other locations that are appropriate to McDonald’s image. A grant of a McDonald’s franchise authorizes you to operate a McDonald’s restaurant business at a specific location and to use the McDonald’s System in the operation of that restaurant business for a specific period of time, usually 20 years. We also grant franchises for McDonald’s restaurant businesses located in retail stores such as Walmart. We call these satellite (“Satellite”) locations. McDonald’s restaurants located in strip centers, airports, universities, shopping malls, hospitals, and other diverse locations may also be Satellites. Satellites may serve a scaled-down menu of a traditional McDonald’s restaurant and, in some cases, will also serve non-McDonald’s trademarked products. The term of the franchise for a Satellite depends on its location.

Some McDonald's restaurants that are located in fuel station/convenience store facilities are called small town oil ("STO") locations. STOs are full-menu restaurants that share building space with a convenience store and have a fuel station located outside of the building. At each STO, the fuel station/convenience store typically will be associated with a national or regional branded chain. Some McDonald's restaurants that anchor a small retail center in rural communities are called small town retail ("STR") locations. STOs and STRs are not Satellites. The term of the franchise for STOs and STRs is usually 10 years.

In certain limited cases, we may also grant franchises with leases that include the business facilities. We call these Business Facilities Lease ("BFL") franchises. A BFL is a special arrangement that we may offer when certain economic and other factors exist. The term of a BFL is usually 3 years. Under a BFL, you may have a conditional option to purchase certain restaurant assets after the first year and extend the franchise for up to 20 years after the beginning of the term. In this disclosure document, the word "restaurant" refers to each McDonald's restaurant business location generally, regardless of whether it is franchised as a traditional restaurant, Satellite, STO, STR, or BFL (unless otherwise provided).

All franchisees who operate a restaurant, whether a traditional, Satellite, STO, STR, or BFL location, will sign the applicable form of our standard franchise agreement attached as Exhibits B, C, and D (collectively "Franchise Agreement").

In 1955, our predecessor, McDonald's Corporation, began granting franchises to individuals for the operation of McDonald's restaurants. In 1960, our predecessor began forming and granting franchises to McOpCo companies for the operation of McDonald's restaurants. In 2004, our predecessor formed us as a subsidiary and in 2005, as part of a global company alignment, transferred to us a majority of the assets used in its U.S. business, including its interests in the McOpCo companies and the franchises for McDonald's restaurants in the U.S. In 2007, restaurants in Puerto Rico and the Virgin Islands operated by McOpCo companies were sold to, and a master franchise to offer and sell franchises in Puerto Rico and the Virgin Islands was granted to, LatAm, LLC, a Delaware limited liability company, which is not an affiliate of McDonald's.

In May 2010, our predecessor acquired the portion of the business and assets of Verety Software International LLC (VSI) and related entities that serve the McDonald's System in the U.S. and other countries. Prior to the acquisition, VSI was the vendor of our proprietary point of sale ("POS") platform known as NewPOS (the current version is NP6). Our predecessor formed a subsidiary, Restaurant Application Development International LLC (RDI), a Delaware limited liability company, to acquire the portion of the business and assets of VSI that served the McDonald's System. RDI's principal place of business is 1420 Kensington Road, Suite 106, Oak Brook, IL 60523.

As a franchisee, you should not have any expectation that the economic and demographic factors that exist at your McDonald's restaurant location will remain constant. In addition, other McDonald's restaurants (including those that we develop in the future) may have an effect on the sales of your McDonald's restaurant, since customers typically patronize various McDonald's restaurants depending on their travel patterns and other factors. You also will be competing with other restaurants, food service businesses and convenience stores that offer the same types of products that you do. These restaurants, food service businesses and convenience stores may be associated with national or regional chains (whether or not franchised) or may be local, single restaurant locations. You will compete with other restaurants, food service businesses and convenience stores that feature products different from those in a McDonald's restaurant. In certain STOs, the fuel station/convenience store operators will have the right to sell fountain drinks and hot beverages in the convenience store located within the same building as the McDonald's restaurant. Your products and services will be offered primarily to individual consumers for on-site or off-site consumption. The market for the products you will offer is developed in some areas and still developing in other areas, depending on the number of restaurants of this type operating in each particular area.

You will be required to comply with all local, state, and federal laws, including health and sanitation laws and menu-labeling requirements, that apply to restaurant operations. There are other laws that apply generally to all businesses, including, but not limited to, the Americans with Disabilities Act, and we encourage you to make further inquiries about these laws.