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**Franchising in the Real Estate Agency Sector:
Multiple Perspectives
and
Converging Angles of Inquiry**

A thesis
submitted in partial fulfilment
of the requirements for the degree of
Doctor of Philosophy

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Massey University
2007

Abstract

This thesis investigates the widespread phenomenon of franchising in the real estate agency sector. To date, franchising research has been largely multi disciplinary, explanatory theory relatively undeveloped and there has been heavy reliance on the point of view of the franchisor. This thesis broadens investigation to include multiple perspectives of both the franchisor and franchisee. It examines the important contribution made to the relationship by both parties and the nature of their parallel business venturing.

Drawing on data collected from the main real estate franchisors operating in New Zealand and from samples of franchisee business owners in the Asia-Pacific region, the study uses a pragmatic mixed methodological approach. It is believed by breaking the quantitative tradition the complex nature and sector specific characteristics of franchising can be better understood. Two interlinked studies are undertaken. First, the franchisor's perspective of franchising is examined and a window study is used to illustrate the notion of resource competency. Second, franchising as an entrepreneurial activity mainly from the franchisee point of view expands existing debate linking franchising with the entrepreneurship domain.

It is argued that the strategic decision to franchise taken by real estate agency franchisors requires a wider explanation than offered by current agency and resource scarcity theory. The success of franchising in this sector is based on the development of a sophisticated resource competency that ensures a highly evolved, sustaining relationship with the franchisee and perpetuation into the mature growth phase. Franchising systems are defined as entrepreneurial organisations in which co-operation between two different types of entrepreneur takes place. The franchisor initiates the system and builds the brand while the franchisee develops the local market. Thus value is created as entrepreneurial ventures are established and flourish. Franchisors and franchisees amalgamate innovations and franchisees develop their own resource competencies complimentary to the parent organisation. Together with the people involved, wealth creation and innovative processes and activities undertaken by both parties in the relationship, franchising in real estate agency is shown to be fully compatible with entrepreneurship constructs.

Acknowledgments

I am indebted to my supervisor, Anne de Bruin who is my friend and academic mentor. Her constructive criticism and ready good humour helped to guide me throughout this process.

Larry Rose has given sound advice and direction and other academic colleagues have lent their encouragement and support, especially Ellen Rose who very generously helped me at a vital stage.

By sharing their time and experiences my industry colleagues have made this research possible and I am extremely grateful to Harcourts New Zealand for their openness and willingness to engage with me.

My family, Ian, Victoria and Gareth, and friends have listened, made suggestions, forgiven my weaknesses and helped keep me in touch with real life.

Thank you all.

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1 Introduction

1.1 Scope of the Study

In recent years franchising has taken the world by storm. Accounting for substantial business activity and productivity, it plays a vital role in the creation of new jobs and economic development globally (Justis & Judd, 2002). For this reason researchers urge the phenomenon be given more attention from a variety of angles (Kaufmann, 1996; Tuunanen & Hoy, 2007; Welsh, 1996). Past research has been multi disciplinary, examining a range of concerns and Hoy *et al.*, (2000) identified contract issues; distribution channels; internationalisation and its benefits; growth models and survival and failure topics as dominant. Understanding the factors that influence an organisation to franchise a portion of its outlets has stimulated continual interest (Elango & Fried, 1997; Lafontaine & Slade, 1997; Dnes, 1996; Combs & Ketchen, 2003; Combs *et al.*, 2004). More recently, discussion has centred on the reason a firm chooses a franchising strategy rather than expanding through company owned units and whether the tactic varies at different stages in an organisation's life cycle (Castrogiovanni *et al.*, 2006a & 2006b). In fact, although franchising research has a fairly short history, most aspects of the phenomenon including its social impact, economic profitability and organisational efficiency have been addressed. However, the question of just why and how organisations use franchising as a key competitive weapon remains largely unanswered.

It has been argued that extant franchising theory is too fragmented and theory development too narrow (Elango & Fried, 1997; Tuunanen & Hoy, 2007). More consideration should be given to the combined resources of both parties to the franchise contract and especially the role of the franchisee as a crucial cog in the franchise machine (Elango & Fried, 1997). To date the bulk of

inquiry has been positivist in approach and has focused on franchising across industries, largely from the franchisor viewpoint. Debate has rarely extended to investigation of specific franchising applications (Grunhagen & Dorsch, 2003) or to the unique entrepreneurial nature of franchising. Nor has a mixed methodological approach been used to access data so the direct experiences of both franchisors and franchisees can be analysed. In this thesis therefore, a wide angle perspective of the real estate agency franchise model is sought. The objective is to broaden the previous restrictive methodological practices and unmask what Tuunanen & Hoy, (2007) call 'the variation and operational complexity of franchising' (p.55) suggested by Elango and Fried (1997). In developing such an expanded view of real estate franchising strategy and real estate franchising in the entrepreneurship domain I draw on literature from such diverse subject areas as law, psychology, marketing and economics as well as real estate agency.

An important overall aim is to investigate real estate franchising by developing answers to the broad overarching questions:

- What is the nature of franchising in real estate agency?
- How do franchisors and franchisees relate?
- Are real estate agency franchisors and franchisees entrepreneurial?

My intention is to bring together multiple sets of empirical data from the perspective of both franchisors and franchisees in order to address the questions raised. In this way I hope to develop the franchising discussion in three major areas. First, focus on the real estate agency industry will provide an examination of the intricacies of franchising in a specific context and in multiple systems within the sector. Second, the franchisor perspective is intended to provide a wider angle view of theory underpinning franchising strategy in this area of the property world and a foundation to move beyond currently accepted notions. The third extension is to investigate franchising from an entrepreneurial viewpoint, especially through the eyes of the

franchisee. Thus the work touches on issues of efficiency and profitability but also reaches into relatively uncharted ground at the entrepreneurship nexus (Spinelli *et al.*, 2004; Stanworth & Purdy, 2002; Tuunanen & Hoy, 2007).

The franchised small business in this thesis is seen as a form of independent small business distinguished by its overt and close relationship with another, larger enterprise. The relationship between franchisor and franchisee is dynamic and little different from that undertaken by many small businesses and other firms with which they do business in increasingly interdependent economies. In this study implicit within the franchising concept are the creation of new ventures in new forms and the introduction of innovative service to an expanding market. The term 'innovative' relates to creativity in business and is inextricably linked with the economic individualism and entrepreneurship considered central to franchising (Hoy & Shane, 1998; Stanworth & Curran, 1999). Entrepreneurship is seen as the establishment of business ventures, self employment, survival, growth and the creation of wealth (Shane, 2003). By examining the franchise relationship, it is hoped this work will not only inform the franchise and entrepreneurship literature but may also be helpful from the viewpoint of practical business management by assisting franchisors' understanding of how to develop stronger franchise systems, and franchisees to build commanding individual business operations.

This chapter is organised into nine sections. In the first section I discuss the scope of the study. To follow, I outline my interest in the topic and early thoughts on the philosophy underlying the empirical studies undertaken. In section 1.3, I suggest reasons why the study is justified before moving to an outline and discussion of background to the research, the franchising concept and its growing global importance. Then in the sections that follow focus turns to franchising in the real estate agency industry with particular reference to the New Zealand (NZ) situation. In section 1.7 the idea of converging angles of inquiry is explained, and then possible limitations of the study are discussed. Finally in section 1.9 the overall structure of the thesis is outlined.

1.2 Context and Approaches

The interest I have in the real estate industry stems from a segment of my working life consisting of over 17 years of active commercial activity in NZ. I started a long association with the industry in 1987, first as a salesperson before moving on to a sales manager role in a large Ponsonby independent office¹. I became branch manager of another inner city office in 1994 before gaining Associate status² and a real estate agent's licence in April 1995. At that point I began my own entrepreneurial venture – an independent agency, Sayers Real Estate Limited. Sayers was a front runner in introducing innovative marketing approaches and commission structure. The company had several very successful years of business before the lure of an academic life changed my focus from purely commercial pursuits. Since 1997 I have engaged with the industry as an observer and it is from this new external vantage point that I begin my academic research journey in the area of real estate franchising.

Large corporate franchise systems are beginning to dominate the NZ real estate agency scene. Although many strong independents remain, network groupings appear particularly appealing to the majority of business owners. It is the nature of and reasons for this phenomenon as well as the need for more concentrated research in the real estate agency sector that motivates this study.

In seeking a relevant conceptual framework to undertake the work I grappled with several ontological and epistemological concerns. Franchising research and even more particularly research in the property studies discipline has been largely based on logical positivism, external realism and statistical investigation. Walle (1997) confirmed that the scientific method must be empirically verifiable and observable (p. 525). However there was recognition that more general perspectives in the social sciences could be achieved by the

¹ Ponsonby is an inner city area of Auckland, New Zealand's largest city.

² An Associate of the Real Estate Institute of New Zealand (A.R.E.I.N.Z) has passed all the qualifications necessary to hold a real estate agent's license and become the owner of a real estate agency.

use of alternative methods (p. 528). Jamal and Hollinshead (2001, p. 69) favour more qualitative research and argue such approaches cannot be banished as 'merely subjective'. However, their preference is for holistic study that constructs multiple realities, sometimes mixing approaches and requiring multiple methodological techniques. I have chosen to adopt such an eclectic approach.

With the aim of providing an improved understanding of franchising in the real estate sector I have sought to augment the insight to be gained by using mixed methods - qualitative inquiry with a measure of quantitative investigation. I have chosen to locate my study in NZ for practical reasons of availability of data and because of my personal experience and understanding of the real estate industry mainly in this country³. Furthermore, franchising in the small NZ economy is as yet untouched by legislation and an interesting future possibility is presented to extend this work when the regulatory environment changes, as it almost inevitably will, following the Australian example⁴.

1.3 Justification for the Research

I believe this research is justified because it focuses on an under researched area in a specific sector and is potentially of commercial importance. Most research in franchising and entrepreneurship has been conducted in the US sphere (Withane, 1991) and from a theoretical perspective. As there are 23,000 franchisees in Australasia there is a need to increase understanding of franchising in this region⁵. Real estate agency franchising is increasingly visible so more study into franchise initiation and performance is needed (Combs *et al.*, 2004). Although mainly associated with large corporations, fledgling system development is also evident and the trend to gather in co-

³ Some of the data was collected from franchisees in the Asia Pacific region so at times my discussion crosses national boundaries where real estate franchising is carried on in similar cultures.

⁴ Trade Practices Act 1974, Australian Competition and Consumer Legislation (ACCC), http://www.austlii.edu.au/au/legis/cth/consol_act/tpa1974149/

⁵ International Franchise Research Centre University of Westminster Worldwide Franchising Statistics <http://www.wmin.ac.uk/IFC/> Updated November 25, 2006.

operative arrangements dominates the sector. Past research has focused on franchising across industries and mainly from the franchisor's perspective (Bradach, 1994; Robicheaux, *et al.*, 1994; Kaufmann & Dant, 1996). In this study the franchisor perspective of system growth for competitive advantage and scale economies is confirmed and validated and a broader, integrated theoretical framework is discussed.

Moreover, franchisee viewpoints have not been fully explained in the past (Grunhagen & Mittelstaedt, 2001; Peterson & Dant, 1990; Kaufmann & Stanworth, 1994). Although franchising offers some the opportunity to be their own boss and to gain assistance by linkage to a known brand whilst receiving greater advertising coverage and general business guidance, this thesis addresses a more comprehensive explanation of the franchisee perspective. No one has yet sought to explore specific industry examples or the operationalisation of franchising in specific industry contexts like why some real estate agents seek to expand their businesses by franchising or enter franchised systems as either single or multi unit franchisee owners. Furthermore the link between entrepreneurship and participants in franchising requires further exploration in a specific context. Thus, consistent with expert opinion, this study will describe franchising practices and relationships in an industry setting and develop theoretical understanding in order to contribute to future research and practice.

1.4 A Word on Terminology

The vast majority of research into real estate agency has been conducted in the United States where different terminology is used, so I have included here a short section to avoid any potential confusion.

The terms 'brokerage' and 'agency', used to depict a real estate firm are interchangeable, but in my own work I will use the term agency as this is common usage in Australasia. Brokerage is an American term for a real estate firm, so brokerage studies form the backbone of this area of inquiry. Real estate salespeople in the US are variously called agents or brokers although it

is actually the business owner or license holder who is the broker. US agents and brokers are called 'realtors' if they belong to a state trade association. The national trade association is the National Association of Realtors (NAR).

In NZ the legal definition of a real estate 'agent' is the licensee, or the holder of a license to operate a real estate business. Licences can also be held in a company name and the business owner and any company directors must be associates of The Real Estate Institute (AREINZ). All agencies are registered members (MREINZ) of their local institute under the national body, The Real Estate Institute of New Zealand (REINZ). The real estate agent employs salespeople usually as independent contractors, and it is the salespeople who commonly deal with buyers and sellers. In this thesis the term 'agent' is used to refer to both licensees and salespeople, as the general NZ public rarely makes a distinction between the two. In the sections that concentrate on real estate franchising, the owners of franchised agencies are called franchisees and franchisor refers to the parent franchise organisation.

1.5 Franchising Background

The idea of franchising as a business contract between two parties is not a new phenomenon. Franchised rights granted by a firm to an individual or company to carry out business in a prescribed manner in a specific location, in return for a royalty contribution (Khan, 1992; Justis & Judd, 2002) first existed in pre-industrial times for the collection of taxation. Medieval Catholic clergy were able to collect tithes from their parishioners in return for fee payments to Rome and British peasants were similarly enfranchised to the feudal landowners. However, perhaps the true precursor and first generation of modern franchising⁶ appeared as an interlinked relationship between British brewers and their distributors in the early nineteenth century (Izraeli, 1972). By the beginning of the Twentieth Century franchising in the US had begun in earnest, with General Motors leading the way through the creation of a

⁶ Product franchising

franchise network of independently owned affiliated businesses (Hoy *et al.*, 2000). Today second generation or business format franchising is widespread.

1.5.1 The Concept of Franchising

Franchising occurs when a franchisor bestows a franchisee with the right to use its trade name, operating systems and specified product or service. Certain industries are suitable to adopt this organisational form because they display two characteristics. First, where product or service production is created on site or is simultaneous with consumption, joint ventures are undertaken or independently owned franchises are formed in order to cover wide geographical markets and cater to local requirements (Carmen & Langeard, 1980). Second, the responsibilities and decision rights and profits of each party to the franchise contract are uniquely divided. Franchisees build their own businesses in local areas and pay a percentage of their sales revenue to the franchisor in return for overall system support, procurement economies and use of the brand name and reputation. In most industries an up front franchise establishment fee is also paid.

World-wide franchising growth trend is expected to continue across sectors (Welsh & Alon, 2001; Hoffmann & Preble, 2004) and is possibly explained by a move towards service-based economies including a general consumer desire for convenience and workforce specialisation (Naisbitt, 1985). In such an environment the business format model concentrated in service-oriented activity seems likely to experience notably fast growth rates because franchising is suited to exploit people-intensive activity, especially where a large number of geographically dispersed outlets, serving local markets are required (Stanworth, 1995).

Franchised businesses today generate jobs for more than 18 million Americans or 8% of the private sector workforce (International Franchise Association [IFA] Report 2004). Franchising accounts for more than \$1 trillion US retail sales annually and spans 75 industry sectors (Fenwick, 2001). Despite a slowing of the economy, the franchising sector grew by 11% in 2005, up 7%

in twelve months (IFA Report, 2007). In the United Kingdom franchising is worth a record 10.8 billion pounds and has grown twice as fast as the UK economy⁷ (NatWest/BFA, 2007)⁸, and with 781 systems represents a 44% growth in ten years. Against a background of stringent sector regulation⁹ some commentators claim will reduce its attractiveness (Lim & Frazer, 2002), franchising in Australia continues apace, growing in maturity and sophistication (True *et al.*, 2003). When multiple systems operating under one brand name are considered, Australia has in the region of 850 franchise systems¹⁰ and the number of franchised units increased by 15% in the years 2002-2004 (Weaven & Frazer, 2005).

At the time of writing NZ franchise statistics are based on 2003 figures indicating involvement by 5% or 40,195 of the private sector workforce¹¹. This figure is somewhat down on those recorded in 2001 (70,000) because the 2003 sample contained a higher proportion of new and thus smaller franchises than in 2001. Considering NZ is a relative newcomer to the scene and franchising has only been fully established since 1990, the fact that Australasia now has one of the highest number of franchise systems per capita in the world is clear testament to the importance of franchising in the NZ economic and social context. The 2003 survey calculated an extrapolated minimum industry turnover of \$6.9 billion. The actual number of franchise systems across industries is hard to determine exactly as Statistics New Zealand does not differentiate franchises from any other sort of business. There is even discrepancy between first hand sector observers, with the Franchise Association of NZ suggesting 300 systems while banks, publishers and the 2003 National Bank survey place the figure closer to 350¹². As each system

⁷ Annual GDP for the UK in 2006 was 2.7% compared to 4.9% for the franchising sector (NatWest/BFA, 2007).

⁸ This is the 23rd annual survey commissioned by the British Franchise Association (BFA), sponsored by NatWest and conducted by the independent research house BDRC.

⁹ The Franchising Code of Conduct (1998).

¹⁰ It is not possible to be entirely accurate because of the lack of official registration requirements (Weaven & Frazer, 2005, p. 33).

¹¹ The Franchise Association of New Zealand (FRANZ)/ National Bank Survey (Colmar Brunton, 2003). A further survey is planned later in 2007.

¹² This figure could represent the systems that are offered for sale in a year and some of these may fail to eventuate.

has varying numbers of franchisee units, end figures for these associated businesses are only an estimate at around 5,000 to 8,000.

Other explanations for the stellar growth of franchising as a business form have been linked to economic downturn (Hall & Dixon, 1989). For example, people who face middle management redundancy, retrenchment or unemployment often turn to franchising business ownership and 'buy themselves a job', especially when one considers the dominant franchisee profile in Australia is a 30-50 year old male (Weaven & Frazer, 2005, p. 36). However, with the workforce approaching full employment, as it is in both Australia and NZ, franchises are as visible and as successful as ever. This could be partially explained by the offer franchising presents of new directions and alternatives in an era when people want more than one career challenge in their working lives (Inkson, 1995; Lord, 2006; Mallon, 1999; Pickett, 2007). In addition, the lure of self employment and the chance to make business improvements that provide direct benefit has considerable appeal to embryonic entrepreneurs (Shane, 2003). Furthermore, as more people (for example, minority groups) enter into self employment the number of franchise opportunities will also grow and rapid technological developments mean that new, flexible types of businesses are more likely to succeed in the modern economy. Against a background of increasing small business start ups in NZ, franchising offers a secure, attractive option¹³.

1.5.2 Real Estate Agency Franchising

The real estate agency sector offers a number of reasons that encourage franchising. First it displays the characteristics necessary to nurture the business format model and the efficiency of responsibility division. Franchisee owners of local real estate agencies focus on developing their home market and providing services to local market participants whilst real estate franchisors grow the nationwide system creating a brand image of reliability and success. By implementing the business model at the local level,

¹³ The number of small and medium sized enterprises (SMEs) increased by 4% in the year to 2006 and self employed people account for 11% of the NZ labour force (Ministry of Economic Development, SMEs in New Zealand: Structure and Dynamics, July, 2007).

franchisees are able to leverage franchisor driven research, development and system innovation. A reported difficulty facing growth orientated franchisors is sourcing suitable franchisee owners (Weaven & Frazer, 2005), but in this part of the property and business services sector, the problem seems non-existent. There is a continual stream of eager people already working in the industry, often in sales and branch management roles, willing to take ownership. In addition, notwithstanding a recent claim that franchisors do actually extract excess rents in the form of monthly royalties from their franchisees (Benjamin *et al.*, 2006), the prospect seems more seductive because an ingoing franchise fee is not common practice in the real estate industry (only one newly introduced system in this study was found to have this requirement¹⁴). Moreover, there are benefits to be received from enhanced name recognition, reduction in customer uncertainty, and assistance in marketing, and training (Benjamin *et al.*, 2006, p. 67).

In the US, Century 21 Real Estate began the franchising trend (Whittemore, 1984, p. 21) and much of the continued growth has been attributed to an intensified competitive environment caused by the emergence of national real estate brokerage organisations like *Merrill Lynch* and *Coldwell Banker* and the supposition that consumers prefer nationally known firms (Ervin, 1979). This is especially so where there is a mobile population and people are not familiar with local agents. Since franchises offer the image of bigness and the autonomy of individual ownership, the recent influx of franchised real estate brokerages is understandable (Whittemore, 1984, p. 135). The link between name recognition and a homeowner's selection of a listing company gives nationally advertised franchises an advantage. Franchised brokerage growth has remained constant since the 1990's and existing firms have continued to grow larger. Today 23% of all firms are affiliated to a franchise group and have been for an average of eleven years. These firms account for 55% of the total US broker sales force. Of the one million realtors listed with the National Association of Realtors (NAR), approximately one third works in a franchised

¹⁴ The Go Gecko Group was introduced into New Zealand in 2006 based on an Australian model and aimed at a price driven customer market, with commissions capped. A franchise entry fee is required from each new franchisee.

firm (Benjamin *et al.*, 2006). Seventy six percent of franchised businesses in the US real estate sector deliver \$US 29.2 billion output while still only accounting for just under 5% of all real estate businesses. There is a long and promising growth path ahead to rival the largest franchised sector, quick service restaurants, which make up 79% of the restaurant sector (IFA Survey, 2001). A 2004 survey commissioned by NAR (2004) reported there is an increase in the number of real estate firms becoming affiliated to a franchise network, although the total number of affiliated firms was not reported. In Australia the number of franchised real estate agencies, particularly in Tasmania, New South Wales and South Australia has significantly increased, with 44.5% now franchised¹⁵ and like the USA model, small businesses of up to 10 people still predominate at 70% of the sector¹⁶. Franchised real estate agents generated nearly half of a total income of \$7.5 million in 2002-2003¹⁷ and there are 23 franchise groups affiliated to the Australian Franchise Association.

1.6 Real Estate Agency in New Zealand

In this section I will give a brief overview of the current state of the real estate agency sector in NZ before looking more closely at real estate franchises. The property and business services sector¹⁸ is the largest industry by number of enterprises, with 124,110 enterprises engaging approximately 221,600 employees¹⁹. Within the property sector the real estate industry, which includes salespeople, real estate agents, and valuers, has shown a positive growth well ahead of the percent increase recorded for the overall number of businesses in NZ probably because of a bullish property market since 2002.

¹⁵ In Australia, figures gathered by the Australian Bureau of Statistics group real estate agencies as 'franchised' if they belong to either a franchise group; a marketing group or a co operative.

¹⁶ Bucknell, C. (2006) International trends, *The Real Estate Authority*, December, pp: 21-23.

¹⁷ Australian Bureau of Statistics (ABS), 2004.

¹⁸ Based on Australia and NZ Standard Industry Classification (ANZSIC)

¹⁹ New Zealand Business Demographic Statistics released October 2006.

The Real Estate Agents Licensing Board (R.E.A.L.B) figures show that as of April 1 2007, there are 17,793 certificated salespeople. On average, 300 people per month have entered the industry since 1999²⁰. However, high attrition of salespeople is a feature and over the last financial year, 3306 salespeople have not renewed their licences compared to 3116 in 2006 and 2729 in 2005. This is perhaps indication of the impact of low entry barriers and the poor suitability of some people to the rigours of a sales role, even in a buoyant market. In 2007 there are 1528 licensees, 992 company and 536 individual licenses, compared to the 2006 figure of 1421²¹. It could be argued that comparatively slow growth in licensee figures is partially responsible for an increasingly poor level of perception of real estate service and professionalism expressed by market participants. In fact, consumer surveys conducted on behalf of the Real Estate Institute find that only 34% of vendors rated the service as excellent; 27% as very good (Crews & Dyhrberg, 2004). Eleven percent reported the service was poor. This compares unfavourably with a previous survey in which findings were 36% excellent; 33% good; and 9% poor (Crews & Dyhrberg, 2001). Conversely, the survey confirmed that 61% of buyers rated the service as either above average or excellent, whilst 20% rated it as poor, compared with 68% and 14% respectively in 2000 (Crews & Dyhrberg, 2004).

Considering the importance of real property as a major asset class, the quality of the role played by real estate agents and their sales people is a major concern. Deregulation of price control on commissions and the 1:3 'qualified person ratio'²² has had negative repercussions for the industry. Furthermore, a continued influx of inexperienced salespeople, compounded by a shortage of suitably qualified management staff, has left a minority of vendors and buyers at the mercy of some unscrupulous practices. Since the Real Estate Agents Act became law in 1976, the growth, performance and pervasive nature of the industry has been at least one important motivation behind the introduction of consumer protection legislation such as the Fair Trading Act 1986; the

²⁰ REALB - personal communication 3 May 2007

²¹ Real Estate Institute of New Zealand (Inc) REINZ - personal communication, 2 May, 2007.

²² One qualified person per three salespeople per office.

Residential Tenancies Act 1986 and the Consumer Guarantees Act 1993. The effect has been to provide a measure of protection for market participants against unprofessional trade practices and to put in place clear guidelines for property rental contracts between property owners and renters and lessees. Notwithstanding this, in 2007 the industry faces even closer scrutiny when a much needed revision of the fundamental law regulating real estate agency practice is undertaken²³. Given such a background, it seems logical that real estate firms that can increase customer confidence in the services provided will have a marketplace advantage.

1.6.1 Franchising in New Zealand Real Estate Agency

The practice of converting existing, independent firms into franchise organisations has been ongoing for the last two decades in the NZ real estate agency sector and has now taken firm hold. Traditional real estate agency changed from being largely small independent businesses, often family owned and operated prior to 1990, to larger independents and groups. Today approximately 699 franchisee businesses account for around 38% of all real estate agency businesses, an increase of about 10% since 2004.²⁴ There are eight main franchise groups. In addition over the last twenty years there has been a growth of network groupings including franchising and now, in 2007 these types of inter-organisational relationships and especially franchising are prominent in the sector. Network organisations like The Professionals Real Estate Group and First National are technically not franchises but cooperate or network under a recognised brand and build joint marketing systems. Regionally distributed offices are independently owned. If this network or ‘umbrella’ group is added to the franchise category in NZ, as is done in Australia by the Bureau of Statistics, there are effectively around 12 real estate franchise groups in NZ.

²³ The Real Estate Agents Act, 1976 is in a review process at the time of writing, mid 2007.

²⁴ Statistics gathered from The Real Estate Institute of New Zealand [Inc], *List of Licensed Real Estate Agents*, April, 2007. These totals represent all agency businesses that are currently trading under a franchise group name and are on the Institute’s records.

Most real estate franchises began with a single office and then developed a group of company owned units with employees as branch managers. Such a branch growth option was usually regionally concentrated. The development of franchise organisations became a further growth strategy for some of these companies from the late 1980's. Thus for instance Barfoot and Thompson Ltd, the leading real estate agency in the Auckland region, has remained a family owned business with a branch network. This business currently retains an Auckland regional emphasis in line with family origins and the company's area of greatest brand awareness. By contrast, the Harcourts Group reached what appeared to be a critical mass of branches in its Wellington birthplace, but then chose franchising as a method of expanding its operations nationwide. Now the group has moved beyond a purely NZ focus with the addition of franchisees and a full international corporate support structure in Australia, Indonesia and the Pacific Island region. The actual strategy for growth adopted was essentially to divest the branch network by offering opportunity for suitably qualified branch managers to convert to independently owned and operated franchises. Thus began a process of rationalisation with branch mergers and takeovers by franchisee operators, followed by new growth through a process of 'greenfielding'. The latter process involved the promotion of the brand and the franchisee concept to existing independent agencies or other group agencies. Greenfielding has become a standard mode of expansion for most franchisors and is applied in new geographic areas targeted for expansion. In the literature on franchising, Castrogiovanni *et al.*, (2006b) suggest that organisations that develop multi operations of this type are well suited to the continued growth of a franchised network.

1.7 Angles of Inquiry

In this thesis I have adopted converging angles of inquiry to address the central research questions by employing a multi methodological approach; a combination of in-depth interviews, window studies and survey methodology. The thesis is divided into sequential focal points, each with its own distinct procedure (See Table 1.1). The first lens focuses on the franchisor perspective. Using a qualitative in-depth interview technique I investigate what

characteristics of the real estate market suit a franchising strategy and the reasons why franchisors choose the franchise pathway. Next, in investigating the franchisee perspective I gather information about the experiences and entrepreneurial nature of agency ownership in a franchise organisation by undertaking further in-depth interviews, but this time with selected franchisees. In a second phase dealing with the franchisee perspective I move from a qualitative emphasis to adopt a quantitative survey method in which questions are grounded in the views of the interview sample. In this instance the sample population is a wide group of franchisees from the Asia-Pacific region. I considered the use of mixed methods would make holistic consideration of the central questions possible and allow realistic inferences and interpretations to be made. In this way the research will hopefully be of more use to participants in the real estate franchise industry. The research design framework is discussed in detail in chapter four.

Table 1.1: Three Angles of Inquiry

Angle	Sample Type	Methodology
1. Entrepreneurial Franchisors	8 major players from the main real estate organisations in NZ	In- depth interviews Window study
2. Entrepreneurial Franchisees	22 Franchisees nationwide	In-depth interviews
3. Entrepreneurial Franchisees	275 Franchisees	Survey

1.8 Limitations

Although I have ensured the empirical studies undertaken in this thesis are as robust as possible and tested stringently for data reliability, it is necessary to mention some possible limitations. Firstly, some of the representatives of real estate franchisor organisations who form the franchisor sample group may not

have been privy to all management decision making processes in the organisation at the time a franchising strategy was embarked upon, so some of their comments could be subjectively based. For this reason there may be some inaccuracies relating to the adoption of a franchising strategy and a tendency to 'talk up' the organisation's strengths, rather than to be analytical. In addition only eight franchisor representatives were interviewed and there will be other views not gathered, nevertheless all eight were in key management positions with sufficient discretion and input in current company policy.

Secondly there was a tendency in interview situations with real estate agents to talk about the positive side of their businesses conforming to the 'sales talk' common in the profession. However I did feel there was considerable honesty expressed and this became clear when similarities began to emerge in the narratives. The quantitative study undertaken to consider the entrepreneurial nature of real estate franchisees described in chapter four and chapter seven raises the final issue for consideration. The possibility exists there may be some factors that play a role in explaining franchisee entrepreneurship not revealed in the survey and it must be considered that data collected via survey method can reflect a subjective viewpoint, despite the objectivity claims made of quantitative data. I have chosen to address other limitations relating to the quantitative analysis in chapter seven.

1.9 Structure of the Thesis

This thesis is structured as follows. Chapters two and three consider the literary thought and debate in those areas where real estate agency and franchising, and franchising and entrepreneurship meet. I felt it was necessary to fit a review of the literature into two chapters because of the breadth of the topic areas under discussion. In chapter two I highlight parts of real estate agency study that touch the topic of franchising, before moving on to discuss the suitability of the real estate environment for the franchising model and the nature of franchising as a strategy for growth and competitive advantage in the industry. The latter focus addresses the integrated and extended theoretical framework that underpins the franchisor perspective discussed in chapter five.

In chapter three I discuss real estate franchising from the perspective of the entrepreneurship realm and the recent body of work that develops entrepreneurial theory in a franchising context. The ways in which entrepreneurship manifests itself in the real estate agency sector and the idea of co-operation between entrepreneurs, and networks and symbiotic relationships is investigated. Chapter three therefore provides background theory to reinforce the entrepreneurial franchisee perspective to be discussed in two phases in chapters six and seven.

Chapter four moves on from background discussion to consideration of the specific research design of the empirical studies. In designing the framework for this research I considered whether objectivity or subjectivity was best suited to achieve the objectives and what theoretical perspective lay most comfortably behind the plan of action. Finally I decided how I would analyse the data collected. The outcomes form the basis for discussion in this chapter. I believed the problem should take a central role and that I could use multiple approaches to better understand real estate agency franchising and entrepreneurship. The rationale for this was that mixed methods based on a pragmatic world view would deliver the kind of holistic overview needed. I begin with an in-depth discussion of the various methods and the research practices used before discussing my role as researcher and moving to the underlying knowledge claims and the research concerns that underpin my approach. I then focus on the way mixed methodology has evolved and on the implications of the exploratory sequential research design. Finally I discuss the three linked research stages that form the empirical core of this thesis, the franchisor perspective and the two franchisee phases.

Chapter five is the first of the empirical chapters and features an investigation of the franchisor perspective based on data collected from executive officers representing high profile real estate franchise groups operating in NZ. Data from in-depth interviews stored and organised in Nvivo QSR 7 software programme enables themes and contributing factors underlying franchising

strategy to be extracted and discussed. I examine the outcome of the franchisor study and the strategic decision to franchise in order to show how and why franchising is used as a growth mechanism and source of competitive advantage for real estate organisations. Industry elements that effect its adoption, growth and operationalisation are revealed. The chapter is organised into two major sections, a discussion of emergent themes is followed with an illustrative window study of the largest real estate franchise group in NZ, the Harcourts Group.

The two following chapters are devoted to phases one and two of the franchisee study and demonstrate an emphasis on the understudied partner in the franchise contract, especially their entrepreneurial nature. In chapter six the franchisee perspective is studied in a qualitative manner through analysis of interview data collected from twenty two NZ based franchisee owners. As franchising is now seen as a field of entrepreneurship research (Shane & Hoy, 1996; Spinelli *et al.*, 2004; Tuunanen & Hoy, 2007) and the phenomenon overlaps many business subjects, an attempt to seek its presence in real estate agency franchising is justified. Furthermore, by examining the business processes and franchise relationship from the franchisee perspective the study begins to draw a picture of franchising from the point of view of both the instigator and the implementer.

Chapter seven contains the second franchisee phase in which survey data from a larger population of franchisees provides a more objective viewpoint. The process is sequential and rather than predetermining what questions to ask in the survey phase, questions emerge from the phase one interviews. The notion of a mutually beneficial partnership between franchisor and franchisee entrepreneurs is examined and the special entrepreneurial nature of real estate franchisees is discussed. Finally the two franchisee phases are drawn together in synthesis.

In the concluding chapter I rewind the skein of threads unravelled in the empirical studies. I discuss the unmasked reasons that explain the complexity

and account for the success of franchising in the real estate sector. Issues with possible on-going implications for the industry are suggested and the wider implications of this study within the existing body of research are broached. Finally, several inviting ideas for extending the current study and new areas for future research are raised before the thesis is concluded.

2 Strands in the Real Estate Agency and Franchising Literature

2.1 Introduction

This chapter is the first in a duo of literature chapters. I considered it necessary to divide the review of past research into three broad areas over two chapters in order to adequately cover the areas of inquiry and to place this thesis in an appropriate theoretical framework. First I examine real estate agency research particularly where it touches on or has relevance to the topic of franchising. Second, I will discuss theoretical development in the field of franchising strategy and its application in the real estate agency sector. This chapter has been organised into two sections. A selection of agency literature is discussed in section 2.2 to provide background to the study undertaken in this thesis. In section 2.3 I discuss franchising theory and suggest an extended framework suitable for studying franchising in the real estate agency sector. In the chapter to follow a third area of the literature focuses on real estate franchising from the perspective of the entrepreneurship domain.

2.2 A Selection of Real Estate Agency Literature

Studies in real estate agency have been founded on a mainly positivist worldview and focused on applying models and developing theory with simulated results. Several areas of interest have emerged: The characteristics of agencies; the level of commissions charged for selling; the time properties take to sell; agents' remuneration; the effect of agency involvement on house prices; liability and regulatory effects and the ways brokerage firms differ internationally (Benjamin *et al.*, 2000b). The topic of franchising in real estate agency however, has received relatively limited attention and is generally located in discussions on efficiency, effectiveness (Anderson *et al.*, 1998); and competitive advantage (Richins *et al.*, 1987). In recent years there has been a focus on change in the industry largely underpinned by new forms of

agency relationships (Miceli *et al.*, 2000; Jares *et al.*, 2000; Zietz & Newsome, 2001), predominantly in the United States (US). There is a particular interest in the impact of communications technology on brokerage firms and how this affects the role of agents (Kabatim, 1996; Kim & Mauborgne, 1999; Roulac 2000; Jud & Roulac, 2001; Seiler, 2001; Demisi, 2004). It is from this amalgam of research interests that I have selected strands of inquiry that link with franchising. I have organised the following discussion into five sub sections. First, in section 2.2.1 agent selection and effectiveness is discussed. The section to follow contains a discussion on issues of efficiency and then in section 2.2.3 and 2.2.4 service quality and competitive advantage are explored. The final section examines the forces of change facing the industry and suggests the ways in which franchised firms might be positioned to cope.

2.2.1 Agent Selection and Effectiveness

Research attention in this area includes the factors that affect the choice of an agent (For example, Johnson *et al.*, 1987) and the role real estate agents play (Jud & Frew, 1986), especially in the residential sector¹ (Jud, 1983; Zumpano, *et al.*, 1996; Jud & Roulac, 2001; Crowston *et al.*, 2001). This work is relevant to the choice of a franchised organisational form because discussion on why and how real estate agents attract clients is at the heart of industry success.

People searching to buy or sell property find themselves in a situation where information is poor and often difficult and costly to obtain - this is especially so for first time and out of town buyers (Baryla & Zumpano, 1995). However, as the flow of information loosens through advances in information and communications technology (ICT), this situation is changing (Baen & Guttery 1997; Jud & Roulac, 2001; Tucillo, 1997). Notwithstanding, impediments to a truly efficient market experience remain as the vast majority of the information required by buyers and sellers is still controlled by real estate

¹ Throughout this thesis unless otherwise stated, the market under discussion is the residential real estate market.

agents in their role as intermediaries. Thus, most buyers and sellers use agency services (Crowston *et al.*, 2001) and despite moves towards agent disintermediation in the US (Johnson *et al.*, 2005; Zumpano *et al.*, 2003), in NZ approximately 90% of all residential properties are still sold through real estate agents (Crews, 2005).

There have been claims that market participants choose individual agents rather than agency firms, basing their choice on perceived notions of the individual's integrity, market knowledge and level of qualifications and training (Johnson *et al.*, 1988; Nelson & Nelson, 1991). A real estate agent's involvement in the sale process is said to increase the level of buyer demand and lead to higher prices (Jud & Frew, 1986; Tirtiroglu, 1996) as the commission payable can be capitalised into the added sale price gained by agents. Search theory has more recently been used to show that use of an agent increases a buyer's chance of finding a property (Baryla *et al.*, 2000) and in the emerging but immature Chinese market, agents have been found to provide a valuable service by reducing buyers' search duration time (Zheng & Hy, 2004). However, choosing a good salesperson is not an easy task especially when today in NZ there are around 19,000 salespeople (Doesburg, 2007, p. 14). In these circumstances it is not unreasonable to expect many people will be influenced by a firm's image and branding and their perception of quality control, rather than by individual personalities. It is the visibility of franchised agencies; the reputation of standardised service and large banks of listings that act as magnets to market participants.

Real estate agency firms compete for business on their perceived performance in the time it takes to sell a property and the eventual selling price gained. However, academic debate in the area is inconclusive. Some studies suggest that the size of the agency firm, the asking price and externalities like financing incentives are important factors that effect performance (Larsen & Park, 1989; Sirmans *et al.*, 1991). Frew and Frew (1982) study homebuyers to examine prices achieved by franchised and non-franchised firms as well as the types of customers, the effect of mass promotion and the likelihood of

repeat business. They find that customers who choose a franchise are more likely to use a franchised firm on a subsequent occasion. Conversely, Blair and Rossa (1985) claim that customers feel they get a better range of services from independents. Colwell and Marshall (1986) find the number of salespeople, the amount of advertising and membership of a franchise positively affects an agency's market share of sales. Hughes (1995) lends support when he suggests that some firms actually do achieve consistently higher prices, especially when the firm is large; however he finds the size effect to be limited. It is suggested the selling experience can be enhanced by brokerage firms with a high reputation and a variety of services, ranging from media access to new technology - all features that characterise franchised firms. Frew and Jud (1986); Richins *et al.*, (1987) and Jud *et al.*, (1994) discuss the level of sales an agency makes and claims are made that franchise affiliation increases sales revenue and hence market share and performance.

The reasons why customers select a particular agency is studied by Chambers *et al.* (1985), and in Nelson & Nelson (2001) the presumed advantages of wider name recognition and national reputation are explored to measure the effect of national franchise affiliation on residential real estate firms. The researchers rank customers' firm preferences and find high tech to be important, with the top real estate agencies all being franchised affiliates. They develop perceptual maps that show association between a local business and a franchise name improves the perception of a firm, creating a 'halo' effect. This is especially so for a small, relatively unknown local firm when it becomes linked with a well known franchise group. However, a large, long established independent firm is also favourably perceived so the conclusion is made that where there is a successful independent firm with a long track record in a locality; franchise affiliation is of limited benefit. Given the independent firm in question was located in the small urban area where the study was conducted; such a result is not entirely unexpected. Nevertheless overall, inconsistent conclusions suggest the impact of franchise affiliation on the agent selection process is still little understood.

Yang and Yavas (1995) find a positive relationship between the numbers of listings a firm holds and time on the market (TOM) but contrary to Jud and Winkler (1994) and in agreement with Hughes (1995), they suggest firm size is not relevant. The importance of listings could explain why multiple listing services (MLS) are so significant in the US brokerage market that is dominated by small firms (Benjamin *et al.*, 2000a)². A firm's membership of a MLS ensures more listings and thus increases market efficiency (Jud *et al.*, 1996). A similar benefit could be seen to apply to franchised agencies, where co-operation amongst franchisees, pools of listings and wider market coverage arguably increases efficiency. In NZ franchising networks listings are available to any agent in the organisation³ and when there is a multitude of listings, and coverage and visibility is greater, it is not unreasonable to expect more sales. Clearly, a mixture of issues in the transaction process can affect property sales and agency performance, including buyer and seller psychology, agent behaviour and the impact of the heterogeneous nature of property (Orr *et al.*, 2003). However, it seems logical that firms visible in localities nationwide who advertise widely and with impact; underline their quality standards and offer a range of services will create an advantage for themselves and their clients. Furthermore, the strategies real estate franchises set in place to increase reputation through more training, encouraging higher qualifications and setting personal standards of performance, must optimise agency operation (Anderson & Webb, 2000).

2.2.2 Agent Efficiency

Generally, real estate franchising research has focused on comparison with non-franchised firms (Frew & Jud, 1986) and on issues of efficiency and other operational characteristics. Debate over the economic efficiency of the market for real estate services has raged for some years and consensus has proved illusive mainly because problems related to accessing data have

² The real estate brokerage industry was traditionally built on small firms. For example in the US in 1997, 95% of brokerage firms had 19 or fewer people working in them (US Bureau of the Census 1997). In statistics collected in the quantitative study discussed in chapter seven, 59.8% of franchised offices had up to 20 salespeople.

³ Nevertheless, it is conceded that in reality local listings will be controlled and sold by local agents and only a small referral fee is paid to outside agents who might refer a buyer.

limited most studies to theoretical models or indirect tests. One aspect of this work, the effect of non-price competition, is relevant in this thesis because it relates to the franchise organisations and franchisees studied. Turnbull (1996) argues that the level of services offered by real estate firms is a vital form of non-price competition and serves to differentiate firms that otherwise charge similar commission rates. Thus, the variety of services offered by franchised firms can be seen to increase operating efficiency.

Anderson *et al.* (2000) employ a non standard profit function to estimate efficiency levels in real estate agencies. Whilst demand is generally assumed to be stochastic, individual firms compete for market share by offering superior services that convince clients to make use of these offerings. Through non-price competition firms like those in franchise groups, increase the number of listings and sales they handle, thus ultimately they have some control over their profitability levels. The research claims that twenty first century firms operate at increasing economies of scale, close to their efficient frontier (Berger *et al.*, 1993) and by persuading or convincing market participants to deal with their firm, a particular firm can maximise listings and sales. In attempting to compete in this way firms can change their profit levels. Older and larger firms have brand-name capital and more repeat business which allows them to list and sell more property at lower levels of input usage (p. 308). Thus, the decision to franchise; firm age and size are positively related to cost efficiency.

Bates (1995) finds that franchised firms in other industries are poorer performers and have lower survival rates than their non franchised counterparts, however more modern studies point to real estate franchise group expansion and success. For example, the Coldwell Banker expansion in the Chinese market (Alon & Bian, 2005) and the recent influx of the RE/Max franchise brand internationally. Little formal research however examines factors that effect brokerage firm survivability; although one notable exception suggests that more on-the-job training can increase survival rates of both agents and brokers (Larsen & Coleman, 2003). Being part of a franchise

system is clearly one way of satisfying this requirement because training and educational support is offered at all levels of involvement from administration to management. The lower operating costs associated with franchising is another way of improving stability and survivability and franchised firms may find it easier to attract lower cost capital. This later contention finds support in the general literature on franchising (Oxenfeldt & Kelly, 1969; Oxenfeldt & Thompson, 1969; Ozanne & Hunt, 1971; Caves & Murphy, 1976).

Early work finds all real estate firms inefficient to a degree, but franchised firms less so than their non-franchised colleagues (Richins *et al.*, 1987; Jud *et al.*, 1994), as the franchise contract requires certain quality standards and protects against poor operators. Moreover, the organisational structure promoted by franchise groups allows for better allocation of inputs in the production process (Zumpano *et al.*, 1993). For example, franchisors are able to handle advertising more efficiently at national level, while production and distribution is the realm of franchisees, who increase their selling power by using brand name reputation. Anderson & Fok, (1998) find franchised firms take less time, effort and money in obtaining listings and finding buyers. Their econometric study examines why the owner of a real estate agency might choose to franchise by testing the efficiency of the organisational form vis-à-vis the independent agency model and suggest that non-franchised firms achieve greater scale and technical efficiency. However, the authors signal a caveat that because of possible statistical problems associated with the data envelope analysis (DEA) used, further study is needed. Lewis and Anderson (1999b) employ a Bayesian approach to compare issues of cost efficiency between franchised and non-franchised real estate firms, concluding that past claims of industry inefficiency are limited by inaccuracies (Yinger 1981; Crockett 1982; Anderson *et al.*, 1998; Zumpano *et al.*, 1993, Zumpano & Elder, 1994). Concentrating on differences in firms not previously accounted for; they concur that because efficiency results are mixed and the industry changing so rapidly, it is difficult to make a conclusive statement about the economics of franchising. The results are echoed in Anderson *et al.* (2000) who agree that general failure to take full advantage of scale economies in the

industry is due to the historical predominance of small real estate firms. However, franchising and the practice of consolidation are seen to alleviate the small firm disadvantage and increase efficiency.

In relation to firm outputs, franchised firms have been found to be more efficient than non franchised firms (Frew & Jud, 1986; Richins *et al.*, 1987; Jud *et al.*, 1994) but the debate is by no means over. Using data from a National Association of Realtors (NAR) sample, Jud *et al.* (1994) estimate the production and revenue functions of brokerage firms. They find that multiple listing service affiliation (MLS), size and firm maturity increases the number of homes sold. They also conclude that franchised real estate firms sell more properties than independents, with an average 9% net increase in revenues sufficient to deliver positive net present values after royalty and affiliation fees are paid. 93% of the sample group agreed that franchising enhances firm competitiveness; however recent research on profitability finds that the benefits bestowed by the franchise relationship do not deliver net profits statistically different from those of non-franchised firms (Benjamin *et al.*, 2006). They suggest that franchisors absorb any excess rents. In an early study of new franchisees, 72% reported an increase in revenues but only a small percentage of non-franchised firms felt challenged (Spoerl, 1980) and independent firms who create close regional affiliations outperform franchised firms according to Frew & Jud (1986)⁴. Nevertheless, most studies on the link between affiliation to a franchise and profit levels or consumer reaction claim that franchised firms are more successful than non-franchised firms. An interesting avenue for further research (see chapter 8, p. 250) might be to qualify what exactly ‘success’ means in real estate franchise firms, because there are indications in the empirical chapters of this thesis that success is a multi dimensional concept of which financial return is only one aspect.

Firms that sell higher priced properties may incur more input costs but also make more commission on sale, so profits as well as costs must be part of the efficiency debate. As cost efficiency is part of profitability it is necessary to

⁴ For example, Barfoot and Thompson Real Estate Ltd. in the Auckland market.

measure profits, or efficiency is not accurately gauged and any measurement of X-efficiencies (Anderson *et al.*, 1998) must also take into account the market cycle. In a competitive market firms will be forced to operate more efficiently for survival and in times of boom economies, efficiency is more easily achieved. A boom scenario has been the case for NZ agencies since 2001 and even into 2007. Franchising can not only act to lower operating costs (Zumpano & Elder, 1992) but it has been claimed that franchised firms can raise capital easier and at a lower cost than non franchised firms (Oxenfeldt & Kelly, 1969; Oxenfeldt & Thompson, 1969; Ozanne & Hunt, 1971; Caves & Murphy, 1976). Lower levels of operating leverage reduce bankruptcy costs, but this may be offset by the higher potential profits available to a highly leveraged firm in times of market boom. Franchised firms may trade low degrees of operating leverage for high financial leverage, thus the total risk exposure may be unchanged (Lewis & Anderson, 1999b).

Franchise firms work to establish national brand reputation, visibility and trust, thus potentially increasing selling power. The franchising referral network assists competitive advantage and affiliation to a group offers advertising economies of scale through wide marketing and promotional coverage. In addition, the synergies created between national corporate operations and geographically located franchisee expertise and knowledge (see chapter six) increases operational efficiency. Generally though, the best way for real estate firms to achieve efficiency is through quick growth and market expansion like the gazelle firms discussed by Tuunanen and Hoy (2007) - a fact clearly recognised as an antecedent to franchise, described in chapter five. As networks expand by merger, consolidation and conversion, incorporating other firms into the corporate structure, value is enhanced through financing and operational economies (Hallowell, 1998). Integrating operations like common branding; shared overheads, purchasing economies and best practices; management talent and information technologies produces economies of both scale and scope (Chandler, 1990). Franchised firms achieve economies of scope by offering more than one service. The Harcourts Real Estate Group in NZ, for example, offers a complementary mortgage

broker facility to the core service of buying and selling real estate. Further economies gained due to a reduction in customer search costs as a result of trust in a brand name, may result in reduced marketing costs, greater volume of sales or both (Hallowell, 1998).

On the negative side, 'free riding' and 'shirking' behaviour associated with franchising threatens real estate franchise firm efficiency. For example, if some franchisees in the system provide inferior service to customers, a poor impression and public image can taint other higher performing agencies. Moreover, contracting salespeople pose a threat for franchisees at their interface with the public. Although they are subject to control by the franchisee, in practice they act in their own capacity and the quality of the service provided is largely observable through their efforts. However it should be said that quality control of salespeople is a sector wide problem and equally as important for independent agents. The problem of maintaining quality at arms length remains an important issue for the real estate agency franchisors also, and there are many organisational processes dedicated to reducing agency problems, for example business development assistance, accounting advice, technical assistance and human resource management guidance.

2.2.3 Do Agents Provide a Quality Service?

In the light of information about moves toward stricter regulation in NZ with government plans to revise the main legislation governing real estate agents by June 2007⁵, the question of how to measure real estate service quality and customer satisfaction levels is an important area of inquiry. The topic is not new, having occupied several researchers previously (For example, Johnson *et al.*, 1988; Nelson & Nelson, 1995; Okoruwa & Jud, 1995). Today however, a firm's ability to offer a quality service is increasingly important because not only is competition fierce but the impact of new technologies means the

⁵ At the time of writing, review of The Real Estate Agents Act 1976 is at the submission stage.

industry is in a state of accelerated change. In addition, worrying signs of poor public perception of agents (Crews & Hovell, 2005) seem entrenched.

Crews (2004) surveyed 4,500 buyers and 482 sellers in NZ and found that only 59% of buyers regarded the agent as professional. Sellers indicated a slightly increased lack of confidence in agents since the previous survey (Crews & Dyherberg, 2001) although most (89%), especially if they had recent dealings with agents, still expressed satisfaction with the service. This confirms earlier studies (Crews 1989, 1993; Crews & Wilkinson, 1998; Crews & Dyherberg, 2001; Consumers Institute, 1992, 1996, 2000). As would be expected, sellers are more likely to be satisfied if their property is sold quickly and at a high price, a finding also in agreement with suggestions in the literature (Asabere *et al.*, 1993).

To advance understanding of the intricacies of service evaluations, links amongst service process or the manner in which the services are delivered (professionalism), and service outcome (what the customer actually gets) in relation to service quality and customer satisfaction, is studied by Dabholkar and Overby (2005). They find that both service processes and outcomes are important. Organisations tend to focus on processes (Gronroos, 2000); outcomes contain a more subjective element and are more difficult to measure objectively (Meuter *et al.*, 2000). This finding suggests that if service providers do a good job in terms of process, the customer will be satisfied; on the other hand if the process is poor, the service will be judged poor quality. Franchise groups have their processes carefully formulated and franchisees have working manuals to follow, thus standards are kept high and theoretically customer satisfaction should result.

Other more current studies have focused on the quality of the service delivered by real estate agents. Lovaglio (2004) develops a method for estimating customer satisfaction. Rayle (2005) focuses on bridging the differences between clients and consultants and describes a specific role for the real estate agent and client using personality type theory. She suggests that

role and personality differences create obstacles to a satisfactory interaction that can be smoothed by teamwork strategies. Interestingly there are many more dual sales teams operating in the market now so that individuals best suited to a particular situation can be used. The application of total quality management principles (TQM) to real estate is difficult because of the intangible nature and immediate consumption of the product (Isaakson & Spencer 2000, p.181). However, they suggest that adoption of TQM principles especially in the processes that drive agent services and in firm created agency relationships, would greatly improve service quality.

One study examines professional self image or how real estate agents and agent /brokers perceive themselves, each other and the negative opinions of others (Webb, 2000). A sample of agents in Ohio reveals that lawyers hold the most negative perception of agents and the agents generally see themselves as highly professional. Professional image can be increased by more education prior to beginning selling and this is closely followed by better ethics and morals, all issues regularly attended to by franchise groups. Anderson and Webb (2000) discuss how increased education can increase staff productivity, reduce risk of litigation and even raise the expected value of the firm. Many real estate franchise companies require or encourage education that goes beyond the minimum standards. The Harcourts Group for example, has become involved with a NZ university in offering advanced sales and management courses and encourages its people to enrol. The effect is to increase individual firm value either by increasing commissions or reducing liability costs. The sector as a whole stands to benefit (Madsen, 1992) and as technological change accelerates increased education becomes a necessity (Takagowa, 1996, Nass, 1995) not merely a luxury.

2.2.4 Competing in a Fiercely Competitive Environment

A desire to compete effectively and secure competitive advantage seems to be a strong antecedent to franchising in the industry (See chapter five). Innovative business methods (a form of non price competition) are supported by Yavas (2001) as a useful source of competitive advantage and franchise

organisations are leading advocates of new and better practices. The Harcourts NZ group for example, has developed a raft of services to assist their franchisee group and built a strong network brand in order to maintain competitive advantage. Contemporaneously, franchisees can and do, develop strong regionally recognisable sub brands and individualised services.

In the UK, where large financial organisations have aligned themselves with real estate agencies to create national chains⁶ competitive advantage is achieved by product positioning at the high quality end of the market and the offer of a wide variety of services (Bishop & Megicks, 2002). The association of UK estate agencies with financial firms has enabled accrued goodwill to be usefully leveraged. In effect, the assets and capabilities associated with financial markets have been transferred to the real estate market. Baryla *et al.*, (2000) agree that affinity relationships further increase competitive advantage. In much the same way the incorporation of a mortgage broker firm within the Harcourts franchise group in NZ and the ability to offer clients a financial service gives an advantage. Promotion of a quality image and a scope of services is one example of a market strategy of differentiation (Dietrich & Holmes, 1991). In the Harcourt's case, assets and capabilities developed in the real estate agency business are transferred to the financial market. Thus by positioning themselves at the high quality service end of the market, franchise firms may secure competitive advantage. One strategy currently adopted by some real estate firms is price competition (for example, The Joneses, Green Door and Go Gecko companies in NZ); however franchise groups cannot reduce fees without risking their reputation (Crozier & McLean, 1997). Richins *et al.* (1987) study strategic orientation and variables like the number of salespeople; sales; listings to sales ratios; years in operation and franchise affiliation are considered in relation to the marketing mix adopted. Although the study can be criticised for being limited to a one year period, franchise affiliation is found to have a positive effect on performance.

⁶ The top 9 agencies (Estate Agency News 1999).

Bishop and Megicks (2002) focus on a specific region in the UK, where agencies operate in both urban and rural settings, so a previously limited focus on the individual case is expanded (Milbourne, 1999; Hallet & Bishop, 1990). Because of the importance of the local real estate market in the real estate sector and because economies of scale are not particularly important, despite some earlier claims (For example, Yinger, 1981; Wachter, 1987; Zumpano *et al.*, 1993), larger scale real estate operations do not necessarily have a great advantage. For this reason it is better to view the larger agencies as a collection of smaller businesses competing in specific regional markets (Bishop & Megicks, 2002). Different real estate firm strategies are a response to a segmented market. To be successful an agency generally has to compete effectively with other local agencies or within a franchise network. While large firms focus on providing a wide range of services, small firms target specialisation (Dewhirst & Thwaites, 1996). Seen in the light of franchising, the advantages of focus divided between two parties become clear. The franchisors build the brand and work to transfer their good reputation and quality processes through local franchisees, whilst building regional credentials by encouraging customer care and professionalism. The franchisee can adopt a local market position as specialist but also offer a range of larger firm services whilst developing strong sub brand awareness. Thus, franchising appears to offer the best of both worlds.

2.2.5 Facing Change

One of the biggest problems facing the real estate business today is technological change. In the next section I will discuss this issue, its impact on the real estate industry and how franchise organisations appear to be positioned to cope.

Society's relation to real estate agency is changing because of technology (Roulac 1996; Li & Wang, 2006). In the 21st Century every process, from marketing to the calculation of investment return, is dramatically altered. Demographic, demand statistics and comparable information on rents and sales are readily available for property analysis. Inventories of houses for sale

are posted on websites and search efficiency is greatly increased (Zumpano *et al.*, 2003). In a survey of 150 real estate firms, Muhanna (2000) finds that a significant portion of gross sales is attributable to the Internet and that adaptation to the new technology is regarded as an opportunity to attract new buyers and reduce marketing and customer acquisition costs. Business efficiency is increased but the implication for changing the nature and content of real estate brokerage work is considerable (Baen & Guttery 1997; Tucillo 1997) and may be underestimated (Muhanna, 2000). Jud and Roulac (2001) examine the impact of web based technology and globalisation. Websites like *Realestate.co.nz* and *Realtor.com*, sponsored by the Real Estate Institute of New Zealand and NAR respectively; *Open2View.co.nz*, privately sponsored and Microsoft's *Home-Advisor.com* allow potential buyers to search properties by price, location and desired amenities without a commensurate increase in search duration (Zumpano *et al.*, 2003). Seiler (2001) determines the types of technology being used in real estate and how it will be used in future and whether the size of the firm makes a difference. He finds in this instance there is a considerable size effect. Larger firms use more technology, especially software products and they maintain good websites. As a consequence more sales are being made via the Web (Tse & Webb, 2002; Demisi, 2004). In such an environment real estate franchises have an advantage because they have dedicated teams of ITC experts who are charged with the job of keeping the organisation ahead and franchisees up to date with technological advances.

Benjamin *et al.* (2002) study the effect of high technology usage on income levels of 6000 salespeople and broker/agents and show a positive relationship between technology and higher earnings. They find that technology usage increases with franchise affiliation amongst other variables like education, youthfulness, experience, firm size and ownership interest. In simple terms to remain competitive, real estate agencies must increase the level of investment in information technology. Firms must become larger and more capital intensive. It seems many small firms are doomed to exit the industry, whilst

others will seek to survive through merger and consolidation (Jud & Roulac 2001, p. 24) and franchise affiliation.

In the US, the MLS is only available to market participants through participating agents; therefore agents' market control is preserved. The same effect has been created in NZ with agent only access to *Realestate.co.nz* and *Open2View.co.nz* and the ability of buyers to search across multiple agencies. Now however, agents are faced with disintermediation and the result is falling demand for real estate services or changed demand for more specialised, quality service. Property sales on widely accessed sites like *TradeMe.co.nz* and private sales or *For Sale by Owners* (FSBO) have increased and private companies are filling a market gap for a cost effective option⁷. The notion of disintermediation of real estate agents is studied by Crowston *et al.* (2001) using structuration theory. They conclude that agents, despite their vulnerability and increasing loss of market control, still provide a set of legitimising, value-adding roles but the role played must be of the highest professional quality. Such quality that is arguably more consistently available through franchised agencies.

Jud and Roulac (2001) further the debate on sources of change more complex than simple disintermediation of the real estate market. In the US, sellers link directly with buyers via specific websites like *fibonetwork.com*. and it is only a matter of time before sellers will be able to auction on line via sites like *eBay.com* and *TradeMe.co.nz*.⁸ Multiple additional linked services mean market participants will select the services they want to assist in particular transactions. All services traditionally monopolised by agents, like negotiating an offer, closing, smoothing out troubles between agreement and settlement, financing and so on will be unbundled and available for purchase separately. Real estate agents will face strong external competition. Given this scenario, agencies will need to develop a distinctive competitive advantage by extending their existing market strategies. Franchised organisations are well placed to do this.

⁷ *The Green Door Company* and *Home Sell* are two NZ examples.

⁸ *Homebid.com* currently offers homes listed by agents for sale on line at auction.

Such a response suggests agents unbundle their traditional services for survival by offering a menu of services like initial pricing, negotiating through to closing, marketing, managing the contract and so on, for a set fee. In this way agents will be able to compete with freely available Internet information by adding perceived value to the process. Secondly, the unbundling model is seen alongside an alternate full service delivery mode. The guidance of agents is still regarded as necessary by many market participants and trust is extremely important (Kim & Mauborgne, 1999). The traditional brokerage firm with a reputation for trust and competence will be able to offer consumers help and advice as part of a full service package, based on emotional appeal. However, other firms may choose to pare their services down to lower cost functional essentials offered on a fee-for-service basis, for example help with finding a suitable property.

The third imminent change requires a different pattern of strategic thinking; the key to prosperity in a competitive environment (Jud & Roulac, 2001, p 28). This involves the development of a range of complementary services ranging from help in finding a home to assistance with décor, and even such mundane tasks as finalising utility services. Given smaller firms may lack the financial and human capital to offer such service, mergers and alliances will be necessary. Large financial organisations have the required capital to help with advanced technology and to offer extras that buyers and sellers may require, in return for access to an expanded customer base. Franchised firms already enjoy such corporate benefits, thus small independent agency ownership could ultimately be threatened.

It seems real estate agencies affiliated to a franchise group will be better equipped to face such radical changes engulfing the industry, on the basis that their ICT capabilities are already well established and that franchisors and franchisees can work together to find other successful ways of surviving and competing. The spread of franchise groups internationally (Alon & Bain, 2005) is testament to the survival power of franchising, and mergers, master franchise

agreements and conversions are recognition of its stabilising capabilities in an uncertain environment.

Discussion of areas of research in real estate agency that touch the main franchising topic has provided a background context in which to place the ensuing discussion undertaken in this thesis. I now turn my attention to franchising itself.

2.3 Franchising Strategy: Theoretical Development

In this section I discuss theoretical development in the area of franchising strategy and real estate franchising specifically. At a generalised level, theoretical support for franchising rests on two classic positions: the agency and the resource scarcity view, but in order to fully understand the propensity to franchise in the realm of real estate agency, I believe a more diverse theoretical perspective is required. For this reason in section 2.4, I discuss the additional notions of upper echelon; resource based, and institutional theory within the distinctive context of real estate agency franchising.

2.3.1 Agency Theory

The first traditional explanation for adopting a franchising strategy rests on agency theory. An agency relationship exists in any joint effort in which one party must hand over authority to another party (see the principal/agent; Eisenhardt, 1989b) and it is necessary in such relationships for resources to be expended to overcome potential conflicts of interest. The franchisor as principal requires assurance that the agent, or franchisee, is working in his best interest (Jensen & Meckling, 1976). There are two basic tools available to achieve this end: monitoring and performance incentives. As outlined in the extant literature, the agency view suggests that franchising overcomes the need for close monitoring of the work and standards in a chain of dispersed business units. Thus, lower monitoring costs explain franchising across industries (Rubin, 1978).

Although franchising does not totally remove the moral hazard dilemma, quality and standardisation can be controlled by the franchise contract. Hoy and Stanworth (2003, p. 66) discuss post contractual opportunism and claim that both parties are potentially at risk. The franchisee risks the franchisor not adequately promoting the brand and where this is the case, recruitment of owners into the system is problematic. Conversely, the franchisor risks the franchisee cutting corners or letting the name down in some way. Shane (1998b) discusses imperfect alignment of interest. When customers patronise offices in a system because of the brand, the benefits are shared, but if there is sub-optimal service experienced, customers are likely to change allegiance, so free riding can dilute overall perception of quality. The weakest link can be a measure of overall chain strength. Franchising enables better alignment of the needs of both parties, to the point where the relationship has been likened metaphorically to a symbiotic alliance (Dana *et al.*, 2001) where entrepreneurs work together in a parallel fashion for mutual benefit. The profit stream anticipated by the franchisor depends on the performance of the franchisee and vice versa. The links between entrepreneurship and real estate agency are discussed in the following chapter.

In real estate franchising imperfect alignment of interests is controlled by strong franchisor support systems and vigorous efforts to maintain the relationship with franchisee owners. Real estate franchises have reward systems linked to all aspects of business performance from citations for top performing offices to individual salespeople and administrative staff, ranging from amongst other things, annual conferences to formally arranged networking. Jensen and Meckling (1976) point out that the moral hazards of shirking and prerequisite taking are more likely to occur amongst company owned units as managers have less to lose. Bradach's (1997) study of restaurant franchisors shows that franchisors typically inspected firm-owned restaurants once monthly, whereas franchisee-owned outlets were only inspected by franchisors on an annual basis (Castrogiovanni *et al.*, 2006b, p. 24). Real estate franchisors have regional development teams available on a call out basis to help any franchisee with any problematic issue, rather than to

act as monitors of standards. Since franchisees invest their own capital and are owners of the business with the ability to profit from the reversionary sale and the continued income stream, their business effort is better assured and monitoring is probably unnecessary (Rubin, 1978; Norton, 1988; Klein, 1995). Franchisors benefit from having less monitoring costs and from regular royalty payment revenues (Hoy & Stanworth, 2003).

In industry sectors where there is wide geographical spread into unfamiliar markets and where evaluation of local decision making presents a problem for the franchisor, researchers have sought an answer to the cost effect of monitoring (Carney & Gedajloviv, 1991; Minkler, 1990), suggesting that franchising is an ideal solution (Sorenson & Sorenson, 2001). Both situations have relevance in the real estate context as systems spread widely. It has also been claimed that in industries where there is a heavy reliance on repeat business there is an increased incidence of a propensity to franchise (Brickley & Dark, 1987; Fladmoe-Lindquist & Jacque, 1995; Castrogiovanni *et al.*, 2006a). It is difficult to accurately assess a manager's performance in diverse regional settings and unfamiliar markets (Minkler, 1990, 1992) thus as franchise networks expand, saturating the domestic market and flowing into international markets, as larger real estate networks in this thesis demonstrate, the firm's proportion of franchised units increases, or the imperative to franchise increases (Castrogiovanni *et al.*, 2006a). In the case of the real estate industry, agencies will only remain in company control as long as it takes to either install a suitably qualified franchisee owner or fully integrate a newly acquired or merged agency into the system. Combs and Ketchen (1999) also raise the issue of specific knowledge that is often required to operate effectively in a particular location. This aspect is fundamental in real estate agency where the credibility of agents is based on their local market knowledge and standing in the local community.

Another issue considered in the agency approach is the possibility that the selection of non-owner managers could be sub optimal in terms of managerial talent and business acumen. In the NZ real estate agency sector, legislative

constraints⁹ ensure agency owners must be hold managerial and technical proficiency and in 2007 the Real Estate Licensing Board (R.E.A.L.B.) moved to eradicate unlicensed people being on the boards of real estate companies¹⁰, so technically lack of managerial talent should not be a problem. Furthermore, the talents and skills of franchisees are enhanced by the support services offered by the franchisor corporate team, whereas company managers or independents may be lacking support.

Where there are problems between the parties, delays in contract renegotiation could impair profitability in some contexts. Franchising serves to ease these possible problems because franchisee ownership is an incentive to work hard (Norton, 1988; Rubin, 1978). When the franchisee risks losing invested capital, he/she may be less cavalier in taking on the role in the first place, thus the quality of the management will be higher. Hold-up problems are reduced because the franchisee risks losing a major investment if his/her contract is revoked for reasons of non compliance. This especially applies to more recent real estate franchisee owners who must expend considerable financial resources to take over ownership of an agency. Franchisees who have been owners since the system inception tend to have entered under invitation and in most cases only invested minor amounts of their own capital. However it is also important to note, that real estate franchisees are able to switch franchisor allegiances fairly easily.

Agency theory assists with an overall understanding of franchising strategy as it acknowledges both the costs and benefits and recognises the trade offs that occur. On balance the theory suggests that franchising is an optimal strategy for growth and in terms of profit maximisation Sorenson and Sorenson (2001) find that expanding firms that cover large geographic areas should franchise, as monitoring costs are reduced and interests better aligned. Thus it is understandable how agency issues play a part in real estate franchise decisions. However, the other traditional theory also has a part to play.

⁹ The Real Estate Agents Act 1976.

¹⁰ In February 2007, the R.E.A.L.B served letters to all licensees to remove unlicensed people from positions on real estate company boards.

2.3.2 Resource Scarcity Theory

The resource scarcity view maintains franchising overcomes resource constraints to growth even though initially the company owned route may provide greater returns (Brown, 1998; Oxenfeldt & Kelly, 1969). These constraints include human, financial and organisational capital. The latter may comprise management talent or trained management. Accessing resources, therefore, may be an antecedent to franchising (Oxenfeldt & Kelly, 1969). Dant *et al.*, (1992) suggest that success of an organisation is dependent on human, intellectual, informational and financial resources but that these are hard to gather at an early stage when firms are young and small (Caves & Murphy, 1976). Franchising provides a ready and relatively quick means of obtaining these critical resources in the early growth stages. Financial capital is required for a successful launch campaign and for underpinning start up costs and providing working capital. To compete with more established firms, rapid expansion may be essential to build economies of scale in purchasing and marketing (Combs & Castrogiovanni, 1994; Carney & Gedajlovic, 1991). The organisation also requires knowledge of specific desirable locations for the franchise businesses to be established, as well as access to labour. Finally the franchisor needs a source of franchisees able to implement the proven business format in separate geographic locations. Real estate franchisors have access to a pool of people who are willing to become franchisee owners and who have experience in the industry, mostly in sales roles. It is merely a matter of choosing the right people to be added to the chain. Real estate sector franchisees provide specialist, local knowledge to assist customers and enhance system effectiveness. In this way their businesses are the local arm to the global brand and develop as parallel and co-dependent businesses.

The resource scarcity model finds favour in some empirical evidence showing that immature franchisors (those less than 10 years old) are affected by commercial credit market conditions in establishing franchisee units (Martin & Justis, 1993). Combs and Ketchen (1999) suggest that financially strong franchise organisations are more likely to have company owned units. Thus

the argument that financial resource scarcity underpins the move to franchise is not without contention. A life cycle model suggests that as firms mature and acquire appropriate resources, rapid expansion is no longer needed and there is a trailing off of franchising and a return to company owned units (Oxenfeldt & Kelly, 1969). Overall results are equivocal, with some early research supporting this trend (Hunt, 1973; Caves & Murphy, 1976, Dant, 1995) and yet other studies are contradictory (Martin, 1988). Factors related to age, system size and the desire to grow rapidly find no support in a recent meta- analysis of Combs and Ketchen (2003), and refuting the life cycle link with franchising a view that firms emphasise franchised or company owned units according to shifting imperatives has been advanced by Castrogiovanni *et al.*, (2006a; 2006b). Furthermore, Hoy and Stanworth (2003) disagree with capital resources scarcity and emphasise agency issues in support of the earlier work of Rubin (1978). The conclusion negating the lack of capital resources as an antecedent to franchising and the life cycle model concurs with information gleaned from the real estate franchisors discussed in chapter five of this thesis.

It is now suggested that the reason for the inconclusive nature of resource scarcity research to date is because many of the tests have focused on the relationship between the availability of resources and a franchisor's proportion of franchised outlets, without considering the mix at any given time (Castrogiovanni *et al.*, 2006a). It seems that an emphasis on resource competency rather than resource scarcity will shed better light on the franchising decision. Indeed, tests on the life cycle idea tend to support this model. An examination of franchisors in three industries showed that after an initial rush to franchise, a tailing off in franchising activity was not succeeded by a return to company owned units (Hunt, 1973), so today, fluctuations in the rate of franchise conversions seem to be better explained by the changing imperatives notion (Castrogiovanni *et al.*, 2006b). Where multinational franchise expansion occurs franchisors have to develop support systems that can sustain a large number of franchisees, and where this happens, as in real estate agency, franchising remains a strong strategy. In the real estate sector

franchisors do not buy back regional agencies because they would be too difficult to manage, too costly and legally constrained (Brickley, Dark & Weisbach, 1991) and there are always plenty of recruits waiting to take over as franchisees or as in most cases, a succession plan is already in operation.

Brickley and Dark (1987) broached the issue of informational resource scarcity amongst franchisors and found that where there was uncertainty about locations, franchisee units were more likely to be established. In the real estate industry this can be seen when franchisors expanding nationally and internationally, take over outside agency groups. In this way local knowledge and locally trusted companies are added to the system¹¹. It has also been suggested that franchising enables managerial growth (Thompson, 1994; Shane, 1996) and that where there is a steady stream of entrepreneurial people who are ready to become managers and potential franchisees once professionally qualified as there are in the real estate industry, franchising will flourish.

In summarising these sections on the traditional views of franchising, both agency risks and resource scarcities appear to play a part in franchising strategy and in ways specific to the industry context. What appears most informative, and likely to add to a better understanding of franchising, is an investigation how certain franchise models develop and as they reach maturity learn how to manage franchisees more effectively by developing a set of skills that form at least a partial basis for competitive advantage (Castrogiovanni *et al.*, 2006a, pg. 40). An earlier study of four older franchises supported the idea of learned capabilities. Bradach (1997), for example, showed that over time franchisors developed systems for effectively persuading franchisees to adopt company initiatives while also learning from innovations developed by franchisees.

¹¹ Harcourts International merged with locally identifiable agency groups in Western Australia, Tasmania and New South Wales, in recent international expansionary moves.

2.4 Real Estate Agency Franchising: A Diverse Theoretical Perspective

Although both agency and resource scarcity theory is useful in explaining the growth and survival of franchised firms, more inquiry is needed and different research focuses and approaches have been called for (Combs & Ketchen, 2003). To date the differences explained by existing empirical models are relatively small. More theoretical variety will permit researchers to view phenomena through multiple lenses and thus gain a richer understanding (Allison, 1971), and variance beyond what is covered by existing approaches, can be explained. This is especially so in the area of franchise initiation and performance (Combs *et al.*, 2004), a topic at the core of this thesis.

Most theorists agree that agency theory is important in the franchising decision, but thoughts on the influence of resource scarcity are mixed and only recently has there been any attempt to concede that both theories might operate in combination and that their respective influences might differ over time (Castrogiovanni *et al.*, 2006b). In addition, little consideration has been given to the impact of the personalities and backgrounds of key actors in franchise organisations, or to the institutional context of rules and values that guide behaviour in firms and the affect these influences might have on strategic decisions. Integrative theory predicts a change in the mix of franchised units from the early growth stages, through reduction at mid life to an increased move to franchise in the mature phase especially in instances where movement into unfamiliar markets occurs (Castrogiovanni *et al.*, 2006b). Furthermore, the notion of a special ability to manage franchisees influencing the ongoing franchising decisions of some firms is consistent with the resource-based view of the firm and fits well with the real estate franchise model. For this reason I suggest that an adapted integrated theoretical framework is the most useful way of exploring franchising strategy in the real estate agency sector. Against a background of the traditional theories, an extended version of resource based theory together with aspects of upper echelon theory and institutional theory, gives a more holistic perspective of

the reasons that motivate the development of franchise systems in this environmental context.

In franchised real estate organisations the usual pattern of increased company ownership at a later stage in the life cycle may not occur. In fact, real estate agency typifies the ideal environment for a continued franchising strategy because agencies rely heavily on creating life long clients (contact with a real estate agency is usually not frequent, but tends to remain loyal when the experience is good); free riding is low, and monitoring costs are high. In practice there is actually a limited ability to monitor franchisee businesses anyway because of the relatively unconstrained role of salespeople in their independent contractor capacity at the interface with the public. Nevertheless, the level of competition generated amongst agencies in the system is high enough to maintain reasonable service quality. Thus the idea of resource capability (Castrogiovanni *et al.*, 2006b) is worthy of further investigation and application and extension in the real estate sector.

The reason why firms initiate franchising in the first instance is a key construct in the literature. It has been suggested in this thesis that central to this decision is the desire to grow the business quickly – surprisingly, an issue that had been almost completely ignored in the literature (Combs *et al.*, 2004, p. 912) until common ground between entrepreneurship and franchising was drawn by Tuunanen and Hoy (2007). In real estate, firms require a presence in all geographic regions and must provide offices owned by well informed people who specialise in local property. Franchising provides the perfect solution. Michael (1996) finds that in industries where the risk of franchised outlet failure is high, franchising is used less. Failure is not common in real estate agency. In this sector franchisee owners are fully acculturated in the industry and experienced in the market, so failure is not a likely option. Furthermore, the franchisor competence in developing support resources is of such quality that the franchisee has a raft of backup help if needed. It has been suggested that franchising is less likely in industries (like real estate) where a combination of technical skill and local knowledge is important because the

value of the franchisor standardisation is undermined (Michael 1996). However, here theory contradicts the reality of the spread of real estate agency franchising and more modern evidence that franchising is used when local knowledge is important (Combs & Ketchen, 2003).

Because franchising is chosen in order to gain competitive advantage, it should positively affect performance. Combs *et al.* (2004), find that a firm's financial performance is contingent on other factors, like payroll costs for example, but this area requires further examination. The problem is that financial data is not readily available and theory to date has been focused on growth and survival rather than performance. In the absence of comparative performance data and to better understand why a firm chooses to franchise, one is advised to examine individual issues at the firm level. Why for example, does the largest Auckland based real estate chain, Barfoot and Thompson not franchise? Clearly they seek expansion, having begun to populate areas north of the Auckland district. Perhaps Dant (1995) would argue the firm has enough capital to open company-owned agencies or has even developed some hybrid form of ownership in which company managers make a financial investment in their offices. It is more likely that one important part of the decision is that the ownership of Barfoot and Thompson is still in the hands of the extended family of original entrepreneurs and that there is a preference for maintaining control, rather than spawning a network of independently owned offices with sub brand individuality.

The call for more diverse theory to explain the decision some firms make to franchise introduces three additional theoretical perspectives that as yet have not been widely applied. Not only are the two traditional theories more useful if they are integrated but further perspectives have the potential to give a wider explanation of franchising and lead to a richer understanding of the phenomenon. Agency theory assumes that franchisors and franchisees have different incentives and information but pays no attention to the different choices and preferences amongst key individuals in the franchise firm or the influence of the environment in specific industries. If heterogeneity is

assumed then the different perceptions and abilities of franchisors suggest the use of upper echelon theory and differences amongst firms' resources and competencies suggests the use of resource based theory. Furthermore, agency theory also assumes that economic behaviour is rational and self-interested (Granovetter, 1985), however, if key actors in an organisation are constrained by norms of behaviour and social relationships, institutional theory also has some explanatory power (Combs *et al.*, 2004).

2.4.1 Upper Echelon Theory- The Human Element in Decision Making

The argument that business strategies and choices are a product of the values, preferences and biases of powerful actors in organisations lies at the heart of upper echelon theory. The recent suggestion that decisions are further moderated by the level of management discretion and job pressure an individual or management team is under (Hambrick, 2007) is now added to the influence of personal characteristics like personality and age, prior experiences and education (Hambrick & Mason, 1984; Hambrick *et al.*, 2005). Thus, organisational decisions are based on interpreted truths or are boundedly rational (Cyert & March, 1963; March & Simon, 1958; Mischel, 1977) and to discover the reasons behind certain decisions it is necessary to examine the dispositions of top executives (Tuunanen & Hoy, 2007, p. 334).

To date only Combs *et al.*, (2004) have applied upper echelon theory to the franchising decision. To me, the real estate franchising sector seems an ideal environment for application because of the entrepreneurial nature of franchisors and franchisees and it is clear in the empirical chapters of this thesis that the characteristics of both the franchisors and franchisees studied play an important role in determining the nature of their businesses. The Harcourts Group, for example was started by a colourful individual who soon gathered around him a team of young, strong minded partners who were largely responsible for forging the franchise pathway, thus the preferences and personalities of members of the top executive team had a part to play. Several

franchisees interviewed in phase one of the franchisee perspective study explained in chapter six, considered the ideas and methods of this leadership as central to their commitment to the group. Another major franchise group operating in NZ is headed by a young, aggressive chief executive, who appears to have considerable management discretion (Hambrick & Finklestein, 1987; Crossland & Hambrick, forthcoming), is well versed in the franchising mode, but unconstrained by convention and willing to take risk in growing the group to reflect his attitude and value stance.

The influence of personality may not be limited to the franchisor. For example, an outgoing franchisee owner of an extremely successful business with four offices who was part of the franchisee interview sample discussed in chapter 6, had clear ideas on the type of individualised operation he wanted to create. A committed group member, his experiences had been in franchising from the beginning, thus his background predisposed him to become a franchisee owner and give himself more power both in the business of real estate and in the organisation. It appears personal characteristics, preferences and experiences (Hambrick & Mason, 1984; Haleblian & Finklestein, 1999), as well as the amount of managerial discretion and job demands (Hambrick, 2007), play an important part in the decision of which organisational form to adopt. In fact when the business system and the environment is the same, the reason a company chooses to franchise may be as closely linked to the personality of those in significant decision making roles as to agency and resource scarcity considerations. Carpenter *et al.*, (2003) say that organisations will be a reflection of their top management teams and the nature of an industry plays a role in determining organisational structure. The people who enter the real estate agency business are usually aggressive marketers who compete vigourously in a crowded marketplace and who know how important it is to have market coverage. The heads of firms in the industry are no different, so their choice of franchising as a means of gaining visibility and credibility is not surprising.

2.4.2 Resource Based Theory

The sustained competitive advantage achieved by firms is explained in resource based theory (Barney 1991) and is based on the assumption that resources are unevenly spread amongst firms and markets often imperfect (Dierickx & Cool, 1989; Peteraf, 1993). The acquisition of a resource that advantages a firm and sets it apart from its competitors creates a competitive advantage that exists until competing firms find a way to imitate the resource. For example real estate franchise groups develop intranets that distinguish the most advanced system operators by allowing refinement of communication amongst the group and quicker dissemination of information. The strength of resource based theory in franchising also lies in its capacity to take into account both parties involved in the business operation, i.e. the co-operation and the complementary and synergistic nature of their immaterial and material resources in business initiation and implementation (Tuunanen & Hoy, 2007, p. 60).

In franchising systems the resource base is considerably wider than for independents and if there are systems in place to allow resources from the franchisee to flow back to the franchisor, all aspects of available resources can be enhanced. It is also assumed that resources can be coordinated more efficiently within firms rather than across firms and when resources are shared the knowledge base and productivity increases (Argyres, 1996; Madhok, 1996). Thus increased competitive advantage is generated by inter firm co-operation so that a group of firms can achieve more competitive advantage than a single firm (Dyer, 1996). The result is a symbiotic relationship between firms within a network in which elements of the resources available are enhanced and developed on both sides to provide entrepreneurial value (Firkin, 2001, 2003). There is friendly competition; mobility of employees and sales people; organisational learning and the transference of the franchisor systems (Bradach, 1997; Dana, 2006). Relation specific asset development that generates competitive advantage is a feature of real estate franchising and evidenced by close ties, strong support systems and culture.

The organisational capital of real estate franchises minimises system conflict by making franchisees certain of the system value. Knowledge in the form of up to date market information; business strategies and high quality training methods is passed to franchisees who absorb routines and processes; (Michael, 2000; Spinelli & Birley, 1996) and extra customer services introduced by the franchisor increase products available for each office client base. Franchisees are trained and qualified and chosen so they will be a positive addition to the system and where there is a high need for autonomy, multi office ownership is encouraged (Dant & Gundlach, 1999). By managing the sources of potential conflict proactively and encouraging innovation (Dant & Schul, 1992), real estate franchisors grow their systems and have no imperative to return to company ownership.

Co-operative behaviour in franchising also works to increase adaptation and innovation. Franchisors standardise the core components of the business and franchisees make adaptations to the local area (Kaufmann & Eroglu, 1999) and friendly competition amongst franchisees helps innovation develop (Bradach, 1997). Consistent with the logic that franchisors learn from the innovative ideas of franchisees, Sorenson and Sorenson (2001) find that franchises were more successful in markets like real estate where learning and adaptation is necessary. By providing opportunities for franchisee owners to share their ideas at owners and managers meetings and annual conferences, real estate franchisors strengthen their systems. Enhanced such relation-specific investment ensures that positive interaction between partners in the franchise contract is maintained.

2.4.3 Institutional Theory

Another theory that is useful in explaining franchising strategy is institutional theory. According to institutional theory, firms exist in an institutional context defined by rules, values and 'taken for granted assumptions' that guide behaviour (Oliver, 1997). To date only Shane and Foo (1999) have applied this notion to franchising. Firm owners tend to conform to certain expectations because legitimacy gives access to important resources in the

institutional environment. In this way performance is enhanced (Deephouse, 1996). Shane and Foo (1999) show that franchisors carry on franchising when it suits the legitimacy of the institutional environment, which suggests that in countries where there are franchise regulations there should be more franchising, as franchisees are protected from the danger of opportunistic dismissal. In such environments it clearly behoves franchise firms to minimise conflict.

As yet in NZ, there is no legislation governing franchising and in such an environment there is little to negatively influence franchisors away from franchising, although one could make the assumption that franchisors might take opportunistic advantage of such an unfettered relationship (Combs *et al.*, 2004). In Australia, extensive compliance with the Franchise Code of Conduct (1998) is required. Despite this, although the rate of franchising in some sectors like retailing, has slowed (Frazer & Weaven, 2002), more mature forms of business format franchising have continued to develop (Wright & Frazer, 2004) and franchising does not appear to be on the wane. In 1991 Brickley *et al.*, suggested laws protecting franchisees made it harder for franchisors to terminate contracts and thus discouraged franchising. However, because there is no evidence of this from Australia, franchisors in NZ continue to grow their systems and it seems logical to assume that when legislation is introduced into NZ, franchising will only be strengthened.

Other authors (Blackett & Boad, 1999; Corones, 1999; O.E.C.D., 1994; Terry, 1996) deal with how regulatory frameworks have shaped franchising and how more recent models have developed along different lines from the prototypical operation (Kaufmann & Dant, 1996). Wright and Frazer (2004) suggest the reason more sophisticated franchise systems are developing is because of an increasing number of small business failures and the level of competition in certain markets. In the real estate sector conversion franchising is common, occurring when independent agency businesses are enlisted into a franchised operation (Preble & Hoffman, 1995). The benefit to the franchisor is the rapid acquisition of a network of franchisees, many of whom are

already operating successfully. The problem is cost of conversion and dealing with new franchisees who are accustomed to being independent. The franchisee benefits by being part of a group with a brand name that will increase sales turnover, although the down side is a requirement to pay franchise fees. Despite this, conversion franchising is prevalent in the real estate sector. For example, Harcourts Group move into the Australian market was characterised by the conversion of local independent groups into the system.

The fact that firms will tend to copy the practices of other highly visible firms in the same sector is another assumption in institutional theory. In this way new practices become legitimised leading to adoption by still others (Scherer & Lee, 2002). In real estate agency, knowledge of the practices of others spreads through the open communication of salespeople and the fact that most of the operational methods of agents are publicly visible. The success of franchise groups persuades others to imitate the strategy and new salespeople are attracted to work under franchise umbrellas. Consequently, once franchising is an established strategy there is an expectation from within the institution to continue it into the future.

2.5 Chapter Conclusion

In this chapter I have sought to draw together strands in the real estate agency literature that deal with franchising, from the vast amount of agency research that has been undertaken. Research reveals the need for agency services still largely exists because of asymmetries in the market even though modern information technologies give the public access to information traditionally controlled by agents. More work is needed in this area (Benjamin *et al.*, 2000a). I have described the effects real estate agency work has on the property market and discussed research on the effectiveness and efficiency of agency businesses, especially franchised businesses. Real estate franchises have been described as delivering competitive advantage to their franchisees

by establishing trust and reliable standards in an industry that generally suffers from a poor public perception.

There seems general agreement on the efficacy of franchising in the sector. It is suggested that a franchise firm's reputation, brand name and range of services are likely to attract clients. The number of listings an agency holds (Yang & Yavas, 1995) and its market share is positively correlated to a shorter time on the market (Colwell & Marshall, 1986) and where there is evidence of increased education and training, operation in the agency market is enhanced. Franchised real estate firms demonstrate all these factors, thus they are more likely to survive and be successful businesses. The power of branding, advertising economies of scale and wide promotional coverage mean that franchised firms operate close to their efficient frontiers and small firm disadvantages are alleviated. The consolidation of firms is seen as the way ahead in real estate agency (Jud & Roulac, 2001). Moreover, because franchise firms grow aggressively and introduce added customer services they stand out in the marketplace, sometimes in areas outside the core selling function. In terms of service quality, because franchise firms institute training and educational programmes, and are technologically advanced there is a perception by the public that they are more professional and their processes more likely to be satisfactory.

The discussion has centred on the first two areas of inquiry in the literature that provide relevant background to the empirical chapters to come. Real estate agency research that touches on franchising and the reasons why franchising is widespread in the sector have been discussed allowing the franchisor study to be located within an appropriate theoretical framework. Because there is growing dissatisfaction with the completeness of the explanatory powers offered by the two traditional franchising theories alone (Combs and Ketchen, 2003; Combs *et al.*, 2004), I have introduced discussion on other theoretical viewpoints provided by upper echelon, resource based and institutional theory in an attempt to explain the strong presence of franchising in real estate agency. All theories discussed have varying

relevance and seen together provide a wider explanation of the complexity of the franchising decision in the sector. The second literature chapter to follow turns attention to another question posed in this thesis – are the participants in real estate agency franchises entrepreneurial?

3

The Entrepreneurial Perspective

3.1 Introduction

As mentioned previously this chapter is the second in the duo covering literature relevant to my thesis. I focus here on the debate linking franchising and entrepreneurship in order to address a further broad area of inquiry; the issue of the entrepreneurial nature of real estate agency franchisors and franchisees. My aim is to spotlight the real estate agency industry as an environment in which individual entrepreneurship and corporate entrepreneurship flourish and interact. To discuss co-operation between entrepreneurs I examine literature in the field of networks and symbiotic relationships. The intention is to provide background theory to underpin the entrepreneurship perspective investigated in the empirical chapters six and seven, especially from the franchisee point of view. In the section to follow I will discuss the suitability of the real estate environment for entrepreneurial activity before reviewing some of the relevant extant literature that places franchising in the entrepreneurship domain. Section 3.4 deals with the notion of co-operation between and amongst entrepreneurs and finally an example of corporate entrepreneurship in action is described.

3.2 Does the Entrepreneurial Concept Fit the Agency Sector?

Entrepreneurship in the realm of small business has become increasingly visible and important in the literature (Gibb, 1992; Gibb, 2000; Grant & Perren, 2002; Hisrich & Drnovsek, 2002), driven mainly by a general interest in economy and society as well as enterprise development in organisations (Audretsch, 2002; Gibb, 2000; Hisrich & Drnovsek, 2002). Further, various governments around the world have been trying to foster entrepreneurship because there is an awareness of the social and economic value of entrepreneurial activity (Dana & Dana, 2005). Studies in Australia (Meredith,

1984), Canada (Dana, 1988), the UK (Gibb, 1986/7) and NZ (Hamilton & Dana, 2003) are some examples.

The concept of entrepreneurship however, has proved illusive to define. A starting point has been Schumpeter's argument (1934) that entrepreneurs introduce innovations, whilst those who are merely managers do not. Fraser (1937) believed entrepreneurs combined the management of a business unit, made innovations, undertook risk and earned a profit. Drucker (1985) claimed that entrepreneurs create something new and different, changing values by innovation. In these theories, innovation is the common thread. In this thesis, the word 'entrepreneur' refers to a self employed owner of a franchised real estate agency, to the founder or owner of the franchisor organisation and the word 'entrepreneurial' refers to individual actions and perceptions as well as the innovations and competencies developed by the entire organisation. Empirical results from the studies undertaken show that innovations take place in individual franchised firms and that the franchisor organisation is constantly developing additional system competencies.

Schumpeter's (1934) theory of the changes brought about by innovation is not without criticism (Boyle, 1997) and given the environment in which real estate agency entrepreneurs operate, requires further reassessment. Firstly, it has been claimed that the traditional notion of equilibrium is unrealistic because it implies that everyone has unlimited, equal access to true information on which to base economic decisions (O'Farrell, 1986). Thus, entrepreneurial innovation in certain contexts cannot be attributed with disturbing equilibrium when it is doubtful if economic equilibrium as a state really exists (Kirzner, 1973). Secondly, in environments where there is clear evidence of disequilibrium there is more innovative, entrepreneurial opportunity. So perhaps a better argument is that the presence of economic disequilibrium creates an environment conducive to entrepreneurship rather than entrepreneurship creating an environment conducive to disequilibrium. If this theory has merit, the real estate market is an ideal environment for entrepreneurship because of the asymmetry of information that exists. Real estate agents find themselves in

a unique position of power and real estate business operations are offered a myriad of opportunities to find new ways of capitalising on the demand for services offered.

3.2.1 Entrepreneurial Opportunity in the Real Estate Market

One idea of entrepreneurship describes the ability to make sense from chaos and to develop innovations within that context (Timmons, 1992). Another suggests entrepreneurs have an ability to identify and take advantage of profitable opportunities (Shane & Venkataraman, 2000). It then becomes clear why in markets where there is a high degree of disequilibrium, as in the real estate market, there will exist many opportunities for innovation and entrepreneurship. Firstly, data on specific properties is either hard to source, often not available or in the hands of a few. Real estate agents perform the task of information gatekeepers and by controlling listings and knowledge of important background details they control a vast amount of the knowledge that underpins property value. Furthermore, transactions in the sale and purchase of property are complex processes requiring professional guidance from agents and supplementary advisors like valuers and solicitors. Given that there is a plethora of competition amongst a large number of real estate agencies, mainly because entry barriers are relatively low, entrepreneurial endeavours find a perfect breeding ground. Moreover, in industries where there are many small firms operating in a state of aggressive competition, entrepreneurs will emerge (Porter, 1980).

Secondly, the presence of change in the real estate industry discussed in the previous chapter suggests a fertile ground for entrepreneurial activity. Until the 1970's real estate agency remained stable, offering few opportunities to aspiring entrepreneurs. However, in recent years considerable change has occurred largely because of more stringent consumer legislation in NZ and elsewhere (for example, an ever litigious American society), and the increasing use of information technology (ICT). The role of both real estate firms and agents has changed dramatically (Crowston *et al.*, 2001) and there

are now far greater opportunities for innovation. Faced with intense competition, firms and agents compete by adding new activities or redefining their business approach (Mintzberg & Quinn, 1991). One way of competing is to seek the advantages inherent in the franchising organisational form. In addition, in sectors where there are competitive individuals who desire mastery (Littunen, 2000) and are motivated to complete a task, entrepreneurship is fostered, thus the real estate environment presents a perfect nurturing ground for entrepreneurial franchisors and franchisees.

3.2.2 Being Entrepreneurial

Entrepreneurship, according to Spinelli *et al.*, (2004) 'is a way of thinking and acting that is opportunity obsessed, holistic in approach and leadership balanced – for the purpose of wealth creation' (p. 3). Many earlier scholars have tried to shed light on what constitutes entrepreneurship. For instance, certain individual psychological traits like risk taking propensity (Begley & Boyd, 1987), a high need for achievement (McClelland, 1961) or an internal locus of control (Brockhaus & Horwitz, 1986) are thought to be common to people who become involved in entrepreneurial ventures. However, past emphasis fails to give an entire picture (Millar, 1983; Hoy, 1994) and although individual entrepreneurs may be a guiding force, a focus on creative partnerships and management teams is more likely to provide a wider, more realistic view. In the franchising literature a call to study the unique domain of entrepreneurship rather than to continue to strive for illusive consensus on what entrepreneurship is, has already been made (Kaufmann & Dant, 1999). Approached in this way, entrepreneurship can be applied to a variety of firms and organisational forms, alliances and networks, as well as to individuals.

Undoubtedly environmental factors play a significant role. Where opportunities exist within an environment, where there is a convergence of support and acceptance, and where there are people who possess the ability to perceive opportunity, entrepreneurship will manifest itself in various forms (Aldrich & Wiedenmayer, 1993; Bloodgood *et al.*, 1995). Today, a view exists that incorporates both the actor and the action within an ever changing

environment (Tan & Tan, 2005) and the entire entrepreneurial process is stressed as central to more advanced understanding of the phenomenon. Sarason *et al.*, (2006) develop Shane & Venkataraman's (2000) idea of the entrepreneurial process further and conceive entrepreneurship as a nexus of opportunity and agency, where opportunities are idiosyncratic to the individual and entrepreneurial ventures are the outcome of an individual's actions. Thus structuration theory suggests that the individual and the opportunity are inseparable and must be understood as a duality.

According to resource based theory, being entrepreneurial depends on the availability of a number of resources - financial, human, social, organisational, physical and technological (see for example Stevenson & Gumpert, 1985; Cooper *et al.*, 1994; Greene & Brown, 1997; Brush *et al.*, 1997, 2001). Finance is necessary for business start and growth; human capital includes requisite skills, experience and education; social capital involves not only supportive family and friends but also industry based confidantes and contact networks. Physical capital is the tangible equipment and materials necessary to operate a business; organisational capital refers to operational processes, procedures and firm culture¹ and technological, or knowledge based capital, entails ownership of processes and/or technology via patent, license or trademark (de Bruin, 2003). Elements and combinations of these resources, skills, processes and information can be utilised to create entrepreneurial value (Firkin, 2001, 2003) and values shift according to different imperatives at different stages in the entrepreneurial process (de Bruin, 2003). For instance, personal resources like skills and knowledge developed by a contracted salesperson must be extended into organisational resources in the new agency business when he/she seizes the opportunity to become a franchisee owner, so a successful business operation can emerge. In the real estate context most franchisees incubate as self employed entrepreneurial salespeople, but still have to mobilise a different set of capital when they become business owners, albeit assisted by the established business structures of their franchisor.

¹ The style, or the collective understandings of an organisation, has been afforded a separate categorisation - *cultural capital* (See Brush *et al.*, 2001).

Correct mobilisation of the resource base enables the firm to compete in the commercial world. For example, the Harcourt Group's strong company cultural bonds backed up by innovative and ongoing process development enabled it grow to the largest franchise group in NZ. Likewise, the most successful of its cloned franchisee businesses develop not only parallel but also distinctive combinations of resource competency to compete in the highly competitive real estate environment (See chapter five for a full discussion of the Harcourts Group). Thus, keeping a resource-based theoretical perspective and the entrepreneurial real estate environment in mind, this chapter explores real estate franchising as an entrepreneurial process.

3.3 The Entrepreneurship - Franchising Nexus: Literature Relevant to the Study

The interrelationship between entrepreneurship and franchising has been justified by the fact that franchising research is about entrepreneurial co-operation between two different types of entrepreneurs, the franchisor and the franchisee (Shane & Hoy, 1996). Kaufmann and Dant (1999) urge franchise researchers to study the link between franchising and entrepreneurship because it is generally agreed that at least some franchising activity can be called entrepreneurial (Hoy *et al.*, 2000) and the area requires more attention (McElwee & Atherton, 2005). More recently Tuunanen and Hoy (2007) suggest that 'franchising is entrepreneurship and franchising cannot appear without entrepreneurship' (p. 60). In fact franchising is one of the major, unexplored areas of co-operative entrepreneurship and there is a recognised paucity of knowledge on why some entrepreneurs become franchisees (Stanworth & Curran, 1999).

Those who focus on the franchise relationship from the point of view of conflict (Spinelli & Birley, 1996), agency issues (Shane, 1995) and incongruent goals (Thompson, 1971) do so because they see franchisees as mere implementers of a concept (Morgan, 1997) with no room for creativity (Clarkin, 2002). It is the franchisors who have been accredited with innovation

(Filion, 1998) and risk taking tendencies (Scase, 1996). However, not only has the act of creating a franchise system for example been linked to mainstream ideas of what constitutes entrepreneurial behaviour (Kaufmann & Dant, 1999) but the relationship between parties to the franchise contract has been explained using Bull and Willard's (1993) proposed theory of entrepreneurship. Establishing a franchise system, the operation of the franchisee and the implementation of entrepreneurship within the franchise chain are all seen as entrepreneurial activities (Hoy & Shane, 1998). Opportunity is considered the beginning of the entrepreneurial process and an integral part of a larger way of thinking and behaving that leads to the ultimate goal of wealth creation (Timmons & Spinelli, 2003). Stakeholders in any business opportunity potentially increase their wealth and in franchising there are two stakeholders, the franchisor and the franchisee, linked in an entrepreneurial alliance, where the success of one is related to the success of the other. In order to succeed in wealth creation, both entrepreneurs must be goal focused in their spheres of influence and responsive to changing business environments.

Franchise research has borrowed heavily from studies in entrepreneurship (Anderson *et al.*, 1992; Knight, 1984) and psychology (Felstead, 1991; Mescon & Montanari, 1981) to help explain the attraction of franchising. The French word 'entrepreneur' was defined by Cantillon (1755) as any person taking the risk to work for oneself and a key motivating factor to franchise is the desire for self employment (Blanchflower & Oswald, 1998). Generally, franchisees have backgrounds in self employment (Ozanne & Hunt, 1971; Stanworth & Kaufmann, 1996) therefore they are likely to be independent in nature and possess a desire to be in control of their own destiny (Williams, 1999). Financial considerations can even be of secondary importance (Grunhagen & Mittlesteadt, 2005).

Spinelli *et al.*, (2004) support the link between franchising and entrepreneurship, claiming the ubiquity of franchising is explained by the existence of a sophisticated entrepreneurial alliance that provides an effective

pathway to wealth creation for both parties². Empirical results discussed later in this thesis illustrate this point. The franchisor recognises an opportunity, assesses the market and competition, creates a product, develops a system of service delivery and then begins developing a brand and growing the system. The acquisition of franchisee owners is a way of mobilising resources that ensures financial input, minimises costs and then garners ownership commitment and expertise. In return the franchisee owner can dramatically shorten the entrepreneurial path by recognising how to exploit an already proven business opportunity and minimise risk by utilising franchisor support mechanisms.

In industries where there is market fragmentation, like the real estate agency market, entrepreneurs have the opportunity to build brand and provide an opportunity for consolidation around a perception of value and quality. In NZ real estate agency, entrepreneurs have operated in a growing market, especially since 2001. Not only is the preference for home ownership well established but investment property is increasingly seen as an important asset class with favourable taxation legislation allowing significant ownership savings. As most franchisees come through the sales ranks as independent sales contractors they are nurtured within the culture of the industry and there exists a stream of entrepreneurial people motivated to seize the opportunity to open their own businesses. By virtue of the 'corridor' principle³ (Ronstadt, 1988; Ardichvili *et al.*, 2003) franchisors recruit potential franchisees working as sales consultants and branch managers (Tuunanen & Hoy, 2007, p. 58). Timmons and Spinelli (2003) state that 85% of all successful entrepreneurs spend at least 3 to 5 years in their industry learning the language and niches before setting out in that industry to start a business. This powerful principle is particularly compelling in the franchise relationship because where the franchisor transfers its experience and bundles it with the entrepreneurial

² In the USA there are 4500 franchise groups and 600,000 outlets with potential to account for 40% of retail sales (Spinelli *et al.*, 2004 p.2).

³ A notion that has arisen in entrepreneurship research in which potential franchisees are sourced from among active entrepreneurs.

talents of the franchisee, the opportunity is leveraged and scaled (Spinelli *et al.*, 2004).

Real estate agency in both NZ and Australia has been traditionally dominated by small, locally based, independent businesses and thus largely viewed as an entrepreneurial activity. Indeed, entrepreneurial opportunities have always existed for salespeople, managers and even outsiders. For example in the 1970's some small NZ agencies followed the example set in the UK and were swallowed by large institutions in the financial sector that identified opportunities for exploitation (Boyle, 1997). Like the UK however, over recent years there has been a return to independents and also a strong growth in franchised groups, so entrepreneurial small business opportunity appears to be alive and well in the industry.

However, despite the suitability of the real estate agency environment in particular and what appears to be a strong association between franchising and entrepreneurship there is still some belief in the literature that refutes the entrepreneurial link, especially in the view of Kaufmann and Dant (1999); Rubin (1978); Norton (1998a) and Anderson *et al.* (1992). One view is that if franchising is only an evolutionary stage in an organisation's life cycle, used for example to boost growth, then it lacks permanency and those who become franchisees are only temporarily self employed business owners, in reality little more than company employed managers. The second questions the status of the franchisee as an entrepreneur and centres on the still unresolved question of what constitutes entrepreneurship. I will now draw on the literature to discuss these points.

3.3.1 Stage of Growth?

The view that franchising is merely symptomatic of a growth stage, touched on in the previous chapter (section 2.3.2) is largely refuted by evidence revealed in the franchisor perspective discussed in chapter five because it is too deterministic. The life cycle idea has been suggested by early theorists (Oxenfeldt & Kelly, 1969; Hunt, 1972, 1973, 1977; Lillis *et al.*, 1976; Dant *et*

al., 1992; Lafontaine & Kaufmann, 1994) and centres on a notion that franchisors only choose to franchise in order to grow the business quickly, and achieve business scope, spread and scale in the early years. Ultimately however, the propensity to franchise diminishes and outlets will be returned to company ownership in order to maximise profits and maintain control. Thus, there is a relapse to vertical integration and hierarchy. However, no trend in this direction has been firmly established (Dant *et al.*, 1996).

Castrogiovanni *et al.* (2006b) suggest the notion of shifting imperatives to explain changes in the need to franchise at stages in an organisation's life cycle. There is certainly evidence of shifting imperatives amongst the franchisors discussed in chapter five, however there is no evidence of a return to company owned offices. Indeed, the Australasian real estate franchise model has continued to grow since inception in the 1980's. National and international expansion has been achieved, franchise organisations have developed a strong corporate presence and linked franchisee businesses remain free from corporate encroachment.

3.3.2 The Question of Franchisee Independence

The issue of whether franchisees are actually independent or just puppets of the franchisor (Castrogiovanni & Justis, 1998; Hopkins, 1996; Lafontaine, 1992; Rubin, 1978) persists across industry sectors. However such argument begs the question of whether any small business is fully independent in today's commercial environment. Considering the increasing economic interdependence of modern economies and the role of networks, all small enterprises must necessarily interact and form part of a larger whole (Hoy *et al.*, 2000; Stanworth & Purdy, 2002) because the pressure from externalities like local, national, international, government and financial institutions can make the survival of independent businesses tenuous. Dana (2006) points to the effectiveness of networking and symbiotic entrepreneurship amongst small businesses in Europe.

The franchise relationship is a close alliance between a large and a small business but the franchisee is not necessarily a dependent puppet. It is true that franchising may afford protection from externalities, but franchised businesses are actually little different to independent businesses in a networked or clustered commercial environment. Franchisees are the legal owners of their businesses, retaining full ownership rights, even though they are tied contractually to the franchisor. Furthermore, although the franchise contract typically tends to favour the franchisor, the franchisee has a high degree of independence, even to the extent that in court situations the wishes of the franchisee are sometimes given precedence (Nevin *et al.*, 1980). The relationship with the franchisor may appear hierarchical, but in practice franchisees are not constantly scrutinised, in fact in some sectors in the interests of maintaining relationship goodwill there is a high degree of independence. Furthermore, logistical issues like distance facing franchisors mean there is a recognised necessity for decisions to be made at the local level.

Franchisee autonomy is especially pronounced in the real estate industry where franchised agencies are similar in almost all respects to their independent counterparts apart from carrying corporate branding, having access to the benefits of optional support systems and a requirement to pay a monthly royalty fee. The only significant barrier to becoming the owner of a real estate office is educational - owners must be licensed under requirements set out in The Real Estate Agents Act 1976 but for those who are motivated, qualification pathways are clear and available⁴. Financially, entry is relatively easy; a new venture can be established for the cost of installing a telephone and computer system; there is no franchise entry fee. Indeed, in the early years of real estate franchising, many company managers were given the opportunity to become owners for a minimum entry fee and so financial constraints were not an issue. Today the purchase of an existing, established office can present higher entry costs but in many cases succession plans enable aspiring

⁴ It is worth noting that the qualification requirement can be circumvented, as is shown later in chapter seven.

entrepreneurs to take a share holding in a business at an earlier stage and work their way slowly into full ownership positions.

For many licensed real estate agents the option to leverage an established business format and enhance this with their own innovations and personalised processes is increasingly appealing and does not threaten their independence. As franchisees these agents are able to exploit an established opportunity – an integral step in the entrepreneurial process. They need only to add their own accumulated resources in order to execute the opportunity developed by the franchisor; putting them one step up the entrepreneurial ladder, as outlined by Timmons (1992). Moreover, the real estate industry contains a large supply of entrepreneurially motivated individuals, interested in venture creation and experienced in working for themselves often for considerable reward. In sectors where there is a supply of individuals who desire business ownership like there is in the agency business, franchising is an easy way of achieving the transition to business ownership (Hoy *et al.*, 2000).

Rather than competing against larger firms, many entrepreneurs feel it better to join a franchise group and get the benefits of a well-known brand and a good reputation. Market participants tend to think of well-known names in the first instance when employing an agent to sell their properties – familiarity is based on the sheer marketing presence and scale of the larger groups. So franchising effectively lowers the threshold to entrepreneurship (Tuunanen & Hoy, 2007, p.62).

Several studies have focused on the entrepreneurial aspects of franchising by shedding light on co-operation between parties to the franchise contract rather than taking a negative view of the loss of one party's independence. In the following sections I will discuss the notion of co-operation.

3.4 Co-operative Entrepreneurs

Interaction amongst entrepreneurs and '*intraaction*' within organisations is driven by interpersonal and associated relations among people and firms. The linkages made are complementary and collective action can increase market efficiency so it is not surprising that many entrepreneurs opt for interdependence rather than independence (Dana, 2006). Earlier articles raised the notion of interdependence as a new strategic competence (Dana *et al.*, 2002; Baucus *et al.*, 1993). Co-operation brings increased opportunity and multiple firm benefits (Ulijn & Fayolle, 2004). In real estate franchising there is both horizontal and vertical co-operation amongst entrepreneurs. Franchisees interact and share ideas at special manager/owners conferences and franchisors communicate with their franchisees through dedicated support teams and regional managers. One franchisee in phase one of the franchisee study (chapter 6) explained that he felt comforted by the fact that the franchisor CEO was only as far away as a phone call at any given time.

One perspective of co-operative entrepreneurship is the presence of entrepreneurial teams in franchising. Clarkin and Rosa (2005) discuss teams of entrepreneurs who pool ideas at both venture creation and later strategic growth phases (Storey, 1994; Timmons, 1994) with the ultimate aim of creating wealth, itself an entrepreneurial act. Even though one entrepreneur may be the guiding force, focus on the individual fails to give the whole picture (Millar, 1983; Hoy, 1994). They claim that focus is better directed on the entrepreneurial process and the types of organisational factors that promote creative partnerships.

Little is known about entrepreneurial teams in franchise research but there is some evidence in this study that it is common for real estate franchisees to utilise a team approach to enhance their business effectiveness. Interviewees report the pooling of ideas for business innovations and recruitment of key specialists in various markets. By using the input of others in their businesses, franchisees can grow business competencies in ways beyond their own

personal capabilities. In sectors where there are a high number of multi unit franchisees, as in the real estate agency sector, there is by necessity a requirement for management proficiency and sophistication. In such an environment and in instances where the relationship is highly evolved, the potential for entrepreneurial behaviour and teamwork exists (Clarkin & Rosa, 2005). Collaboration is based on trust and involves teamwork amongst individuals as well as the whole franchise organisation and individual firms (Shane & Hoy, 1996).

Clarkin and Rosa (2005) claim that organisations that develop nested teams or area managers and master franchisees for example create an environment more conducive to entrepreneurship in franchising. They also raise the issue of the presence of entrepreneurial characteristics in cases of passive ownership. In real estate for example, the franchisee may not be qualified and therefore structures the company under a suitably qualified person in order to achieve an entrepreneurial ambition. There is evidence of such creative ownership found in the survey conducted in this study and discussed in chapter seven.

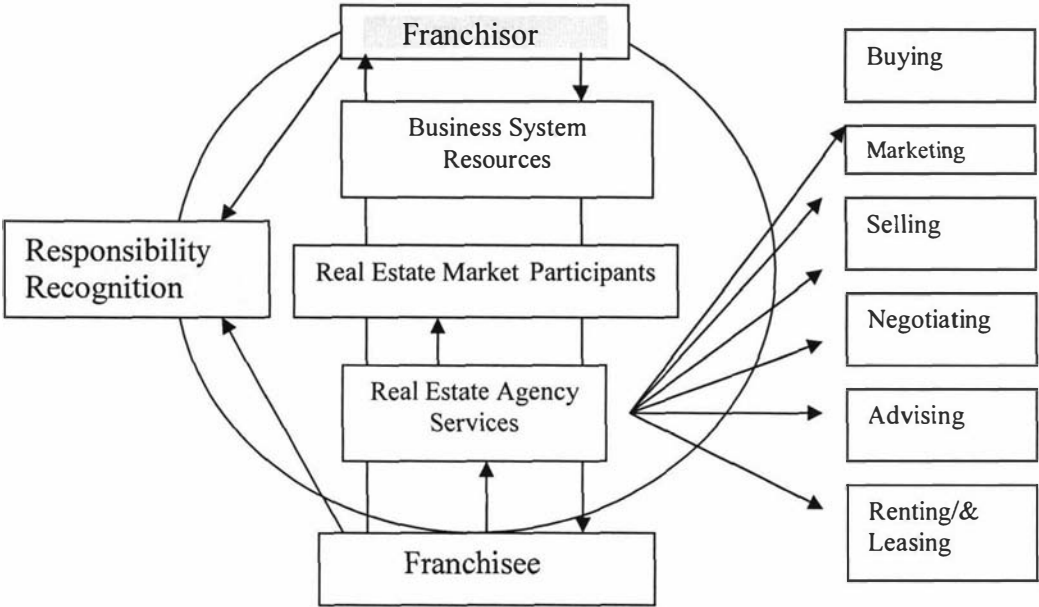
3.4.1 Operational Teamwork in Real Estate Franchises

In real estate agency the amalgamation of the concept innovator (the franchisor) and the concept implementer (the franchisee) produces the operational, entrepreneurial team. In order to illustrate this teamwork I have adapted the franchise relationship model (FRM) developed by Spinelli, Rosenberg and Birley (2004) for specific use in the real estate agency sector. This model (See Figure 3.1) shows the framework that is used to grow parallel business operations and can be used to analyse real estate franchise systems.

Real estate agents deliver a service to people involved in the property market and the aim of real estate franchise systems is to develop better ways of delivering this service. Individual organisations seek points of difference based on excellence, trust, variety of product and price. For the purposes of this discussion, the FRM model provides a way of conceptualising the co-operative interrelated processes that occur between the two parties. For the practitioner

the model is useful to assist in the development of a workable and successful system of delivery (See chapter 8, p. 248).

Figure 3.1: A Real Estate Franchise Relationship Model



Source: Adapted from Spinelli *et al.*, 2004, p. 19.

Rather than depicting a series of interactive franchising principals (Spinelli *et al.*, 2004) the model above shows the interaction between franchisors and franchisees in this particular industry and the different focal points (business system resources and real estate services). The model starts at the core with the customer and the system of delivery and depicts the franchisor providing the business format resource and the franchisee feeding into the delivery of services to market participants. The input from both interacts to provide a business concept that will be as successful as the quality of the interaction between the parties to the franchise contract. The relationship created in real estate franchises has key aspects that must be attended to for the system to grow and succeed. Role responsibilities must be clearly defined and the division and assignment of these responsibilities is called *Responsibility Recognition*. The franchisor develops a business format, to be delivered

through the franchisees, that meets the buying, selling and property management needs of the market participants. As this occurs both parties to the franchise contract earn revenue. Responsibilities are defined in the franchise contract and operational guidelines are contained in a franchise operations manual. Most real estate franchisees develop their own individualised operations manuals outlining individual business rules and procedures. They also attend to delivering core services at the local level in the geographic area in which they operate. Where an ability to achieve economies of scale is important, such as bulk purchase of resources and provision of sales and management training, responsibility rests with the franchisor. Thus, real estate franchises can be seen to provide an illustration of co-operative and mutually beneficial behaviour between two types of entrepreneurs.

3.4.2 Networks and Symbiotic Relationships

The security of a network is of central importance to some entrepreneurs' choice of franchising according to the qualitative study of Gauzente (2002). To Burt, networks are 'the final arbiter of competitive success' (1992a p. 58) because they act as conduits for information, providing both access to resources without incurring the costs of vertical integration, and legitimacy (Burt, 1992a, 1992b; Larson, 1992), particularly in the case of new ventures. Sub contracting, a form of networking, is demonstrated when firms link for special purposes. For example the giant real estate brokerage firm of Coldwell Banker recently joined Taiwanese firm *Sin Yi* to enter the Chinese market (Alon & Bain, 2005). *Sin Yi* provided Coldwell Banker with local knowledge and expertise, together with cultural assistance to achieve community acceptance and less risk exposure (Dana *et al.*, 2002). As part of its international franchising growth strategy, Harcourts International linked with Roy Weston, M&M Real Estate and Brock Real Estate in Australia and expanded its resource base, whilst the Australian agencies used both their own trade name and the generic Harcourts brand. Dana *et al.*, (2002) call this symbiotic marketing in which the franchisor gains access to a restrictive local market using the local brand name whilst the franchisee benefits from the generic brand name, technical expertise and scale dependent benefits.

In symbiotic networks entrepreneurs benefit from working near one another in clusters or with each other in multi-polar networks (Dana, 2006). The symbiotic relationship between real estate franchisees and franchisors stimulates symbiotic entrepreneurship by ensuring access to role models, information, tacit knowledge, assistance and skills (p.196). This illustrates how collective action can enhance entrepreneurship and contrasts with traditional, independent entrepreneurs. Entrepreneurs who choose an interdependent path give their businesses access to cost effective exterior resources without compromising their independence (Gundolf & Jaouen, 2005). Castells (2000 p. 187) defined business networks as 'that specific form of enterprise whose system of means is constituted by the intersection of segments of autonomous goals'. Where these goals and the means by which goals are achieved are congruent, competitive advantage is achieved (Baucus *et al.*, 1996). Mouritson & Thrane (2005) pose the question of how network groups develop capabilities based on a collective rather than a firm specific good. The networking inherent in franchising addresses this issue as the benefits gained are of value both collectively for the system and individually for each franchised business.

Networking has been linked to entrepreneurial success and activity (Aldrich & Zimmer, 1986 & Aldrich *et al.*, 1987). More recently Hamid and Kling (2005) present compelling evidence to demonstrate the importance of networks. They believe it is logical for firms to co-operate and even extend their network to include professional advisors. In a study of the leisure industry in the UK, Parsons and Rose (2004) outline the ways in which networking underpins innovation and by implication, the competitive advantage of firms. Through a combination of personal knowledge and networks, small firms in the leisure sector are able to achieve high levels of innovation (Hanna & Walsh, 2002). Kingsley and Malecki (2004) find there is evidence to assist competitiveness that has convinced governments worldwide to expend resources towards the creation, support and maintenance of networks amongst small firms.

As firms face growing competition, not only from home but from international sources, the question of how to take advantage of new resources and markets arises. One answer is effective networking and the optimal use of new technologies to help build competitiveness (Badrinath & Wignaraja, 2004). Franchising networks offer both these advantages, especially in the transfer of fast paced technological information and skills to the franchisee in need of assistance (Bolisani & Scarso, 2004). A new interest in the conditions that foster innovation from policy makers and academics has led to the conclusion that firms that operate in clusters, like franchising, tend to be more innovative (Gebhardt *et al.*, 2004). Moreover, inter-firm networks provide small firms with access to wider sources of information and knowledge that is regarded as crucial in the shift towards a knowledge-driven economy (MacKinnon *et al.*, 2004).

Pittaway *et al.*, (2004) review research linking networking and innovation. They find networking delivers benefits that include risk sharing, access to new markets and technologies, getting new services and products to the market quickly, pooling complimentary skills and accessing external knowledge. They call for further research into different network configurations like franchising in order to settle the debate as to which type of networking delivers the most benefits.

Franchised real estate agency networks illustrate the key aspects of good networks (Kash & Rycroft, 2000) – strong existing relationships based on trust gained through industry acculturation and excellent resource capabilities developed by the franchisor. Moreover, all business owners face the need to keep abreast with the latest initiatives in marketing and technology (Arndt & Sternberg, 2000; Bee, 2003) even though not every office will gain maximum benefits (Ferrary, 2003; Hanna & Walsh, 2002; Pammolli & Riccaboni, 2002). This is because each franchisee will have different abilities to exploit the relationship and different perceptions of how trustworthy the franchisor is (Coles *et al.*, 2003).

Networks have also been credited with enhancing entrepreneurial initiatives (Baum *et al.*, 2000). The strong inter personal and inter organisational relationships that develop in the network enable nascent entrepreneurs to gather the necessary resources from others (Ostgaard & Birley, 1994) plus emotional support (Hoang & Antonic, 2003) to begin their own ventures as franchisees. It has been shown that entrepreneurs use networks to garner ideas and information (Birley 1985, 1987; Smeltzer *et al.*, 1991) to increase their intangible resource base. The franchisor is a key source of this information and alliances formed with the franchisor and amongst franchisees means other resources can be gathered.

3.5 The Entrepreneurial Franchise Organisation: Corporate Entrepreneurship in Action

Entrepreneurship is not limited to individual action and has also been discussed in terms of the organisation. The Harcourts franchise organisation, for example (see Chapter 5), illustrates such corporate entrepreneurship. Corporate entrepreneurship is best described as a process of organisational renewal involving the creation of new businesses through market developments or the undertaking of product, process, technological or administrative innovations. The examples of AccelerateIT and Mortgage Express discussed in The Harcourts International window study (Chapter 5, section 5.3) typify this type of entrepreneurial behaviour. Corporate entrepreneurship can also be seen where management introduce system-wide change and innovation that serve to keep the organisation light footed and flexible in response to commercial imperatives (Guth & Ginsberg, 1990; Zahra, 1993; Zahra *et al.*, 1999). Certain environments encourage corporate entrepreneurship (Zahra, 1993; Covin & Miles, 1999; Russell, 1999), especially where there is competition and hostility (Dess *et al.*, 1999). Such an environment typifies the real estate agency sector and especially so when real estate franchise systems move outside national boundaries.

Management buy-out, where employees seeking to control their own destiny, affect the purchase of an organisation, like the process that began the current

Harcourts Group in 1992, is also an example of corporate entrepreneurship. Such moves mean increased sales, new market and product development (Wright *et al.*, 1996). In the intervening years the degree of innovation introduced into Harcourts is testament to the entrepreneurial behaviour demonstrated by the current top level management and owners of companies in the Harcourts franchisor group.

3.6 Chapter Conclusion

My intention in this chapter has been to outline theoretical development at the entrepreneurship - franchising nexus as a background against which to view the entrepreneurial nature of real estate agency franchisors and franchisees. Discussion of the existence of the entrepreneurial spirit in real estate franchising has widened the topic focus begun in the previous chapter and turned attention to the nature of the franchise partnership and to the links between entrepreneurship and franchising, especially the entrepreneurial franchisee. Franchising has several features that overlap with entrepreneurship - franchise systems grow rapidly, incubate new franchisees and new ventures and are based on an entrepreneurial partnership.

I have examined the opportunities for entrepreneurship in this sector of the property world and discussed the notions of co-operative entrepreneurship, networks and symbiotic relationships between the parties to the franchise contract. Whilst it is generally agreed that franchisors are entrepreneurial in creating the system, the notion of entrepreneurial franchisees is less straight forward. It is recognised that in many instances in global and competitive economies, the owners of smaller businesses may be well advised to seek the protection of larger organisations. Fundamentally franchising is a manifestation of modern economics and individualism in which autonomy, material reward and creativity is present. These values were previously linked too exclusively to traditional forms of entrepreneurship (Tuunanen & Hoy, 2007, p. 60). This discussion and reference to extant literature on franchising from the perspective of the entrepreneurship domain is the third broad area of inquiry undertaken in this thesis. Together with an examination of theoretical

development in franchising strategy and a discussion of franchising in real estate agency a context has been drawn in which to place the empirical studies to follow.

4

Pre Understanding: Research Approach and Methodological Processes

4.1 Introduction

Gummesson (2003) likened the design of research to an edifice constructed from the basement upward, building towards clarification and discovery and Yin (2003) noted that design is the logical sequence that connects the empirical data to a study's initial research questions and ultimately to its conclusions (p. 20). In this chapter I will discuss the research design and the processes used in the three linked studies that make up this thesis. My reasons are two fold. Firstly, a lack of detailed methodological explanation makes it difficult for future researchers to learn from a study, and second, the strength of the methodological position taken establishes the viability and worth of a study (Franz & Robey, 1987). In its classic sense, methodology is 'the study of epistemological assumptions implicit in specific methods...and includes a way of looking at a phenomenon that specifies how a method 'captures' the 'object' of study (Tuchman, 1994, p. 306).

Encouraged by recent support for the practice of thinking dialectically about philosophies (Tashakkori & Teddlie, 2003) I use a mixed methodological approach that amalgamates objectivism and subjectivism; different strategies of inquiry and different methods of data collection (Creswell, 2003) in order to undertake an empirical examination of franchising in the real estate agency industry. My own personal preference and industry experience predisposed me towards the collection of narrative data in interaction with the research informants. Nevertheless, it seemed to me that the most pragmatic way to address the broad research questions posed was to include quantitative inquiry as well. Furthermore, quantitative research is widely accepted in the property discipline and I am familiar with statistical analysis. By using mixed methods

and collecting diverse types of data, I felt I would be able to draw a more comprehensive picture of the ways in which franchising operates in the real estate brokerage industry and the entrepreneurial nature of the participants.

In the last ten years the use of mixed methodology in the social sciences has gradually emerged and is now gaining increased acceptance (Creswell, 2003). In this thesis the object of the study, real estate brokerage franchising, requires the observation of a mix of values, ethics, structures and processes, and because the questions posed concern complex processes and the involvement of many, I consider the use of multi-methods useful for providing the broad insight required. While multiple knowledge claims and theoretical perspectives may be considered provocative to some (Lewis & Grimes, 1999, p. 672.) the possibility of creating fresh insights is presented because the foundation ontological and epistemological assumptions are different (Gioia & Pitre, 1990). My intention is to incorporate a quantitative component from the post positivist belief system into an otherwise illustrative qualitative study and window study to create my personal research design (Sieber, 1973). Both parties in the franchise relationship are studied; however, the heaviest emphasis is on the perceptions of franchisees because it is in this area that more research is needed (Grunhagen & Mittlestaedt, 2000). I have used multiple methods to gather information from organizations and individuals and also analysed the data in a variety of ways. Throughout this process I have sought to find ideas common to the participants and attempted to advance theory that explains franchising in this specific industry setting.

When I started this work, I intended to take a solely qualitative stance but as the thesis evolved and I applied myself to the broad questions, I saw the advantage the different perspectives of a mixed methodological process offered (Miles & Huberman, 1994). In addition, I found that as I explored the qualitative data I was able to develop a measurement instrument and identify variables to test in a later quantitative stage. Thus I could have greater confidence in the integrity of the inferences drawn and the generalisability of results (Babbie, 1990). I am now a converted mixed method researcher

because I appreciate triangulation of data from various sources combines the best of each approach and by validating interpretation has enabled a better understanding of the complex nature of the subject (Greene & Caracelli, 1997).

In this chapter I will provide an in-depth discussion of the various methods and the research practices I used throughout my investigation. The purpose is to examine the theoretical approach of mixed methodology and to present an account of the experiences I had as researcher and the way in which the research ‘happened’ in the real world. Given that there is little research into the nature of real estate franchising, the design mechanism employed is exploratory. The aim is to develop a detailed understanding of the meaning of franchising in this context, to explore the ways in which franchising operates and interpret the experiences and perceptions of those involved. Rich insight is gathered from interaction with the participants (Yin, 1989) and specific implications are drawn and generalised.

In the following section I discuss my role as researcher and the way in which experience in the industry affected the choice of design. Then I discuss the underlying knowledge claims of the thesis and the research concerns that underpin my approach. In section 4.4 focus is on the way in which mixed methodology has evolved from its beginnings in psychology and the multitrait-multi method matrix of Campbell and Fiske (1959) to interest in the idea of the convergence of different qualitative and quantitative data sources (Jick, 1979), to the underlying rationale and practical tools for mixing methods (Creswell, 2002; Tashakkori & Teddlie, 1998). Drawing largely on the work of Creswell (2002, 2003) and Tashakkori and Teddlie (1998, 2003), I focus on the implications of an exploratory sequential research design and finally discuss the three linked research stages that form the empirical core of this thesis.

4.2 My Role as Researcher

It is necessary in any study to make the role of researcher explicit because the notion of reflexivity suggests the researcher is always part of the social world under study (Tolich & Davidson, 1997), at once apart from, and emersed in the data. Interpretive research acknowledges the subjectivity of inquiry and this is especially so when the researcher has experience in the industry sector involved. Thus, my stance, voice and perspective should be seen as framing the questions posed and the investigation conducted. Questions asked during the in-depth interviews were framed given my understanding of the industry and purposely designed to elicit responses to fit the scope of the research questions. Fine grained perspectives collected from the participants were complemented with data from other sources such as document analysis and observation. Themes and common ideas were then extracted and concepts formed. Questions posed in the subsequent survey section were informed by the information gathered and the survey of a larger sample was used as a concept testing ground and to support theory development.

There are other practical reasons for the choice of this research method. First, I have access to a network of industry participants and informants and am familiar with interview situations. In this way I was be able to elicit valuable and rich data and my experience in the industry gave me the credibility to do this. Second, I have industry links that enabled me to gain access to franchise organisations otherwise closed to outsiders. For example, I was given access to the intranet of NZ's largest franchise organisation and by drawing on the experience and recommendation of informed industry colleagues I was able to assemble a select group of franchisees to inform the study.

Third, I felt the best way to explore the research questions was to speak directly to those involved in real estate franchising and to use a mainly open ended questioning technique with the addition of some necessary closed questions to collect demographic information. My goal is to add to the existing understanding of franchising by interpreting the words and actions of

the real estate franchise players and illustrate developing concepts of their worlds (Schwandt, 2000). I recognised there might be a danger of preconception, unchallenged assumptions and perception blind spots because of my industry background and that this might impinge on my analysis. However, data analysis in interpretive studies cannot be claimed to be completely free of the researcher's own subjectivity and on a more positive note, my prior knowledge had the advantage of affording me increased understanding and empathy. More importantly, I was conscious of taking an objective position in all instances or at least struggling with the opposition of subjectivity and objectivity (Denzin, 1992) and in the quantitative study objective data was gathered. It is also worthy of note that I was aware that my investigations and questions did not necessarily reveal all information from franchisors and franchisees as some information was too sensitive or confidential. This is a common factor in most highly competitive industry sectors.

There were several challenges presented by the choice of a mixed methodological approach. Collection of the data was an extensive process. It involved travel to various parts of the country and time spent interacting with the study participants. Analysis at each stage and at integration of the data from different sources was time intensive as both text and numeric data was considered, requiring familiarity with both quantitative and qualitative methods.

4.3 Underlying Knowledge Claims

When a researcher brings assumptions about knowledge claims to the choice of research design, it is important that there is a good fit (Pawson, 2000; Silverman, 2000). A knowledge claim, philosophy or 'worldview', that guides the researcher (Guba & Lincoln, 1994, p.195), acts as a roadmap for negotiating the subject (Burrell & Morgan, 1979, p. 24). Knowledge claims are concerned with the ontological and epistemological assumptions of research (Burrell & Morgan, 1979; Guba & Lincoln, 1994). Ontology deals

with what knowledge is, and epistemology involves assumptions about how we know it (Creswell, 2003, p.6). Since Burrell & Morgan's (1979) early work, there has been continued debate about the approach to study in the social sciences (Guba, 1990; Guba & Lincoln, 1994; Pfeffer, 1993; Phillips, 1987; Rosenberg, 1995). Creswell (2003, p.6) discusses four schools of thought about knowledge claims (constructivism, postpositivism, advocacy/participatory, and pragmatism). In this thesis the most relevant view is pragmatism. Some elements of constructivism and postpositivism also enter the picture.

4.3.1 Constructivist or Illustrative?

Briefly explained, the aim of research with a social constructivist viewpoint (Lincoln & Guba, 2000; Mertens, 1998; Schwandt, 2000; Neuman, 2000) is to understand the complex subjective meanings individuals ascribe to their world - their view (Burrell & Morgan, 1979; Creswell, 2003). Thus, questions studied are broad and general so that participants can construct the meaning of a situation through discussion, meetings and interactions with others. Meanings are constrained and structured according to a person's personal, cultural and historical guiding norms - the social environment is seen as an extension of the experiences of the individuals involved (Burrell & Morgan, 1979). The implication therefore, is that there is no single reality. Additionally, the reality of the researcher will colour interpretation. The epistemology (Crotty, 1998) assumes understanding through perceived knowledge. Rather than starting with a theory, the use of qualitative methods works towards both understanding and interpretation and the inductive development of theory (Carson *et al.*, 2001). It could be in fact, that the purpose of all research is interpretive (Gummesson, 2003). The technique I use for analysis of my qualitative data could in some researcher circles however, be better described as illustrative rather than constructivist.

4.3.2 Postpositivism

Other views claim knowledge through an alternative process and set of assumptions. The term 'postpositivist' refers to the thinking after positivism

(Creswell, 2003) and challenges the traditional notion of absolute truth of knowledge by generating causal laws (Guba, 1990; Johnson & Duberley, 2000; Phillips & Burbules, 2000). Postpositivism recognises that we cannot be positive about the behaviour of humans. The underlying philosophy is deterministic, encompassing a belief that causes influence outcomes, hence causes need examination. The aim is to reduce ideas into a small set of variables to test (reductionism) and measure based on careful observation. Developing numeric measures of observation is a central concern in quantitative methodology. Thus, a researcher taking the epistemological position of objectivity begins with a theory, collects data, finds the degree to which the theory can be rejected or not rejected, and then makes necessary revisions before additional tests are conducted. Being objective means that any biases in the research processes must be attended to and eliminated as far as possible.

4.3.3 Pragmatism

For the majority of forms of pragmatism, knowledge claims arise directly from actions, situations and consequences, rather than antecedent conditions as in post positivism (Creswell, 2003, p. 11). By virtue of the meaning of the word 'pragmatic', the pragmatist view turns on *what works best* in the solution of problems in any given situation (Patton, 1990). The idea is that a problem should be attacked on multiple fronts to be fully understood. It is this pluralistic approach that underpins the use of mixed methods (Tashakkori & Teddlie, 1998, 2003; Patton, 1990). In this thesis my attention on real estate franchising and the entrepreneurial nature of the participants is best addressed by an understanding of the actions and actors involved in this sector of the property world. For this purpose, and freed from choosing any one philosophical basis, I draw on multiple knowledge claims including those described in 4.3.1 and 4.3.2 and culminating in the pragmatism that underpins the mixed methodological approach. Collection and analysis of data in a number of ways provides this thesis with a sturdy foundation on which to base

the findings. Contrary to the metaphysical notion¹ truth is not beauty but what works at the time!

Prior to the work of Clarkin and Rosa (2005), research on franchising and its entrepreneurial links has been largely positivist or postpositivist in nature (For example, Zieba, 2002; Falbe, *et al.*, 1999) with a smattering of qualitative work (Doherty & Alexander, 2004; Gauzente, 2002); case study investigation (Pizanti & Lerner, 2003) and the development of conceptual frameworks (Dana *et al.*, 2002; Hoy *et al.*, 2000; Sarason *et al.*, 2006) The same is the case with pure franchising literature (For example, Bordon-Juste & Polo-Redondo, 2004; Grunhagen & Dorsch, 2003; Peterson & Dant, 1990).

Similarly, entrepreneurship research has been positivist or postpositivist in approach and has limited the use of other perspectives (Grant & Perren, 2002). The entrepreneurship literature in general has been concerned primarily with theory testing, focusing on quantitative methodologies, employing survey instruments (Brush & Vanderwerf, 1992; Carter, 1993; Chandler & Lyon, 2001; Moore, 1990; Roessl, 1991; Woodliff, *et al.*, 1999) or mail questionnaires in combination with interviews (Churchill & Lewis, 1986; Wortman Jnr, 1986). Most studies of what motivates a person to become a business owner or entrepreneur have been quantitative, offering a deductive approach to research and largely concerned with testing hypotheses (Borooah *et al.*, 1997; Hakim, 1989; Honig-Haftel & Marin, 1986; Scott, 1986; Shane *et al.*, 1991).

4.4 A Mixed Methods Approach

Mixed method research, employing data collected from both qualitative and quantitative sources, is not new. The idea of a matrix of mixed methods (Campbell & Fisk, 1959) and interest in convergence from different sources (Jick, 1979) marked the historical beginnings of the method. The rationale was that by integrating data the biases inherent in any single research method

¹ John Keats (1795-1821) '...Truth is beauty, beauty is truth, this is all ye know on earth and all ye need to know...' Ode on a Grecian Urn.

could neutralise the biases inherent in other methods (Creswell, 2003, p. 15). As there has been little application of mixed methods in franchising or entrepreneurship research and research in real estate has existed predominantly within a sphere of economic science, there is opportunity for pragmatism and different options of inquiry (Black *et al.*, 2003).

There has been some objection by purists to the mixture of qualitative and quantitative methodology based on the assumption that both follow their own philosophical basis, but that no single 'worldview' or knowledge claim (Tashakkori & Teddlie, 1998) exists for a combination of the two. For example, quantitative methods attempt objective measurement of a phenomenon, and qualitative methods assess reality subjectively, but mixed methods have not been ascribed any such knowledge assumption. Fielding & Fielding (1986) argue that different ways of examining the same phenomenon does not necessarily improve validity. The picture might be more complete but not more 'objective'. Some researchers question whether it is possible to combine 'truth' with interpretative truth as multiple realities revealed through induction (Denzin & Lincoln, 1994). Nevertheless, the mixing of data collection methods and approaches found early support in the literature (Geertz, 1973; Denzin, 1978; Denzin & Lincoln, 1994). A more modern view is that because in reality objectivity and subjectivity are hard to disentangle, subscription to only one worldview creates an unrealistic situation. There are other reasons to declare détente in the debate (Tashakkori & Teddlie, 1998, p. 11). For example, Datta (1994) supports co-existence of quantitative and qualitative methods for five reasons: many researchers have encouraged a mixed approach; both approaches have been used for years; research funding has been obtained for both; both are influenced by policy and both can shed much light on a problem.

Today this support is expanding (Dabholkar & Overby, 2005; Tashakkori & Teddlie, 2003; Creswell, 2003) with the recognition of inherent potential for gaining a better illustrative picture of the context being studied. The idea of

the triangulation² of methods was probably the thin edge of the intellectual wedge. Pearce (2001) sees an integrated approach as a broad research design with diverse methodologies and multiple data sources combined in innovative ways. Interpretation occurs through a variety of lenses. In a study on the tourism sector Davies (2003) states that it is only by establishing such frameworks that an improved understanding of the industry will be achieved (p.110). Furthermore, convergences across methods means the results from one method can help inform the other/s (Greene *et al.*, 1989) so when one method is nested within another, insights are provided into different levels or units of analysis (Tashakkori & Teddlie, 1998).

4.4.1 The Exploratory Sequential Mixed Method Design





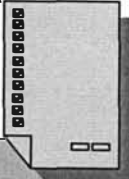
By taking a pragmatic approach I have access to a strategy that embraces the use of mixed methods and mixed models. The two groups in sequential focus in this thesis are real estate franchisors and franchisees. First, in order to gain the franchisor perspective, the qualitative methods of in-depth interview and window study are used. Second, focus turns to the franchisee and data collection starts with in-depth interviews and observation of a group of real estate franchisee owners. I was encouraged in emphasising a qualitative approach because the credibility of qualitative methods for entrepreneurship research is now established (e.g. Gartner & Birley, 2002) and because of the scarcity of qualitative study in the franchising field. In 1994 Alan Felstead used case study method to study the Coca Cola Company in Germany. Pizanti & Lerner, (2003) examined autonomy and dependence in three franchise organisations in Israel. Gauzente (2002) conducted a qualitative study of franchisees in France in an effort to discover why entrepreneurs chose to franchise and Clarkin and Rosa (2005) used mixed methods to examine the existence of entrepreneurial teams in franchising. However, the bulk of

² Triangulation (Denzin, 1978) involves combining data sources to study a social phenomenon and includes the use of various data sources; several researchers; the use of various perspectives at interpretation, and the use of multiple methods to carry out the study. The original word comes from the field of military science and is a nautical term referring to the process in which two points (and their angles) are used to find an unknown distance to a third point.

franchising research remains firmly in the quantitative mode, as does work in the property field (Levy, 2006).

Next, there is a move to quantitative method in which a larger sample is surveyed in order to verify some of the notions developed and to make generalisations to the wider population. The framework demonstrates a sequential approach. It ranges from qualitative in-depth interviews and window study to quantitative survey so that findings from the qualitative in-depth interviews used in the first phase of the franchisee study can be used to inform and develop the subsequent quantitative phase. In this way any biases inherent in any one method are counteracted (Greene, *et al.*, 1989). I have given slight priority to the qualitative approach in this thesis and I have used a survey questionnaire in a supplementary role in the franchisee study to both verify and strengthen the validity of earlier findings (Sieber, 1973). The unique, mixed method design process that results is illustrated in a visual form in Figure 4.1. The arrows that indicate a sequential form of data collection follow the style adopted by Tashakkori and Teddlie (1989). In Figure 4.2 the differing knowledge claims and methods of inquiry are illustrated graphically.

Figure 4.1: The Mixed Methodological Design Framework – Procedural Aspects

The Franchisor Study	The Franchisee Study	
	Phase 1	Phase 2
Elements of Inquiry	Elements of Inquiry	Elements of Inquiry
Illustrative/Constructive Perspective Subjective Theory development 	Illustrative/Constructive Perspective Subjective Theory development 	Postpositivistic Perspective Objective Empirical Observation & Measurement Theory verification Links to prior literature drawn
Research Approach	Research Approach	Research Approach
QUALITATIVE Data Collection 	QUALITATIVE Data Collection 	QUANTITATIVE Data Collection Mixed Methods 
Research Processes	Research Processes	Research Processes
Theoretical lens Data Collection = mainly open ended questions, narrative style in-depth interviews Qualitative Analysis Theme extraction Write up and Validation	Grounded theoretical lens Data Collection = mainly open ended questions, narrative style in-depth interviews Qualitative Analysis Theme extraction Write up and Validation	Survey questionnaire using questions informed from phase one Quantitative Analysis Causal links Write up and Validation
Window Study (archival & intranet based information) used for illustration	Integration of Data and Theory Formulation	

Source: Adapted from Creswell (2003, p. 5).

Figure 4.2: Knowledge Claims, Strategies of Inquiry and Methods Combination

Broad Central Research Questions			
What is the nature of franchising in the real estate agency industry? How do real estate agency franchisors and franchisees relate? Are real estate agency franchisors and franchisees entrepreneurial?			
Research Approach	Knowledge Claims	Strategy of Inquiry	Methods
Mixed Methods with a Qualitative emphasis	Subjective Pragmatic assumptions based on the optimal way of understanding the research questions - Objective/positivistic component	A research design employing mixed methods to answer the central questions	In-depth interviews Window study Questionnaire survey
Explanation			
Involves the sequential use of qualitative and quantitative methods	Uses the researcher's personal experience in the industry to gather diverse types of data	Involves in-depth interviews A window study Questionnaire survey	Open ended observations Closed end measures

Source: adapted from Creswell (2003 p. 20)
 Note: The relationship between the epistemological assumptions taken and the methods adopted is described. The methods illustrate a combined qualitative/quantitative approach underpinned by a pragmatic approach, regarded as the best way of providing answers to the central research questions.

4.4.2 Data Interpretation

In each sequential step of this study data was analysed separately. First, in the franchisor study, themes were located in the qualitative data and in prior scholarly literature and theory was extended and developed. Second, themes that emerged from interviews with the franchisees were used as a basis for creating a survey instrument in which themes and statements became scales and questionnaire items. Results were then written in separate sections and finally a synthesis attempted, so data integration occurred at the final stage of analysis. In the sections to follow I will describe the study phases.

4.5 The Franchisor Perspective

Examination of the franchisor perspective was first conducted using the qualitative process of in-depth face-to-face interviews and then supplemented with a window study of the largest real estate franchise group in NZ. I felt that a window study would help to illustrate the resource competencies that franchisors talked about in the interviews (Figure 4.3 depicts these two processes).

Figure 4.3: The Franchisor Perspective - Qualitative Processes

Franchisors	Method
8 key actors from the six biggest real estate franchise organisations in NZ	<ul style="list-style-type: none">• Face to face in-depth interviews with people in decision making positions. Integration of open ended and closed questions
The Harcourts Group NZ and Harcourts International Ltd.	<ul style="list-style-type: none">• Window study<ul style="list-style-type: none">-Face to face interviews with key staff in NZ-Secondary data collected from company documents, website and intranet

4.5.1 Interviewing Franchisors

The study of franchisors draws on face-to-face in-depth interviews with eight key decision makers from six major real estate franchise groups operating in NZ i.e. Harcourts Group, Ray White Real Estate, Bayleys Realty Group, L.J. Hooker Group, Harveys Real Estate, and Century 21 Real Estate. These organisations were chosen because they have high value brand recognition, yet diverse origins. Three are organisations that originated in NZ, two in Australia and one in the USA. The interviews were conducted over a period between late 2005 and September 2006. Of

the eight people interviewed, three came from the Harcourts Group as it is the biggest real estate franchise in NZ, entirely NZ owned and the subject of the window study to follow. Seven interviewees were men and one, a woman. They were encouraged to give their personal stories and experiences because people tell their stories to teach, to ask for interpretation and to give one (Czarniawska, 2004). Three of the interviewees had been with their organisations from the time the decision to follow the franchise pathway was made and the others were also acquainted with the initial franchising decision process. They held positions ranging from Chief Executive Officer to General Manager and were available and willing to participate. Each informant had in depth knowledge of the organisational reasons for franchising, operational experiences and strategic decision making at both a current and historical level. The final size of the franchisor convenience sample group was constrained by the number of people who were actually suitable to speak as franchisors, and where the original person who began the franchise system was not available, served as reliable substitutes. The views expressed were personal views but because of the positions of responsibility held, it is felt these perspectives can be taken as representative of an overall company viewpoint.

The participants were first contacted by telephone and asked to take part in the study. An information sheet explaining the purpose of the research and a permission to audiotape form (See Appendix A4.1 and A4.2) were then sent via e mail. Interviews took place in the franchisors' offices at their places of business. A prompt interview guide or semi structured technique was used and topics and issues to be discussed were decided in advance (See Appendix A4.3). Most of the discussion questions were open ended and at the end, a fact sheet was used to collect numerical data (See Appendix A4.4). Therefore, at this stage there was an integration of data typical of the mixed method style.

Questions were designed to elicit information that would help answer the research questions and provide a better understanding of the franchisor

perspective. Certain questions were specified exactly and other items were open to be explored. The sequence and delivery of questions was fitted into the flow of the interview conversation, allowing flexibility to probe where necessary and remain open to emergent information, thus increasing the richness of the data. A possible weakness I was aware of was that because the interviews remained largely conversational there was a possibility that important topics could be inadvertently missed out and changed wording of the questions could elicit different types of responses, thus reducing comparability (Patton, 2002 p. 349) between participants. However, I hope that my constant awareness of this possibility minimised the potential weakness. In addition, the interesting juxtaposition inherent in the interview situation is worth mentioning. People in important management positions are often quite lonely in their thoughts and every exposition of their thinking within their organisation has political and practical consequences ... thus; a research interview presents a possibility for an unusual, but symmetrical exchange (Czarniawska, 2004, p. 48). In this instance, each informant offered selected personal insight into their reality and I, as researcher was able to express my own thoughts without practical consequences.

Each interview typically started with conversation that helped to put both the interviewee and myself at ease. I spoke about my previous work in the industry because I felt that this added to credibility in asking for individual perspectives on various aspects of the real estate franchising business experience, and helped to create rapport. I briefly explained the research background and broached the subject of confidentiality. Use of the interview guide followed, so that questions were focused and would reveal attitudes and experiences aligned with the research questions.

I made a constant effort to display a non judgmental form of listening (Zuboff, 1988) and chose to tape record interviews, that were transcribed immediately after the interview, and supplementing these with extensive rough notes. I did this because taking written notes allowed me to have back up information, record nuances of feeling displayed by the

participants and to filter out marketing jargon or attempts by the participants to 'talk up' their respective companies (a stance typical in this industry), which had the potential to detract from the interview purpose. The notes helped me formulate new questions as the interview proceeded and stimulated insights relevant to pursue during the interview, as well as facilitating later analysis. Furthermore, the presence of a tape recorder could be off putting for some of the interviewees and my activity in note taking served to take the focus off the interviewees and relax them more. The interviews lasted for between 45 and 60 minutes.

I kept meticulous records of all interviews undertaken and observations made in the Nvivo QSR7 software programme, recording these and reviewing in the first two days after the interview. In this way the rigour and validity of the inquiry was increased and I had a chance to reflect on the interaction. By using the NVivo software to facilitate analysis of the interview transcripts, a coding frame was developed to characterise each utterance (for example, in relation to age, sex and role of the speaker, length of time in franchising and so forth). This process allowed for transcripts to be coded by more than one researcher if required, in fact one advantage of audio taping is the opportunity given for subsequent analysis by independent observers. I further validated the data by feeding back to the participants my interpretations of their words. Themes derived from the study that help explain franchising strategy in real estate, are discussed in section 5.2 in chapter 5.

4.5.2 The Window Study

After conducting the interviews I decided to investigate one franchise organisation in depth and I felt the best, and least intrusive way of doing this was a window study³. One method of conducting an interpretive investigation is through the use of case studies; therefore I considered an interpretive window study approach useful to explore a major franchisor organisation and to provide an illustration of the concept of resource

³ The concept of a window study as concise case study was used by Barbara Czarniawska (1997)

competency that emerged from the interview stage. Thus, the second part of the franchisor study is a window study of NZ's premier and largest franchise organisation, the Harcourts Group. Evidence was collected mainly via the organisation's extremely comprehensive website and through talking to an executive manager. The approach taken is concerned with interpreting patterns of symbolic action (Walsham, 1995) and describes the unique resource capabilities developed by real estate franchise organisations. A window study was chosen because it allowed enough scope to incorporate a sufficient variety of data sources and to provide a clear picture of the organisation.

The case method primarily relies on unobtrusive observation, examination of written documentation and information from personal interview. Case study designs can be either single or multiple and can be holistic or embedded (Yin, 2003). In this instance, a single embedded design was chosen. Despite support for the use of multiple cases in order to achieve replication (Yin, 2003), I considered one case to be representative of other franchise groups, in this instance. This was because, at the interview stage, very little difference was found between the groups and all offered an array of resources to their franchise group. However, the Harcourts Group was willing to take part in the study and willing to share information with me. The window study of resource competency in action, in the Harcourts Group is described in full in section 5.3, chapter 5.

4.5.3 Issues of Reliability

Validation of the franchisor perspective was addressed by the fact that data was collected from multiple sources of evidence, including semi structured in-depth interviews with the executive management; direct observation during the interview process and the illustrative window study which included perusal and analysis of documents relating to the case. I also established a chain of evidence computerised file so that it is clear to an observer where evidence arose in the study and I asked key informants

to review the interview transcriptions. In the case of the window study, I sought input from the Harcourt's general manager in double checking all the facts presented.

The issue of internal validity was addressed by my awareness of any repeating patterns and alternative explanations given by franchisors. In this way, theory of the nature of franchising as a growth strategy could be generated and I feel comfortable that the inferences are generalisable (Neuman, 2003). Because data was drawn from all the major franchise organisations in NZ, when information began to converge, external validity was assured. Reliability was achieved by covering almost the entire population of franchisors in NZ and keeping appropriate records and documentation of the procedures in the Nvivo QSR7 software.

To keep the discussion with the franchisors flexible I used open ended questions and a conversational manner whilst ensuring the discussion addressed the questions set out in the interview guide. The questions themselves arose from constructs identified in a review of various appropriate strands in the literature (Eisenhardt, 1989; Goulding, 2002), outlined in chapter two. In the window study I used a case protocol in which I detailed in advance the steps I followed during data collection (Goulding, 2002), and I kept a window study database in Nvivo QSR7 consisting of case notes made from interviews and observations. As this window study was used as an illustration of extended theory formulated at the interview stage, involvement in theory building from the case was not necessary. Full findings of the franchisor study are discussed in section 5.2 in chapter 5.

4.6 The Franchisee Perspective

Focus now turns to the franchisee perspective, examination of which contains two distinct methodological phases (See Figure 4.4).

Figure 4.4: The Franchisee Perspective: Two Phases

	Franchisees	Method
Phase 1 Qualitative Approach	22 franchisee owners selected by industry informants on basis of size, gender of franchisee, geographic location, urban/rural location, and speciality.	<ul style="list-style-type: none"> • Semi structured face to face interviews with franchisees around New Zealand • Direct observation
Phase 2 Quantitative Approach	275 franchisees from all the major franchise groups in NZ and the international arm of the largest NZ franchise	<ul style="list-style-type: none"> • Questionnaire On-Line Survey (email contact with telephone follow ups)

4.7 Phase One –The Qualitative Approach

The first phase draws on information gained from in-depth interviews with NZ based real estate agency franchisees. The aim was to obtain a franchisee perspective and the interviews were conducted with twenty two franchisees in mid 2006. I had initially planned to do thirty interviews but when themes began to recur I decided to trim down the otherwise long process of data collection experienced in a mixed method study. The sample was selected from a larger group nominated by three industry informants⁴ and based on franchisee owners of mixed age and gender who displayed innovative business practices, some of whom were experienced and some new to franchising. Single office and multi office owners from

⁴ The informants consisted of an established real estate academic working closely with the industry and two senior officials from the Real Estate Institute of NZ.

diverse geographical regions in NZ were represented. I defined 'innovative business practice' as the development of personalised practices and strategies for growth that distinguished some franchisees and provided their business ventures with a point of difference in the industry.

A strategy seeking the input of suitably informed people to source the sample was used because publicly available lists of franchisee owners do not distinguish any variable other than geographic region and franchise affiliation. Theoretical sampling of this nature is not as concerned with the representativeness of a given population as in quantitative research, but rather with theory construction (Levy, 2006). The major concern was to discover and refine any emerging theories or constructs (Urquhart & Fernandez, 2006). Thus, following the direction of Strauss and Corbin (1998), the sample was determined both by logic and expediency with a view to an open coding procedure being utilised at the interpretation and analysis stages. For example, to examine franchisees' perceptions the main criterion was that business owners chosen were noteworthy to industry colleagues for a mixture of reasons. Thus it was anticipated that by drawing on the experiences of franchisees in the sample, an overview of the franchisee perspective of franchising would emerge. I assumed that the franchisees in the sample would not be shy about telling their stories, an assumption that has been confirmed as realistic by other researchers. As Johansson points out: "Successful entrepreneurs have developed a reputation as 'raconteurs' (2004, p. 283) and successful real estate entrepreneurs are no exception.

The final sample group consisted of seventeen male and five female franchisees.

4.7.1 Doing the Research

An interview protocol was established and the potential interviewees contacted first by phone and then an information sheet outlining the

background of the study, was sent by email (See Appendix A4.5). Confidentiality was assured. I anticipated that a less structured interviewing approach would yield a wealth of data not only on the business experiences of the interviewees, but also on any facets of their franchising experience they chose to share and reflect on. Thus, a list of questions (See Appendix A4.6) was used mainly as prompts to elicit the franchisees' experiences and perceptions of franchising as well as to explore the entrepreneurial nature of their businesses. In order to do this, I examined the concepts of independence or autonomy; connectedness to the franchise system or dependence; innovation; risk propensity and perceptions of self and business. Some ideas arose partly from the previous franchisor study but the concepts were mainly based on ideas and notions obtained from examining strands in the extant literature on franchising theory; franchising and entrepreneurship; networking and co operation; and the resource based theory of the firm, particularly the role of organisational capital discussed in chapters two and three.

The interview questions were designed to gather fine grained data and provided an opportunity to verify ideas mooted in the franchisor study and add to existing knowledge by gaining new insights. A further objective was to develop an extended perspective to inform the subsequent survey phase. In this way both known and new ideas could be measured and theory extended. The interviews were conducted at the offices of the participants and were taped over a forty five to sixty minute period approximately. Field notes were taken to supplement the verbal record and to provide additional information on non verbal clues. Each interview was transcribed as soon as possible and stored in Nvivo7. The software programme used to handle qualitative data in this thesis is the successor to the former NUD*IST, Nvivo 2 and N6 programmes and has been available since early 2006⁵. Essentially, the software acts as a tool for assisting with the management and analysis of qualitative data with added functions that also support the mixed methodology used in this study.

⁵ <http://www.qrsinternational.com>

The ethnographic strategy undertaken allowed me to interact with each interviewee and be flexible about the questions asked according to each participant's willingness to express his viewpoint. Because I became actively engaged with the respondents and the world I was interpreting and because of my industry experience, I could ensure the right questions were asked (Dana & Dana, 2005)⁶, thus minimising any possible bias. I expected to find perceptions on the usefulness of franchisor assistance to franchisees and an understanding of the added business value this delivers. I expected to meet energetic, doggedly determined, innovative people with the ability to combine a group of independent salespeople, administrators and management in a complex industry environment. I was aware that real estate franchisors are mature and sophisticated in the services they offer to their group and that some franchisee owners who would be distinguishable as entrepreneurial because of their level of innovation and divergence from the standard franchise model, level of business growth and their personalities.

Themes extracted from the qualitative data, were coded before being broken down into component parts and linkages noted (See Appendix B6.1). Themes were extracted by searching and coding the transcribed interviews. Memos were kept as prompts when the data was revisited and related themes were grouped. Preliminary modelling was used to help with conceptualising the linkages amongst themes and factors considered to contribute to the themes (See Figure 6.1, chapter 6 for a detailed illustration of themes and contributing factors). Text queries were used to find individual responses to specific issues or to isolate vocabulary used and links were drawn at the matrices of franchisee attributes and themes (See Appendix B6.2). Matrix trialling was an attempt to explain any patterns in perceptions and experiences of the franchisees (See Appendix B6.3).

⁶ Dana & Dana (2005) explain Type III error as asking the wrong question.

Finally, writing about the themes made it possible to flesh out remarks made and place them in a wider context whilst linking comments with explanations from the literature. After questioning the franchisees on topics related to the dominant themes and actively seeking rival themes over the six week period of analysis, the formation of new theory linking real estate franchisees and entrepreneurship was possible. This theory formed the basis for the survey of a larger franchisee population, which is the subject of phase two.

4.7.2 Issues of Reliability

Concentration on a limited number of franchisees enabled the collection of rich data and detailed description and is appropriate in an exploratory study, thus ensuring high internal validity. My approach was to allow free rein to the interior monologue of each participant and only to prompt where necessary to keep the interview focused. Using this strategy I am confident there is no basis for any criticism of bias. Although it may possibly be argued generalisability or external validity is compromised with a sample size of twenty two, the perspective gained revealed recurring themes and the sample group is considered to be a microcosm of the larger NZ franchisee population. Furthermore, not only did the following quantitative phase help ensure the validity of the qualitative phase but according to Strauss and Corbin (1998) the number of participants required in a sample is reached when there is information saturation, that is when the outcome of each interview becomes repetitive. At the twenty second interview point this phenomenon began to occur. Mattson (1994) suggests that a small sample is appropriate in an exploratory study.

To further help establish reliability and validity a log trail (See Table 4.1) was kept to record the strategies and processes followed as I worked through analysis of the transcriptions.

Table 4.1: Qualitative Data Log Trail

June/ July /2006	<p>Have transcribed 22 franchisee interview tapes and entered the transcriptions into Nvivo 7 software project as cases. Cases are units of analysis or a special kind of node which has 'attributes' like gender, age, size, location and so forth. In this study the units of analysis are both the individual franchisee and their agency business.</p> <p>The coding of attributes allows me to construct a table to illustrate important demographic details (See Table 3, p 36).</p> <p>Emerging themes are extracted from the transcripts and assigned to free nodes. Free nodes are essentially broad themes. I read manually first to search for concepts derived from the literature as well as remaining open to fresh emerging ideas. This evidence included notions like the perception of independence; commitment to the franchise system and evidence of dependence; the franchisee's perceptions of self and business and whether risk management links to franchising and can be seen as a strategic decision made by the entrepreneurial franchisee. Instances of innovative business practice are also recorded. My focus is to search for consistency and strength of themes.</p>
August /2006	<p>Free nodes are converted into tree nodes where appropriate. Tree nodes encompass linked ideas within the main theme and contribute to, or act as aspects of the main theme.</p>
September/2006	<p>Source material explored for further themes. Matrices are drawn between attributes and themes. Matrices are linkages, for example franchisee age and number of offices to instances of dependence on the franchisor. Queries function is used to search the sources for the ways in which specific concepts are viewed by individual franchisees, for example how do they interpret the word 'independence'?</p>
October/November/2006	<p>Findings teased out of the data, and written up in the thesis</p>

4.8 Phase Two -The Quantitative Approach

In the second phase, a survey questionnaire developed mostly from themes, common ideas and concepts drawn from the qualitative stages of both the franchisor and franchisee studies, together with notions from the literature, was posted to 275 franchisee owners in NZ and Australia. The questionnaire contained questions that would elicit attitudes and perceptions designed to test the emergent themes and theory formulated in phase one, to a larger sample population (See Appendix C7.1).

4.8.1 The Survey Group

The survey group comprised individual franchisees from major real estate agency franchise groups operating in NZ and part of the Australian arm of the largest NZ system. Both single and multi unit franchisee owners from the Harcourts Group, Ray White Real Estate, RE/Max, L. J. Hooker Real Estate, Bayleys Real Estate Group, Century 21 Real Estate and The Harveys Group were included. Because the real estate industry has followed the trend observed in other industries and is heavily populated by franchisees who own more than one office (Grunhagen & Mittlestaedt, 2001), multi office franchisees predominate at 58.7% of the sample.

The sampling approach followed a three stage process. Firstly a database of franchisee owners was created in order to facilitate the distribution of a covering letter via personal email. Sourcing details from individual websites provided an effective technique for collecting the majority of the email addresses without contacting the agencies directly. Secondary data sourced from a list of licensed real estate agents published in The Real Estate Authority Diary (2006) was used to help identify individual franchisees. Details of the registered trading name, contact numbers and in some instances the names of franchisees, were also found. However, in terms of email addresses, normally only the branch details were included. At this point, an online search was used as a non-intrusive approach to

obtain the personal email addresses of each franchisee. The first point of reference was the main franchisor websites. All provided an internal search engine to find either individual agents, if known, or office names and locations. The process was facilitated by using the REINZ list as a cross reference when entering franchisee's details. Franchised office websites normally provided an option to 'meet the team' and included individual contact details for both management and sales consultants. Once franchisee owners were identified, their personal email addresses were transferred onto the survey database. In cases where it was unclear who the actual franchisee was, or when no personal email details were given, the real estate agencies were contacted by phone to obtain the information. A small number of the franchisees did not have personal emails so either the agency's default email address or a nominated alternative marked for their attention was used. All the email addresses from both NZ and Australia were then combined to create the survey database of 275 franchisee owners. It is of note that two groups belonging to the Australian arm of Harcourts International Ltd. had superior websites in both layout and information content to the NZ sites. Therefore, whilst no secondary data like a REINZ directory was available to use as a reference, it was relatively easy to obtain all the essential details and no follow-up phone calls were necessary.

In step two, personalised emails in the form of a covering letter were sent out to each franchisee explaining the research, and also giving details of how to access and submit the survey through a direct URL link. Online surveys are now an accepted method of distribution (Nesbary, 2000). The covering letter assured anonymity and confidentiality. Incoming data was captured on a central database at a dedicated Massey University site.

Step three consisted of a follow up, reminder email sent approximately a week later containing the same information and prompting the franchisee to complete the survey if they hadn't already done so. In several instances I telephoned NZ based franchisees to jog their memories and to encourage participation in the survey. In some instances I received supportive e-

mails in return from those who were particularly interested in the outcome of the study and I have a small database of franchisees who would like a copy of the completed research. Where the licensee's personal emails were returned as undeliverable, the email was resent where possible via the agency's default email address or nominated alternative.

4.8.2 The Survey Instrument

In order to minimise any technical problems or questions that might be ambiguous or difficult to understand I pre-tested the questionnaire on a sample of six franchisees. I then phoned each participant and discussed items that should be added, deleted or modified. The pre-test and debriefing indicated that the respondents were able to understand and answer the instrument without difficulty. The fact that little item non response occurred substantiates this belief.

The final questionnaire consisted of twenty nine questions with tick boxes and text panels where necessary (See Appendix C7.1). The answers to some questions were factual and other questions determined attitudes. Some of the questions and formatting were adapted from a survey sent to franchise owners in the United Kingdom in 1997 (University of Westminster, 1997). For the purpose of analysis, questions required respondents to make judgements of both a rating and ranking nature and it was made clear that respondents were able to pass over any questions they felt unable to answer with confidence.

Respondents were measured on their general evaluations of being a franchisee, and their relationship with the franchisor by using scaled measures of four independent variables of autonomy and dependence; business and personal values and wealth creation. Within measurement of these variables issues like innovation and risk taking propensity were captured. As these constructs emerged from the franchising and entrepreneurship literature and the qualitative one-on-one interview phase discussed in the previous chapter, they were considered to explain the

entrepreneurial nature of the survey respondents. They were also asked to provide descriptive data on both themselves and their franchise offices; including measures of income, years in franchising, number and scale of offices, age, education, real estate qualifications and gender. The aim was to examine a larger franchisee population, to extend understanding gained in the core qualitative study and to undertake further measure of the entrepreneurial nature of franchisees.

Multiple dimensions of each variable were measured by questions in the survey. 'Wealth' for example, considered an important aspect of entrepreneurship (Shane, 2003), was measured in three direct ways. For 'autonomy' participants were asked whether they had previous experience in new venture creation (involvement in prior business ventures was considered an entrepreneurial factor in the qualitative section) and amongst other things asked the importance of seizing the opportunity to become an owner and to rank how important they considered their own business culture. Innovativeness displayed by the franchisee was considered to be linked to their degree of autonomy. So if a franchisee was autonomous they were likely to use innovative methods in their businesses and be entrepreneurial. In some cases respondents were required to rank items in importance and in other cases they were asked to rate the importance of items on a five point Likert type scale. The scales ranged from 1, "Very Poor" to 5, "Very Good" (ranking) or "Not important at All" to 5, "Very Important" (rating).

The variable 'dependence' related to six questions, four of which contained parts that also measured autonomy, for example question 15 required the respondents to rank both the importance of independence and the importance of belonging to a network group. Franchisees in the qualitative section demonstrated both independent and dependent tendencies and the interplay of apparently juxtaposed positions conforms to extant theory (Oppenheim, 1961). Hence these two variables were linked but the question remained, could this interplay be found in the larger sample?

The values the franchisees in the sample held both for themselves and their businesses were measured by questions related to overall satisfaction with business life and franchising, possibly affected by demographic data like gender, age, qualifications and general education. These linkages were explored and the results are discussed in the findings in chapter seven, sections 7.4.4 and 7.5.3. Finally, because the ability to take risk is considered an entrepreneurial characteristic in franchise organisations (Morrison, 2000), a propensity to handle risk was related to the desire for economic security; involvement in new venture creation, the reason behind the decision to franchise, and the number of offices owned. Risk propensity is a factor also found in the qualitative phase and linked to entrepreneurship. Figure 7.1 in chapter seven illustrates the variables that could be most accurately measured in the survey.

The final survey was sent out to the database in late September 2006. Table 4.2 shows details of the survey distribution. As expected, within two weeks all ninety two useable responses were received, representing a 33.45% response rate.

Table 4.2: Survey Distribution

	Direct personal email	Agency's default email address or nominated alternative
New Zealand		
Bayleys	21	-
Century 21	14	5
Harcourts	52	6
Harveys	27	4
L J Hooker	31	11
Ray White	45	3
Re/Max	28	-
Australia		
Roy Weston/ Harcourts (WA)	24	-
M & M Tasmania/ Harcourts	4	-
Sub Total	246	29
Total	275	

4.8.3 Issues of Reliability

Any quantitative study needs to be measured for reliability. The degree to which the measurements in the survey are free of random error is a measure of the survey's reliability and a contributing factor in validity. By seeking support for the themes revealed in the qualitative phase of this study to a larger population, the research is validated (Creswell, 2003).

4.8.3.1 Content Validity

My own background knowledge of real estate agency ownership allowed me to design questions that gathered relevant evidence to answer the central questions posed by this study. In addition, a review of the relevant literature on franchising and entrepreneurship raised issues that needed to

be addressed and these issues had already surfaced as important in phase one of the study. So information was sought on the entrepreneurial nature of franchisees; the nature of their business operations and their perceptions of franchising and the relationship with the franchisor. The pre test with members of the target audience ensured feedback from industry practitioners on whether the content of the survey actually covered these topics and that the respondents would be able to understand the words, terms and concepts used (Czaja, 1998).

4.8.3.2 Construct Validity

Several of the questions were based on constructs raised previously in the literature, for example, innovation (Filion, 1998; Zieba 2002; Guth & Ginsberg, 1990; Zahra, 1993; Zahra *et al.*, 1999); autonomy (Dana *et al.*, 2002; Dant & Gundlach, 1999; Pizanti & Lerner, 2003; Stanworth, 1995); dependence (Bordon-Juste & Polo-Redondo, 2004) Doherty & Alexander, 2004; Hoang & Antonic, 2003; Mehta & Pelton, 2000; Ostgaard & Birley, 1996;); perceptions of self and business (Littunen, 2000); wealth creation (Shane & Venkataraman, 2000; Shane, 2003) and risk taking propensity (Begley & Boyd, 1987; Scase, 1996; Shane, 1996) so there is convergent validity for the main themes or variables. Furthermore, an exploratory factor analysis was undertaken to determine the extent to which the survey questions or parts of questions actually measured each of the factors. This was achieved by selecting a sub set of variables that had the highest correlations with the principal component factors. Exploratory factor analysis served to validate the scale by showing the constituent items that load on the same factor and isolating those that cross-load on more than one factor. Therefore I was able to demonstrate that multiple items measure the same factor. The result indicated high reliability in the measurement of dependency/autonomy, personal and business values and wealth. Thus I felt accuracy in construct validity was achieved.

4.8.3.3 External Validity

Two potential threats to the external validity of the survey were identified. The first involved the risk of drawing incorrect inferences from the sample data to other settings or to the real estate agency franchisee population at large. The major concern was to gain an in-depth understanding of real estate franchisees with the assumption that the outcome would be both context and time specific (Wainwright, 1997). A response rate of 33.45% is excellent for a web survey because it is recognised that questions displayed on a computer screen might have a profound effect on whether some people were able and/or willing to answer accurately (Dillman *et al.*, 1998). This is especially so as the target audience was largely middle aged. However the type of response confirmed what had already been discovered in the previous qualitative interview phase and from my vantage point of experience, I was able to make the judgement that the sample group represented a fairly typical cross section of real estate agency franchisees and thus the results are generalisable.

The second threat involves statistical conclusions and the drawing of inaccurate inferences (Cook & Campbell, 1979) from the responses of ninety two participants. A limited number of the conclusions are based on low question response counts; however, the data gathered acts to measure; validate and question data gained from the qualitative sample thereby adding to overall understanding of the topic.

4.9 Development of Interview Guides in Both Phases

I developed both the franchisor and franchisee interview guides with the idea that they were ‘works in progress’ (See Appendix A4.3 & A4.6). The initial topics covered were always open to modification and guided by the research questions, sourced from extant literature, personal knowledge and experience of the area and discussions with industry informants. The franchisor guide covered the interviewees ‘story’, reasons for the

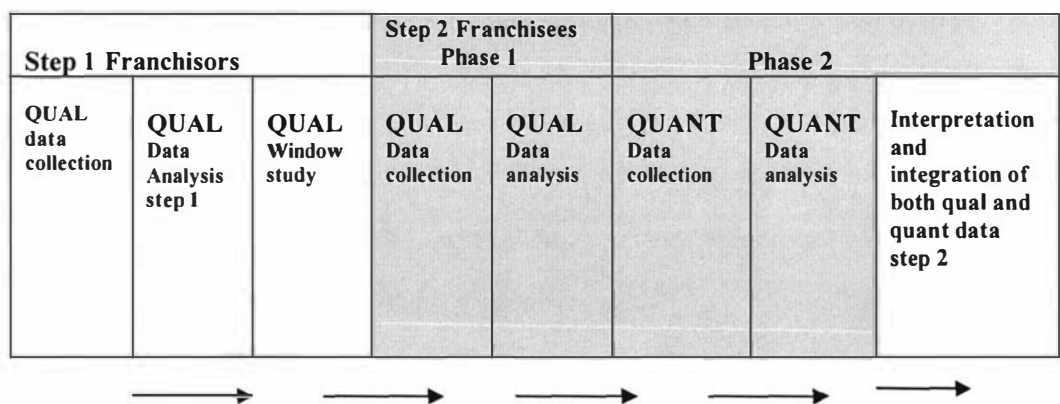
company franchising, operationalisation of the franchising model, perceived advantages and disadvantages of franchising and the relationship with franchisees.

Although the interviews with franchisees sought information on concepts developed in the franchisor stage or derived from the literature, the addition of probes or even the emergence of whole topics was always possible. I often felt it necessary to drop certain topics and reformulate angles of inquiry that failed to elicit responses relevant to the research (Cassell & Symon, 1994). The franchisee guide was designed in sections, the first section focused on the franchisee's background and broad demographic details; then issues related to their business were discussed and this was followed by a detailed look at the franchisee's perceptions of franchising and the franchise group. The topics discussed were guided as explained above. I decided not to use a fact sheet in this instance so that the entire period involved discussion rather than introducing a requirement for writing from the participant.

4.10 Chapter Conclusion

In this chapter I have discussed the epistemological base on which the study of real estate franchising in this thesis is based and described the methodological processes undertaken. A sequential, exploratory strategy of research underpinned by the pragmatist approach is followed. The aim is to explore the phenomenon of franchising in the real estate brokerage sector without a priori hypothesis but to answer some broad general questions. The study is conducted in two qualitative steps with the second step further divided into two phases that includes a quantitative study (See Figure 4.5). Analysis is carried out sequentially, modelling the process steps and includes theme extraction and theory generation, followed by quantitative statistical analysis.

Figure 4.5: The Sequential Exploratory Design



In Figure 4.5 above, arrows indicate the sequential movement. The study starts with an initial stage of qualitative data collection and analysis and a window study that is followed by another stage of qualitative data collection and analysis, immediately followed by a stage of quantitative data collection and analysis. Because both franchisors and franchisees are studied qualitatively, emphasis rests on this method. At the end of the two phase franchisee study the qualitative and quantitative phases are synthesised during the interpretation stage. This design is considered appropriate when testing elements of emerging theory from the qualitative phase and when qualitative findings require generalising to a larger sample (Morgan, 1998). Morse (1991) also suggested that it is useful when trying to determine the distribution of a phenomenon (like entrepreneurship) within a chosen population. It is appropriate for this thesis because I have used the design to explore franchising and entrepreneurship and to expand on the qualitative findings. I also found it particularly useful for developing the survey instrument in the second phase of the franchisee study.

In this chapter I have described the nature of mixed methodology, a research strategy that has not been used frequently in either franchising or entrepreneurship research to date. I have drawn attention to the methodological bridges between qualitative and quantitative methods and their philosophical differences. Data in this study is integrated in the interview protocols and in the final analysis stage. I believe that

fundamentally my research questions dictated the choice of mixed methodology because by being free to reject the 'either/or' decision on method, I found a way of answering the questions efficiently and making inferences that are internally trustworthy. Quantitative studies are often criticised for emphasising statistical significance at the expense of focusing on the magnitude of the relationship or effect and for failure to report observations and unstructured responses in their analysis (Tashakkori & Teddlie, 1998). Conversely, qualitative work is called selective and incredible because there is no alternative perspective and expression of personal opinions rather than the opinions of the informants (Murphy & O'Leary, 1994). The use of mixed methods however, solves these potential problems and ensures a more rigorous level of trust in the conclusions.

5

Franchising Strategy: The Franchisor Perspective

5.1 Introduction

In previous chapters I have discussed the theoretical framework that underpins each stage of this thesis; begun to build a picture of real estate agency franchising, especially in NZ and outlined the research process undertaken. It is my intention in this chapter to examine the outcome of the franchisor study and the strategic decision to franchise. In order to explore the reasons why franchising is used as a growth mechanism and source of competitive advantage for real estate organisations and to uncover some industry elements that affect its adoption, growth and operationalisation, I focus on the perceptions and experiences of executive officers from high profile real estate franchise groups operating in NZ.

The chapter is organised into two major sections. In section 5.2 the themes that emerged from the in-depth interviews with franchisors are discussed and in the sections to follow a window study of the Harcourts Group is used to illustrate the notion of resource competency. Finally, concluding remarks are made in section 5.8.

5.2 Franchisor Perspectives

The franchisor study draws on data collected from in-depth interviews of eight key players in NZ real estate franchise groups. After examining the collected data, I was able to extract themes that contribute to an explanation of franchising strategy in the real estate agency industry. Themes arose naturally

in the course of discussion or were heralded by ideas discussed in the literature and consisted of market share; acculturation; ownership; focus and parallelism; internationalisation and resource capability (See Table 5.1). All are important underlying factors in the franchise decision and are considered to deliver franchisors competitive advantage in this highly competitive sector. In the sections to follow I will discuss each of the emergent themes.

Table 5.1: Franchising Strategy in the Real Estate Industry

	Key Effects	Competitive Advantage
MARKET SHARE	Achieves expansion in the early growth stage in the domestic market	
	Encourages internationalisation at a later growth stage	
ACCULTURATION	Ensures supply of company trained people as franchisees	
	Allows seamless addition of trained real estate groups through mergers and acquisitions	
	Ensures rejuvenation through entrepreneurial development and innovation	
OWNERSHIP	Rewards company entrepreneurs	
	Reduces potential moral hazard	
	Reduces monitoring costs	
FOCUS & PARALLELISM	Franchisors focus on franchise systems and a global perspective	
	Franchisees focus on business performance and a local perspective	
	Businesses at local and global level exist parallel to each other and operate co-dependently	
INTERNATIONALISATION & BRAND AFFILIATION	Internationalisation mostly, but not exclusively, occurs at maturity. As a facet of the process local businesses gain acceptability by assuming the global features associated with the global brand	
RESOURCE CAPABILITY	Franchisors develop sophisticated business and technological support systems and continuing service developments and enhancements.	
	Franchisees develop their own business systems and innovations underpinned by the franchise format.	

5.2.1 Market Share

Franchising was originally seen as a way to increase market share because it enabled the growth of a widespread network of businesses, at first nationally and then outside the national borders. Once the brand was sufficiently

recognisable, the developed business format could be cloned in independently owned agencies. One franchisor interviewed stressed that the move to franchise was a natural development resulting from ownership changes in early years and individual preference for a franchised organisational form, thus confirming the influence of personal choice in the decision (Hambrick *et al.*, 2005). The intention was to develop into a large single brand company different from any existing real estate operation in NZ at the time. Franchising allowed company managers to take ownership and develop their own entrepreneurial ventures under the company brand. Financial backing was strong. Loyal, capable and experienced people were in place to take over franchised offices hence the requirement for a source of people to implement the business format (Combs & Castrogiovanni, 1994; Carney & Gedajlovic, 1991) was satisfied. The initial move was made possible by leveraging established brand awareness, developed through trading since 1888. Consequently franchisees felt confident about ownership. The pre condition to franchising was company maturity and an established track record. Later at the internationalisation growth stage, the same brand awareness enabled further system expansion. The trust developed amongst consumers, plus quality resource support ensured other groups were eager to join the system.

Strong links, both business and training related, built with individual company managers proved invaluable and have become the core values of this franchisor:

... I suppose in our case because we had such a large company owned operation we had very strong links with our business owners and I think we had a strong training ethic and those ethics, those basic values have determined the type of company we are today.

The aim of another franchise organisation was to be the biggest real estate franchise group in the Asian Pacific region. This meant a need to focus on rapid gains in market share with franchising a means to that end:

...other reasons for expansion and looking into Asian markets were to see where these markets cross over with Australia, NZ and Indonesia. In the property market its only feasible for an agency to achieve 25% market share...there are no business models higher than that – so we work towards market share rather than actual office numbers...

A director expressed a belief that quality was based on market share:

...each office has a geographical area that is monitored for market share purposes...there are benchmarks for all offices, measured in the number of salespeople to cover the area. The...system as we call it is essentially...we have the number of salespeople to cover the area, the number of sales appropriate to the market place...we ask that each franchisee has that requirement in place...

Reaching a level of administrative efficiency enabled geographical expansion across national boundaries. It was argued that a larger market share would also provide investment security for the franchisees and enable faster system expansion. As one director explained, in NZ, for example, there is still about 40% growth capacity and towards that end, during 2004 two new real estate offices per week joined the group. On the international scene, capacity was thought to be unlimited. Two franchisors had already made inroads into Indonesia. The emerging Chinese market has also been pinpointed as presenting vast potential for franchising growth (For example see Alon & Bain, 2005), and initial investigations of this market have begun.

5.2.2 Ownership

Franchisee ownership was linked to resource access and the mitigation of moral hazard. One of the franchisors placed strong emphasis on growing and developing company people who had entrepreneurial abilities. Direct office ownership was perceived as offering extra incentive to a pool of managerial talent as well as a means of providing ongoing system growth. As one interviewee phrased it:

... a share of the pie (creating independently owned offices) would increase the organisation greatly.

He expressed an individual viewpoint in support of agency theory by relating:

I think any company owned business when you've got a large number of outlets, the outlets are never going to do as well with paid employees running them as they are when the people running them actually have a share in the business, and their name on the bank account. My great, great granddad was a butcher and he always told my dad if you want to run a successful butcher shop you need to have the owner behind the counter because otherwise a kilo of mince weighs more!. So you have to have the person who is responsible for paying the bills running it. And equally, if you don't give the people in your business the chance to expand and have ownership of what they're doing they will leave and go somewhere they can.

Overall it was clear from the interview data that the directors of the franchise groups saw ownership as a pull to franchising in real estate, rather than a push response to negative issues associated with moral hazard (Jensen & Meckling, 1976) and post contractual opportunism (Hoy & Stanworth, 2003) described in past research across industries. However, contrasting perceptions of the benefits of franchising emerged. For some interviewees franchising was a means of empowering people and prioritising individual growth, again suggestive of choices associated with significant company actors (Combs *et al.*, 2004). For others, a franchised empire was seen more as a way of ensuring ongoing company and market share expansion. In the latter case, the move to franchise was clearly profit driven. Franchising was regarded as being similar to a company public offering:

...we looked at franchising a little bit like putting the company up for public offering without actually doing that per se ... giving people a vested interest in a name for their business – like a public offering but to people who are industry based...

Creating a lifestyle was also seen as part of the ownership advantage, along

with the challenge of running a successful business and building a valuable asset. Monitoring issues were generally not foremost in the motives of the franchisors because established systems had been designed to ensure quality. These involved groups of business advisors who were regionally based and on call to assist franchisees with problems, or act as consultants on any aspect of running a real estate office. All the franchisors had training and motivational programmes in place. In addition to the requirements of the Real Estate Agents Act (1976) for licensees to furnish monthly trust account reconciliations, franchisors undertook regular audits of their franchisees' business activities.

5.2.3 Acculturation

Acculturation was found to be a central characteristic of the real estate franchise industry. It involves the process of adopting and adapting - assimilation in the first instance into the culture of the industry and then that of the franchisor. Many individual franchisee business owners are typically drawn from industry ranks where they have operated as independently contracted salespeople and through undertaking further education, have attained Associate (AREINZ) status¹. After experiencing sales contract work, and becoming acculturated within the industry and firm, suitable, potential franchisees are ready to operate their own franchisee businesses. Many older franchisees began as managers of company owned agencies and were invited to become owners when the franchising decision was originally made; in fact several of the franchisee owners in the sample group discussed in chapter 6 and 7 fit this category. Yet other franchisee owners are brought into the system by conversion methods including mergers and takeovers ranging from

¹ Directors or franchisee owners of real estate businesses are required to be associate members of the Real Estate Institute of New Zealand (A.R.E.I.N.Z.). In Australia people who attain the required education level set down in state legislature can become principal officers and owners of a real estate business.

greenfielding to group buyouts; the examples of Brock Real Estate and M & M Real Estate are good examples (See section 5.3). With greenfielding, or the process of opening new offices, when acculturation is complete, the system brand is fully accepted into the new locality. Where mergers take place, the local office name is usually linked with the franchise name until the new brand becomes known in the locality.

The franchised form is ready made to allow real estate franchisees who are experienced in the business to make a substantial contribution to the franchise system. It is this supply of franchisees produced in the real estate agency business that ensures the franchise systems benefit from an ongoing flow of new blood. As a result of acculturation, the franchisor is confident in giving franchisees considerable leeway in business operation and the entire system stands to benefit from the development of innovative practices that may result (See chapters six & seven). The franchisors have mechanisms in place, mainly in the form of targeted meetings and discussion groups, to capture any innovative developments that might increase the competitive advantage of the overall system. In real estate, the franchisor constantly grows franchisees by encouraging further education and providing in house training courses. For example, one franchisor has a real estate academy which trains suitable people, who are part of the organisation, to become franchisees. A director commented:

(We have our training academy) ... to grow people into business ownership, that is a unique feature of franchising, nurturing to the degree that goes on. I think you need to grow your own people because if you don't, they just leave, that's why we franchise and they become part of the culture, they are part of the culture. It is a lot easier having someone who's been with (our company) for some time in a variety of roles, you know a sales role, becoming a franchisee because they already are part of the culture. They know what (our company) stands for. If you get someone coming in from another brand it can be quite hard for them sometimes.

Another organisation had a similar future leaders group. These people, who are identified by the franchisor, either start new offices or buy existing franchises where the owner is retiring or selling. Such internal acculturation means that real estate franchise systems have a constant source of new entrepreneurs ready and waiting to enter the system as business owners. Furthermore, where the franchisor offers prospects like this salespeople have a clear career path to pursue if they are interested. A further arm of acculturation reaches into the wider real estate environment outside the organisation when the franchisors seek to acquire or merge with other real estate groups. Here existing real estate industry companies, already part of the industry culture, are 'acculturated' into the new parent franchise system. The real estate acculturation process encourages the growth of franchising as a business form by providing an assured supply of qualified franchisee owners and the franchisee selection process is an integral part of this growth. A director explained:

We will franchise to talented people who have one or two years experience in selling, the system is strong on expansion, so we are always on the lookout for talent. We just focus on the Jim Collins idea of getting the right people on the bus and the wrong people off. So we are always looking for the right people to get on our bus.

5.2.4 Parallelism and Focus

5.2.4.1 Parallelism

At the heart of franchising lies an interlinked relationship, one that fundamentally changes the character of traditional small and medium enterprise (SME) ownership. Individuals involved in interlinked business forms, are partners in an entity bigger than 'self'. The franchisee business owner is a cog in a larger machine and an integral part of an organisation built on the concept of co-dependency and success built on co-operation. There is

an inherent ability to learn and develop by drawing on and adding to the skills and competencies of others. It is this relationship between the franchisor and franchisee that is seen as central in real estate franchising, however a sense of co-dependency does not dilute the separate identity of each of the parallel entrepreneurial ventures.

The notion of inter dependency emerged strongly in the interviews and I term this characteristic parallelism. Parallelism describes two separate business identities that exist side by side in real estate franchise groups. The franchisor business endorses the service quality of a series of independently owned, locally bound franchisees, enabling them to tap into a client base by positioning themselves in the local market more quickly than they could do single-handedly. The franchisee endorses the brand. Thus two entrepreneurial ventures exist parallel to each other, operating in a co-dependent manner. For example, a visible expression of this parallelism might be the retention of a franchisees original name but with the franchisor brand name added to it. Another illustration is with the international operations of real estate franchise groups where two brands are recognisable as in the Brock Harcourts example described in section 5.3. Franchised businesses are able 'to draw on the strength of a globally recognised brand name, but are also faced with the challenge of managing two brands: the embraced global brand and the local one' (Yakhlef & Maubourguet, 2004, p. 193). Dana *et al.* (2001) suggest the two businesses linked in the franchise contract trade off autonomy and efficiency. The franchisor relinquishes some control to gain flexibility and scale while franchisees relinquish some autonomy to get the benefits of belonging to a group and a greater chance of survival.

Real estate franchises typify this type of parallel business venturing, where the sum of the whole is greater than the parts. Co-branding is common and occurs when two or more brands are combined to synergise a single business offering. Each brand attracts customers discretely and in some cases a

strategic alliance, joint venture or partial or complete merger is formed for the purpose of attracting and maintaining new customers (Wright & Frazer, 2004a, p. 11). One example is the co-branding of Roy Weston and Harcourts Group in Western Australia. Another in the case of co-branded products is Mortgage Express within the Harcourts Group (See section 5.3).

5.2.4.2 Focus

I have used the concept of ‘focus’ to refer to the fact that the franchise relationship gives each party – franchisor and franchisee - the opportunity to concentrate on core individual competencies, thus each becomes expert in a separate set of skills. There is a clear belief held by all interviewees that the system success and growth is based on a need to divide responsibilities. As one franchisor said:

... in a perfect franchise world the franchisor worries about tomorrow and the franchisee can go on with the business today

Those franchisors that had the biggest, most well established systems in the sample are focused on creating strong, value added franchise business systems and establishing the trade mark. They are in the business of franchising, not real estate and to this end focus on growing their market share through building strong resources capable of providing franchisee support. They regard the quality of the system as paramount for growth because only a system of exceptional quality, that can deliver tangible advantage to franchisees in the form of a strong brand, a proven business system and top class support, will attract outside agencies and new franchisee owners (Litz & Stewart, 1998). The franchisor shares computer systems, added products like insurance and mortgage facilities, and large databases with the franchisees. The franchisees seek to manage their business risk by aligning with a strong named service, leaving them able to focus on increasing the turnover of their

businesses through dealings in a range of property services. One director felt that to have company owned and franchise businesses in the same group would create competition that would be unfair:

... company owned offices could be seen as unfair and we are not competing with our business owners – we are not in the real estate business, rather in the business of franchising.

Although division of responsibilities is a feature of franchising in general, the degree of separation in the real estate industry is particularly defined. Furthermore, real estate franchisors rarely have any company owned franchise offices, for any length of time. The ability to focus on core activities is fundamental to real estate franchise systems because focus builds performance; assures quality; builds business assets; builds brand; ensures renewal through attracting others to join the group and enables inter firm learning to occur. Real estate companies can therefore achieve competitive advantage and market share through creating a situation that allows for the parallel growth of businesses:

We just keep working on the system that will develop our people and to do that we have to give them the best tools to do the job. So it just all goes round and round and round.

5.2.5 Franchisor Unique Resource Competency

In line with resource based theory (Barney, 1991; Bercovitz, 2004) that assists firms achieve sustained competitive advantage, development of resource competency is a distinguishing characteristic of real estate franchising and is particularly visible in the large Harcourts Group (see section 5.3 for example). Other franchisors in the sample had developed various levels of resource competency and were mostly working towards enhancements in this area. Where company values were clearly enunciated sophisticated support resources had been put in place. As one franchisor expressed:

We have a passion for the development of people... we have the ability to change people's lives and that's why we do it. Otherwise we'd all be back in the field running an office and having a lot more time off... we just keep working on the system that will develop our people and to do that we have to give them the best tools to do the job.

Another in the same group said:

... we have a strong training ethic and those ethics, those basic values have determined the type of company we are today. We tend to be very high service, very high touch, very strong relationships with our business owners.

The resources developed enable the franchisor to help franchisees grow successful businesses. In one group, each region is allocated service centres responsible for giving support and franchisor investment is channelled into areas like training and technology, rather than marketing. In another group, gaining market share is considered the prime focus in order for franchisee businesses to be fiscally sound.

... quality is based on market share... so each office has a geographic area that is monitored for market share purposes. ...we support and capitalise our franchisees so we put a lot of reinvestment back into our businesses rather than using it on brand advertising.

(The) first priority for (franchisees) is that they need to be fiscally responsible. Secondly, to ensure they protect the name... because the public see whatever a salespeople or franchisee says as a direct reflection of ... franchisees must maintain quality, employ sufficient numbers of people to cover the market and ensure that the quality control of their businesses is reflective of our desires. (We) add value to the good will of each individual franchisee's business... our philosophy is based on the fact that attracting the best people in the industry to be part of our group is a far more successful strategy than inviting 3-4 million New Zealander's to sell with ...

The resources developed encourage the franchisor to continue franchising strategy well into the mature stage of organisational growth and contrary to

reversionary models discussed in the literature (Millar, 1987; Oxenfeldt & Kelly, 1968/1969), no real estate franchise group sampled had any intention of returning franchisee owned agencies to company ownership. The aim to create organisational size, increase market share and to reward loyalty remains a top priority.

Franchising ... (gives)...people a vested interest in the name for their business...

An illustration of resource competency and specific examples of the kinds of resources that support the Harcourts system and franchisee growth are discussed in the window study in section 5.3.

5.2.6 Internationalisation and Brand Affiliation

Internationalisation, and brand affiliation as a mode of internationalisation, is another facet of franchise operations. The interviewees indicated that international expansion had already taken place or was firmly on the agenda for the future. In all cases this internationalisation process was conceived as a mature stage growth strategy. Nevertheless, although internationalisation is more likely to occur once there is consolidation and growth in the domestic market, the stage of business growth when internationalisation occurs is not universal. Brand affiliation means that the offerings of a local business take on the global features associated with the global brand. The global brand in effect vouches for the locally bound business, thereby providing it with recognition and reach (Yakhlef & Maubourguet, 2004). So it is in the interests of both parties to work efficiently and thereby to minimise risk. To date only one NZ originated real estate franchise group has moved its operations offshore owing to identified imperatives at the time (Castrogiovanni *et al.*, 2006a) and that has occurred through the internationalisation of the Harcourts Group in the Asia Pacific region, however evidence of overseas affiliations for other franchise groups is perhaps the forerunner to similar moves. As a destination, the NZ

market has been the object of attention by Ray White Real Estate, Century 21 Real Estate, L. J. Hooker and RE/Max.

5.2.7 Franchisor Perspectives: Summary

The study of real estate franchisors revealed some industry specific reasons for the choice of franchising. Firstly, the strategy was followed in order to achieve market coverage as quickly as possible in the competitive real estate agency environment and in an institutional environment in which franchising is regarded as legitimate and successful for both parties, it is likely to flourish. Secondly, it gave franchisors an opportunity to offer ownership to successful managers and worthy people in the group so that wealth could be increased for both parties. Thirdly, the real estate industry contains a number of people who can move into ownership positions and who know both the industry and the organisational culture well. They are used to self employment as the majority of franchisees come from a sales or sale/management position. Lastly, real estate franchisors develop a unique resource competency that delivers sophisticated support structures to franchisees (See Section 5.2.5). A feature of franchising in this sector is the strongly independent nature of the franchisee businesses developed by entrepreneurial owners alongside the parent organisation. Thus there is a juxtaposition of autonomy and dependence that appears to work very effectively, because agency concerns are satisfied and franchisees benefit from the mature resource competency of the franchisor. Nevertheless, the support given does not diminish franchisee independence or entrepreneurial innovation and both partners in the relationship benefit from the innovations of the other.

Considering these specific industry franchising characteristics, the results from the first step of this study suggest that an integrated and extended perspective is the best framework for explaining franchising in this sector. Real estate franchising is based on both resource and agency considerations

because it satisfies the need to capture market share and supply office owners who are both committed and motivated to succeed. However there are other factors at work. Personalities impact the decision, like the almost paternalistic aim one franchisor saw to 'grow' people and the managerial preference displayed towards franchising at system inception. Furthermore, franchising is encouraged within the unregulated NZ institutional environment and underpinned by two other important characteristics. First, the industry has a constant supply of people who are acculturated in the industry and willing to complete the necessary qualifications to become licensees and franchisee owners. Second, franchisors develop a unique resource competency that means they have the capability to supply their franchisee group with a plethora of high quality support structures, designed to maximise success and encourage those entrepreneurial enough to become franchisee owners. Given these factors it is little wonder an increasing number of real estate company owners choose franchising as a mechanism for growth and competition and strive to develop ongoing mature support systems for their franchisee group.

In the next section I will discuss an example of real estate agency resource competency.

5.3 A Window Study: Corporate Entrepreneurship and Resource Competency in Action – The Harcourts Real Estate Group

5.3.1 Introduction

This section focuses on the entrepreneurial nature of a real estate franchise corporate system and illustrates franchisor resource competency. In keeping with the qualitative nature of the study and as reported in chapter four, an interpretive epistemological position has been followed (Goulding, 2002; Moustakas, 1994).

I chose the Harcourts Group as the subject of the study because the company

began in NZ and it is the only NZ real estate franchise that has as yet, expanded outside national boundaries. It also illustrates the notion of unique resource competency I believe characterises and accounts for the success of franchising in this sector. I have chosen to focus on certain major aspects of the overall business rather than to try to cover all separate areas. I gathered the data for this section from an in-depth analysis of the company website and through discussions with three key decision makers; the general manager of Harcourts International Ltd., and the chief executive, and general manager of Harcourts NZ Ltd. In the course of work discussed in chapter 6 to follow, I also met and interviewed ten franchisees who belong to the system and the quantitative study in chapter 7 analyses data gathered from a larger survey of franchisees including Harcourt's New Zealand and Australian franchisees.

5.3.2 The Harcourts Corporate Organisation

Harcourts International is a rapidly growing real estate franchise with 365 offices in NZ, Australia, Fiji, Singapore and Indonesia. The company provides employment for 3000 sales consultants on a contract basis, with 2/3 working in NZ where the organisation is the most preferred real estate group amongst market participants². The overarching international organisation embraces six companies, Harcourts NZ; Harcourts Queensland; Harcourts New South Wales; Harcourts Western Australia (a merger with Roy Weston Real Estate); Brock Harcourts South Australia (a joint venture with Brock Real Estate) and Harcourts Tasmania (a merger with M&M Real Estate). In the 2005/6 financial year the group exceeded \$15 billion in property related sales.

The NZ website www.harcourts.co.nz is only one example of a portal in the group website that is sophisticated and cutting edge, providing mobile phone connectivity for new property listing data and comprehensive local mapping

² According to ACNielsen Omnibus March 2006.

to assist buyers and sellers of urban, rural and commercial property. The Harcourts Way Business System is available on line to franchisees and salespeople and covers every aspect of business operation and growth. Harcourts International is the Australasian and South Pacific representative of a global network of agencies (*RELO* or Leading Real Estate Companies of the World)³ enabling the organisation to offer its clients the ability to have their properties marketed through almost 5000 member offices in 24 countries. In 2005, the RELO network managed AU\$510 billion dollars in sales worldwide. Harcourts is also the only NZ member of Luxury Portfolio at www.luxuryportfolio.com, a website that showcases superior properties worldwide. All million plus property listings are included on the Luxury Portfolio website, making them immediately accessible across the globe.

5.3.3 A Short History of the Harcourts Group

The genesis of the business was at the end of the 19th Century, when John Bateman Harcourt began his real estate and auctioneering business, Harcourt and Co. By the 1980's, first under family sole ownership and then in partnership, the business expanded outside the Wellington region into Auckland and added valuation services, property management and consultancy to its repertoire.

Arguably the first direct links with the Harcourts of today happened in the mid 1980's when a joint venture with Christchurch based Collins Real Estate was concluded and Harcourts Real Estate Ltd was established. The recognisable *Bluebook* marketing tool was first published in 1985. A brief foray into corporate ownership by Tower Corporation was ended in 1992 with a management buy out led by Stephen Collins and two of the current directors,

³ Available on <http://www.leadingre.com/>

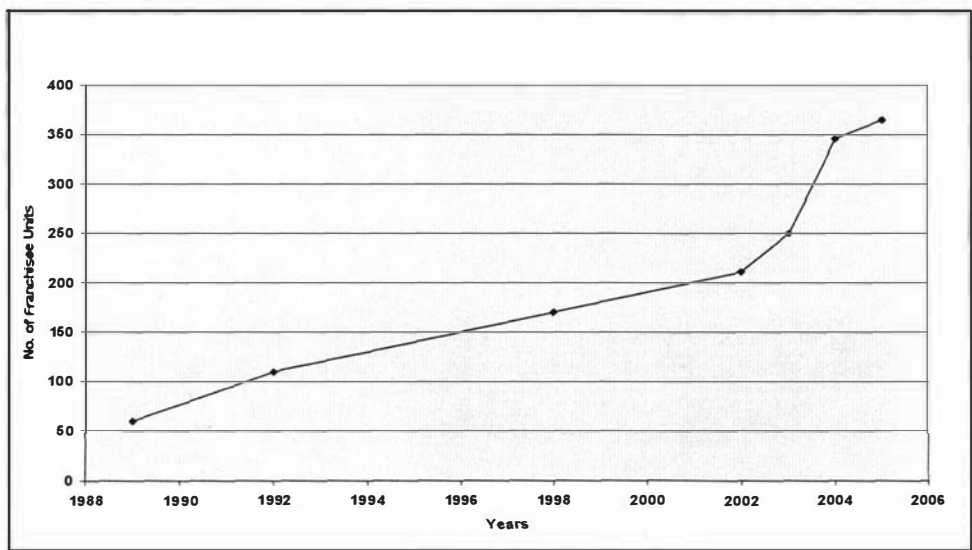
Joanne Clifford and Paul Wright. Under the leadership of Stephen Collins, a North Island expansion policy was embarked upon and in 1989 his preference for franchising became the forward going strategy – around 60 company-owned offices were divested into franchisee ownership. When the Harcourts Group was formed there were 110 franchisee owners. Development of the business support system *The Harcourt Way* followed alongside an aggressive expansion policy. In 1996 the first company website was launched and in the following year a move into the Queensland market was undertaken under the control of Mike Green who established the head office and the first six Australian based, franchisee owned agencies.

In the past six years Harcourts International has grown in several directions and since 2002 under the leadership of the general and managing directors Paul Wright and Mike Green. First the Auckland presence has been extended with the addition of eleven new offices. Then the Australian organisation moved into New South Wales by acquiring 19 existing Sydney offices and the first Pacific office was opened in Suva in 2003. In the following year, 61 Roy Weston Real Estate offices in Western Australia and Indonesia were merged into the group and joint ventures concluded with M & M Real Estate in Tasmania and Brock Real Estate in South Australia. Currently Harcourts International is working on a joint merger in New South Wales.

In 2006 the group had grown to 365 offices with plans being mooted for moves into other areas, notably the massive market of mainland China. Whether the group does this by offering a master franchise as the American Coldwell Banker agency has done, or whether it aims to establish another international arm based in China can only be a matter of speculation at this stage. What ever the course, expansion by franchising is clearly Harcourt's strategy of choice underpinned by a continuing refinement of the company's resource competency. Figure 5.2 shows the growth in franchised units followed by the group and a sharp rate increase since 2001. By the end of

2007 the goal is to reach 600 franchised offices and 6000 salespeople⁴. In line with the shifting imperatives viewpoint (Castrogiovanni *et al.*, 2006b), as the Harcourts Group matures and internationalises the number of franchised units increases. Contemporaneously, as this happens there is continual refinement of resource competencies.

Figure 5.2: The Harcourts Group Franchise Growth



The graph shows steady system growth since its inception in the 1980's.

5.3.4 The Harcourts Group Resource Competency

One claim made in this thesis to distinguish franchising in the real estate agency sector is the development of unique resource competency. In the following subsections of the Harcourts window study I will discuss specific aspects of the type of resources used by the organisation. My aim is to illustrate the importance of these resources in ensuring an ongoing and viable franchise strategy.

⁴ Personal communication - Harcourts general manager, Paul Wright, June 2005.

Over the franchise years Harcourts has provided tangible links between the organisation and the public by forging associations with local organisations. The first was a partnership with the NZ Police Crime Prevention Programme and the NZ Fire Service four years later. It is not uncommon for real estate franchises to establish such community links, Bayleys Real Estate Group for example have a partnership with the Royal New Zealand Foundation of the Blind's Guide Dog Services for sponsorship of guide dog training. In 2000 Harcourts launched support for the NZ and Australian Heart Foundations. Such active community involvement ensures brand visibility, keeping the company name in a position of front of mind awareness and thus adding value to both the organisation and franchisee businesses.

However, community links are only a minor part of the entire picture. The following table (Table 5.2) outlines the kinds of resources the company has developed that enable it to manage, support and maintain the relationship with its growing number of franchisees.

Table 5.2: Harcourts Group Resource Competencies

<p><i>Website available to the public and contains a members section</i></p> <p>Property Database on the Internet</p>	<p>A full database of all available properties accessible to the public, offering quick and advanced search features. Links to job opportunities, appraisal services, research, Harcourts people and the Bluebook publication.</p> <p>http://www.harcourts.co.nz/</p> <p>The members section is a total business development library.</p> <p>The Australian website was established in 1998.</p>
<p>On Line Resource Library linked through <i>The Harcourts Way</i> (1992) Business System. Established 1996</p>	<p>A comprehensive training library containing lists of 30 topics, PowerPoint presentations and worksheets for the use of franchisees and salespeople. A full menu of support in management, sales, administration and property management. Detailed, downloadable instructional manuals - Established 1999</p>
<p><i>Mortgage Express (NZ) Ltd</i> – offering mortgage products and financial services.</p> <p><i>Financial Services (Queensland)</i> – offering mortgage brokerage, insurance and financial advice</p>	<p>A value added service http://www.mortgage-express.co.nz/</p> <p>Mortgage brokers linked to 13 lending institutions throughout NZ. Features include loan calculator and deposit help. Began as a joint venture in 1997 http://www.harcourts.com.au/hfs/</p> <p>Financial consultants provide answers to all questions, online or personally - Established 1998.</p>

<i>Harcourts Property System - On Line Listing and Client Management Software</i>	Best practice procedures - Regularly updated listing management and client relationship procedures for administrators and salespeople – Established 1998.
<i>Harcourts Card – a credit line in conjunction with GE Capital, also available in NZ</i>	A value added service Through alliance with GE Capital, Harcourts is able to offer 100 day interest free loans to vendors to fund marketing campaigns. 1999 in Queensland and 2000 in NZ.
<i>Harcourts Legal Services – conveyancing available to clients</i>	A value added service Link with a legal firm that offers clients a fixed conveyancing fee and access to focused experienced legal staff. Established in 1999 in Queensland.
<i>The Harcourts Academy – a training system providing a career path in real estate</i>	An in-house training and development programme linked to REINZ accredited educational courses aimed at producing branch managers and licensees (future franchisee owners). Established 2002.

<i>The Harcourts Promise</i>	A client services programme – Established 2001.
Brand Standards through links in NZ and Australia	Guidelines for consistency in all communications http://extranet.harcourts.co.nz http://extranet.harcourts.com.au
Community links	NZ Police 1992 NZ Fire Service 1996 NZ Heart Foundation 2000 Queensland Heart Foundation 2001
International Links	Leading Real Estate Companies of the World (RELO) and Luxury Portfolio - Australasian and South Pacific representative. Established 2003.

5.3.4.1 AccelerateIT: Technological Competency

Communication is central to the success of a franchise group (Dickey, 2003) and a specific competency developed by the Harcourts Group is their technology resource called AccelerateIT. The AccelerateIT team has built an intricately linked array of technology systems covering all aspects of the company's core real estate business and designed to facilitate the flow of information with and among franchisees (Dickey, 2003). The information available is accessible to all franchisees and salespeople to enhance their business operations. In this way Harcourt's use technology to increase the operational efficiency of their franchisee support systems and to provide added value to market participants.

Franchisee owners can access information on managing their business and their sales staff at one central interactive location through Harcourts Online. Amongst others there is manual support for sales meetings, recruitment and retention procedures and management development. Trust accounting is recorded, reconciled monthly and invoices generated. Sales people's contract earnings are calculated and payments generated, whilst totals are recorded for award rankings. The site makes statistical information on each office accessible to franchisees, all listings are continually updated and administrative and sales staff has ready access to the areas of the site applicable to their roles. Sales staff and assistants have e-mail accounts and customised web pages while regional support staff can access all information that enables them to lend support where it is most needed.

The Harcourts Property System (HPS) module deals with residential property listings from which franchisee owners can generate customised or pre-formatted reports relating to performance indicators used in one-on-one sessions with salespeople. Their sales staff can undertake comparative market analyses and search current and past listings. Office administrators can enter new listings for dissemination to other offices, generate reports and access pre-formatted forms.

A totally secure client management system (CMS) is available to all Harcourts people to maintain correct databases, schedule tasks and generate reports linked to *Mobile Agent* or remote access via laptop. E-Marketer is designed as a dedicated prospecting tool to assist salespeople gather stock for sale, and the entire system is fully supported through a call centre operation in both NZ and Australia.

5.3.4.2 Company Structure

Another example of resource competency is illustrated by the company's available human resource gathered in the seven companies that comprise the Harcourts Group. See Table 5.3 for an outline of the company structure.

Table 5.3: Harcourts Group Structure

Harcourts International Ltd.	Managing Director General Manager Academy – 9 staff Operations & Strategic Growth Manager IT (Accelerate IT) – 7 staff Communications Manager Marketing Department – 6 staff Financial Controller Business Operations Manager Mortgage Express
Harcourts New Zealand Ltd.	Chief Executive Officer General Manager Business Development Managers – 5 regional staff Technology Manager Accountant Property Management Coordinator Rural Manager Sponsorship and Events Coordinator National Marketing Manager Academy Trainers – 3 staff
Harcourts Queensland Pty. Ltd.	Chief Executive Officer Two Business Development Managers Communication Manager State Property Management Coordinator Organisational Development Consultant Business Operations Manager Technology Manager Events Manager Financial Services Manager Academy Trainer

Harcourts New South Wales Pty. Ltd.	Chief Executive Officer General Manager Business Operations Manager
Harcourts Western Australia Pty Ltd.	Chief Executive Officer Property Management Coordinator Business Operations Manager
Brock Harcourts Pty. Ltd.	2 Chief Executive Officers Business Operations Manager Marketing Coordinator Academy Trainer
Harcourts Tasmania Pty. Ltd.	Chief Executive Officer Director

5.3.4.3 Targeted Franchisee Support

The Harcourts website provides all aspects of business management and development resources for salespeople and in doing so indirectly aids the franchisee owner. There is every type of support for the franchisee in all aspects of business organisation and development. In addition, the regional development managers and general managers are available at all times to assist franchisees. Events management throughout the organisation ensures networking is encouraged through annual conferences and bi-annual owners and managers meetings.

5.4 Window Study: Summary

An insight into the Harcourts International organisation serves to illustrate real estate franchise organisational resource competency. It is resource competency that allows the franchisor to maintain a quality relationship with franchisees in the system, grow group loyalty and enhance brand value. The outcome is of benefit to both parties to the

franchise agreement and an illustration of the Dana *et al.*, (2002) notion of an autonomy/efficiency trade off. Although the shifting imperatives model of agency and resource constraint reasons intermingling at various stages (Castrogiovanni *et al.*, 2006b), applies to real estate franchising, a more complete picture is formed when the franchisor focus on building system resources is added. Resource competency is fundamental to a continued franchising strategy in the sector because real estate franchisor organisations become so proficient in their role that franchising becomes entrenched.

An overall objective of this thesis is to interpret fine-grained information in order to mitigate the research gap on franchising in the real estate agency sector and this chapter has started this process by focusing on franchising strategy. An integrative theoretical framework has been used to explain the continued and growing incidence of real estate franchising. Past research has been across industry sectors and largely quantitative in nature and extant theory has used two overarching reasons to explain franchising – agency and resource scarcity. This study integrates these views and adds an extended perspective of resource competency to account for the success and unique characteristics of franchising in the sector. In the empirical study of franchisors discussed in this chapter, several elements have emerged as important strands for consideration that include, not only advanced resource competency, but also the notions of acculturation and parallelism.

5.5 Chapter Conclusion

The aim of this chapter has been two fold. First, it has attempted to present a picture of the perspective of real estate agency franchisors and to discuss the findings of the first qualitative step in the sequential empirical study carried out in this thesis. In doing so, it has attempted to set the scene for exploration of the franchisee perspective described in the following two chapters. Second, it has set out and discussed themes that arose as a result of the in-depth interviews conducted with real estate franchisors and by building on previous research has built a picture of the antecedents to franchising in this sector

and stressed the desire for competitive advantage as the underlying reason for a franchising strategy. The research outlined in this chapter is the first lens of focus on franchising in a specific industry context and several elements have emerged in the discussion. Of particular interest is the notion of resource competency, and ideas of acculturation and parallelism. The franchisor study has demonstrated that real estate franchises like the Harcourts Group continue to flourish because franchisors develop unique competencies enabling them to support and encourage franchisees to grow their own separate but parallel and successful businesses linked by co-operation and common goals. Real estate franchisees come from within each system or the industry at large and therefore enter the role fully acculturated. They then develop their own resource based competencies that allow them to grow a successful business and in some cases, several successful businesses.

In the following chapters the focal point shifts to the franchisee's perspective and explores their business ventures, entrepreneurial characteristics and their own individual resource competencies.

6

The Franchisee Perspective: Qualitative Study

6.1 Introduction

Underpinned by theory linking franchising and entrepreneurship traced in chapter three, my attention in this chapter is directed toward the franchisee, a perspective that has received little attention in the literature (Grunhagen & Mittlestaedt, 2000), especially from an entrepreneurial viewpoint. Such a turn in focus is driven by the fact that any attempt to explain the franchising phenomenon and the continuing economic relationship between two parties cannot be adequately explained by reference to the motivations of the initiator alone (Hoy *et al.*, 2000). Franchising requires one set of entrepreneurs to interact with another set of entrepreneurs who buy the former's business format. Thus it is important to explore how this relationship and the interdependency that results are managed. Furthermore, the question of whether some entrepreneurs select franchising because they perceive less risk and uncertainty is contentious and so further research is warranted into how franchisees search and find the opportunity, what resources they gather, how independent they are and what types of entrepreneurial actions they undertake.

Because contextual issues are important when attempting to understand entrepreneurial phenomena (Dana & Dana, 2005; Ucbasaran *et al.*, 2001) an examination of entrepreneurial activity in a specific environment like real estate agency has the potential to shed further light on the understanding of both franchising and entrepreneurship. The current chapter and the chapter to follow draw on empirical observations from sample groups of franchisee owners. Focus is on their perceptions, skills

and processes, thus giving a more balanced observation of real estate agency franchising, by adding to and extending the perspective taken in the previous chapter.

In order to understand franchising in the real estate agency sector better a two phase study is undertaken. The key intention is to explore the idea that an entrepreneurial partnership exists. In this alliance franchisor and franchisee entrepreneurs co-operate to obtain mutual benefit and are able to leverage 'entrepreneurial value' (Firkin, 2001, 2003) from a combined competency in developing their resource base. Such a notion is central to the operationalisation of real estate franchises.

6.2 Phase One: The Perceptions of Real Estate Agency Franchisees

The study of NZ real estate agency franchisees is divided into two phases. This chapter contains the first phase in which fine grained qualitative data from a small group of franchisee business owners is collected and analysed. In the second phase (Chapter 7), a quantitative approach is used in which survey data from a larger population of franchisees invites a more objective viewpoint. The process is sequential and rather than predetermining what questions to ask in the survey phase, questions emerge from the interview phase (Patton, 1982). A mixed methodological approach allows a traditional deductive approach to be melded with an approach that provides opportunity to learn directly from the subject, so that there is less need to rely solely on quantitative data and the assumptions required. The study reported here is the second step of the sequential mixed method, mixed model approach and the first phase of the dedicated franchisee study described in chapter four (See figure 4.1, p. 88).

6.2.1 The Sample Demographic

The sample group of twenty two consisted of 17 male and 5 female franchise owners from around NZ. These people had spent from 2 years to 25 years and a median of nine years as franchisee owners. Their median age was 56 years which is consistent with the more mature age of real estate industry professionals. The participants had spent an average of 23 years working in the agency sector and most had experience in self employment either in a sales role in real estate prior to becoming a franchise owner or as small business owners in another sector. All but one of the participants had entered ownership either directly from a sales position or from a combined sales/management role. One person came directly from a valuation background. Most had been previously self employed (95.45%). Sixty eight percent (15) of the sample now owned more than one real estate office, with the largest number of offices being five. The median business size, inclusive of the number of offices was 32 sales consultants.

When asked to self report their character types, participants described themselves as confident and outgoing (6); demanding, driven and passionate about their job (10) and consultative and consensual (5). Sixty five percent of the group had a limited education consisting of just three years secondary schooling. Twelve had become owners as a deliberate career move strategy, eight had been offered the opportunity to become owners when their respective groups undertook a franchising strategy or expanded; one took the option to move from a franchisor corporate role and one chose to become the vanguard for a price driven franchise group spreading into NZ from Australia.

6.3 Phase One Findings: The Emerging Themes

Three major themes emerged from the interviews to inform the broad research questions in this thesis about the nature of real estate franchising; the relationship between franchisees and franchisors and the entrepreneurial nature of the participants. I classified these into the broad themes of independence; connectedness to the franchise system, and the entrepreneurial nature of franchisees and their businesses. In addition, I identified several contributing factors like business growth plans; innovation; the quality of the relationship; the importance of brand; risk propensity; competitiveness and past ventures. One aspect of entrepreneurship, for example, is the franchisee's propensity for risk (Shane, 1996) and links with the motivation to franchise and the perceived advantages gained. In this section I will discuss the findings under theme headings and describe of the types of achievements the franchisees have made. Table 6.1 summaries the themes and contributing factors that were modelled in the Nvivo 7 software programme and the subsections that follow discuss these themes in a dedicated fashion.

Table 6.1: Franchisee Emerging Themes

Broad Themes	Contributing Factors
<u>Independence</u> sub branding maverick behaviour marketing techniques negative perception of the franchisor individualised procedures	<u>Growth Plans</u> number of offices specialisations & profit centres growth of the sales team new ventures outside real estate agency <u>Innovations</u> marketing techniques soft values human resource management strategic alliances, ideas teams
<u>Connectedness</u> dependence loyalty	<u>Quality of the Relationship</u> varying perceptions role divisions <u>Importance of the Brand</u> image value
<u>Entrepreneurial Perceptions</u>	<u>Risk Propensity</u> strategies for managing risk exit strategies backup and support <u>Competitiveness</u> desire for success <u>Past Ventures</u> business ownership experience

6.3.1 Independence

Independence is considered as one of the primary characteristics of the entrepreneurial instinct¹ and has been defined as a freedom to act as one pleases. A key motivating factor to franchise is the desire for self employment (Blanchflower & Oswald, 1998) and in commercial business sense independence can be seen as self employment, because

¹ New Business Magazine (2002) What makes an entrepreneur? What makes business leaders tick? Accessed January 23, 2006 at <http://an.newbusiness.co.uk/cgi-bin/showArticle.pl?id=410>

self employed people control their own destinies. The question remained - just how independent are real estate franchisees in the sample and how do they perceive their independence?

Franchised real estate offices have branding and financial constraints outlined in the franchise contract, in fact standardisation is ubiquitous in most franchise systems across industries thus it can be argued that the franchisees' existence is contingent on the franchisor. Clearly there is room for friction between franchisors and franchisees based on conflict between the two perceptions of dependence (Thompson, 1971; Dant & Gundlach, 1999; Spinelli & Birley, 1996), however, franchisees in the sample reported that notwithstanding their commitment to the franchise system, in operational terms they have virtual autonomy. This perception is more in line with current thought linking the franchise relationship with reciprocity and symbiosis (Alon & Bain, 2005; Dana *et al.*, 2002).

As information gathered from the interviews indicates, real estate agency franchisees see themselves as being self employed and perceive their businesses as independent of the franchisor so can be accurately seen as a type of entrepreneur. Perhaps the closest 'type' identified in the literature to date is the serial entrepreneur of Ucbasaran *et al.* (2001), that is, one who has had previous business experience; and those franchisees who have multi offices can be called portfolio entrepreneurs. Twenty one of the interviewees had been self employed before they became franchisees when one considers that a real estate sales role is undertaken on a contract basis; although only five had owned other businesses. Although an outward image of belonging to a group is projected to the public, inwardly the perception of independence is high and depends on the confidence expressed by each franchisee. Franchised offices bear their own name as well as the franchise brand name and in some cases this sub branding has more importance than the franchise name. Many franchisees work hard to preserve their local identity whilst

leveraging the strength of a globally recognised brand name (Yakhlef & Maubourguet, 2004). For example an agency might be called Joe Boggs Real Estate Ltd. (Harcourts North Shore) or in other instances, Harcourts North Shore (Bloggs Real Estate Ltd). It is true that standardisation in relation to performance and systems can potentially cause conflict and a case for identifying elements of the franchisor business format that should be standardised and those that should be adapted to local market conditions has been put forward in the literature (Kaufmann & Eroglu, 1999). However, in the sample group there was a perception of latitude to either follow the standard business format or to innovate on an individualised basis, so standardisation did not constrain any of the interviewees.

One very successful multi unit franchisee in the sample group felt almost rebelliously independent. Dwyer & Oh (1987) suggest that the more successful an entrepreneur is the more autonomous he/she will be and autonomy is recognised as a common entrepreneurial characteristic (Williams, 1999):

We've created a very strong sub-brand which they (the franchisor) could happily get rid of. It's a bit naughty. In (XXX) ... the only competition we have is other (XXX)... offices. So although (XXX)... like to believe that we are one big happy family the reality is that we are competitors.

Another owner of a large successful operation, albeit a self confessed committed but maverick individual, said:

I'm quite a lone ranger ...I will not break one rule or regulation, but I will bend them.

One franchisee was determined not to be too uniform in operation and this manifested itself in making sure advertising had a point of difference from the standard franchise format so that his franchise office would stand out in the local market area:

You guard your independence quite vehemently, especially if you come from an independent background. You want to be able to stamp your own way of doing things on it.

One independent attitude reinforced business independence and even questioned the value of the franchisor role, expressing dissatisfaction with the level of communication:

For the last 7 years we've out grossed and out sold every single office in the whole group internationally and no one has ever sat down with me and said what are you guys doing that everybody else should be doing.

The majority of franchisees were not content to use generic procedures and operations manuals but had taken the option of individualising material and processes for their own office use. Franchisees who wrote their own material were very proud of the result. An experienced franchisee felt he had already worked out his own innovative processes independent of the franchisor and was working with a group of experienced people who were unfettered by any franchisor directives or prescribed methods.

They leave me alone to do the job. I run a very successful franchise for them and they're happy enough to call on me when they want my expertise and I'm happy to call on them, which I very seldom do...

6.3.1.1 Growth Plans

The ways in which the franchisees saw their businesses growing was considered to be evidence of their independence because a desire to grow the business indicates a positive and aggressive business attitude and assumes a level of satisfaction with the current franchise system. Almost sixty percent of the franchisees expressed a desire to grow their businesses and to compete at a high level in the market. The desire to compete is fundamental to growth in the rapidly changing agency world and this

suggests a positive link with entrepreneurship. Faced with intense competition, firms and agents compete by adding new activities or redefining their business approach (Mintzberg & Quinn, 1991). Even the act of joining a franchise displays recognition of the competitive advantages to be gained. A positive attitude to growth manifested itself in a number of ways. Firstly in an increase in the number of offices held:

We have an audacious goal to obviously try and push further north because it is where we see the growth for Auckland.

Secondly, development of specialised departments and the creation and conceptualisation of profit centres based on residential, commercial, coastal and rural property specialities:

We have already the infrastructure in place to manage a lot more properties than we actually have. So we've decided to take a head on approach to growing it because the people I found that are in the business managing properties tend to be busy managing properties and are not structured enough in their approach to be able to get their head out of that space for so many hours a week and get their head into the sales role if you like.

...we have a multi-function office. We have residential, rural, commercial and property management. Each of those is a profit centre.

The business has been build up strategically. It starts with cheap homes, first time buyer, investment buyer in ... comes through the luxury homes in ...e and then goes through into lifestyle blocks in We have a property management division within the company as well so all of that is strategically in place.

One franchisee utilised management team strength for growth planning and strategising and had developed initiatives to cope in what he perceived to be a slowing market in 2006. He instigated an aggressive growth strategy in the form of a massive recruitment drive. Another focused on opening a further three to four offices as soon as feasible and one man spoke of moves to 'drive' the business forward with planned growth strategies:

I've got four, good strong leaders over the four branches. So I see having more time to think, work out strategies and do more on the business.

Other growth orientated franchisees focused on increasing their sales team with one moving from four to thirty five in three years of operation:

We started off with maybe four or five people at that stage, and today covering the same area we'd have 35 sales people and probably management divisions, so the last five to six years the growth has been significant....

Another owner was looking to employ forty to fifty new people in 2006 and was heavily involved in a recruitment programme.

In terms of the growth of further ventures, three of the growth orientated interviewees were on the look out for other investment opportunities outside the agency sector. One was already involved in the hospitality industry, one was considering various passive investment options verses direct office expansion and another intent on the long term objective of property development. So even though all three were successful in their real estate franchise operations, more diverse opportunities and new ventures continued to beckon, thus, indulging their portfolio entrepreneurial tendencies (Ucbasaran *et al.*, 2001).

Notwithstanding the growth orientations of the majority of the franchisees interviewed, 40.91% indicated contentment with their current position and no desire or intention to grow their businesses further. A matrix query in the Nvivo QSR 7 programme to explore a link between age of the franchisee and growth intentions, returned a negative result. Likewise the number of years in the industry did not appear to impact propensity for growth and in two instances where franchisees were new to ownership no further growth plans were yet in evidence. These franchisees had only been owners for two and four years respectively. My tentative conclusion

was that a desire to grow the business appeared to be linked to the personality of the franchisee, in line with upper echelon theory, rather than his/her age and that a period of consolidation might be considered desirable by some before consideration of further growth. This latter point might suggest a concern for risk and a more conservative approach not necessarily attributed to entrepreneurs, but it is perhaps more likely to be associated with business confidence and the willingness to seize incoming opportunities. Also those owners who had embarked on a multi office course and currently had between two and three offices (9) were more likely to show strong continued growth aspirations than those with single units (7) or those who had large scale operations of four or more units (6). The franchisees thus demonstrated a spread of business commitment levels, with a majority choosing serial entrepreneurship (Ucbasaran *et al.*, 2001) by being multi office owners. Just as franchisors are entrepreneurial in growing a franchise system, franchisees demonstrate entrepreneurial aspirations to grow and compete effectively.

6.3.1.2 Innovative Business Methods and Measures

The ability to innovate is a recognised entrepreneurial characteristic (Drucker, 1985; Filion, 1998; Frazer, 1937; Schumpeter, 1934; Timmons, 1992; Zieba, 2002) and the ability to make continuous improvements through innovation and to find new ways of increasing office success both financially and emotionally is considered a contributing factor towards entrepreneurship (Keogh, 2001). Furthermore, there are plenty of opportunities to innovate in the rapidly changing real estate agency environment (Crowston, *et al.*, 2001; Mintzberg & Quinn, 1991). Three areas where methods utilised by franchisees in the sample demonstrated innovative behaviour could be identified from the data. These included areas in marketing, human resource management and development of strategic alliances. It is interesting to note here that when respondents in phase two of this study were asked in the quantitative survey to list innovative processes, responses were disappointing. This could be because many were too busy or couldn't be bothered to answer a question

that required anything other than a 'yes' or 'no' answer. Or it could be an indication that many of the survey respondents were content with franchisor innovations and reluctant to spend time on being innovative themselves. Nevertheless, interviewees in phase one were more than happy to talk about their business innovations.

6.3.1.2.1 Marketing

Most of the franchisees boasted proudly of their individualised office open home methods. For example, an 'open home trail' procedure that recorded all attendees at open homes on a database was considered a way of increasing the efficiency of making contact with serious market participants:

...every agent gives their open home register, which hopefully they have signed the purchaser in with some contact details, and we data base that on a Monday and then for the next four weeks those people will receive what we call the open home trail. This 'trail' is a little booklet with thumbnail photographs of properties with the open home times in chronological order and they will go on that for the next 4 weeks. Last week we sent out about 500 open home trails and we've identified the fact that about 3% of people in the market place at any one time are either buyers or sellers. We think that if they come to open homes then we feel that that is good target marketing.

Another company used a similar procedure called an open home preview and considered themselves ahead of the market in terms of data base marketing. Other database marketing innovations included a shared system that acted as an effective induction and management tool as well as a way of minimising excessive competitiveness in the office:

All our agents use the database and when we bring on a new agent its not like they have an empty desk and a phonebook. There's a laptop and a screen and 15,000 contacts all categorised into tenants, owners, investors- the whole 9 yards. So as a management tool we know who is dealing with whom and who has spoken to whoever so you don't get conflict down the line. As a new agent it's easier, you've got the data there you plug straight into it and go.

One franchisee developed the interactive office window now common in many agencies:

I get excited by new ideas that stop this business from being boring. For example quite a big innovation that was ahead of the rest of the franchisees was to put an interactive screen in the window.

Divergence from the prescribed franchise group website listing procedure was a way that one successful business owner was able to control the quality of his interaction with clients:

The computer system is such that any office can dial up a region, find all the listings, find the details, then go and take their buyers through those properties. We will not ever allow that to happen ever, because we have the very tight system of ringing the vendor to make sure it is convenient, ringing them back taking the responsibility that everything is locked. It's all about communication. So we will not give open access to our listings, other agents in the group must contact us, we will contact the vendor. They can then take their buyer through, report to us and we report to the vendor.

Similar efforts to ensure that the experience of clients and customers was a worthwhile real estate experience and all needs fully met were undertaken by other franchisees. One multi office owner had built an impressive auction room with forty eight speaker surround sound, video equipment and data access, spending a massive one million dollars in set up costs. Auctions can be watched via the Internet - the only place in NZ with this facility. There is also a full-time auctioneer and a full-time accountant employed in this business. Another franchisee owner employed a customer relations consultant and was personally involved in customer contact to ensure the experience was worthwhile:

We have a customer services consultant who is speaking to people. They do three points of contact during a listing period as well as surveying them afterwards. We are very hands-on and not in this

room with the door shut. I go out to review meetings and do reserve sets for auctions. I will help with open homes...

In order to achieve effective spread over a diverse rural area one franchisee employed innovative 'octopus sale procedures':

There's a main body and I have people living in beach resorts. Another salesperson lives at ... so that person takes account of the area. We have another person at the ..., another person in the ... area and I have a holiday home up at... Bay and I do that area up there, and I now have a lady up at So we do from ...down to So that's what happened — I have employed people in an area that they have a sphere of influence and it's no extra rental cost — it extends our service.

6.3.1.2.2 Human Resource Management

A characteristic now associated with entrepreneurship involves a trend to collaborative, ways of doing business in organisations². Termed 'femininity', an emphasis on soft values and relationships was widely spread amongst the sample group of franchisees. The act of franchising itself is seen as co-operative behaviour (Gauzente, 2002) and co-operation and symbiotic marketing is a fundamental survival tool in highly competitive environments (Alon & Bain, 2005; Dana *et al.*, 2002). Therefore by virtue of choosing franchising, franchisees demonstrate an entrepreneurial trait.

All the franchisees in the sample demonstrated other collaborative actions by having regular meetings with staff in order to assess their current positions, to work through strategies for improvement and offer extra training sessions. This involved meetings with administrators, sales people and branch manager in multi-unit groups on a regular basis. A data query run in Nvivo 7 sought to uncover instances when the subject of meetings was raised and to reveal their purpose and importance. 14 (63.6%) of the franchisee interviewees spoke about their individual efforts to keep in

² New Business Magazine (2002) What makes an entrepreneur? What makes business leaders tick? Accessed January 23, 2006 at <http://an.newbusiness.co.uk/cgi-bin/showArticle.pl?id=410>

close contact with people in their businesses on a daily, weekly and monthly ongoing basis so that focus could be achieved and relationships strengthened.

We have a very open policy here, the policy is everything is transparent there's nothing that's secret or hiding or hidden agendas or what have you, we're completely open about what we do and we work very strongly as a team. It's very much a team orientated business.

One franchisee had instigated a programme of gradual improvement in his business based on an inclusive team approach:

We have a Kaizan approach to business. It's a Japanese term — it's called gradual improvement — we get to a level each year — it's like a ratchet — we just crank it — we just slowly do that and we've done that ever since I've been in business. My philosophy is that if we can just improve a smidgen each year, and even on a down market, our turnover has gone up each year.

This owner was passionate about encouraging and valuing people in his business organisation and proudly boasted that he always acknowledged important dates like birthdays and anniversaries and gave monetary rewards for loyalty of service. He even paid retainers to his sales consultants to foster a greater sense of security and commitment to the firm as well as to help in attracting younger staff:

...the average age in this industry is 54 years of age. What I'm doing when I employ these people, I actually pay them a salary. Not many people do that. I guarantee them a \$2000 a month income, so it enables me to get young people in the industry.

Another franchisee had started a trainee internship scheme to attract younger people into the sales role. There is increasing evidence of this type of initiative with part time employment opportunities and the prospect of future positions being offered to property students at university.

6.3.1.2.3 Teams and External Alliances

Another form of collaboration was demonstrated by franchisees in the sample. This involved strategic ways in which they could continually improve their businesses. It was not uncommon for participants to gather around them a team of ideas people or to join in partnership with a person who possessed different but complementary characteristics, so there is recognition that teams and alliances hold the potential to add significantly to company performance:

I am very fortunate to have a whole heap of very experienced and creative people around me. I just throw ideas out or ask them for ideas and we have a philosophy within the office which says there's no such thing as a bad idea, we want to hear them all. ...he (a partner) just gets the ideas and runs with them and says this will be fantastic and away he goes for this business. I'm the one that runs behind holding on to his coat tails saying stop that, don't be silly you've got to put this into place to make that work. He gets out and has these arm flapping ideas and throws a few things down and then buggers off and I'm the one that sits down and says how we actually make all this work.

A unique team management approach was being tried by one franchisee because of the impending retirement of the current business manager:

I'm, actually just in the process of selecting three people in our organisation and we are going to have a board. We will have a weekly board meeting and they will advise us on the policies and how we should do things.

All the multi office franchisees employed branch managers who were responsible for the day to day running of the offices. The branch managers had a measure of independence to establish their own targets and cultures but remained largely under the control of the franchisee owner. By developing teams of managers multi unit franchisees create their own mini company-owned structures and potentially embryonic franchise systems.

The creation of external alliances not only applies to franchisees but is also increasingly common across systems where firms link with similar firms in overseas locations. For example, Bayleys Realty Group has forged strategic links with Christie's Great Estates in the UK and the international firm of Cushman & Wakefield for the purpose of sourcing overseas property and providing referral services. Benefits accrue to individual franchisees as well as the whole system. The integration policy of franchises that internationalise and use both their own trade name and the local brand is called symbiotic marketing (Dana *et al.*, 2002). This involves a benefit to the local franchisee from the powerful franchise brand and assistance, whilst the franchisor gains access to a restrictive local market by being allied to the local brand name. Dana (2006) points to the effectiveness and efficacy of such networking and symbiotic entrepreneurial relationships amongst small businesses in Europe.

6.3.2 Connectedness

I use the term 'connectedness' to denote loyalty, dependency and the feelings of belonging that franchisees get from being part of a franchise system. Just as the system wide benefits of collaboration are evident in strategic external relationships, so the internal relationship with the franchisor is a vital part of belonging. After all, entrepreneurship is described by focus on creative partnerships (Hoy, 1994; Millar, 1983). Although the vast majority of franchisees both perceived and demonstrated independence in their business operations, they all also displayed commitment and connectedness to the franchisor group, at the same time. They list such things as success of the group nationwide; the philosophies and positive attitudes of the franchisor and the direction and initiatives shown. Others expressed a heart felt passion and connectedness with their group based on a long association and forged personal and business relationships. The franchising relationship just suited their personalities (Hambrick *et al.*, 2005) Such co-existence of the apparently mutually exclusive characteristics of dependence and autonomy is a characteristic of franchising in the real estate industry and confirmed in

the phase two quantitative study. Dana (2006) illustrates how collective action that results can enhance entrepreneurship. In a similar way franchisees are able to leverage entrepreneurial value (Firkin, 2001, 2003) from the pooled resources that connectedness to the system provides. Dependence is fostered carefully by the franchisor with highly charged annual conferences, award recognition ceremonies and interactive intranet contact.

It is the juxtaposition of independence and dependence I believe suggests that entrepreneurial franchisee owners made a strategic decision to join a franchise system and that there are perceived advantages to be gained from a commitment to a recognisable brand and group outside the individual business unit. Fifteen of the sample group were of particular interest because they made a conscious decision to franchise rather than go independent. The remaining seven were offered ownership at the point when the group embarked on a franchise strategy so moved from managerial roles in response to an opportunity handed to them, rather than proactively seeking ownership. The idea of connectedness is discussed in the next sub sections in terms of the quality of the relationship and the perceived market advantage of brand recognition.

6.3.2.1 Relationship Quality

The quality of the relationship was not always perceived as perfect. For example when a query about the relationship with the franchisor was put to participants exactly 50 % felt it left much to be desired. They cited complaints like too many restrictions, high franchise royalty payments that did not equate to value for money; feelings that the franchisor was wary if the franchisee showed too much independence; feelings of being ignored; lack of real recognition; the frustration with disagreements; poorly organised conferences and the fact that power in the group resided in the hands of an elite.

I believe that we could have a closer relationship with corporate through them having more staff. They have their so called associates who come out from time to time. I had a call today from ... who wants to just come and have a chat to see how things are going. If I was a new franchisee and I was new to the business I would be wondering what the hell I joined up with... (The franchisor) always wary of me I'm like the threat.

I found the franchisor system more supportive as we've grown more successful and I think that's because they can't afford not to support me.. Again its very male dominated - no attention to detail. They had something called a power panel where the top business owners were asked a series of questions from other business owners. There were four men and myself and it was a good session. ... I got a thank you card four weeks later. A wee card saying oh thanks very much. I was thinking where is the manicure, where is the flowers to go with it ... make me feel special, you know because I prepared for it but the guys just wing it!

On a more positive note others sited helpful input from owners meetings and business development assistance; the availability of technological and other specialist assistance and feelings of mutual loyalty and commitment to a specific mentor personality.

I cut myself and now blue blood comes out, because I believe in the brand, I believe in the systems.

The franchisor has a regional business manager and I like the fact that there's someone regionally that you can get to. Even though I can get to the CEO or the general manager it would only take a call and they'll take it immediately. I like the fact there's someone there to help with little stuff.

Franchisees have clear perceptions of the role division or focus between themselves and the franchisor. An Nvivo text query revealed the franchisee's perceptions of this role division and areas where there was an overlap responsibility. Table 6.2 illustrates the areas of responsibility for each partner in the franchise contract.

Table 6.2: Franchise Role Divisions





<u>Franchisor</u>	<u>Overlapping Roles</u>	<u>Franchisee</u>
Take the macro view		Take the micro view
Keep the brand foremost in the public mind – thus increase market share		Maintain brand awareness at a local level – thus increase market share
Provide ongoing training		Train and motivate staff at local level
Treat franchisees as clients		Treat their team of people like clients
Provide an environment that enhances entrepreneurship		Provide an environment that enhances entrepreneurship
Run a profitable business		Run a profitable business
Maintain high ethical and procedural standards amongst group members		Interface professionally with the public and maintain company standards
		Pay the franchise fee
Keep abreast of new developments in technology and the market		
Assist with business planning and growth strategies		

Table 6.2 is helpful to conceptualise the effectiveness of franchising in real estate agency according to the perceptions of the sample group. The franchisor is able to leverage economy of scale to provide a level of

service that individual franchisees operating on their own would not be able to match:

We're of such a size where there are people of reasonably good I.Q. and good levels giving this direction and communications area, our technology area, our marketing area. XXX has been prepared to invest in those people. An example is, we had all the business owners, 370 of them, at a Distance Development workshop this year. The technology IT guy, who heads up that department, spoke for 50 minutes about what they're doing and what's happening – he got a standing ovation. I don't think I've heard of an IT person getting that sort of accolade, because people felt if we're going to get all these things to help us with our business and this level of support, it gave all the business owners a confidence and strength to go forward.

Organisations flourish in environments where there is attention to progress and advanced expertise and where institutional frameworks are built on values and traditions, entrepreneurial activity is enhanced (Aldrich & Weidenmayer, 1993). In the real estate agency sector values, traditions and strong cultures arise at salesperson, franchisee and franchisor levels.

6.3.2.2 Importance of the Brand

An important underlying factor in dependency is the power attributed to the franchise brand and how much entrepreneurial value can be leveraged from it. When a text query was run to test how much importance franchisees allocated to the power of the franchise 'brand' seventeen franchisees made comments. Only three felt that their own sub branding held more importance in their area of operation than the overarching franchise brand name. One, a highly competitive franchisee had thought of going independent but held strong feelings of loyalty to the franchise group. Nevertheless, she still perceived herself as an outsider and didn't fit into what she described as a 'blokesy culture' in the group:

I rate my franchise group, I don't rate my competitors. Which is possibly dangerous but I just don't rate them. My competitors are ... (other franchisees in the group) and you can see why the market

share is 50%. I mean if I go look for the XXX market share, I think where are they? But in our group there's quite a strong culture of celebration, sort of boozing when they get together and it's a bit blokesy. So although XXX like to believe that we are one big happy family the reality is different ..., I want us to be at the top of the pile. I don't want to get handouts. I don't want to wait in line for what we can all get equally. I want to take as much as there is.

Another franchisee believed that his office was successful because people in the area perceived him and his business partner with confidence and the franchise brand was virtually irrelevant:

We are very much an independent business but we get the benefit of having XXX signage throughout New Zealand ...we have a very boutique area.

Fourteen franchisees however expressed strong ties to the franchise brand and cited brand power as a mitigating force for their move into franchising. Brand image gave them a backing, visibility and credibility in the market place, something that independents could not match. Thus the decision to franchise could be based partly on a calculated strategy to manage risk.

*Would you fly Air Albatross or would you rather fly Air NZ?
... if I was going to go into business on my own like nobody there knew who XXX was. They certainly knew who the franchise group were because it has been a big name for a long time and it was also becoming quite a credible name nationally. The thing is it is branding isn't it?*

For some brand allegiance was something build up over time and four of the franchisees perceived themselves to be an integral part of the system because they had belonged for so long and had been mentored within the group.

Eighty six percent of the franchisees raised issues of brand power in the course of their interviews citing the fact that the franchise brand operates to provide overall business support by assisting sales staff to get listings and

conclude sales. It operated to attract clients by marketing links with the wholesome family values of trust and reliability. The only negative comment related to the fact that the brand reputation could be sullied by poor franchisee operations. The idea of free riding and shirking is common in the agency view of franchising (Dant & Nasr, 1998).

Brand allegiance thus held a significant presence in the perceptions of the majority of franchisees and even where there was strong sub branding, the franchise brand was still important. Therefore it was concluded that franchisees in the sample rated the power of the brand to assist with their competitive advantage in the marketplace and brand importance underlay feelings of connectedness within the sample group.

6.3.3 Entrepreneurial Perceptions

To discover if the franchisees perceived themselves as entrepreneurial I sought perceptions about their risk tolerance and degree of competitiveness, together with details of the number and nature of past employment. Recent knowledge in the field of entrepreneurship suggests that it is fruitless to make observations about individual entrepreneurial characteristics without including an overall look at the environment or culture in which entrepreneurs operate (Dana & Dana, 2005). If one equates self employment to entrepreneurship then real estate franchisees are entrepreneurs and have been for many years because the median number of years in the business is twenty three years. For most of those years 50% of the franchisees were in contract sales positions with the other 50% having management added to the sales role. So in essence all had been self employed for a considerable time and many remained vigilantly open to further opportunities.

The entrepreneurial perceptions of the franchisees in the sample will now be discussed in terms of risk taking propensity; competitiveness and the number of past ventures they had been involved in.

6.3.3.1 Risk Taking

The ability to take risk has been attributed to entrepreneurs (Knight, 1984; Shane, 1996) and it is clear that franchisees do carry, sometimes unquantifiable risk, because their success is linked to the quality of the franchisor's efforts in marketing the brand as well as providing on going business support and market intelligence. An ability to take risk however, does not preclude efforts to manage that risk and the franchisees achieve that by increasing their market exposure and visibility as members of a franchise group. Thus, any observation of risk taking in the real estate agency sector where franchisor controls are minimal in relation to each individual business operation and where franchisees perceive themselves as independent small businessman, must be seen in this light. After choosing a path of self employment in sales some of the more entrepreneurial salespeople move first into management and then into ownership roles. All demonstrate risk taking propensity and by choosing to own an agency in a franchise structure, I believe franchisees demonstrate a conscious risk management strategy.

I consider risk propensity is illustrated by the reasons franchisees chose to franchise and the advantages they perceived as a result of that decision. In the sample there was no relation between any of the personal attributes of the franchisees and their propensity to take risk. Perhaps the most frequently occurring comment related to the risk involved in starting out in agency business as an independent. This was perceived as *too hard* in the highly competitive climate, where maintenance of quality business systems and cutting edge technological support appeared beyond the ability of an individual licensee. Furthermore, brand prominence ensured new business owners received a strong start and an on going supply of clients attracted by national marketing programmes. Franchising also ensured that the value in the business was maintained and several of the franchisees perceived franchising as providing an assured exit strategy and hence protection of the capital investment.

The name, the mana, the business, the XXX companies do hold their value. The franchisor maintains and increases the investment I have in this business so that the day I walk away the value should be considerable. As a business model I didn't want it to be Joe Bloggs Real Estate because there is no exit strategy for me.

6.3.3.2 Competitiveness

Competitiveness was considered a factor that contributed to the franchisee's entrepreneurial tendencies. As to be expected in the real estate environment, over half of the franchisees expressed their extreme competitiveness, with the single office holders expressing a more competitive attitude than the owners of more than one office. This could suggest single office franchisees felt more vulnerable perhaps because they had less influence within the franchise system or felt they still had to prove themselves.

I'll be quite honest I'm very, very competitive. I enjoy a competitive atmosphere so I'm happy to have them there and most of them are really neat people I've got to say. I get along well with my competitors and we work together from time to time. When it comes to business we want our share ... we're building market share all the time and so we're going to be taking market share from our competitors in doing that. That's fair, that's what business is all about.

All focused on increasing their local market share and invested their own capital in growing that share, so like all entrepreneurs they were constantly aware of increasing their presence in the market and accumulating wealth as a result. Underlying this competitiveness was the brand and the ability to leverage entrepreneurial value from it.

6.3.3.3 Past Ventures

Entrepreneurs do not constitute a homogeneous entity and there is an increasing awareness of the need for a greater understanding of the processes and strategies selected by different entrepreneurs to grow their ventures (Hornaday, 1990; Rosa, 1998). Only two of the franchisees in the

sample group actually said they were entrepreneurs when asked directly, however, eight of the group had been small business owners before coming into real estate. Thus, they had demonstrated a willingness to take risk and were competitive and motivated to succeed. This means that eight of the franchisees could be classed as habitual entrepreneurs (i.e. individuals with prior business ownership experience). Sixteen of the group could be regarded as novice entrepreneurs in that they had no prior business ownership experience before becoming a real estate franchisee. Likewise using these same notions, those in the group who owned multiple offices could be termed serial entrepreneurs or individuals who established another business subsequent to their first (Ucbasaran *et al.*, 2001).

6.4 Chapter Conclusion

In this chapter I have discussed the findings from the first, qualitative phase of the study. It was pointed out in chapter three that the real estate environment is fertile ground for growth of the entrepreneurial spirit and this is especially manifested in franchising. Not only does the dynamic property market provide many entrepreneurial opportunities but both real estate franchisors and franchisees display entrepreneurial characteristics. Focus in this chapter falls on the franchisee and the mostly co-operative, trusting relationship that exists with the franchisor is shown to create a beneficial environment (Clarkin & Rosa, 2005) in which the accumulated resource competencies of the franchisor can be both leveraged and added to, to enhance entrepreneurial value for the franchisee.

Three broad themes emerged from the interviews with franchisees in the sample. First, evidence was found of a high degree of independence, illustrated by aggressive growth plans and development of innovative processes. Franchisees had plans to open more offices with more salespeople; introduce specialist advisors and specific property sector profit centres and even pursue new venture opportunities outside agency work. It was found that multi office franchisees were more likely to gather

further offices but that around four linked offices was considered optimal. All expressed pride in their innovative processes which included new marketing techniques, strategic alliances and teamwork and emphasised the importance of 'soft' human relationship values. The level of innovation undertaken by the franchisees was linked to their level of autonomy and the more innovative they were the more independent they were seen to be.

Second, whilst fiercely independent and autonomous, the franchisees were also connected and committed to the franchise system, recognising the role divisions and the power of the generic branding. It seems odd that two otherwise opposite notions should actually co-exist, but in this environment dependence and autonomy are not mutually exclusive. Here links with extant literature are born out. The relational exchange studies of Bordon-Juste & Polo-Redondo (2004); Dana *et al.* (2002) and Mehta & Pelton (2000) suggest the mutual benefits that the presence of dependence and independence bring. Likewise, Alexander & Doherty (2004) use the marriage analogy to explain the existence of the push/pull factor. There were varying perceptions about the quality of the relationship with some complaints about the value of support given in relation to the high monthly franchise fee. On balance, however there was a belief that the franchisor fulfilled their role successfully. Nevertheless, the few negative perceptions may be a helpful reminder to franchisors. Considerable weight was given by the interviewees to the power of the system brand name to deliver competitive advantage and attract clientele. Brand power is important to both parties to the franchise contract as the franchisor benefits from alliance to the local name and the franchisee receives wider visibility and more trust by being seen as part of the generic brand.

The third theme linked franchisees' risk propensity, competitiveness and past business experience to their perception of themselves as entrepreneurial. Only two out of twenty two interviewees in the sample said they saw themselves as entrepreneurs but this is not unexpected

considering people have difficulty defining exactly what an entrepreneur is. The fact is, all exhibited entrepreneurial tendencies through a propensity for self employment. In addition, they all took risk by investing in the brand, albeit managed risk, and all displayed strong feelings of independence and were highly competitive, while still showing commitment and connectedness to their chosen franchise group.

Given these findings certain areas to explore on a larger stage emerged and provided the basis for questioning in phase two of the study. In the phase to follow I felt the data collected would allow a more objective determination of the extent to which real estate agency franchisees as a whole could be considered entrepreneurial.

7

The Franchisee Perspective: Quantitative Study and Synthesis

7.1 Introduction

My focus in this chapter is two fold. First, I will discuss the findings of phase two of the franchisee study and the hypothesis that real estate agency franchisees are entrepreneurs. Second, I will draw together both phases of the franchisee study in synthesis. The quantitative phase was designed as a corollary to the qualitative phase and consists of data collected from an on-line questionnaire survey of a larger franchisee population. I changed the methodological approach in order to seek validation of the themes revealed in the qualitative phase and in the literature. Information gathered from twenty two franchisees by way of interview, observation and documentation could then be triangulated with data gathered from a written questionnaire given to the larger sample. I used items derived from the qualitative themes for scales in the survey instrument so it was effectively grounded in the views of the phase one participants.

The on-line survey (Appendix C7.1) was sent to 275 franchisees in the Asia Pacific region and designed to measure their evaluations of being a franchisee owner and their relationship with the franchisor by using scaled measures of four variables – autonomy and dependence; personal and business values and the desire for financial security. I consider variances in the measurement of these constructs has the potential to shed further light on the entrepreneurial nature of real estate franchisees and use of a quantitative methodological approach lends objectivity and support to the conclusions drawn in the qualitative phase. Figure 7.1 gives a diagrammatic illustration of the

multidimensional nature of the variables. Group labels are slightly different from the qualitative themes discussed in the previous chapter. In this phase innovation is associated with independence or autonomy, personal values and risk propensity with the desire to achieve financial security. I have organised the chapter into ten sections. Initially, I will discuss the outcomes of an exploratory factor analysis, and then describe the nature of the sample demographic. Discussion of data analysis using procedures in the SPSS statistical software programme follows and finally I will attempt to merge the findings from both phases.

7.2 Examination of the Measurement Tool: Exploratory Factor Analysis

It was first important to determine the extent to which the survey questions actually measured each of the variables. Given the *a priori* assumption that any indicator variable could be associated with any factor, exploratory factor analysis (EFA) was used to create scale measures of factors that arose in the qualitative findings. The aim was to uncover the multi dimensions of the variables specified. This was achieved by selecting a sub set of variables that had the highest correlations with the principal component variables. EFA was considered appropriate because a dependent variable is not assumed¹. EFA also served to validate the scale by showing the constituent items that load on the same factor and isolating those that cross-load on more than one factor. Therefore I was able to demonstrate that multiple items measure the same factor and thus justify fewer items².

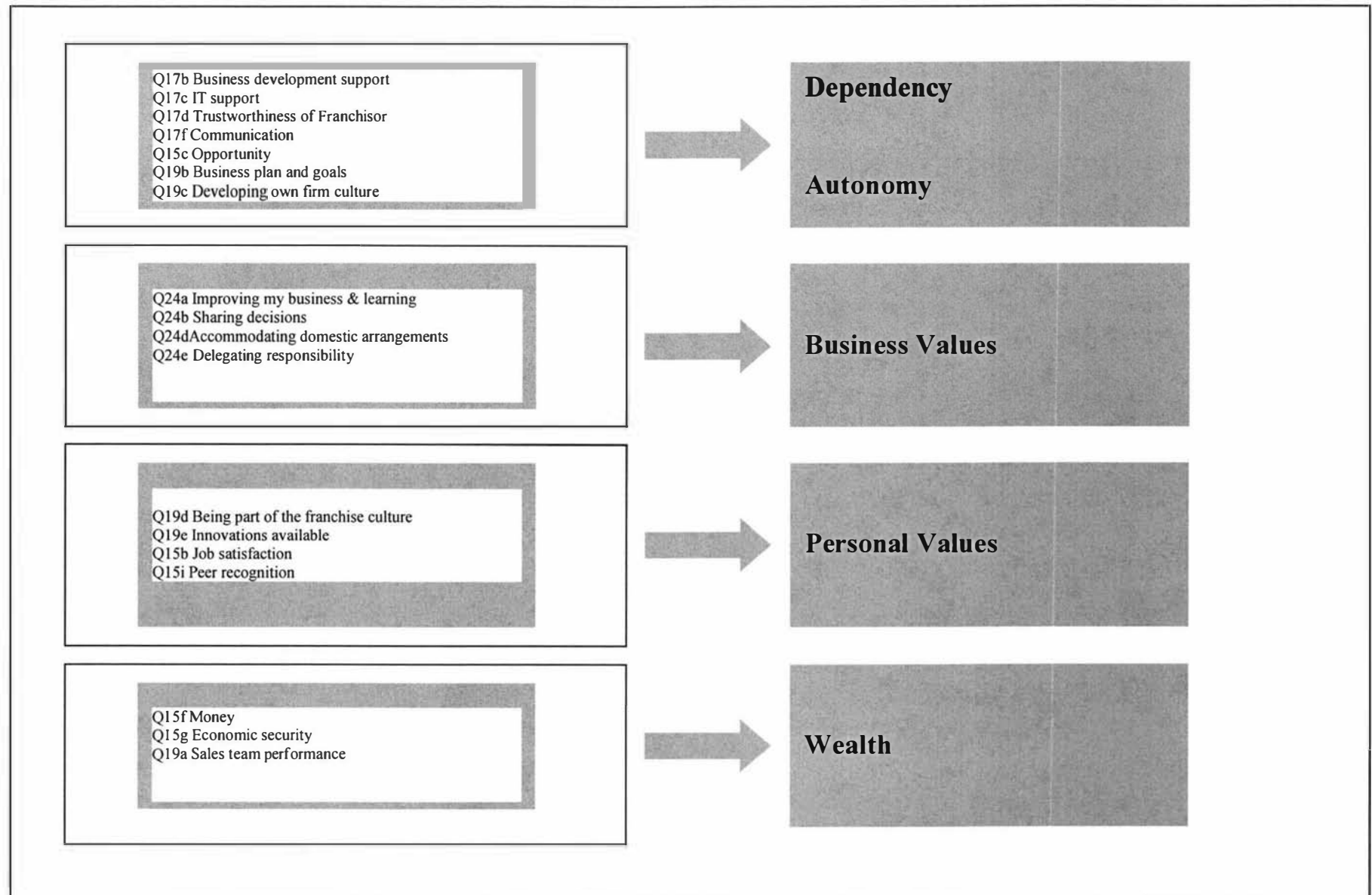
By generating output in SPSS it was possible to see which question items loaded more heavily on each factor and also to induce a meaning for each factor. A Cattell scree test (Appendix C7.2) displayed the components or factors on the X axis and corresponding eigenvalues on

¹ EFA is a non-dependent procedure

² www2.chass.ncsu.edu/garson/pa765/factor.htm accessed 16/5/07

the Y axis. As it is recommended in the test (the Kaiser rule) to drop all components/factors after the elbow or under an eigenvalue of 1.0, I decided to make the cut at four and retain four factors in my analysis. Imputation of the meaning of each factor is usually a purely subjective process; however I was able to objectify the process to some degree by seeking the independent view of a colleague who was not privy to the previous study phase. So the possibility remained the phase one themes might be regrouped.

Figure 7.1: Measuring Multiple Dimensions of Entrepreneurship



The method used for extraction was principal components analysis (PCA). This method first seeks a linear combination of variables such that the maximum variance is extracted. The variance is then removed and a second linear combination explains the maximum proportion of the remaining variance and so on by a process of iteration. The result is the least number of orthogonal factors that can account for the common variance of the set of variables. Principal factor analysis (PFA) uses a PCA strategy but applies it to a correlation matrix in which the diagonal elements are not 1's, as in full orthogonal PCA, but iteratively derived estimates of the communalities (R^2 of a variable using all factors as predictors).

In this study the KMO³ test score was .703 and as scores over .6 are required for factor analysis to precede, the sample was considered adequate (Appendix C7.3). Communalities measure the percent of variance in a given variable explained by all the factors and can be interpreted as the reliability of each question item. The higher the communality is, for example .5 or over, the more meaningful the item in contributing to a factor. Although there is usually a greater interpretive role played by a high scoring factor, for example .7 and above, items with lower communalities can sometimes assist in further interpretation. As shown in appendix C7.3, after PFA extraction communalities for the various factors ranged from .367 to .821 with all but one being above .5

³ Kaiser-Meyer-Olkin Measure of Sampling

Figure 7.2: Rotated Component Matrix

	Rotated Component Matrix			
	Component			
	1	2	3	4
q15b job satisfaction			.809	
q15f money (wealth)				.779
q15g economic security			.339	.837
q15i peer recognition		.526		
q17b business development support	.798			
q17c technology support	.760			
q17d trustworthiness	.804			
q17f communication	.714		.355	
q19a sales team performance				.808
q19d part of franchise culture			.737	
q19e innovations available	.330		.718	
q24a improving business and learning		.762		
q24b sharing decisions		.758		
q24d accomodate domestic commitments		.760		
q24e delegating responsibility		.699		

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

7.2.1 Factor Loadings

Figure 7.2 shows the highest positive loadings, that is those over .7.⁴ These correspond in the franchisee study to financial security including sales team performance; trust in the franchisor and overall job satisfaction. Table 7.1 illustrates the result of factor label imputation.

⁴ The rules attributing interpretive power are arbitrary. The meaning of factor loading magnitudes varies by research context. For example, loadings of .45 might be considered high for dichotomous items but for Likert scales (the type used mostly in the phase two study) a .6 might be required to be considered ‘high’.

Table 7.1: Factor Labels with Highest Loadings

1. Dependency	2. Business Values	3. Personal Values	4. Wealth
Q17b Business development support	Q24a Improving my business & learning	Q19d Being part of the franchise culture	Q15f Money
Q 17c IT support	Q24b Sharing decisions	Q19e Innovations available	Q15g Economic security
Q17d Trustworthiness of franchisor	Q24d Accommodating domestic commitments	Q15b Job satisfaction	Q19a Sales team performance
Q17f Communication	Q24e Delegating responsibility	Q15i Peer recognition	

The first factor had high loadings for four variables - Q 17b business development support, Q17c IT support, Q17d trustworthiness, and Q17f communication, thus there was justification for combining these items in a factor called '*dependency*'. The second factor consisted of Q24a improving the business and learning; Q24b sharing decisions; Q24d accommodating domestic commitments; Q24e delegating responsibility and was labelled '*business values*'. A third grouping was called '*personal values*' with high loadings for Q19d being part of the franchise culture; Q19e innovations available to use; Q15b job satisfaction and Q15i peer recognition. This group was labelled '*personal values*'. The fourth factor '*wealth*' consisted of a combination of Q15f money; Q15g economic security; Q19a sales team performance. On this basis I attributed four component groups with the labels '*dependency*'; '*personal values*'; '*business values*' and '*wealth*' (See Figure 7.1).

Figure 7.3 shows the three-dimensional factor loading plot of these components. The overlapping variables are plotted according to each factor loadings on the first four factors. This is a graphical way of presenting the information in the rotated component matrix of factor loadings. Figure 7.4, a component score covariance matrix for the four factors is orthogonal, that is it shows the factors do not co-vary with each other.

Figure 7.3: Component Plot in Rotated Space

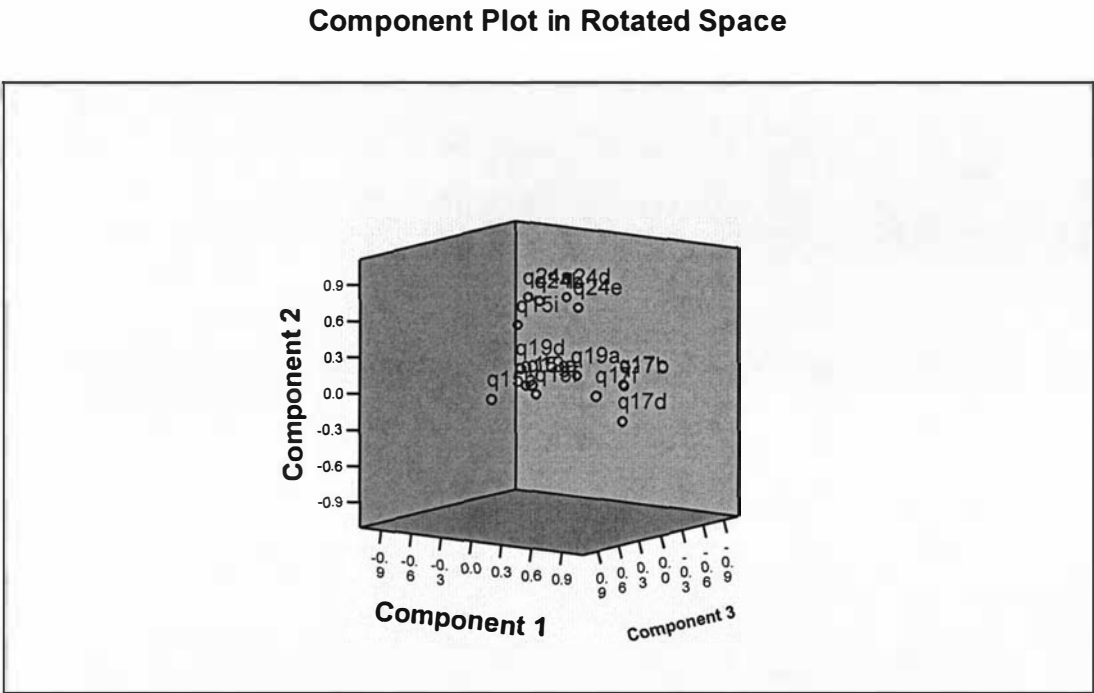


Figure 7.4: Component Score Covariance Matrix

Factor Score Covariance Matrix									
Factor	1	2	3	4	5	6	7	8	9
1	.877	-.001	.018	.038	-.017	.011	.009	.014	.043
2	.001	.885	-.004	.032	.023	-.004	.034	.033	.017
3	.018	-.004	.822	.025	.056	-.006	.035	-.008	.024
4	.038	.032	.025	.716	.046	.033	.032	.011	-.005
5	.017	.023	.056	.046	.823	.008	-.033	.002	-.004
6	.011	-.004	-.006	.033	.008	1.003	.018	.023	-.055
7	.009	.034	.035	.032	-.033	.018	.734	.006	.004
8	.014	.033	-.008	.011	.002	.023	.006	.807	-.023
9	.043	.017	.024	-.005	-.004	-.055	.004	-.023	.712

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.

Even though items with scores over .7 indicate a well defined significance, lower loadings were achieved for items like Q15c opportunity (.526), Q19b business plan and goals (.610), and Q19c developing my own firm culture (.685), all of which could be labelled '*autonomy*' and may nevertheless be considered to have some practical significance in the study (Appendix C7.4). In fact those over .6 might also be called well defined so I added the variable '*autonomy*' to '*dependence*' to account for their co-existence.

The emergence of high communality indicates accuracy was achieved in measuring dependency/autonomy, personal and business values and wealth in this survey. Thus I felt satisfied themes that arose in the qualitative phase could be supported. Indications of franchisee risk taking propensity were covered by questions relating to the desire for financial success and levels of personal innovation were considered to relate to the degree of autonomy franchisees expressed. Thus valid inferences could be made in these areas as well.

7.3 Franchisee Perceptions: An Objective Viewpoint

The first step in analysis was to collect demographic information to illustrate the sample group. Next information gained from the general questions related to satisfaction with franchising was gathered (Section 7.4). Frequencies, means and paired sample tests were performed where appropriate. The data was examined in relation to the entrepreneurial nature of the franchisees and to those questions and parts of questions in the survey that provided multiple measures of the variables 'autonomy' and 'dependence', and franchisee values like 'perceptions of self and business', 'innovation' and 'risk taking propensity'. Secondary procedures like cross tabulations and chi square tests were undertaken to add further to the understanding of the attitudes and entrepreneurial characteristics of franchisees, the nature of their businesses and their interaction with the franchisor.

7.3.1 The Franchisee Sample

The respondents were asked to provide descriptive data on both themselves and their franchise offices; including measures of (1) income, measured as gross office income (2) years in franchising, (3/4) number and scale of offices, measured by the number of sales consultants operating from the business (5) age, and (6) gender. Table 7.2 describes the respondents' personal information and Table 7.3 describes their business backgrounds.

Table 7.2: Respondents' Personal Information

Gender	Age	Educational Level	Personal Income (prior to becoming a franchisee) ⁵
males 67.4% (62)	80.4% over 45 years of age	36.9% up to four years secondary school	50% under \$100,000
females 31.5% (29)		23.9% tertiary - diploma level	27.2% over \$100,000
		21.7% trade certificate	15.2% over \$200,000
		14.1% tertiary to (post) graduate level	

Table 7.3: Respondents' Business Backgrounds

Median Income (gross revenue to business) ⁶	Years in Real Estate	Years as a franchisee	Number of offices	Office Size (number of sales consultants)
54.4 % gross revenues over \$1m and below \$5.5m. An average of \$2.9m was assumed	86.9% medium to long term experience	58.7% experienced	58.7% multi offices (most 2-5)	60.9% small businesses (up to 20 sales consultants)
21.7% under 1 million		41.3% new (up to 5 years)	42.3% single offices	26.1% medium businesses (21-41)
10.9% over \$5.5 million				13% large (over 42)

⁵ Official industry statistics of sales consultants' incomes are not available; however there is indication that salaries paid out in businesses that earn below \$1m are \$184,579 divided amongst 3.78 sales consultants. This indicates an income per consultant of around \$48,000. At the top end of the scale, in agencies in which revenue is in excess of \$6m, the average income per sales consultant can be as high as \$200,000 (Bevan, 2005). Accuracy is compromised by a move towards incremental payouts; the more gross commission an office earns the greater percentage is paid to sales consultants. In addition, franchisees and now many independents are taking a percentage off the top, prior to payout (up to 10%) as compensation for marketing/ fees, shared equally between the office and the salesperson (Crews, personal communication, April, 2007).

⁶ Norms for office gross revenues have been divided into four categories (Bevan, 2005). Average revenues equal \$2,631,930 over firms ranging in size from under \$1m turnover to above \$3m.

The final sample of 92 franchisees consisted of 62 men and 29 women. One person failed to indicate gender. Seventy percent of the respondents were middle aged, that is aged between 45 and 64 years old; only one person was aged below 35 and four were over 65. The majority (86.9%) had been in the real estate agency industry for a medium (6-11 years) to long term (12+ years). For the majority their present venture was not their first experience of business ownership with 63% having owned at least two businesses before, thus indicating a preference for self employment. Almost 59% had been franchisee business owners for several years (6-12 years) and 41.3% were considered new franchisees with between 1 and 5 years experience. A tendency for owning more than one office was revealed with just under 60% of the sample group being multi office owners. Generally multi office franchisees indicated they had been in the business for several years, which could suggest that experience increases the propensity to franchise. The size of the businesses was measured by the number of sales consultants. Sixty point nine percent operated small businesses of up to 20 sales staff. This means that the majority of real estate franchised offices fit into the NZ small business category⁷. In Australia 70% of all real estate businesses have less than 10 salespeople (Bucknell, 2006).

Almost all the respondents (96.7%) were working in the real estate industry immediately prior to their present venture so there is evidence that real estate franchisee owners enter ownership well acculturated in the industry ways. 49% had a role in management with a further 11% combining sales and management roles. Just over 37% were contracted salespeople before becoming a franchisee owner. When asked to reveal their gross incomes prior to becoming franchisees over 40% of the respondents earned in excess of \$100,000. The gross business revenues indicated that 54.4% achieve gross revenue from sales of between

⁷ SME's in New Zealand: Structure and dynamics, Ministry of Economic Development, September, 2003, pg. 2.

\$1,000,000 and \$5,500,000. Based on evidence in the literature, real estate agency businesses with gross incomes in excess of \$800,000 across Australia and NZ can expect an operating surplus of around 15% (Bevan & Crews, 2001; Crews, 2003). Thus an average income of \$1,750,000 across the sample group would produce a \$262,500 operating surplus. However this result should be taken with caution as the amounts stated were self reported and not directly verified.

In terms of the level of general education, 36.9% had completed three to four years secondary schooling, with 23.9% indicating attendance at a tertiary institution to diploma level. This latter figure could be explained by respondents including the real estate endorsed diploma available at Massey University in the general education category. A trade certificate had been attained by 21.7% and 14.1% had an under graduate or post graduate degree.

The question measuring real estate qualifications revealed a result that was not altogether surprising (Appendix C7.5). Only 78.3% of the franchisee respondents held associate status and a further 17.3% were engaged in staged real estate qualifications. So, if it can be assumed only franchisee owners answered the survey (one of the requirements outlined in the covering letter), then 21.7% of the respondents do not hold the necessary qualifications required by franchisee owners of real estate agency businesses. The Real Estate Agents Act 1976 Section 17 (1) requires all officers of a licensed real estate agency to be associates of the institute (A.R.E.I.N.Z). This may be explained by the fact that franchisee owners who were invited to take ownership positions at the stage organisations began franchising may not have any formal qualifications because regulations were different at the time. In addition, there is recognition within the industry of a somewhat cavalier attitude to legislative requirements regarding qualifications and that creative ways of circumventing the regulations exist. Nevertheless, the fact that only 78.3% of respondents hold a license posts a warning to the Real

Estate Licensing Board of NZ and the state industry bodies in Australia to be more vigilant in checking franchise organisations and their franchisee owners. In fact, in March 2007, the NZ Licensing Board actually began a programme to ensure all real estate company board members are correctly qualified and current revision of the Real Estate Agents Act 1976 in NZ may bring further attention to this issue⁸.

7.4 Perceptions of Being a Franchisee

Four general questions in the survey were designed to find out the main reason franchisees decided to become owners in a franchise system; how they felt about being in franchising; what factors were most important to them in business, and how they rated their franchisor on various issues.

The general questions were:

- Q7 the main reason for franchising
- Q15 ranking of factors important to franchisees
- Q16 a rating of general satisfaction with franchising
- Q17 rating of franchisor performance

In the following four sub sections I will discuss the findings for each general query.

7.4.1 Why Franchise?

When the franchisees were asked to indicate the single most important reason they chose to franchise, two dominant reasons emerged. Brand recognition and franchisor support was paramount for 30.4% of the responding franchisees and a quarter indicated that working in the chosen organisation was the most important motivation (See Figure

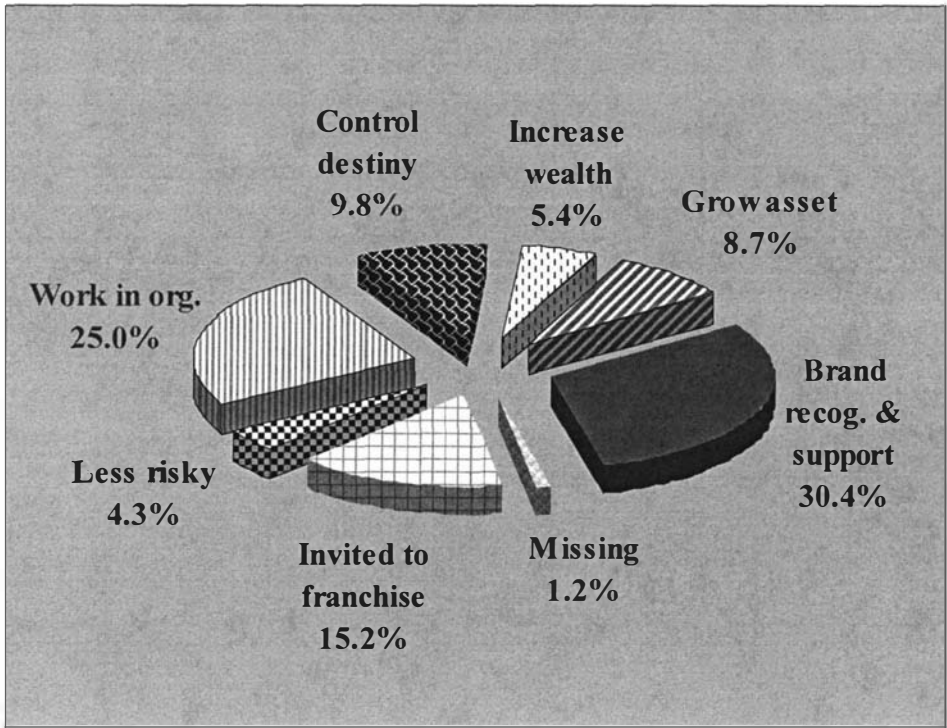
⁸ At the time of writing, June 2007 preliminary consultation had begun (See chapter 1, p. 14 and chapter 2, p. 30.).

7.5). The least important reason given was consideration that franchising was a less risky option than being independent. This is of interest considering claims that franchising is attractive because it is less risky (Taylor, 2000). Initially it proved difficult to distinguish the choice of 'less risk' from the choice of 'brand recognition and franchisor support' because the common denominator seemed to be risk management. It was somewhat surprising therefore, when a cross tabulation was run between the main reason for franchising and an issue of dependence (that is, would they still be self employed if it were not for franchising) (See Appendix C7.6), as expected, the four respondents who chose 'less risk' revealed they would not be in business if it was not for franchising. However, of the twenty eight who chose 'brand recognition and franchisor support' twenty said they would be in business if it were not for franchising. Thus, a desire for brand recognition and support is not necessarily associated with the idea of minimising risk and appears to be perceived by most franchisees in a different way, perhaps in the more positive vein of giving them competitive advantage, at least for the twenty who would still be in business if not for franchising?

Initially it appeared the desire to increase personal wealth scored low as a reason to franchise, confirming the contention of Grunhagen & Mittlesteadt (2005) that entrepreneurs are not necessarily motivated by wealth creation and suggesting a move to franchisee ownership is not just seen as a way of making more money but perhaps could be seen as a natural upward career move. However when 'growth of an asset' was combined with 'increasing personal wealth' 13 of the respondents marked this as the most important reason, raising this factor to third in overall importance when those who were invited to become franchisees is removed. This confirms the link between wealth creation and entrepreneurial motivation (Shane, 2003). A result perhaps more in keeping with what could be expected considering the previous calculation of average surplus income. There is always a

possibility respondents were reluctant to boldly assert money as a key motivation! Only nine respondents said becoming a franchisee satisfied a need for ‘control of their own destiny’ which is again surprising considering 96.7% had been self employed before. 15.2% of the respondents said they became franchisees because they were invited to do so by the franchisor; however a longitudinal study will possibly eliminate this factor because many of the invited franchisee owners are approaching retirement age.

Figure 7.5: Main Reason for Becoming a Real Estate Franchisee



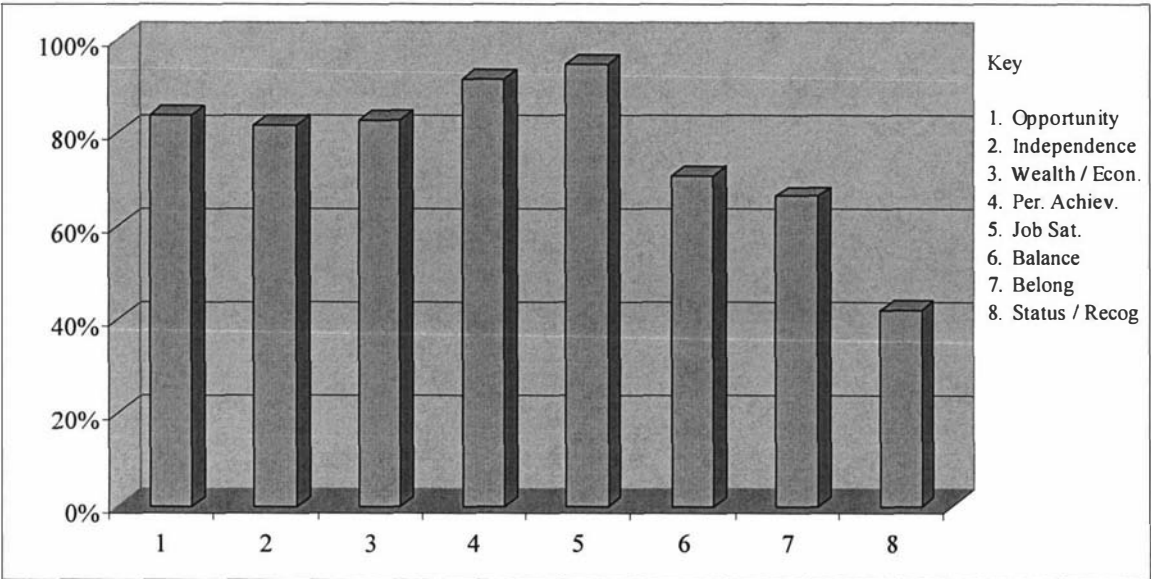
7.4.2 Factors of Importance to Franchisees

Question 15 required the respondents to rank a list of factors in terms of their importance to them in business on a 5 point Likert type scale with 1 being not important at all to 5 being very important (See Appendix C7.7).

On average franchisees rank factors in the following order of importance: Job satisfaction, personal achievement, independence, opportunity/ economic security, wealth, a more balanced lifestyle, belonging to a network group and status/prestige. Over 90% ranked both 'personal achievement' and 'job satisfaction' as (very) important and when the similar factor 'a more balanced lifestyle' was added to the two above factors an average of 85.5% resulted. This result is not unexpected given that there is a natural tendency to want satisfaction in a career. Franchise organisations place a heavy emphasis on achievement by recognising and rewarding success in almost every aspect of agency practice. They also encourage both hard work and hard play.

Ninety one percent scored personal achievement as an important factor, an indication of their drive to succeed and considered job satisfaction and work/life balance as key. An average of 82.5% ranked wealth and economic security as (very) important, again confirming the importance of wealth creation (Shane, 2003; Spinelli *et al.*, 2004). In terms of the entrepreneurial tendencies of the franchisees and the notion of independence, when the two factors of opportunity /free enterprise and independence were combined an average of 82.6% of respondents ranked this factor as (very) important indicating a preference for being independent and unconstrained. This is not surprising as 63% had been involved in other business ventures prior to their current business. 66.3% of the sample considered belonging to a group as (very) important; nevertheless 27.2% regarded this factor as neutral. The two least important factors were peer recognition and status and prestige which scored an average of less than 42% with 22.5% scoring these factors as least important. Figure 7.6 below summaries the findings when some similar factors are combined.

Figure 7.6: Composite Factors of Importance to Franchisees



Perhaps a contribution here in relation to this thesis is the weighting given to the factors of opportunity and independence compared to belonging to a group. More franchisees appear to value independence or autonomy greater than the benefits to be gained from franchise group support. This is surprising given the result of the main reason to franchise and franchisor rating placing a heavy emphasis on the importance of brand, support and belonging and the cross tabulation links between dependency and the main reason to franchise (See Appendix C7.6). Even scores for the two factors separately, agreed. ‘Independence’ scored 81.5% and ‘belonging to a network’ scored 66.3%. A paired samples test shown below in Table 7.4 shows there is strong statistical evidence to support this contention. When the rating of ‘independence’ is compared with the rating for ‘belonging’ the resulting p value is less than 5% showing significance better than the 1% level. This may suggest autonomy plays a more important role than dependence in explaining franchisee entrepreneurship. Thus for franchisees, the independence of their business is a very important factor, but there is also emerging evidence that this feeling co-exists alongside the comfort of excellent franchisor and group support structures, i.e. the main reason for franchising is brand recognition and

franchisor support. Thus evidence suggested by Dana *et al.* (2002) that franchising presents a trade off between efficiency and autonomy can be equally applied to franchisees. Links drawn in the literature between the benefits of belonging in a stimulating environment, the influence of the organisational capital (Brush *et al.*, 1997, 2001) in encouraging entrepreneurial action (Tan & Tan, 2005) and the notion of leveraging entrepreneurial value (Firkin, 2001, 2003) is supported by the evidence, as potential real estate franchisees appear to feel secure enough in a franchising environment to assert their independence.

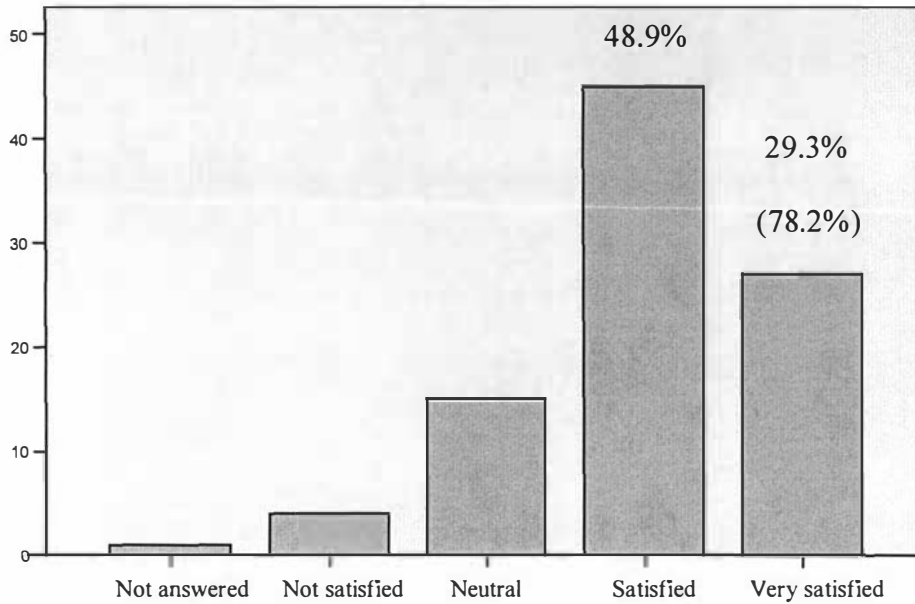
Table 7.4: Independence and Belonging to a Network

		Paired Differences				t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference			
					Lower	Upper		
Paired sample 1	independence - belonging to network	.370	1.066	.111	-.149	.590	3.325	.001

7.4.3 General Satisfaction with Franchising

The respondents’ general satisfaction with franchising was measured in Question 16 on a Likert type scale with 1 being not satisfied to 5 being very satisfied. The majority (78.2%) were found to be (very) satisfied (see Figure 7.3). Only 4.3% indicated they were dissatisfied.

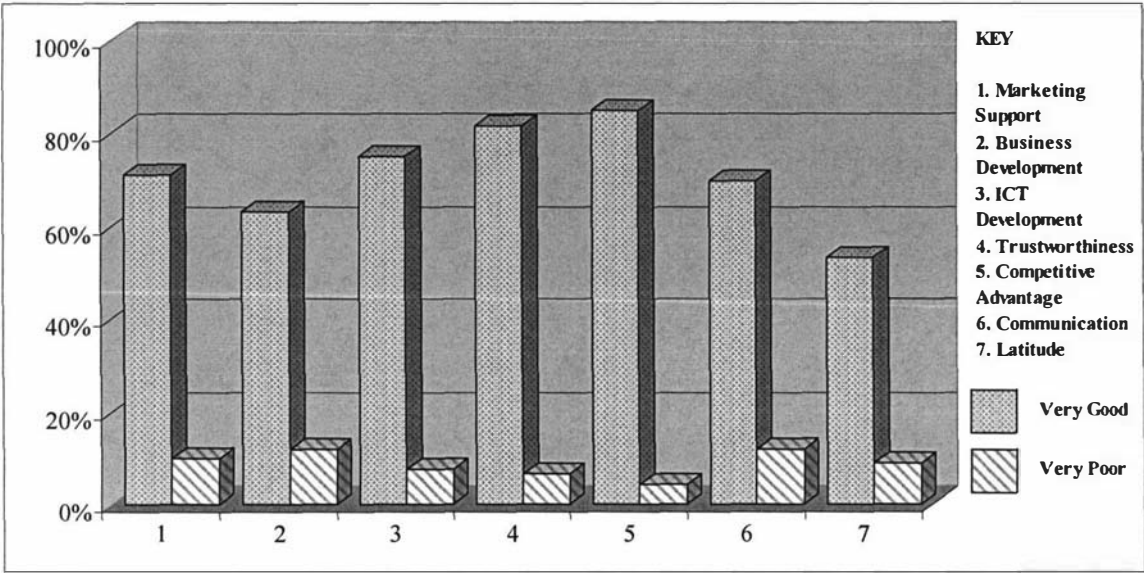
Figure 7.7: General Satisfaction with Franchising



7.4.4 Franchisor Rating

Question 17 required respondents to rate aspects of the performance of their franchise group from very poor (1) to very good (5). The aspects were marketing support; business development support; information technology (ICT) development; trustworthiness, competitive advantage, communication and the degree to which franchisors allowed franchisees to be different (latitude). The results are illustrated below (See Figure 7.8 and in a summary in Appendix C7.8).

Figure 7.8: Rating of Franchisor Performance



The fact that the performance of the franchisor in relation to competitive advantage and trustworthiness rate first and second suggests that respondents do consider the franchising option to be advantageous and less risky, thus conferring with the popularity of brand support as a reason to franchise. Both these results also support the theory presented in this thesis that franchisee’s consider risk management when they enter franchising but that this is part of an overarching strategic decision made by a type of entrepreneur. The mean score for ‘dependence’ - a composite of marketing support, business development support, information technology (ICT) support and communication is 3.87 on the 1-5 scale indicating that 71.7% of respondents rate their franchisor’s ability to deliver these benefits highly (More composite scores are discussed in section 7.4.5). Not only do franchisees perceive franchising as a way to manage risk, they depend on quality franchisor supports. Interestingly in this question, the leeway franchisees are given to differentiate (termed ‘latitude’ in figure 7.8) scores a neutral mean score of 3.70 or 32.6% of respondents indicated they held no strong opinion on this factor. This could either indicate a lack of initiative to innovate and a dependence on the franchisor’s innovations or it could suggest

respondents feel the franchisor does not encourage individual franchisee innovation. Innovation is an important characteristic of entrepreneurship in franchising (Morrison, 2000) and elsewhere in the literature (For example Filion, 1998). The franchisors' level of communication scored a poor result with 12% of the sample as did business development initiatives (11%). This raises possible areas in which franchisors could improve their performance, especially since franchisees indicated in question twenty three that communication is an important factor.

7.4.5 The Use of Composite Factors to Measure Franchisee Values

I grouped similar factors together to create composite factors for questions fifteen and seventeen and ran a separate test to provide increased understanding of the franchisees' ranking of the issues most important to them in business and their rating of franchisor performance.

7.4.5.1 What Matters in Business?

For example the most important issues in business were grouped as:

- **Group 1** consisted of personal achievement; job satisfaction and a more balanced lifestyle (**general satisfaction**)
- **Group 2** consisted of opportunity and independence (**autonomy**)
- **Group 3** consisted of status/prestige and peer recognition (**status**)
- **Group 4** consisted of wealth and economic security (**wealth**)
- **Group 5** was belonging to the network (**dependence**).

The result indicated general satisfaction was the most important group of factors with autonomy ranking second, however belonging to a group or dependence ranked last in importance. Table 7.5 below shows strong evidence that the respondents think independence is more important than belonging to the group, on average. Although the respondents have

feelings of dependence on the franchise system, the test suggests autonomy plays a more important role when explaining entrepreneurship.

Table 7.5: Composite Factors – What Matters in Business?

Composite Case Summaries					
	Q15group 1 (satisfactn)	Q15group 2 (autonomy)	Q15group 3 (status)	Q15group 4 (wealth)	Q15group 5 (dependence)
N	92	92	92	92	92
Mn	4.3333	4.2609	3.2826	4.2065	3.89
Md	4.3333	4.5000	3.2500	4.0000	4.00

Paired Samples Test								
		Paired Differences				t	df	Sig. (2-tailed)
		Mn	Std. Deviatn	Std. Error Mean	95% Confidence Interval of the Difference			
					Lower	Upper		
Pair 1	autonomy - belonging to network (dependence)	.370	1.066	.111	.149	.590	3.325	.001

7.4.5.2 How Does the Franchisor Rate?

In question seventeen the respondents were required to rate their franchisor competencies in various areas. The factors were grouped as follows:

- **Group one** consisted of factors related to marketing, ICT, business development, competitive advantage and communication (**franchisor support**)
- **Group two** consisted of measures of trustworthiness and leeway to differentiate (**franchisor reliability**) (See Table 7.6).

On average, franchisor support was ranked higher than franchisor reliability; however there is no significant difference, although some

negative comments in the interviews can be seen in this light. Measured purely as single factors competitive advantage rated high, confirming the joint main reason to franchise as brand power. Security of a franchised network is considered a central reason for an entrepreneur choosing to franchise (Gauzente, 2002). The next factor rankings of importance were trustworthiness, ICT development, marketing support and communication. Franchisees rated business development support and the leeway to differentiate lowest (See Table 7.6). Communication showed a high poor rating of 12%.

Table 7.6: Composite and Single Factors – How Franchisors Rate

a) Composite Case Summaries

	Q17group1	Q17group2
N	92	92
Mean	3.9370	3.9239
Median	4.0000	4.0000

Group 1 (support) is slightly greater than group 2 (reliability), on average.

Paired Samples Test: Composite Factors

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pr 1	Q17group1 - Q17group2	.01304	.65435	.06822	-.12247	.14856	.191	91	.849

b) Single Factors Case Summaries

	(a) market support	(b) business development support	(c) ICT support	(d) trustworthi ness	(e) competitive advantage	(f) communi cation	(g) leeway to different iate
N	92	92	92	92	92	92	92
Mean	3.89	3.78	4.01	4.14	4.21	3.79	3.70
Median	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Std. Dev	.988	.993	1.074	.944	.884	1.022	.923
Skew ness	-.825	-.443	-1.273	-1.249	-1.397	-.834	-.124

7.5 Are Franchisees Entrepreneurial?

Three questions in the survey were designed to directly measure the entrepreneurial nature of the real estate agency franchisee owners in the sample. Question one sought to discover if the franchisees' present real estate business was their first business venture and question two revealed how many ventures each franchisee had undertaken. The fact that 63% of the respondents had two or more business ventures in the past indicates an eye for an opportunity, a preference for self employment and comfort with the process of venture creation. Thus, they demonstrate entrepreneurial tendencies, a finding in line with the literature linking franchising and entrepreneurship (Stanworth & Kaufmann, 1996; Timmons & Spinelli, 2003, Shane, 2003) (Appendix C7.9).

Question twenty five asked respondents to state how they perceived themselves. More than one perception was allowed and respondents could indicate directly that they regarded themselves as entrepreneurial. Only 30.4% included this response in their mix but when perceptions of leadership and business strategising were added the average percentage rose to 44.56%. Interestingly, 25% still see their prime role as sales even whilst in an ownership position, perhaps a strong indication of the fact that most franchisees come from the

sales ranks and a change in role perception takes time? There certainly is a tendency for management in real estate offices to work closely with the sales and administration staff and role differences are less defined than they may be in more formal, hierarchical business situations. The teamwork notion is fostered by franchisors at annual national conferences and by franchisees themselves by holding regular team bonding adventures and family gatherings. Recent thought suggests that teamwork between entrepreneurs in franchising is the basis for the concept of co-operative entrepreneurship discussed in chapter three (Clarkin & Rosa, 2005).

7.6 Measuring Entrepreneurial Factors

The four variables considered to have the most impact on entrepreneurship are shown in Figure 7.1. Each variable was measured in a variety of ways. For example, the variable 'innovation' considered a contributing factor in autonomy was measured by the number of business ventures respondents had been involved in (Q1 & 2); the leeway within the franchise to be different (Q17 (g)); the franchisee's ranking of the importance of innovation Q19 (f)); the unique processes undertaken by franchisees (Q20) and whether their current real estate business was started as a new business (Q21 (2)).

7.6.1 Innovation

When respondents were asked to indicate how many times they had been involved in new venture creation, 63.1% indicated twice and up to five times. In addition, 35.9% had started their current real estate office as a new venture, rather than buying an existing agency. This can be considered indicative of their entrepreneurial nature and relates to their level of innovation, desire for autonomy and willingness to handle risk.

When asked how they perceived the leeway to make innovations within individual offices in the system (question seventeen (g)), 57.6% of franchisees in the sample thought the ability to make innovations was (very) good. The neutral opinion expressed by 32.6% of the sample group together with the poor response to question twenty, which required innovative processes to be listed, suggests reluctance amongst some respondents to introduce innovations other than those fed via the franchisor. Franchisors should be aware of this as innovative practices potentially filter into the system and grow stronger learning organisations (Teece *et al.*, 1990) and ultimately more success. This suggests the ways in which suitable franchisees are chosen could be more rigorous because where there is co-operation or sharing ideas the potential to deliver multiple benefits exists (Ulijn & Fayolle, 2004).

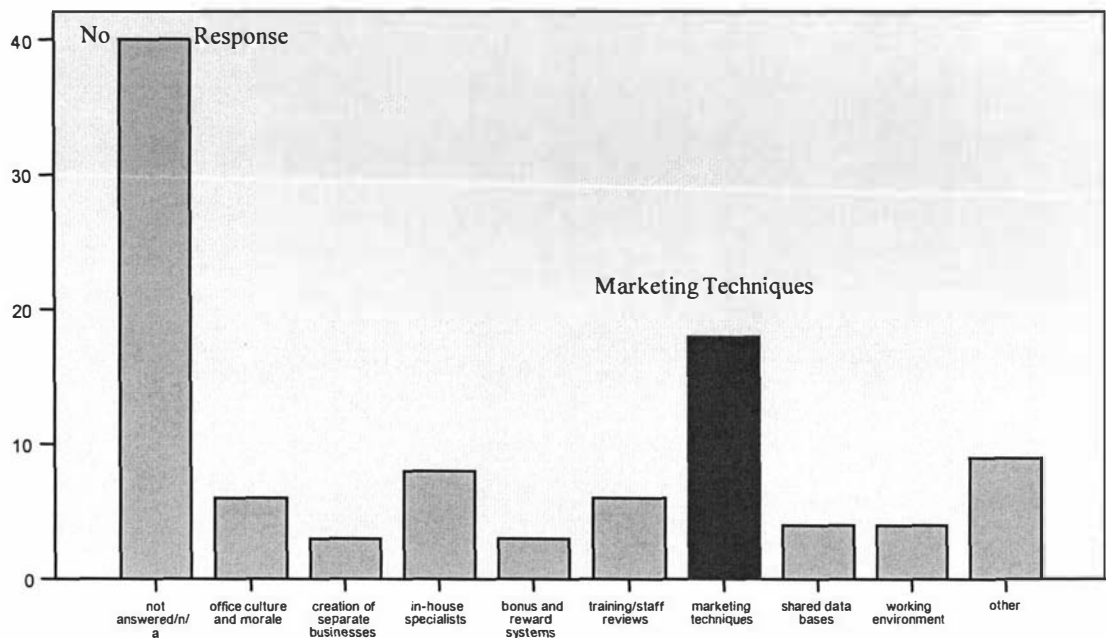
Despite this, when asked to rank the importance of their own level of innovation in question nineteen (e) and (f), 92.4% of the respondents ranked innovation in their business as (very) important. 67.4% believed that innovations made by the franchisor were (very) important. This could indicate that there is a desire to rely on self rather than the franchisor and a general awareness of the importance of innovation, although some franchisees appear to prefer to rely on the franchisor for innovative processes or lack sufficient motivation to innovate in their businesses. Again the power of co- operation in developing innovative processes seems a factor.

Question twenty required respondents to list the types of innovations they had been instrumental in introducing into their businesses, or whether they developed competencies in the same way as franchisors. Responses were coded into ten categories of innovation including 'no innovation' and 'other innovations'. Forty franchisees in the sample left this question out altogether. This could indicate they did not think anything they did was innovative or different from that prescribed by the franchisor. However, such a response was not unexpected as

previous comments indicate a minority of franchisees can be expected to rely on the franchisor rather than proactively innovating in their own businesses thus there may be some franchisees who are more like manager/owners. There was an indication in phase one of an interviewee who was content to run his businesses along prescriptive lines without any effort to introduce any innovative processes of his own.

The area in which most innovation was perceived was marketing techniques. This is probably to be expected as real estate agencies are primarily marketing organisations and there is general understanding of innovation in this area (See Figure 7.6). Several franchisees reported their own individualised office methods that included the pre release of auction reserves and the use of open home trails, involving personal invitations to targeted market participants. When the coded category 'use of shared databases' is combined with 'marketing initiatives', 21.8% of the sample made marketing innovations. Other important areas of innovation were the creation of a good company culture aside from the overall franchise culture; the encouragement of ethical practice standards amongst sales people and efforts to increase professionalism by having in house specialists in various markets; recruiting quality people and on going training and performance reviews (See Figure 7.9). However, the relatively large number of respondents who ticked the 'other' category suggests there are areas of innovation not captured in the categories given.

Figure 7.9: Franchisee Innovation



7.6.2 Autonomy and Dependence

Autonomy and dependence was combined because indication in the literature of their co-existence (Clarkin & Swavely, 2006) was confirmed in phase one.

7.6.2.1 Autonomy

Seven questions measured the variable ‘autonomy’ or the degree to which franchisees perceive themselves as independent business owners. Because the majority of the sample had previously been involved in SME self employment and a preference for self employment is considered an important aspect of the entrepreneurial spirit (Blanchflower & Oswald, 1998) the answers to questions one and two are considered a direct measure of entrepreneurship (Refer to section 7.5).

Question seven (4) asked how many in the sample rated 'control of their own destiny' as the main reason for franchising. The result shows just less than 10%, whereas 55% reveal that belonging to the group is a more attractive reason when 'working in an organisation' and 'brand recognition and support' are amalgamated (See Appendix C7.10). In this instance the benefits to be gained from working in a group and receiving franchisor supports score higher than the desire for independence. However, this could be accounted for by the fact that the vast majority of the franchisees in the sample were working in the franchise system at the time they took ownership of an office. They were fully acculturated into the system and could have felt considerable group connectedness and loyalty actively fostered by the franchisor. Control over their own destiny was never considered under threat. A cross tabulation 'number of years as a franchisee' and 'number of years with the current organisation' shows a significant result and serves as proof of the existence of group loyalty (See Appendix C7.11). A p value of less than 5% in the non parametric test indicates very strong evidence to support this contention. The correlation coefficient of 0.871 is significant at the 1% level.

Evidence is presented of the juxtaposition of autonomy and dependence or seen another way, of the delicate balance between the franchisor's desire for control and the franchisee's desire for autonomy (Clarkin & Swavely, 2006). Comment in the interviews in phase one has already illustrated the existence of the feeling that franchisees were in control of their own destiny within the group. Furthermore, even though 'control of my own destiny' scored low, when the respondents were asked to rank the importance of maintaining their independence from the franchisee (question fifteen (e)), a massive 81.5% ranked this as (very) important. When asked in question fourteen if they would still be in business if they were not part of a franchise group. 54.3% said they would and in question eighteen (4), (5) 84% indicated they saw no

dependency in franchising (See Appendix C7.12). Thus, once again, there appears to be evidence of both dependence and autonomy at play. The franchisees like belonging because they feel loyalty and commitment to the group but they also seek their independence within the group. When asked how they would best describe their feelings about the independency of a franchised agency (question eighteen), 23.9% said it was just like running an independent business and a further 54.3% added that the only real difference were a few strings attaching them to the franchisor. Only 9.7% equated a franchised office to a company owned office. So the vast majority of franchisees in the sample see themselves as independents with the added advantages associated with belonging, again emphasising the strategic nature of the decision some entrepreneurs make to franchise.

Question nineteen (c) required respondents to rank the relative importance of developing their firm culture or emphasising the organisational culture, 67.4% of respondents ranked organisational culture and 89.1% ranked their firm culture as most important, another indication of the desire for autonomy. The frequency of communication initiated by the franchisee was considered to be an indication of autonomy and dealt with by question twenty three. 81.4% initiated contact with the franchisor on a regular basis, weekly, fortnightly or monthly. Whilst the desire for autonomy is high amongst the respondents, the nature of the franchise relationship necessitates regular contact and creates a measure of dependency. The reason for contact was either for the purpose of fulfilling contractual arrangements or to seek input about the support services offered.

7.6.2.2 Dependence

In question seventeen in which franchisees rated their franchisors, the first three items allowed the franchise group to be rated on its support performance. Marketing support was considered to be (very) good by 71.7%; 63.1% rated business development support (very) good; 75%

rated ICT support as (very) good. In other parts of the question 81.5% said the franchisor was trustworthy; 84.8% thought the brand allegiance gave them competitive advantage; 69.6% said communication was good and 57.6% thought there was leeway to be different from the franchisor prescription. The most positive feeling about the franchise was a perception that it delivered a competitive advantage. All the other aspects of franchising were considered to be positive thus the respondents perceived advantages from the franchise relationship, evidence of a measure of dependency.

When asked how important being part of the franchise system culture and franchisor innovation was (question nineteen (d) (e)), 67.4% said both were (very) important. Clearly again, although belonging brings responsibilities and commitments, the advantages of belonging to a group are seen to outweigh any disadvantages by franchisees in the sample. However, the desire for brand recognition and support was scored by only 30.4% of the sample as the main reason to franchise, with other combined reasons being deemed more important by 68.5% of the sample (See Appendix C7.13), so other factors have a part to play in the decision.

Question seven (the main reason for franchising) and question fourteen (would you be self employed if not for franchising?) were cross tabulated in a secondary test of the data. In other words a relationship between the main reason for franchising and dependence was sought. As expected for the small percentage (4.3%) of respondents who were motivated to franchise because they saw the option as less risky, none would be in business independently. For those respondents who were motivated by increased wealth, all would be in business even if franchising was not an option. Surprisingly, for those who rated brand recognition and franchisor support as paramount in their decision, all would still choose to be in business if franchising was not an option. One explanation for this is the impact of the multi unit holders'

perceptions. They make up 58.7% of the sample, run large successful business operations and have considerable financial and emotional ties with the franchisor. This phenomenon was observed in the qualitative section as well. It also could suggest a strong general propensity for self employment amongst those in the sample group and hence a close entrepreneurial linkage (Shane, 2003) (Table 7.5).

7.6.3 Personal and Business Value Perceptions

Three survey questions measured how the franchisee respondents perceived themselves and their businesses and what values they hold - direct evidence of an entrepreneurial link. Question twenty two asked respondents to rank their business in terms of profitability within their franchise group. More than half (59.8%) of respondents rate their own business as 'above average' compared with others in their franchise group; 22.8% see their business as about average and only 16.3% below average (See Appendix C7.14). Franchisees in the sample are able to assess their comparative performance when figures and averages are shared at owners meetings, as well as by talking to colleagues. The fact that business owners tend to rate their own performance positively in comparison to others confirms similar findings in the behavioural literature (Moore & Cain, 2007). Furthermore, these results show that those who answered the survey questions were generally the owners of good business operations. Such a result is not unexpected as the best business people are normally the ones most motivated to answer surveys. It should be said however, that attitude and strong performance do not necessarily relate to businesses survival (Pinfold, 1999) or provide protection from perils, like under capitalisation that can have critical influence.

In question twenty four 95.6% of respondents rated 'making business improvements' as (very) important; 81.4% rated 'sharing important business decisions' as (very) important. Issues of work/ life balance like the need to delegate and to accommodate domestic commitments were

considered (very) important in 74.35% of responses and 73.9% thought making money was (very) important (See Appendix C7.15.3) The high ranking of shared decisions could indicate a comfort with belonging to a group and an understanding of the need for entrepreneurs to co-operate in making some decisions in order to achieve a macro viewpoint.

As mentioned above, when asked directly about an assessment of 'being an entrepreneur' in question twenty five (4), almost half (44.56%) of respondents attributed some aspect of entrepreneurship to their role if one considers strategy and leadership to play a part in entrepreneurial behaviour.

7.6.4 Risk Taking Propensity

The risk of failure associated with business ownership is taken into account by the franchisees in the sample, but is not the single most important factor in the decision to franchise. Brand recognition and support was regarded as the most important reason to franchise and when the scores for other reasons for franchising are taken into account a mere 4.3% of respondents listed 'less risky' as their main motivation (See Table 7.7). This could suggest that franchisees in the sample underestimate risk but it is in line with the perception of competitive advantage and the idea that franchising is a strategic decision made by the entrepreneur to maximise business success, take advantage of existing loyalty in many cases and also to minimise risk. A sizable percentage, (40.2%) were already working in the franchise organisation and either became franchisees because the opportunity arose or because it was part of a career trajectory. So they were not only acculturated in real estate but also within the group. Their path to business ownership was indirect but nevertheless the opportunity when given was seized. Opportunity recognition is an entrepreneurial attribute (Shane, 2003; Spinelli *et al.*, 2004). There is an indication the franchisees in the sample had taken risk into consideration as they rated the trustworthiness of the franchisor highly (81.5% (very) good).

Furthermore, as the majority of them had undertaken previous business ventures there is indication they are not risk averse.

Table 7.7: The Main Reason for Becoming a Real Estate Franchisee Q7 (6)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Risk not a factor	88	95.7	95.7	95.7
	less risky	4	4.3	4.3	100.0
	Total	92	100.0	100.0	

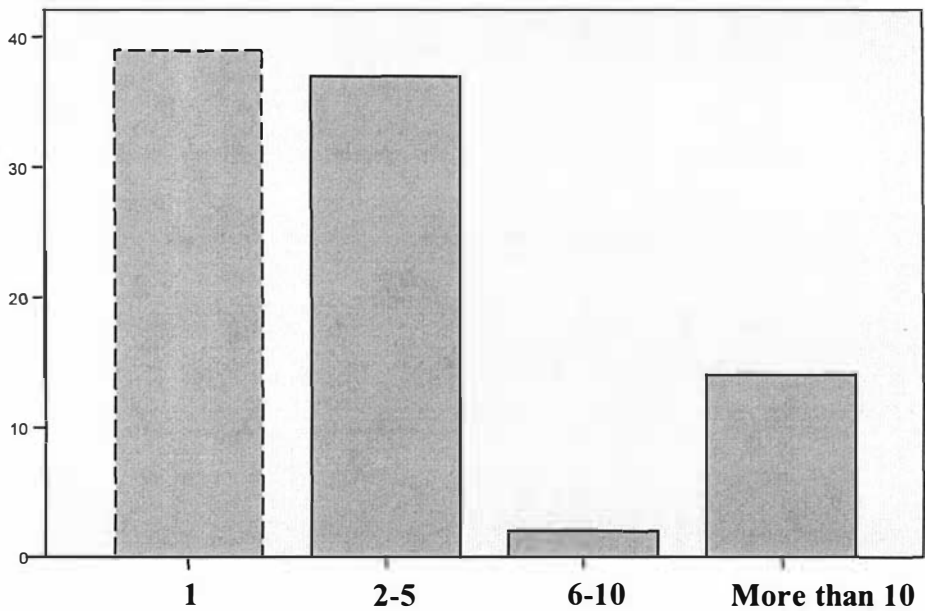
Question ten sought to discover the type of entrepreneur the respondents were by the number of offices they owned. 58.7% were owners of more than one office (See Figure 7.10). The more offices a franchisee owns the more exposed he is to franchisor failure and yet multi unit franchisees often wield power in the organisation and expressed great loyalty to the franchisor in the interview phase. Considering their level of financial commitment this is not unsurprising. Nevertheless, it does support the view that franchising is not necessarily less risky than independent venturing because in many cases considerable financial exposure exists.

It appears that the age and experience of the franchisee is correlated to the number of offices owned thus it could be seen that once success is proven there is encouragement and enthusiasm for broadening business exposure (See Appendix C7.16a/b). The franchisee benefits from generation of higher income from multiple agency offices and the franchisor benefits by having the best franchisees operating the most offices.

Perhaps the most important factor measuring risk propensity supported by the results of the exploratory factor analysis was the high scoring of wealth and economic security (Q 15, f & g) at 80.4% and 83.7% respectively. This indicates the importance of financial security to most

franchisees, despite claims that wealth is not a central motivation for entrepreneurs (Grunhagen & Mittlesteadt, 2005) and confirmation of the notion of Shane (2003). Clearly the majority of franchisees in the sample manage risk by being aligned with their franchisor but this is not their major motivation. In putting risk management initiatives into place, franchisees are no different from independent business owners.

Figure 7.10: The Number of Offices Owned by Franchisees



Question fifteen (j) sought to find how franchisees perceived the importance of the network group. 66.3% rated it (very) important, thus this suggests a degree of comfort with the advantages the group offers. In question seventeen (d) they rate the franchisor as trustworthy (81.5%). Only 33.7% in question fifteen (j) were either neutral or regarded the network group as not important. The high rating of franchisor support and the group’s competitive advantage (84.8% regarded competitive advantage as (very) good) suggests an important perceived benefit that reduces the risk of franchisee business failure.

7.7 Secondary Findings

I decided that a further series of advanced statistical tests should be run to try to find repetition in the evidence found already linking aspects of the four main variables to entrepreneurship. These included further cross tabulations to try to discover which of the variables most closely aligned with the entrepreneurial spirit and actions of real estate franchisees. In this section I will discuss the influence of multi office ownership; income levels; age, education, qualifications,

7.7.1 Multi Office Ownership

Because multi office franchisees predominate in the sample, I attempted to draw further links with selected variables by cross tabulations. For example, as to be expected, there is very strong evidence to suggest that the number of salespeople and the number of offices is linked. A chi square test shows a p-value of 0.000, however with a coefficient of .475 the linear relationship is not perfect (See Table 7.8).

Table 7.8: Number of Offices * Number of Sales People

Chi-Square Tests: Number of Offices * Number of Sales People

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	44.768(a)	6	.000
Likelihood Ratio	45.579	6	.000
Linear-by-Linear Association	9.587	1	.002
N of Valid Cases	92		

a. 6 cells (50.0%) have expected count less than 5. The minimum expected count is .26.

Symmetric Measures: Number of Offices * Number of Sales People

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval Ordinal by Ordinal	Pearson's R	.325	.094	3.256	.002(c)
	Spearman Correlation	.475	.088	5.120	.000(c)
N of Valid Cases		92			

A chi square test and a cross tabulation between 'number of offices' and 'sales revenue' shows a p-value of 0.002 indicating that the distribution of 'gross sales revenue' is not the same across the number of offices a franchisee operates. There is also some evidence in the correlation test (See Table 7.9) of a positive association of 0.218 between gross sales revenue and the number of offices (significant at the 5% level). However the relationship is not perfect because when a franchisee operates more than ten offices, the average gross sales revenue actually declines. This may imply that return diminishes when the size of the franchisee's business increases beyond an optimal point. Nevertheless the more offices a franchisee operates the more wealth he/she accumulates, thus multi office ownership satisfies a key reason for being franchised and an important aspect of the entrepreneurial personality.

Table 7.9: Number of Offices * Gross Sales Revenue**Chi-Square Tests: Number of Offices * Gross Sales Revenue**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	31.705(a)	12	.002
Likelihood Ratio	25.196	12	.014
Linear-by-Linear Association	1.221	1	.269
N of Valid Cases	92		

a 13 cells (65.0%) have expected count less than 5. The minimum expected count is .22.

Symmetric Measures: Number of Offices * Gross Sales Revenue

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	.116	.102	1.106	.271(c)
Ordinal by Ordinal	Spearman Correlation	.218	.102	2.124	.036(c)
N of Valid Cases		92			

To test if the perception held by multi office franchisees of their franchisors was significantly different to single unit franchisees, cross tabulation and chi square tests were run. There was a significant, but imperfect link, between the rating of franchisor marketing and number of offices held (See Table 7.10) indicative of the close alliance multi unit franchisees have with the franchisor.

Table 7.10: Number of Offices * Marketing Support**Chi-Square Tests: Number of Offices* Marketing Support**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	18.579(a)	12	.099
Likelihood Ratio	18.599	12	.099
Linear-by-Linear Association	2.115	1	.146
N of Valid Cases	92		

7.7.2 Prior Personal and Current Office Income

I wanted to see if successful people became successful franchisees. Success was defined narrowly in terms of the level of income. I found evidence to suggest that those franchisees who earned high incomes prior to becoming franchisee owners have businesses that make high gross revenues. So people who were successful financially before entering into franchisee ownership are more successful as a franchisee in the last financial year. However the relationship is relatively weak as

the correlation coefficient is only 0.310 (significant at the 1% level, see Table 7.11).

**Table 7.11: Personal Income Prior To Becoming a Franchisee*
Office Gross Sales Revenue**

Chi-Square Tests		Revenue	
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	50.900(a)	12	.000
Likelihood Ratio	40.572	12	.000
Linear-by-Linear Association	10.446	1	.001
N of Valid Cases	92		

a 12 cells (60.0%) have expected count less than 5. The minimum expected count is .76.

Symmetric Measures Sales		Revenue			
		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	.339	.096	3.418	.001(c)
Ordinal by Ordinal	Spearman Correlation	.310	.103	3.091	.003(c)
N of Valid Cases		92			

7.7.3 Franchisee Age, Education, Qualifications and Gender

Further to information gained on the entrepreneurial nature of franchisees in the sample discussed in section 7.6 cross tabulation and chi-square tests were performed to link question 25 (5) ‘being entrepreneurial’, with personal demographic franchisee information. Franchisees who had attained higher real estate qualifications tended to consider themselves entrepreneurial (See Table 7.12).

Table 7.12: Real Estate Qualifications * Entrepreneurship

Chi-Square Tests: Real Estate Qualifications * Entrepreneurship

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.022(a)	4	.017
Likelihood Ratio	11.252	4	.024
Linear-by-Linear Association	.799	1	.371
N of Valid Cases	91		

a. 8 cells (80.0%) have expected count less than 5. The minimum expected count is .92.

However, there is no evidence that the distributions of those who regard themselves as entrepreneurial is in any way linked to the chronological age of the franchisee, their formal education or gender (See Appendix C7.17). When the level of real estate qualifications achieved was cross tabulated with the franchisees' perceptions of how competitive their businesses were, there is strong evidence of a linear relationship with a coefficient of 0.266 which suggests that the higher the qualification a franchisee holds the more competitive he perceives his business to be (See Table 7.13)

Table 7.13: Real Estate Qualifications * Office Performance

Chi-Square Tests: Real Estate Qualifications and Office Performance

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	25.486(a)	16	.062
Likelihood Ratio	25.838	16	.056
Linear-by-Linear Association	5.834	1	.016
N of Valid Cases	91		

a. 21 cells (84.0%) have expected count less than 5. The minimum expected count is .16.

Symmetric Measures: Real Estate Qualifications and Office Performance

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	.255	.104	2.484	.015(c)
Ordinal by Ordinal	Spearman Correlation	.266	.090	2.604	.011(c)
N of Valid Cases		91			

7.7.4 The Importance of Franchisee Experience

I sought evidence of the way franchisees who were involved in their first business venture rated their franchisor in a cross tabulation and chi square test and found that franchisees who were inexperienced in business ownership valued franchisor trustworthiness the most (See Table 7.14) indicating a perceived need for support in the early stages of business venturing.

Table 7.14: First Venture * Trustworthiness**Chi-Square Tests: First Venture * Trustworthiness**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.720(a)	4	.068
Likelihood Ratio	10.602	4	.031
Linear-by-Linear Association	.095	1	.758
N of Valid Cases	92		

a. 5 cells (50.0%) have expected count less than 5. The minimum expected count is .72.

A test was run to discover whether those respondents who had been franchisees for several years expressed strong bonds with the franchise culture (See Table 7.15)

Table 7.15: Number of Years as a Franchisee * Part of the Franchise Culture

Chi-Square Tests: Number of Years as a Franchisee * Part of the Franchise Culture

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.294(a)	6	.039
Likelihood Ratio	14.334	6	.026
Linear-by-Linear Association	5.495	1	.019
N of Valid Cases	92		

a 4 cells (33.3%) have expected count less than 5. The minimum expected count is 2.05.

Symmetric Measures: Number of Years as a Franchisee * Part of the Franchise Culture

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	.246	.095	2.405	.018(c)
Ordinal by Ordinal	Spearman Correlation	.228	.097	2.225	.029(c)
N of Valid Cases		92			

The results show some evidence to support this as the distributions of being part of the franchise culture differ according to the number of years a respondent has been a franchisee. The evidence of a linear relationship is a co-efficient of 0.228.

Respondents indicated issues that were important in their businesses in question nineteen. Two of these issues, (c) and (f) measured aspects of independence (autonomy and innovation) and a strong linear relationship (co efficient .003) was found between the two. So if a franchisee ranked their own firm culture as important they were also likely to consider making innovations as important (See Table 7.16)

Table 7.16: - Autonomy * Innovation

Chi-Square Tests: Autonomy * Innovation

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.493(a)	6	.052
Likelihood Ratio	11.753	6	.068
Linear-by-Linear Association	6.156	1	.013
N of Valid Cases	92		

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .15.

Symmetric Measures: Autonomy * Innovation

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	.260	.106	2.555	.012(c)
Ordinal by Ordinal	Spearman Correlation	.303	.100	3.018	.003(c)
N of Valid Cases		92			

7.8 Limitations of the Quantitative Findings

The most obvious limitation in this study is that the sample group of 92 was small and the survey was administered only once. Given a time series in which the survey was administered again the results may differ and an average of both surveys may produce a more accurate result. In some cases when cross tabulations were run, the sample size meant low response counts were recorded; lower even than the recommended five, so the chi-square tests may not be entirely reliable. The sample consisted mainly of successful franchisees, those doing well commercially. A suggested reason is motivated, successful people are most likely to fill in questionnaires but there is potential here to bias the data. However, on the other hand it is important to consider the gross revenue figures given are self reported and therefore cannot be regarded as entirely objective.

The term 'entrepreneurial' appeared difficult for the respondent franchisees to define unilaterally; this was found in both phases. Therefore it is not clear how many may have actually discounted their entrepreneurial processes and ways of behaving, or felt more comfortable describing themselves as executive officers, leaders and business strategists. Comprehension also seemed an issue in relation to the word 'innovation'. For example when asked to list their innovative processes or developed competencies, many respondents left this question box blank. It is possible that some franchisees were not able to make claim to personal innovation or that they did not fully understand what was meant by the question or even that they were unwilling to share this type of information for reasons of commercial expediency. After all copying is considered common amongst firms and a way of legitimising new practices (Sherer & Lee, 2002), so the franchisees who did not respond may have been trying to maintain their competitive advantage.

Yet another example of the issue of interpretation relates to how the franchisees perceived 'control of my own destiny'. In the general question on the main reason to franchise, this reason scored low but when the franchisees were asked to indicate what was important to them in business they rated 'independence' and 'opportunity' highly. Did they not consider 'control of my own destiny' as independence? In retrospect I have become aware of interpretation problems and feel that a further survey might shed more accurate light on these issues.

Finally and also in hindsight I realised that had I run an exploratory factor analysis after the pre test I could have used a factor score coefficient matrix to determine which question items most accurately measured each variable. This would have enabled me to redesign the questionnaire and eliminate superfluous questions that might have compromised survey precision.

7.9 Phase Two: Summary

In this chapter I have described the outcomes of phase two of the franchisee study. By surveying a large group of real estate agency franchisees I sought to find further evidence of entrepreneurship in a wider population, especially individual franchisee competencies, and to examine the nature of the franchisees' relationship with the franchisor. In doing so I have found support for the hypothesis that real estate agency franchisees are entrepreneurial. Although findings have been discussed throughout this section, these concluding remarks provide a summary.

Despite a strong desire for and a perception of their independence, franchisee survey respondents believed alliance with a franchise gave them much needed advantage in a competitive environment. The reputation assigned to the brand attracted market participants by assuring them of a standardised, professional service and franchisor resource competency ensured franchisees of business support where it was needed. Hence evidence was found of the co-existence of autonomy and dependence or the mutually beneficial relationship dynamic described in the literature (Dana *et al.*, 2006; Clarkin & Rosa, 2005; Bordon-Juste & Polo-Redondo, 2004). These normally opposed feelings tended to fluctuate on a continuum basis so at times and in some roles the franchisee was dependent and at others autonomous (Pizanti & Lerner, 2003).

The franchisees were either offered or saw the opportunity to become business owners and in both cases seized the chance. The majority were acculturated in the industry, especially in a particular franchise group so felt comfortable with the network and collegial atmosphere of real estate franchising. All had a strong desire to build wealth and evidence was found amongst the group of a preference for self employment. The majority had been involved with other business

ventures and almost all had experienced self employment in a contract sales role. Most of the respondents saw themselves as possessing entrepreneurial traits including leadership and business strategising capabilities and they demonstrated their competitiveness when a majority ranked their own firm culture as more important than the organisational culture and their business performance as better than their competitors. Most were involved in developing innovative processes in their offices.

Franchisees certainly take risk, an aptitude accredited to entrepreneurs (Begley & Boyd, 1987). They hold full ownership rights to their business operations and are therefore exposed to any breakdown in the relationship with the franchisor and the franchisor's efforts in maintaining brand image as well as the poor performance of other franchisees⁹. Like any business owner however, they managed the risk by choosing to franchise, offsetting the disadvantages and risk with the benefits to be gained.

Full examination of the outcomes of this phase is discussed in the thesis conclusion in chapter eight when all the threads of the empirical studies undertaken are drawn together. In the section to follow I will discuss a synthesis of the two franchisee phases.

7.10 Synthesis of the Two Phases

In the two phases my main purpose was to explore the entrepreneurial nature of real estate agency franchisees and to achieve this I melded contrasting qualitative and quantitative research processes. The qualitative data collection in phase one took place in the offices of the twenty two individuals who agreed to take part. So in my role as researcher, I was able to be intimately involved and to interact with each individual on a one to one basis. The discussions initiated during this phase evolved as I progressed and learned what to ask about the

⁹ An example is the accusation of misleading advertising levied against a Harcourt's franchisee and reported in the NZ Herald, May 30, 2007.

phenomenon of interest and what to observe in each office. As I collected narrative data on the perceptions and experiences of each franchisee, I began to develop a panoramic view and broad themes began to emerge. These themes formed the basis of my interpretation in that phase.

The quantitative phase focused on the use of an on-line survey (Nesbary, 2000), that was administered at one point in time. This was designed as a means of testing the themes that had emerged in phase one; in the literature, and also during the earlier franchisor study. In this way a numeric description of the perceptions and experiences of a larger population of real estate agency franchisees could be provided - I attempted to measure the strength of the themes statistically and to make empirically based, objective observations of their impact both individually and collectively on the concept of entrepreneurship. In order to do this I ensured the survey instrument was as reliable as possible so that data and interpretation was objective, and legitimate claims about the population could be made. The ultimate purpose was to generalise from the sample used to the population at large, so that inferences could be made about its characteristics and behaviour (Babbie, 1990).

7.10.1 The Samples

Details of the demographics of each sample are illustrated in Table 7.17. The phase one sample was selected by industry informants with the ultimate aim of theory generation rather than population representativeness (Urquhart & Fernandez, 2006) and determined by logic and expediency (Strauss & Corbin, 1998). The phase two sample was chosen randomly from published lists of licensed real estate agents covering all the major franchise groups. As questions required answers corresponding to ranges, median figures were not derived in phase two.

Table 7.17: Sample Profile

Phase One - selected	Phase Two- random
17 males	62 males
5 females	29 females
Median of 9 years as a franchisee	58.7% franchisees for between 6 and 12 years; 41.3% for 1 to 5 years.
Median age 56	84% 45-64 (middle aged)
95.45% came from a real estate sales/management background	91.3% came from a real estate sales/management background
68% owned multiple offices	58.7% owned multiple offices
Median office size over 20 sales consultants	60.9% had up to 20 sales consultants. 26.1% over 21 sales consultants
95.45% previously self-employed	96.7% previously self-employed
Average of 23 years in the industry	86.9% had been in the industry medium to long term

7.10.2 The Interview Guide and the Survey Instrument

In the phase one qualitative study, I used a semi structured interview guide to assist me to keep discussions focussed. Franchisees were basically encouraged to tell their stories of being business owners in a franchise group and I asked questions at times based on notions that arise in the literature and from information I gleaned from franchisors in the previous study (See chapter five). Because I was involved on a one to one basis, I was able to clarify any angles of inquiry and explain terminology if required. In retrospect this proved very useful.

The on line survey used in phase two was sent out to 275 franchisee owners via e mail and consisted of twenty nine questions designed to measure the four variables and contributing factors in relation to entrepreneurship. The variables were based on themes that had emerged in phase one, although variable labels were changed slightly after the results of an exploratory factor analysis (Section 7.2). For example, in phase two the term 'autonomy' was used rather than 'independence' and 'dependency' rather than 'connectedness' and

franchisees' perceptions of their entrepreneurial nature were amalgamated under the labels 'values' and 'wealth'. Innovation and risk were measured as part of 'autonomy'.

7.10.3 Findings and Inferences

In phase one three broad themes emerged: Independence, connectedness and entrepreneurial perceptions. The themes were impacted upon by what were termed 'contributing factors'. For example although there was overlap, independence was impacted by plans the franchisee had to grow the business and by the innovative processes introduced. The theme of connectedness or dependence was affected by the quality of the franchise relationship and by the amount of importance the franchisee placed on the franchise branding. The ability the franchisee showed to take risk and his/her competitiveness and experience with other business ventures contributed to entrepreneurial perceptions (See Figure 7.11).

I have argued that franchisees' role as business owners is little different to their independent counterparts except they have made a decision to mitigate the risk of failure by choosing the brand power and the established business format and support systems of a franchisor. The importance attributed to autonomy and self determination was objectively determined when 81.5% of the respondents in the survey rated autonomy as very important and in phase one feelings of independence were strongly expressed, sometimes almost defiantly (See p.149, chapter 6).

Figure 7.11: Phase One Themes and Contributing Factors


Broad Themes	Contributing Factors
<u>Independence</u> sub branding maverick behaviour marketing techniques negative perception of the franchisor individualised procedures	<u>Growth Plans</u> number of offices specialisations & profit centres growth of the sales team new ventures outside real estate agency <u>Innovations</u> marketing techniques soft values human resource management strategic alliances, ideas teams
<u>Connectedness</u> dependence loyalty	<u>Quality of the Relationship</u> varying perceptions role divisions <u>Importance of the Brand</u> image value
<u>Entrepreneurial Perceptions</u>	<u>Risk Propensity</u> strategies for managing risk exit strategies backup and support <u>Competitiveness</u> desire for success <u>Past Ventures</u> business ownership experience

From the phase one themes and contributing factors, the broad issues considered to impact on entrepreneurship were used in the quantitative phase two: Innovation, autonomy (independence) and dependence (connectedness), personal and business values, and wealth creation.

Sets of questions and parts of questions in the survey were designed to measure aspects of each variable and to determine their impact both individually and collectively on entrepreneurship. Three questions measured entrepreneurship directly, that is how many businesses the franchisees had owned and if they actually perceived themselves as entrepreneurial. Two questions collected information directly from respondents on the main reason they franchised and how satisfied they were with franchising (Table 7.18). Given that there was some overlap the most reliable measurements were obtained for dependency, wealth

and values. Autonomy was measured directly through the innovative business processes franchisees took and questions that related to previous business venturing, risk and self employment. Reliable inferences were able to be made in this respect also.

Table 7.18: Phase Two Variables

<div> Set of Questions  </div>	Dependency (brand and franchisor supports)	Measures of Entrepreneurship
	Autonomy (innovation; business venturing; self employment; risk propensity)	
	Value Structure (Personal & Business) (entrepreneurial perceptions ; job satisfaction ; satisfaction with franchising)	
	Wealth Creation (making money; desire for succe competitiveness)	

In the sections to follow I will discuss the joint findings for each theme or variable. Despite the fact that there is overlap and interaction, I have used the following subheadings: Autonomy and dependency; innovation; and entrepreneurial perceptions and risk taking propensity.

7.10.4 **Autonomy and Dependency**

Despite the ubiquity of standardisation in franchising, real estate agency franchisees in both samples exhibited strong feelings of independence

and many operated individualised agency operations. Although the power of the brand name was recognised, most of the franchisees felt their sub branding also had considerable influence within their local areas, thus confirming the ideas of Yakhlef and Maubourguet (2004). A desire for self employment is considered a central motivation to franchise (Blanchflower & Oswald, 1998; Shane, 2003) and both the interviewees and survey participants demonstrated a taste for self employment. For example, 95.45% of those interviewed and 96.7% of the survey respondents had been previously self-employed in real estate sales/management roles. In addition many in both samples had been actively involved in other business ventures and all but one of the interviewees and 63% of the survey group had owned another business prior to their current venture. Phase one interviewees described themselves as passionate and driven to succeed. Ninety one percent of the survey respondents rated personal achievement, job satisfaction and drive to succeed very highly.

Interestingly, when asked to rate 'control of my own destiny' as a reason to franchise, only 9.8% the survey participants scored this reason high in importance, whereas the support offered by the franchisor and the power of the brand rated the most motivating aspect. However when independence and opportunity were combined as a composite factor, 82.6% of the survey respondents rated these factors very important in business. In fact there is clear evidence franchisees in both phases did not question the fact that they were in control of their own destinies. Participants believed their franchise group offered the chance to be different and show independence and over 90% indicated they thought innovation in business was vital, but when asked to describe their innovations a significant number (40) of the franchisees did not appear to have active examples of their individuality within the group. Reluctance of the survey group to respond could indicate a lack of initiative or it could indicate satisfaction with the franchisor as lead system innovator. However, I believe it is also possible that there was

some misunderstanding of what innovation actually meant in concrete terms, as the interviewees often sought an explanation before relating the innovative processes they instigated. Whatever the explanation for this factor, the importance of independence cannot be denied. Likewise, the interviewees said they felt independent in terms of all operational procedures and perceived themselves as self employed whilst still experiencing strong feelings of belonging, connectedness and loyalty to the group. Neither group regarded their expressed loyalty as dependency. In fact the majority in the survey said they would still be in business if they were not in a franchise group and valued the importance of their own distinctive culture over that of the franchisor. Thus, in both groups there was evidence of the existence of independent and dependent feelings confirming the co-existence notions of, amongst others, Dant and Gundlach (1999); Doherty and Alexander (2004) and Clarkin and Swavely (2006). In practice the desire for independence is off set by group loyalty and recognition of the benefits to be gained, so rather than a focus on incongruent goals (Thompson, 1971) it is more realistic to take the relational exchange view that a fine balance exists between parties to the franchise contract (Bordon-Juste & Polo-Redondo, 2004; Mehta & Pelton, 2000).

Notions of connectedness to the franchise system arose in both interviews and the answers to survey questions. Almost all the franchisees displayed satisfaction with the benefits to be gained, especially competitive advantage associated with the brand. It seemed clear to me as researcher that the dual existence of independence and connectedness or dependence worked well, even if the franchisees did not necessarily equate loyalty and commitment with the word 'dependency'. The franchisees felt secure and sheltered from potential business risk because of the benefits derived from the relationship with the franchisor (Gauzente, 2002) and the franchisor gained satisfaction from fostering a system that encouraged multi unit growth, healthy competition and consisted predominantly of experienced franchisee

operators who were encouraged by constant recognition of success (Clarkin & Rosa, 2005). The interactive franchise system creates an environment of opportunity and chances to develop the types of creative partnerships that are part of the entrepreneurial process (Tan & Tan, 2005).

In phase one, feelings of independence were strongly expressed, sometimes almost defiantly and one franchisee was almost maverick in expressing his/her independence, even questioning the franchisor role. In phase one I considered plans to grow the business to be evidence of independence as well as competitiveness. Mintzberg and Quinn (1991) suggest that the desire to compete is fundamental for entrepreneurs. All of the interviewees were competitive, with 68% of the interviewees being serial entrepreneurs (Ucbasaran, 2001), that is, they operated multiple offices and were still looking for opportunities to expand further. Two were even involved in other types of investment in the development field and thus these franchisees exhibited clearly formed entrepreneurial characteristics as they aggressively sought wealth creation (Spinelli *et al.*, 2004). The majority of the survey group were the owners of more than one office and wealth creation emerged as an important franchisee goal.

The relationship between franchisee and franchisor was not always perfect. Like any relationship, negative feelings intruded at times. Factors like dissatisfaction with the level of royalty payments in return for services offered; feelings of being ignored and loss of power were nevertheless, counter balanced by feelings of belonging to the group, its values and traditions. Aldrich and Weidenmayer (1993) suggest that it is in such environments that entrepreneurship is fostered. The overwhelming feeling from franchisees in both samples was they were independent business people who had chosen to work with the security a close relationship with a larger organisation could bestow. They all owned and operated their businesses in an unfettered way and chose to

interact with the franchisor or other franchisees in the group when and if they chose to do so. A franchised real estate agency was perceived as being just like an independent agency but 'with a few strings attached'.

7.10.5 Innovation

The presence of innovation is recognised as a contributing factor in entrepreneurship (Keogh, 2001). In both phases, innovation was linked to autonomy as a contributing factor and evidence of franchisee innovation tended to emphasise autonomy over dependence. Almost all of the interviewees described innovative ways of doing real estate that they had introduced into their businesses, even though the franchisor was also heavily into developing innovative system processes as well. It was found in the interview data that most of the innovations related to three areas of operation, marketing; management of relationships amongst the human resource and the formation of specialist teams and linkages with experts.

In the survey, innovation was measured and used to explain entrepreneurship. Although over 90% thought franchisees should make innovations in their business, for reasons already mooted, only just over half the respondents listed and described their actual processes. Those who did, however, described innovations in the same three areas as the interview group. Most of the survey group believed the franchisor innovations were important but their own innovations were more important, so it would appear franchisees are more focused on themselves as innovators than reliant on the franchisor. The ability to innovate appeared in the interviews to be linked to the franchisee's personality and enthusiasm for the task. Franchisees in both groups had introduced, amongst other things, new open home and auction initiatives; interactive marketing window screens; shared databases; impressive auction room facilities and were focused on the 'soft' values of relationship building in all facets of their businesses both internally and externally.

7.10.6 Being Entrepreneurial, Taking Risk and Creating Wealth

Clearly, the real estate environment offers a fertile ground for entrepreneurial activity given that there are so many radical changes either imminent or underway (Crowston *et al.*, 2001). In the first phase I sought to find out if franchisees perceived themselves as entrepreneurial by asking them the direct question. Most were unsure of how to answer, perhaps not surprising when one considers the academic debate still raging over what an entrepreneur actually is. There seemed to be similar issues in the survey section because well under half of the respondents indicated they thought of themselves as entrepreneurial and yet when I added in perceived personal skills of leadership and business strategising, the number increased considerably. Thus, there appears some reluctance amongst the franchisees in the study to call themselves entrepreneurs even though they display leadership qualities, seek wealth, open businesses and innovate.

If self employment is an important factor in entrepreneurship as has been claimed (Blanchflower & Oswald, 1998; Ozanne & Hunt, 1971; Stanworth & Kaufmann, 1996; Shane, 2003), then real estate agency franchisees in the study are entrepreneurial because all but one in the first sample had been in a self employed role prior to their ownership position, either in a sales or sales/management position and five had opened businesses prior to their present venture. In the survey 63% had owned businesses previously and the rest had contract sales experience; so it can be inferred that franchisees in the study demonstrated a preference for and comfort with self employment. It was found there was no significant statistical link between the age, gender or the general education level of franchisees in relation to their entrepreneurial perceptions but that a strong linear relationship existed between the way franchisees in the survey regarded themselves and their level of professional qualifications.

The ability to take risk has been attributed to entrepreneurs (Knight, 1984; Scase, 1996; Shane, 1996), and it was found that real estate franchisees take considerable risk, especially multi office franchisees. Firstly, the record many franchisees have in business ownership is testament to their ability to handle risk. Secondly, they invest in their businesses and develop local markets; must rely on the continued viability of their chosen franchisor and as residual claimants of their business stand to lose if the franchisor fails. Conversely however, both groups of franchisees showed the decision to franchise could be seen as a type of risk management strategy and that it is mostly because they perceive positive advantages in belonging to a franchised network that they become franchisees. The majority (66.3%) of survey respondents indicated that belonging to a network group was very important and felt they could trust the franchisor to protect their interests (81.5%). Thus one way of looking at the decision to franchise can be seen as a strategic decision based on a wish to manage the risk associated with small business venturing¹⁰. Because many of the franchisees were already working in the organisation in which they became franchise owners, they felt confident of the franchise group's viability and continued competitive advantage, plus they were acculturated into the business and the organisation ways. Respondents valued economic security as (very) important (83.7%) and the despite claims to the contrary (Mittlesteadt & Grunhagen, 2005) wealth creation was important for 80.4%. The most telling statistic however came in the survey when only 4.3% of the sample was found to have chosen franchising because they perceived it as less risky and would not otherwise be in business. The vast majority however, had other reasons for becoming franchisee owners and all said they would still be in business if it were not for franchising, so risk does not tell the

¹⁰ Survival rates of small businesses in NZ are startlingly low. Longevity figures measured for businesses established in 1995 indicate that after 5 years, only 40% of smaller business survived. Ministry of Commerce, SMEs in New Zealand: Structure and Dynamics, Jan 2000, Figure 15, p13.

whole story and the vast majority of real estate franchisees cannot be called risk averse.

Franchisees were keen to compete and competitiveness was measured in the survey by the way franchisees rated their businesses within the group. Over half (59.8%) said their businesses were above average but indicated it was important to make continual business improvements to keep ahead. The fact they scored shared business decision making as an important aspect of franchising is indicative of the co-operative entrepreneurship notions and interdependence expressed by Dana *et al.*, (2006).

The desire to build wealth is high amongst franchisees and Timmons and Spinelli (2003) and Spinelli *et al.*, (2004) claim this is the purpose of entrepreneurship. Franchisees in both phases run very successful business operations and have invested large amounts in the continued value of the franchise name and the supports offered.

7.11 Chapter Conclusion

My intention in this chapter has been two fold. First, I have discussed the findings of the quantitative phase two of the franchisee study and confirmed the hypothesis that real estate agency franchisees are entrepreneurial. I have then drawn together the interpretations of both phases to give an overview of the franchisee perspective and entrepreneurial competency. I found that most real estate agency franchisees are able to leverage entrepreneurial value from the mature resource competencies of their franchisor and that many add significantly to the resource pool and are entrepreneurial in their own right. Many own several separate agencies and grow their own mini chains. This is encouraged by the franchisors who have less chain control issues to deal with as a result and because multi office franchisees are amongst their most loyal system members with high levels of capital investment. Most franchisees chose to become

business owners in a franchise system because they perceive association with the brand bestows competitive advantage and often because they are acculturated in the group and hold strong bonds of loyalty. They enjoy the support structures set in place and the resource competencies developed by the franchisor in an environment where it is necessary to keep up with rapid changes. The majority believe they are better placed in a franchise system to stay ahead of the competition. However, this does not mean franchisees are not as entrepreneurial as the franchisor. In every aspect of operations, franchisees feel independent. They consider themselves self employed, in control of their lives and their businesses to be very similar to independent businesses. Most feel they are adequately compensated for the monthly royalty payment required. Entrepreneurial franchisees grow their businesses as parallel, separate entities alongside system growth and have the benefit of a mutually beneficial interdependent relationship with the franchisor.

Recent studies have given greater consideration to different types of entrepreneurs (Ucbasaran, 2001; Tuunanen & Hoy, 2007) and this study has highlighted that real estate agency franchisees are a type of entrepreneur who exhibit behaviour consistent with being entrepreneurial. It has been suggested that multi unit franchisees are more entrepreneurial than single unit franchisees (Weaven, 2004, p. 309), however all the franchisees in this study showed motivation to achieve and be successful. They showed aggressive, competitive tendencies and most were innovative in their own businesses. Furthermore, most indicated a desire to grow their businesses and placed high value on seizing opportunity. Despite strong feelings of independence, entrepreneurial franchisees also hold feelings of commitment and loyalty to their group, rating their franchisor's marketing, ICT development, business help and communication as underpinning competitive advantage. So by its nature, franchising encourages those entrepreneurs who value co-operative behaviour and

who see belonging to a group as a type of insurance policy for success. They become business owners in a networked group because they perceive advantages and protection for themselves in their entrepreneurial pursuit of wealth. Within the context of the real estate agency sector the vast majority of franchisees are nurtured in their parent organisations and move from sales and management positions into full ownership, so they are fully acculturated into the industry and often in the organisation itself. There is a very high degree of satisfaction with franchising in the sector and owners of franchised agencies feel indistinguishable from independent owners with one exception – their entrepreneurial ventures are less exposed to the almost cannibalistic competition that characterises the real estate agency world.

8

Conclusion

As franchising has become an increasingly visible expansion mode in the commercial world and its growth potential worldwide is considered exponential (Swartz, 2000), it has attracted the attention of a wide variety of researchers. However, the development of competing discipline-based approaches has tended to work against the productive fusion of ideas and a solid foundation for future inquiry. The body of franchising research has a fairly short but rapidly evolving history. Elango and Fried (1997) were the first to urge pursuit of a wider perspective and a focus on individual industries to provide more explanatory power. By placing more emphasis on the pooled resources of franchisors and franchisees, the way has now been opened to better understand the variable nature and complexity of the phenomenon, especially from a resource based stance. In addition, when more weight is placed on the pivotal role played by the franchisee in contributing towards the success of the relationship it has become possible to consider franchising from an entrepreneurial viewpoint (Tuunanen & Hoy, 2007). As Kaufmann and Dant (1999) point out:

... franchising provides a unique and fertile setting for research in entrepreneurship: franchisor as entrepreneur, franchisee as entrepreneur, and the franchise relationship as an entrepreneurial partnership. (p. 10).

This thesis has sought to extend current thought on franchising by focusing attention on multiple perspectives of both franchisors and franchisees in the real estate agency segment of the property business. Attention given to one industry has provided a picture of the specific nature of franchising and its operation in the Asia-Pacific region by demonstrating how those involved perceive their roles and experiences.

In the light of novel insights previous studies of multiple system application within specific industries have been limited and this thesis has moved to close an important research gap. Therefore I believe it has taken a small step towards advancing theory by concentrating on two broad areas of debate. First, factors behind the increasing choice of franchising as a strategy for competition by real estate agency franchisors and second the body of thought that links franchising with entrepreneurship.

By recognising the paucity of theoretical diversity in franchising research and viewing the phenomena through multiple lenses I have been able to offer richer understanding. I have applied a diverse, sequential theoretical framework and converging angles of inquiry to explain franchising in the real estate sector. This has involved combining elements of extant agency and resource scarcity theory with the influence of managerial preferences and discretion in driving the franchise decision. The notion of franchisors and franchisees amalgamating resources to provide a platform for competitive advantage has been stressed and the development of resource competency at both levels in franchised real estate organisations emphasised as a distinctive sector capability. The positive and encouraging institutional environment that exists for franchising has also been discussed as a key motivating factor in the NZ context. Thus, in this way I have contributed new knowledge.

In order to investigate a particular franchising model and to focus attention on the overarching research questions I used a holistic mixed methodology to collect and interpret a large amount of information about a relatively small number of cases. Thus, this thesis has escaped the restrictive methodological processes typical of previous studies. I amalgamated qualitative and quantitative data gathered from a variety of sources and representative of a number of interwoven issues. I moved from creation of the franchise system to its operationalisation in local areas and experienced first hand the co-operation of business owners and

the building of organisational pride at both levels. My work with real estate franchisors enabled me to study the refined resources and processes of a mature franchise organisation. I interviewed and interacted with a group of franchisees, heard their stories and experiences in a franchise system and undertook a survey of a larger, geographically spread franchisee population.

Additionally, I adhered to a concept of franchising that incorporates the notion of economic individualism and the creation of new ventures first by the franchisor and second by franchisee, often as multiple agency businesses. Thus, this thesis has recognised the link between franchising and entrepreneurship in the real estate agency application. The close relationship between franchisors and franchisees in the highly competitive real estate sector was seen as a fitting response in the light of an increasing economic interdependence between small and larger businesses across sectors. My study confirms that real estate agency franchisees are as entrepreneurial as independent businesses owners and only distinguished by a conscious decision to employ franchising as a way of increasing competitiveness and minimising risk. Real estate franchisee business ventures were shown to be vehicles for self employment, wealth creation and creativity - all familiar entrepreneurship concepts.

At the beginning of this investigation of real estate franchising I sought to establish why real estate firms in NZ choose the franchise pathway. The fundamental reason behind a franchising strategy was found to be a desire to grow the company and achieve competitive advantage quickly. In addition, the real estate market is particularly encouraging to this organisational form because it poses the necessity to adapt and learn quickly (Sorenson & Sorenson, 2001). Growth gives real estate firms the ability to compete in every locality and increase their visibility and market share whilst overheads are shared and purchasing economies achieved. Furthermore, franchised real estate firms appeal to more customers than non-franchised firms because the brand name is more

easily recognisable; a fact that tends to reduce uncertainty in a tense commercial situation (Benjamin *et al.*, 2006). If market participants feel they can trust an agency, costs are reduced, buyers take less search time and the objectives of vendors are more quickly achieved. The findings of my study also suggested that in the specific NZ institutional environment where franchising is still unregulated there were no perceived disadvantages associated with a franchising strategy or onerous compliance standards to be met by franchisors. Nevertheless, in other parts of the Asia-Pacific region where franchising legislation exists, the phenomenon is still widespread¹. Given these compelling reasons and the role played by the nature of an industry in determining organisational structure (Carpenter *et al.*, 2003); the decision to franchise in the real estate agency sector is not surprising.

Managerial preference for franchising is central in the franchise decision and to understand the reasons behind certain decisions it was necessary to examine the dispositions of top executives (Combs *et al.*, 2004; Castrogiovanni *et al.*, 2006a). The growth of the Harcourts Group for example, was driven by the system originator and then by the team of aggressive young executives who run the company today. Thus the role of personality, preference and managerial discretion were confirmed in this study as pivotal in adoption of a franchising strategy - confirmation of upper echelon theory (Hambrick *et al.*, 2005a; Hambrick, 2007). Furthermore, the influence of personality on the overall system was confirmed by several franchisees who considered the ideas, methods and management discretion (Hambrick & Finklestein, 1987; Crossland & Hambrick, forthcoming), of their franchise leader a major influential factor in their commitment to the group.

Together with the traditional agency belief that office ownership ensures franchisee commitment and success, my study confirmed that franchisors have varying ways of looking at franchisee ownership. Some

¹ The Africa/Oceania region is highlighted along with North America and Asia as having the largest numbers of franchisors (Hoffman & Preble, 2004).

were clearly profit driven, intent on market dominance, others took a more altruistic view seeing franchisee ownership as reward for entrepreneurial company people, a chance to develop a lifestyle and grow personal wealth. Thus some franchisor's reasons tended to be more positive than the view of franchising as a means to control moral hazard (Jensen & Meckling, 1976) and post contractual opportunism (Hoy & Stanworth, 2003). An underlying reason for a positive view was, unlike the case in many franchised industries, real estate franchisees are people acculturated in the industry and mostly in the group itself therefore relationships and trust are built prior to business ownership.

Acculturation is a distinguishing characteristic of real estate agency franchising and shown to encourage the perpetuation of franchising by providing a constant source of franchisee owners. Most of the franchisees studied came from sales and management positions so had operated in a self employed contract role for some time. The best groups expected their people to pursue education confirming the ideas of Larsen & Coleman (2003). Some had set up academies to ensure the appropriate qualifications for agency ownership were gained. It was suggested this constant supply of new blood both invigorates real estate franchise systems and allows franchisors to be confident and relatively unthreatened by franchisee independence and business innovation. Acculturated franchisees are aptly prepared to make a solid contribution to the system and grow their own business parallel to the franchisor organisation. A further arm of acculturation reached into the wider real estate environment outside the organisation when the franchisors sought to acquire or merge with other real estate groups. Here existing real estate industry companies, already part of the industry culture, were 'acculturated' into the new parent franchise system. The importance of acquired skills and experience in supporting entrepreneurship confirms ideas advanced by Silva (2006).

There was evidence that franchising allowed real estate franchisors and franchisees to grow two distinct and yet interdependent business

operations. Franchised businesses drew on the strength of a globally recognised brand name, while facing the challenge of managing two brands: the embraced global brand and the local one (Yakhlef & Maubourguet, 2004). Franchisees established themselves quickly in a local market and implemented the system as the franchisor endorsed the quality of service offered. Another advantage of real estate franchising was found to be the focus it allowed each party to concentrate on their core business roles. The franchisor focused on building the brand and establishing support structures while franchisees focus on the business of 'doing real estate'. Role separation gave franchisors the freedom to build resource competency capable of providing franchisees the level of support regarded as central to success of franchising in this industry. The quality of the business system was paramount for growth and required delivery of tangible advantage to franchisees. Focus was shown to build performance and quality; brand and business assets; and ensure renewal through attracting others to join the group. By giving their franchisees the best tools to do the job, real estate franchisors were able to build particularly strong systems.

The notion of legitimacy inherent in institutional theory (Oliver, 1997) requires a final comment. First, it was found the absence of franchise legislation in NZ did not influence franchising strategy. NZ franchisors tended to follow the Australian example where more mature forms of business format franchising have continued to develop (Wright & Frazer, 2004), underpinned mainly by the risk of failure facing small stand alone business and high levels of industry competition. Second, the fact firms tended to copy the practices of other highly visible firms in the same sector meant new practices became legitimised leading to adoption by others, confirming the ideas of Sherer and Lee (2002). The visible success of real estate franchise groups persuaded others to imitate the strategy and new salespeople were attracted to work in franchise networks. Thus, once franchising was an established industry strategy there was a strengthened intra-industry expectation of its future continuation, and legitimacy was reinforced.

This thesis provides strong evidence that the major reason franchising has been so successful in the real estate agency business is the development of unique resource competency. Thus, a wider view incorporating resource based theory proved fruitful in understanding this particular franchise model. Specific resource acquisition was found to have the potential to set a real estate firm apart from its competitors, creating a competitive advantage that existed until competing firms found a way to imitate (Dierickx & Cool, 1989; Barney 1991; Peteraf, 1993). The resources made available to franchisees from franchisors helped ensure the same level of service from any franchised agency in the group. In this way value was added to customers' perception of the brand. Resources ensured the highest quality services were provided and franchisors assisted franchisees with the correct utilisation of the tools provided. For example, franchisee lack of knowledge or ability in technological areas could potentially lead to business failure or at best marginal profitability. This was especially important because it is increasingly necessary for both franchisors and franchisees to develop a web presence (Hamilton & Selen, 2002, pg. 2; Tse & Webb, 2002) to provide customers with access to important market information. Where the franchisor drove advances in information technology, individual business owners were less constrained by the need to gather the complex skills needed to adequately fulfil this challenge and more able to focus on core business competencies and profit generation.

Evidence of the development of resource based competencies at franchisee level was shown in the growth of successful local agencies and the number of multi office franchisee operations that existed in the industry. Multi unit franchisees were heavily represented in the sample populations studied in this thesis. In these instances, franchisees built their own business format, albeit underpinned by the brand format, developed resources and innovated in order to grow one or sometimes several cloned company-owned agencies. The fact that new franchise offerings were a relatively rare occurrence was again testament to the

strength of loyalty to the main culture. Thus, by combining their immaterial and material resources in a complementary and synergistic way real estate franchise systems achieved growth, efficiency and effectiveness. By co-ordinating resources, ventures were initiated and developed and processes implemented throughout the system (Argyres, 1996; Madhok, 1996; Tuunanen & Hoy, 2007).

By viewing real estate franchises in light of the resource competency developed by franchisor and franchisee focus could be placed on co-operation between the two parties. This opened the option of modelling franchising as co-operation between business ventures and between entrepreneurs (Tuunanen & Hoy, 2007).

My study confirmed the notion that both real estate franchisors and franchisees are entrepreneurs, albeit different types. This conforms to the views of Shane and Hoy (1996); Spinelli *et al.* (2004); Stanworth (1995) and Tuunanen & Hoy, (2007) and departs from former belief that the franchisee implementer was devoid of the creativity traditionally linked with entrepreneurship (Clarkin, 2002; Kauffman & Dant, 1999). Thus since real estate practitioners offer both services and products that need to be constantly developed in order to keep ahead of their competitors there was always an opportunity to act entrepreneurially by identifying and exploiting new products and niche markets.

In this thesis the act of franchising whether as instigator or implementer was seen as a way of business venturing. Study of the franchisee perspective in chapters six and seven was designed not only to give voice to the franchisee partner but also to provide a context in which to examine the entrepreneurial nature of franchising in this industry application. There are in fact several overlaps between franchising and the concept of the entrepreneurial venture (Davidson & Wiklund, 2001). The central notion being that wealth is created through business development and innovative processes and practices.

I adapted the following ideas from Hoy (1995) to illustrate the real estate franchising/entrepreneurship link. Firstly, real estate franchise organisations were found to be entrepreneurial because new franchisee ventures developed or were added within the system. Growth was ensured by the steady flow of new franchisees being nurtured in each franchise system and by the business development mentoring available to guarantee ongoing business success. As many real estate people in sales or management roles had the ultimate goal of business ownership, the real estate model provided an answer to the largely unanswered question of how franchisors choose franchisees, posed in the literature. Although there is as yet no requirement in NZ for producing a Uniform Franchise Offering Circular (UFOC)², the fact that franchisees were usually known to the organisation or had been in the real estate business before provided transparency. Franchisors were entrepreneurial at the organisational level and recruited franchisees who were existing individual entrepreneurs running independent offices or managing offices grouped under a smaller system, so the entrepreneurial 'corridor principle' applied (See chapter 3, p. 63). Second, franchising was seen by franchisors partly as a way of sourcing the financial resources necessary for growth and especially for funding resource competency, so by injecting capital into the system franchisees actually underpinned bigger and better franchisor support.

Third, real estate franchisees seldom failed because it was not in the interests of the overall group for an agency to disappear from a locality. When there was trouble, it was usually picked up early by regional business advisors and either a solution found or the franchisee was encouraged to sell to a waiting colleague. In this light I have suggested franchisee entrepreneurs used franchising as a strategy for success and a type of risk management strategy that is fundamentally no different from the risk management strategies employed by any cautious stand alone entrepreneur. Lastly, real estate franchise organisations were born and

² A form of business plan required for franchisors to access franchisee information under franchise legislation.

grew by spawning offshoot agencies and rarely returned to corporate ownership, rather allowing franchisees to maintain their independence within a corporate culture. From the studies completed, key entrepreneurial values like autonomy, wealth generation and creativity were shown to be widely prevalent.

In gathering the resources that underpinned a workable business operating system that delivered competitive advantage, franchisors were high risk-takers, a key entrepreneurial characteristic (Shane, 1996). However, they simultaneously minimised risk. When expanding, particularly internationally, franchise systems acquired experienced and proven franchisees to reduce risk (Kaufmann, 1992). Harcourt International's acquisitions in Western Australia (The Roy Weston Group) and Tasmania (M & M Real Estate) are examples. In implementing the business concept and adapting the processes to meet the needs of their local market, franchisees risked their own capital. In fact the success of the franchise group depended on the ability of franchisees to innovate and adapt locally (Dant & Nsar, 1998) and adaptation and innovation are considered entrepreneurial characteristics (Timmons 1992; Zieba, 2002). So with the common entrepreneurial aim of wealth creation (Shane, 2003), both franchisee and franchisor faced and managed risk.

Shane (2003) claimed that two of the most pertinent issues related to entrepreneurship are self employment and new venture start up. In the quantitative franchisee study the majority of the respondents had been self employed before, having owned at least two previous businesses. Over 96% had worked in a contract sales role at some stage prior to ownership, notwithstanding the fact that many had an intervening management position. Timmons & Spinelli (2003) and Spinelli *et al.* (2004) agreed a concern for growth and profitability is at the heart of entrepreneurship and this propensity was confirmed by all the survey respondents. Almost 50% demonstrated they were high achievers, with prior sales incomes in excess of \$100,000 and surplus agency owner

incomes averaging around \$262,000. The majority were the owners of more than one real estate office with highly profitable business operations and large financial investment in the continued value of the franchise name and the supports offered.

A further vital focus in this thesis was the nature of the interdependent relationship between real estate franchisees and franchisors. This was found to be a co-operative, congenial partnership (Baucus *et al.*, 1993; Norton, 1993) in which the dependence of each party was bilateral or interdependent (Buchanan 1992; Gundlach & Cadotte, 1994; Kumar *et al.*, 1995). My empirical findings confirmed the real estate franchisee need for autonomy was balanced by the franchisor need for control over the system. Some studies attribute the presence of autonomy in franchising with the entrepreneurial link (Dandridge & Falbe, 1994; English & Hoy, 1995; Kaufmann & Dant, 1996; Kedia *et al.*, 1995; Knight, 1984 and 1986; Kruegar, 1991; Preble & Hoffman, 1995; Spinelli & Birley, 1996; Stanworth, 1993; Stanworth *et al.*, 1996; Williams, 1999; Withane, 1991) and compelling evidence of a strong desire for autonomy was found amongst the real estate agency franchisees in this study. However, the most desirable state for a franchise system to achieve is high autonomy together with high dependence, achieved by multi-unit growth, healthy competition, recognition of success and a high number of experienced franchisee owners. Real estate franchise systems studied in this thesis followed this model in all respects.

It has been claimed that the more successful a franchisee is, the more autonomous he/she tends to be (Dwyer & Oh, 1987), however in this thesis I contend successful franchisees perceived their success as due to their combination with the franchisor and treasure the relationship (Anand & Stern, 1985; Pfeffer & Salancik, 1978; Peterson & Dant, 1990). Given the scale of their businesses and high financial commitment, multi unit franchisees were more likely to have a highly motivated mindset in the relationship. High investment thus equated to

high dependence and aligned goals. Moreover, the owners of mini chains were in a sense mini franchisors, although they owned each office in the chain, some were only partially owned with incumbent managers under succession plans.

In this thesis the more accurate view of mingled elements of autonomy and dependence in the relationship was recognised, just as there were degrees of creativity and harmony. Trust was considered key and achieved through communication and co-operation (Bordon-Juste & Polo-Redondo, 2004; Chiou *et al.*, 2004). Dana *et al.*, (2002) suggested franchising is a trade off between autonomy and efficiency in which the franchisor relinquishes some control to gain flexibility and scale while franchisees relinquish some autonomy to get the benefits of belonging to a group. Others suggested that autonomy and independence should be examined dialectically on a continuum basis (Pizanti & Lerner, 2003), that at times and in some roles the franchisee is dependent and at others autonomous. Clarkin and Swavely (2006) believed franchise relationships are delicately balanced between the franchisor's desire for control and the franchisee's desire for autonomy. The studies undertaken in this thesis suggested there was little evidence of any polarisation and for the franchisee the desire for autonomy and dependence tended to shift conforming to the idea of Pizanti & Lerner (2003). Evidence suggested the benefits of franchise brand and support offset the desire to be autonomous and that franchisee respondents did not see their independence compromised in any way by being linked to a franchise group. In fact the juxtaposition of autonomy and dependence and the symbiotic nature of the relationship is a feature of franchising in the real estate agency sector and confirmed ideas in the literature.

My study provided evidence the relationship was based not only on trust and the presence of similar goals but also on reciprocity and complementary interdependence. Enterprising franchisees could negotiate contractual advantages not immediately spelt out and in addition there was no evidence of franchisor micro-management in the

real estate sector, in fact the opposite was found to be true. One of the claims made in this thesis and borne out in the empirical findings was that because real estate franchisees were acculturated before they became owners of franchised businesses, co-operative patterns and commitment to the brand were already established, and instances of conflict minimised. Nevertheless it is essential for the franchisor to remain aware that franchisee motivation can change over time (Grunhagen & Dorsch, 2003) and that revaluation of the relationship is necessary on a regular basis. In franchise systems where there was ongoing collaboration, flexible relationships, new products and services were well tolerated by both sides. Franchisees in the study perceived ownership of a franchised office as a career progression; indeed 85% of all successful entrepreneurs spend at least 3 to 5 years in their industry learning the language and niches before setting out to start a business (Spinelli, 2003). The real estate franchisees felt comfortable belonging to a network of likeminded colleagues with whom they communicated regularly in a co-operative way.

Although co-operative behaviour was mutually beneficial, the risk of conflict still existed because the potential for opportunistic behaviour could undermine trade name value. First for example, franchisees could potentially misrepresent revenues, therefore reducing their royalty responsibilities. However, this was not possible in real estate agency in NZ because of the legislative requirement of monthly trust account reconciliations³. Second, as the interface with the public was the domain of independent contracting salespeople who were recruited by and work under the supervision of the franchisee, the franchisor's risk was widened into an area where they had virtually no control. On the other hand franchisors could encroach on franchisee markets, misrepresent costs, fail to fulfil promises and even engage in unfair dismissals. Spinelli & Birley (1996) and Phan *et al.*, (1996) produced evidence of incongruous goals claiming that in some sectors dissension appeared to

³ The Real Estate Agents Act 1976.

be a problem. In a 1993 study (Withane) less than 1/3 of franchisees said they were satisfied, however, Erofeev (2002) claimed franchisees felt safer and were less likely than independents to fail. Likewise it did not appear to be the case in the real estate industry as the degree of satisfaction with franchising in real estate indicated. Nevertheless, things were not always perfect and some dissatisfaction was recorded. The fact that very few were not closely engaged and most had many years within the company culture was testament to the overall success of the real estate franchise relationship between two types of entrepreneurs.

The current notion of administrative productivity (Barthelemy, 2004) or the amount of resource the franchisor committed to the system provided one angle on the relationship. Franchisees had the incentive to work hard because of their residual claim to the profits but there were always some who appeared to free ride on the good name of the system because real estate is a sector in which clients interact with agents on infrequent occasions (Brickley & Dark, 1987). The field and regional management systems set up by real estate franchisors however, tended to offset this problem. The levels of other means of administrative productivity have been linked to franchisor experience (Thompson, 1994). Shane (1998) claims that complex franchise systems are more likely to have less administrative productivity than simple ones. Nevertheless, as confirmed by the nature of resource competency, real estate franchisors studied in this thesis showed a high level of administrative productivity achieved by delegating responsibility to the franchisees and supporting autonomy. Notwithstanding claims that the amount of support given had a negative correlation with administrative productivity, this does not appear to be the case in the real estate agency context. High levels of administrative productivity translated into more effective franchise groups because each party had the leeway to focus on core competencies.

In my study both franchisors and franchisees were overwhelmingly positive about their relationship and maintained regular communication and co-operation. Franchisees felt unconstrained and in instances like

this, where the benefits go both ways and where the relationship was highly evolved as it is in real estate agency, there was increased potential for entrepreneurial behaviour and teamwork. In exploring the entrepreneurial nature of real estate franchisees I found several strong reasons in the data to conclude that franchisees were entrepreneurial. Despite past arguments to the contrary (Felstead, 1991, 1994; Williams, 1999) to survive in today's competitive environment franchisees must adapt, innovate (Block & MacMillan, 1993) and take risks (Shane, 1996) and survival, growth and profitability are amongst the most salient dimensions of entrepreneurship (Shane, 2003). All these characteristics arose in the studies undertaken in this thesis. Firstly, franchisees used their own capital to set up their businesses and develop local markets (Kaufmann & Dant, 1998). Secondly, they relied heavily on the goodwill and performance of the franchisor. Zieba (2002) found that franchisees in Poland (including 30 real estate franchisees) made innovations and considered themselves to be entrepreneurs, a fact confirmed by findings in this thesis. The most important reason found for real estate franchisees decision to enter franchise ownership was to ensure competitive advantage by being able to use the franchisor brand and support services. In fact these benefits even outweighed the strong desire for autonomy and confirmed the ideas of Rodie and Martin (2001). So it has been suggested the franchise decision can be seen as a strategic move by some entrepreneurs to maximise their chances of success Third, franchisees in the study were able to leverage entrepreneurial value (Firkin, 2001, 2003) from the combination of resources they received from the franchisor and by adding further elements to the resource mix by a business individualisation process.

Franchisees in the empirical studies in this thesis showed a high level of independence and entrepreneurial awareness of opportunity. All were motivated to succeed and increase their wealth. The more innovative they were in their own firms, the more independent they felt. In the qualitative franchisee study the concept of independence was linked with plans to grow the business. The majority of the franchisee groups were

the owners of multi offices and emulated the original process of system formation carried out by the franchisor so could be considered entrepreneurial (Grunhagen & Mittlesteadt, 2005). However, when consideration was given to the fact that the majority of the franchisees already worked in the parent organisation prior to becoming a franchisee; were acculturated into the system, had developed loyalty and commitment in their prior roles and their opportunity for ownership came from the organisation, the move to business ownership seemed a natural progression. Many may not have considered business ownership outside their franchise group for this reason, choosing rather to grasp the opportunity within the group when it presented itself. For such people, who possess the ability to perceive opportunity, entrepreneurship will manifest itself in various forms (Aldrich & Wiedenmayer, 1993; Bloodgood *et al.*, 1995; Shane, 2003), in this case franchising.

Although economic security was of central importance to franchisees, creating a balanced, enjoyable work style also held high priority. The fact that many franchisees found emotional fulfilment in the job confirmed an entrepreneurial characteristic suggested by Justis and Judd 1998. There was some reluctance amongst the franchisees in the study to call themselves entrepreneurs even though there was evidence they showed leadership qualities, valued wealth creation, opened businesses and made innovations; all entrepreneurial characteristics (Shane, 2003). This led me to conclusion there was a type of entrepreneur who adopted franchising as a means of ensuring success, perhaps even as a risk management strategy. By allying with a respected brand, they felt they could stay ahead of the competition and in an industry where change was rapid and competition fierce, such a strategy was not unwise.

Perhaps it is important at this concluding stage to broach the question of the generalisability of the findings. Focus on one specific industry could be seen as limiting the generalisability of findings to other industries. However, as Elango and Fried (1997) point out, focus on one sector (their focus was the fast food industry) represents a significant

improvement over past studies that merely examined one particular franchise system (such as Pizza Hut or McDonalds). Furthermore, a study that crosses industries may often become burdened by the fact that industry specific factors may not be detected because they cancel each other out.

My study can lend itself to generalisation to the real estate agency industry particularly in the Asia-Pacific region and more especially in NZ and Australia. Since I spoke to franchisors from eight of the major regional franchise groups operating in NZ I feel confident the franchisor views are representative of the Australasian franchisor population. As the NZ representatives of two of Australia's biggest franchise systems were included, generalisation to the Australian market, where there are close historical and cultural ties, is possible. Further, the Harcourts Group window study was verified in all aspects by the general manager of the NZ section of the organisation. In this way the case study methodology employed was strengthened. I believe that as all franchisors have built similar resources, so the notion of resource competency can be generalised to other systems.

The interviews with franchisees were only concluded when themes began to repeat and themes acted as prompts for questions asked in the online survey. Thus, the survey was grounded in the views of the interviewee sample group. Furthermore, the survey response of 33.45% was an excellent response rate and the survey reliability was statistically proven. Finally, my experience in the real estate agency industry made me aware and sensitive to the nuances of meaning and better able to make reliable inferences from the data.

8.1 Implications for Industry

This study not only provided me with an opportunity to examine the real estate agency industry from an external vantage point but also to contribute in a positive way towards its success and development. My

thesis has implications for more effective management and awareness throughout each level of franchise organisations. First, the quantitative study of franchisees revealed that initiative in the business development service undertaken by franchisors is the lowest ranked resource available. Although specific aspects of the service were not isolated, this is an overall area that could be strengthened and applied more effectively by franchisors. Second, the adapted real estate franchise relationship model (See chapter 3, p. 70) is of use to both franchisors and franchisees by highlighting different responsibilities and areas of focus. Thus it offers assistance in developing a workable and successful system of service delivery. Third, half the franchisees in the study felt communication by the franchisor could be improved, suggesting an area for special attention because organisations that communicate effectively become stronger centres of learning (Teece *et al.*, 1990; Ulijn & Fayolle, 2004) and potentially more successful. Communication will also remove a perception that certain favoured franchisees hold a balance of power within some franchise groups and it may help give a clearer view of the levels of competitiveness amongst franchisees system wide (See chapter 6, pp 163/164). Fourth, many franchisees value the ability to innovate in their own businesses and franchisors might find more effective ways of both encouraging and channelling this creative skill back into the organisation. Fifth, a strong link between real estate qualifications and a franchisee's entrepreneurial perceptions signals the importance of a better level of qualification at both sales and management levels. Franchisors in the study certainly encouraged more learning but the communication of this need does not appear to translate into franchisee action at the local level. What is required is a stronger commitment to up-skilling generally and this must be driven by the franchisor in order to be successful throughout the system. Not only will this inevitably lead to better overall business performance but franchisors will be provided with an even larger and better prepared pool from which to draw future franchisee owners. While interface with the public and buyers and sellers of real estate still rests largely with sales consultants it is vital that further education and training, including a strong ethical code of

practice, is mandatory and reaches this level. This will ensure market participants enjoy a professional real estate service.

From the franchisee point of view it is important there is an enhanced awareness of the advantage of innovation, especially in creating new services to attract more clients. Finally, franchisees would be well advised to undertake frequent professional development to maintain business competitiveness and credibility at a time when real estate agency faces an uncertain future. With an increasing number of competitors from outside traditional agency ranks, it is vital new ways of doing business are explored and implemented.

8.2 The Future

I am part of all that I have met;
Yet all experience is an arch wherethrough
Gleams that untravelled world, whose margin fades
For ever and for ever when I move.
(Tennyson, 1842)

The research conducted in this thesis has highlighted a dynamic and evolving industry and opened a myriad of future research possibilities. Thus, in its ending there is also beginning. Interesting opportunities exist to undertake micro analysis of the data collected to investigate the influence of issues like gender and age; experience and minority status. The question of whether franchising increases the number of opportunities for certain cultures or women to become business owners presents an opportunity to explain the dominance of the white male in real estate agency ownership. The study shows that franchising theory needs to take a wider perspective and thus investigation of multiple perspectives in other applications or industry models could provide clearer understanding of the phenomenon.

My thesis is the first empirical investigation of real estate agency franchising in this geographical region and the findings could be applied in other regions especially where franchising is governed by specific

legislation. Legal questions arise in the NZ context when franchise legislation is finally introduced. Will this effect the current industry situation and perceptions? The question of the impact current reform of the Real Estate Agents Act 1976 has on the NZ industry awaits attention and raises other topical issues such as quantifying the need for agency services in the changing environment. Perhaps an obvious area for future research in the real estate agency sector is the question of why some franchisees innovate and others do not. Do some use franchising as a substitute for paid employment? In addition, a comparison between franchised and non-franchised real estate agencies particularly from the entrepreneurial viewpoint is needed. For example are independent real estate agents more innovative, are their businesses different and what new services are being offered? What characterises multi unit real estate franchisees and how do they create embryonic franchise systems?

Other issues for future research include a comparative study of autonomy and dependence in umbrella real estate groups, for example are these business owners more autonomous than franchisees? The use of entrepreneurial teams in real estate sales focuses on a modern phenomenon and the notion of symbiotic marketing (Dana *et al.*, 2002) in the agency sector might provide a satisfying specific application. Future research might also seek to qualify 'success' in real estate franchise firms, because my study indicates that success is a multi dimensional concept of which financial return is only one aspect (See chapter 2, p.28). It would be useful to study the perceptions and attitudes of those franchisees invited to become owners at the start of the franchise organisation and virtually handed ownership free of charge in comparison to the new, young, better educated, aggressive franchisees who buy into existing businesses. A longitudinal study would reveal the impact of the perceptions of this group on the results discussed in this study.

While franchising is well established in developed nations, it also works well in transition economies. Eastern European countries like

Czechoslovakia, Hungary and Slovenia as well as Pacific nations like Samoa, Fiji and Tonga are without a widely chronicled history of entrepreneurship. Franchising provides the necessary structure and support that otherwise would be lacking (Chapman, 1997), so presents opportunities for research in these areas. Longitudinal studies could present fertile results. As franchising is ideally suited to developing service economies, attention could shift to its application in regions where there is a burgeoning middle class. For example, Indonesia has around thirty million people who are now market savvy, trend conscious and demanding (Montlake, 2001). A combination of pent up demand and a proclivity to purchase global brand names by the emerging middle classes in populous areas like China, India, Russia and Brazil should propel franchising growth internationally well into this century (Hoffmann & Preble, 2004). To take advantage of these opportunities multi nationals in numerous industries have, and will continue to pursue global expansion, opening avenues for further research into international expansion strategies and management implementation around the world.

The Harcourt Group model of internationalisation has set the standard for other NZ real estate franchise groups and warrants further investigation. What difficulties will face Harcourts International in opening the Chinese market? Will other groups follow suit and will they adopt different market entry strategies? How do real estate internationalisation strategies vary from country to country? Investigation in all these areas offers new research possibilities that will improve understanding of real estate agency and franchising generally whilst potentially strengthening franchising and the entrepreneurship domain.

As an indication of the sufficient critical mass of franchising activity worldwide and mostly within the last eighteen years, forty nations have formed franchise associations. Franchising represents significant economic activity especially within the 'Africa/Oceania' region, a category that includes Australasia (Hoffmann & Preble, 2004). Here

franchising is extremely significant, second only to North America, therefore the study undertaken in this thesis has clearly warranted research attention. Furthermore, real estate and construction services in the UK and Australia (there are no figures available for NZ) are reported to be rapidly growing franchise sectors (Hoffmann & Preble, 2004, p. 105) and there are increasing global opportunities for companies where unique innovative services are being developed. There is therefore scope for much more research.

By employing multiple data sources I have been able to explore franchising in the real estate agency sector in a comprehensive fashion and thus enable better understanding of its application in an individual industry. The results have implications not only for the partners to the franchise contract but also for franchise associations which may use these findings to compare activity across sectors. The NZ Franchise Association may be encouraged to factor real estate agency into their next survey report and real estate franchise organisations might consider joining the Franchise Association. It is suggested systematic tracking and gathering of data on franchise activity in all sectors, not just member sectors, would produce more accurate, realistic outcomes than those produced in the past. Members could then have access to information that would assist in their growth and development efforts. Franchisors may not only use the results of this study to address management issues nationally and internationally but also be able to select better targets for expansion and choose franchisees who can add to system effectiveness. In addition, the outcomes of this thesis suggest areas in which franchisees can strive to improve their businesses and fulfil their business ambitions.

I now feel confident I have unravelled some of the complexity, and documented innovation and creativity in real estate franchise systems. Franchising strategy does have industry specific characteristics and is particularly suited to the dynamics of the property market. Real estate agency franchisors are initiators of an entrepreneurial franchise

organisation and build a unique resource competency. Franchising can deliver not only growth and competitive advantage for the group but also underpins a sustaining relationship with franchisees. Real estate franchisees are individual entrepreneurs who implement the business format and grow their own business operations, resources and wealth parallel to the parent organisation. Overall they value opportunity and independence and strive for success and personal fulfilment within the supportive environment of the network group. Although standardisation and routines account for much of the success attributable to franchising, this thesis adds to the growing body of evidence that recognises innovation and originality within franchise systems, especially in real estate agency. Hopefully the notions of creativity and entrepreneurial dynamism will enter mainstream thinking and become increasingly acknowledged within the real estate agency industry, particularly for those who venture into business embracing the franchise alliance.

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Appendix

Appendix A

Methodology (Chapter 4)

A4.1: Franchisor Information Sheet

UNDERSTANDING FRANCHISING IN THE REAL ESTATE INDUSTRY

We have chosen to interview you as a key participant in the real estate industry and director of a major franchise organisation, in order to gather information necessary to complete phase one of a research project which examines the role of franchising in the Australasian real estate industry.

Franchising has emerged in recent years as a highly significant strategy for business growth, job creation and economic development. Most real estate franchises began with a conventional business format and then developed into franchise organisations. Real estate agency in Australasia was traditionally carried out by small independent business operations. The reasons why some of these businesses chose to grow by franchising is important, however there is no Australasian study done in this area.

This study is designed to be of value to both practitioners and academics alike.

Your willingness to participate is greatly appreciated and vital to the success of this research project. You have the right to:

- Refuse to answer any particular question
- Withdraw from the study at any time before analysis of the data begins in March, 2005
- Seek further information about the study at any time
- Provide information on the understanding that it is held in total confidentiality.

This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researchers are responsible for the ethical conduct of this research.

If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher, please contact Professor Sylvia Rumball, Assistant to the Vice-Chancellor (Ethics & Equity), telephone 06 350 5249, email humanethics@massey.ac.nz.

We will inform you when the findings of this phase of the study become available and will send you a summary or if you prefer, the full report on request. This is scheduled to occur before May, 2005.

Thank you for your participation. If you wish to know more about our study, you can contact Susan Flint-Hartle (email: s.l.flint-hartle@massey.ac.nz).

A4.2: Franchisor Consent to Audiotape

UNDERSTANDING FRANCHISING IN THE REAL ESTATE INDUSTRY Consent Form to Audiotape

I have received the *Information Sheet* for key participants in the real estate franchise industry taking part in this project and had the opportunity to read it and to discuss the project with the researchers. I understand that taking part in this project is voluntary and that I may withdraw at any stage.

I grant the Massey University researchers in the *FRANCHISING IN THE REAL ESTATE INDUSTRY RESEARCH PROJECT*, the right to use selected parts (that I approve) of the audio recordings, including my words and voice, for educational and academic purposes.

This release is granted from this date forward.

The principal research contact person for the project is:

Susan Flint-Hartle (email: s.l.flint-hartle@massey.ac.nz)

A4.3: Franchisor Interview Guide

- 1 In what year did the organisation start trading in real estate? In its country of origin; in this country; in other countries?
- 2 In what year did the organisation begin franchising? In its country of origin; in this country; in other countries?
- 3 How large was the organisation when franchising began? I.e. how many company owned units existed?
- 4 How many franchised units in total does the organisation now have? In its country of origin; in this country; in other countries?

- 5 Are there any company owned units, now that the organisation is committed to franchising?
- 6 How many of your franchisees own more than one unit? Multi unit franchisees.
- 7 What is the median size of the franchisee units? In terms of total employees, management and sales staff.
- 8 What is the median turnover of the franchisee units? In terms of sales volume.
- 9 What is your current monthly royalty fee?
- 10 What is your current franchise start-up fee?
- 11 In your opinion what advantages do franchised units have over company owned units, from the franchisor's viewpoint?
- 12 What are the disadvantages?
- 13 Do any of your franchisees own shares in the corporation?
- 14 Please explain what you consider to be the suitability or otherwise of franchising in the real estate agency business.
- 15 In your opinion what motivated the organisation to franchise its business format?
- 16 How do you bring new franchisees into the system? This includes existing businesses and entirely new units
- 17 Who are your franchisees? Where do they come from?
- 18 Explain your franchising strategy at different stages through the growth of your franchisor organisation. i.e at start, early growth, later growth and maturity.
- 19 Do the support systems offered to franchisees from the organisation differ at each stage of growth?

20 What is your main focus as franchisor?

21 What are your plans for the future?

A4.4. Franchisor Fact Sheet

Fact Sheet

Personal Details (please circle the category that best describes you)

Q1. What is your age

- | | |
|------------|------------|
| 1. 20 - 25 | 6. 46 - 50 |
| 2. 26 -30 | 7. 51 - 55 |
| 3. 31 - 35 | 8. 56 - 60 |
| 4. 36 - 40 | 9 64 - 65 |
| 5. 41 - 45 | |

Q2. What is the highest education level you have attained?

1. Primary School
2. Secondary School
3. Technical College/Other (Please specify field of study) _____
4. University (Please specify field of study) _____

Experiences (Please fill in the answer or circle the responses that most describe your experiences)

Q3. What was your previous occupation?

Q4. Did you have knowledge of the real estate industry prior to joining this business?

1. Yes
2. No (go to Q6)

Q5. How did you gain this knowledge

1. Work experience
2. Research (journals, books etc)
3. Personal contact (knew someone in the industry)

Q6. What was your previous work experience? _____

Q7. Was it helpful, please explain briefly?

1. Yes
2. No

Q8. What do you consider to be the core purpose of this business?

Q9. What do you consider are the core values of the business?

Q10. What is your personal envisioned future for the business?

A4.5: Phase One Franchisee Information Sheet

UNDERSTANDING FRANCHISING IN THE REAL ESTATE INDUSTRY

I am a Senior Lecturer in Real Estate at Massey University, Albany and would like to interview you as a real estate franchisee. The purpose is to gather information necessary to complete a doctoral dissertation examining the role of franchising and entrepreneurship in the real estate industry.

I have gathered a sample group that represents a cross section of real estate franchisee owners. All information obtained from the 30 owners nationwide is **entirely confidential** and only aggregated results will be available for the academic purpose of understanding real estate franchisee business owners.

The interview will take approximately 45-50 minutes. You are under no obligation to accept this invitation and you have the right to:

- ☛ decline to answer any particular question;
- ☛ withdraw from the study (specify timeframe);
- ☛ ask any questions about the study at any time during participation;
- ☛ provide information on the understanding that your name will not be used unless you give permission to the researcher;
- ☛ be given access to a summary of the project findings when it is concluded.
- ☛ ask for the audio tape to be turned off at any time during the interview.

This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher(s) named above are responsible for the ethical conduct of this research.

If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher(s), please contact Professor Sylvia Rumball, Assistant to the Vice-Chancellor (Ethics & Equity), telephone 06 350 5249, e-mail humanethicsouthb@massey.ac.nz.

Thank you for your participation, it is greatly appreciated. If you wish to know more about the study, you can contact Susan Flint-Hartle - Email: s.l.flint-hartle@massey.ac.nz

A4.6: Franchisee Interview Guide

Section A THE FRANCHISEE

- 1 Tell me about your previous work experience
Outside real estate
In real estate
- 2 How many years have you been in real estate?
- 3 What is the nature of your previous real estate experience?
Sales, management, with another group, independent etc.
- 4 How many years?
- 5 What did you earn in the last year as a salesperson/manager etc.?
Or how successful were you as a s/p?
Outside real estate
In real estate
- 6 How would you describe your age group?
- 7 How would you describe your personality type? Type A/B,
extrovert etc.
- 8 Are you a first or only child?
- 9 Were either of your parents self employed?
- 10 How many years have you working with the current franchise
group?
In what roles?
- 11 How many years have you been a franchisee business owner?
- 12 How would you describe your management style?
- 13 What is the nature of your education?
- 14 When and where did you qualify for a license?
- 15 How did you raise the capital to buy the business?
- 16 Did you experience any problems? (Urgency, coping strategies)
- 17 How many hours per week do you actively work in the business?
(Job-involved, self monitoring). Is this satisfactory to your staff?
Do you give a hoot?
- 18 How do you feel about your competitors? (competitiveness, level
of aggression)

Section B THE AGENCY

- 1 Location
Rural
Urban
- 2 Geographic Area
- 3 Speciality
- 4 How many sales consultants
- 5 How many franchise units do you own?
- 6 Administration/clerical staff
- 7 Management?
Principal
Sales manager
General Manager
- 8 Property management department?
Who and how many?
- 9 What is the company structure?
Sole owner
Partnership
Limited liability Company
- 10 How many listings did the business make in the last 12 months (2005)
- 11 How many sales did the business make in the last 12 months (2005)
- 12 What was the revenue from sales in 2005/6?
- 13 What was the total revenue for the 2005/6 year?
Includes sales, property management fees, advertising recoverables and miscellaneous.
- 14 Have you ever had any crises that made you doubt your decision to be a franchisee, how did you cope?
- 15 How do you earn trust in your company locally? How can clients be assured of trust in the brand through you?
- 16 How do you maintain quality in the business? (conflict management, information management, impression management,

sensitivity to social cues, franchisor requirements – all connected to self monitoring)

Section C THE FRANCHISE SYSTEM

- 1 Why did you choose the current franchisor? (strength of organisational commitment)
- 2 What were the most important factors?
- 3 Did you hesitate between different business formulas, different franchises?
- 4 What were you looking for in a franchisor?
- 5 Did someone advise you?
- 6 Are you satisfied?
- 7 Is the franchisor innovative?
- 8 What aspects of the relationship work best?

Section D FRANCHISING

- 1 What are your personal views on franchising, what does it mean to you most importantly?
Advantages
Disadvantages
- 2 I'm interested to know why you became a franchisee?
Brand
Business system
Training
Admin support
Etc.
- 3 Do you do things differently from the franchisor way? In what ways?
Uniformity issues
Local responsiveness issues
Levels of compliance
Innovation and creativity
- 4 What aspects of the franchise system do you make most use of?
- 5 Least use of?
- 6 Do the franchise system benefits present value for the franchise fee? Explain.
- 7 What is the relationship with the franchisor like?
- 8 What is the level of communication? How often?

- 9 Do you communicate with other franchisees in the system? Lateral communication
- 10 Does the franchisor respond effectively to any challenge you may face?
- 11 Awareness of frontline issues
- 12 What issues do challenge you?
- 13 Does the franchisor accept your input?
- 14 Do the decisions & actions of other franchisees in the system effect you?
- 15 How does the franchisor achieve quality control?
Salespeople
Sales
Image
- 16 How do you assure quality control in these areas?
- 17 In your view how do you and the franchisor work together?
- 18 How close is the relationship?
- 19 In your view what are the main responsibilities of the franchisor?
- 20 In your view what are the main responsibilities of the franchisee?
- 21 How satisfied or dissatisfied are you with your present business?

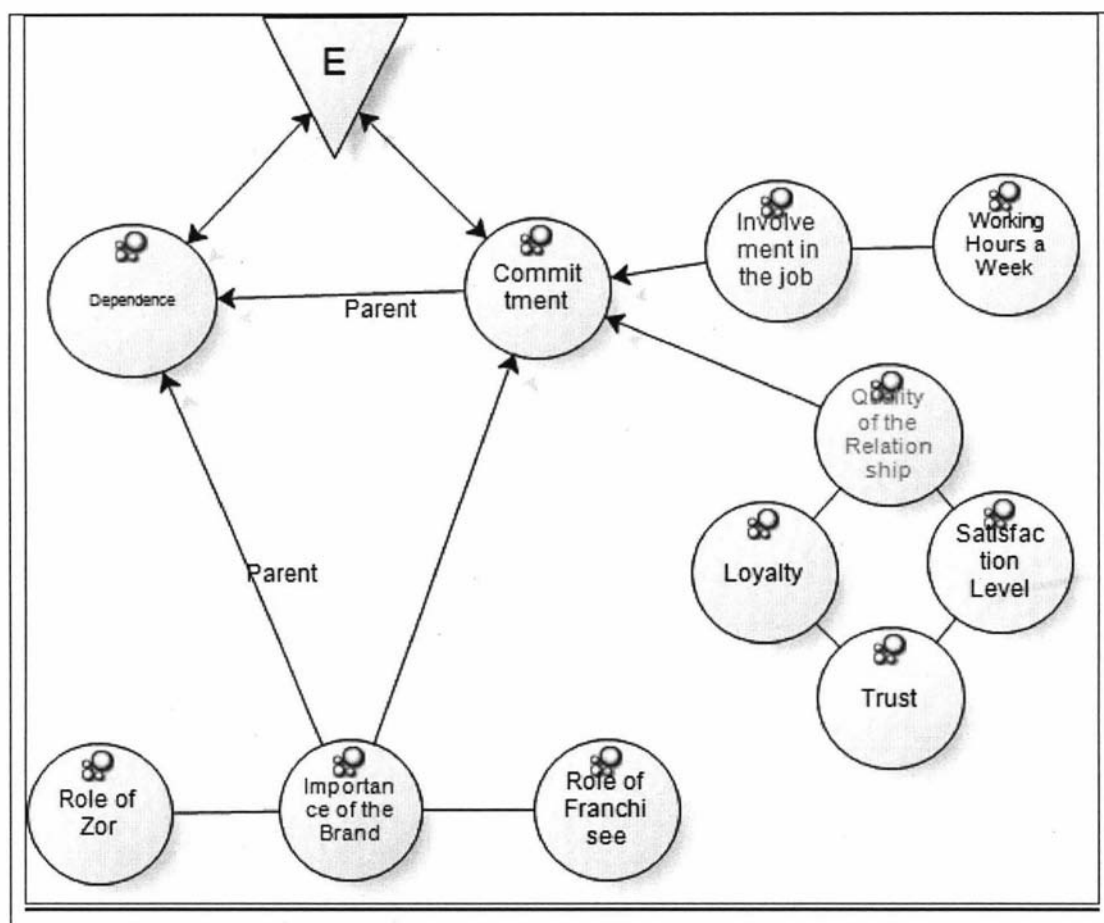
The Future

- 1 What about the future? (Ambitious)

Appendix B

Franchisor Perspective (Chapter 6)

B6.1: The Dependence Tree Node Model Created in N7



Key:

E = Entrepreneurship

Zor = Franchisor

This diagram illustrates linked themes performed in the Nvivo 7 QSR (N7) software programme, in this instance the tree node for 'dependence'. The parent themes are outlined in blue and the impacting themes are indicated in red, green and purple. Black themes indicate influential factors. 'E' indicates entrepreneurship. For explanation of any abbreviations see the key.

B6.2: Data Query Searches in Nvivo 7

A query about franchisee’s self perception revealed twenty two examples of self reflection related to the role as franchise owner. The word ‘me’ was used to generate the results. Here is one example in which a participant suggests that a franchisor mentor was instrumental in shaping his future:

...that started me off — he’s the cleverest man I ever met in real estate or in a business in my life.

B6.3: A Matrix of Gender Attributes and Independence Measured by Growth & Innovation in Nvivo 7

	Growth Plans	Level of Innovation
Male	13	17
Female	4	5

Appendix C

Franchisee Quantitative Study

C7.1: Phase Two: Survey Instrument

(N.B. This survey was copied from the web page which had interactive tick-boxes. Therefore the format does not necessarily reflect the web survey instrument.)

MASSEY UNIVERSITY

Survey of Real Estate Franchisees September 2006

To be completed by the franchisee owner

STRICTLY CONFIDENTIAL

Please note there is no personal name or company name associated
with these responses

Just tick ONE answer unless otherwise stated

1. Is your present real estate franchise your first business ownership venture?

- ☐ Yes
☐ No

2. If No, which venture is it?

- ☐ 2nd
☐ 3rd
☐ 4th
☐ More

3. Were you working in real estate immediately prior to your present venture?

- ☐ Yes
☐ No

4. If you answered 'yes' to question 3, what was your role in real estate?

5. If you answered 'No' to question 3, what were you doing immediately prior?

6. How many years have you been in the real estate business? (use a number please)

7. What was main reason you to become a real estate franchisee?
(Please tick 1 box only)

- ☐ I was already working in the organisation and ownership was a goal I sought
- ☐ I saw an opportunity to increase my personal wealth
- ☐ I saw an opportunity to grow a valuable asset
- ☐ I wanted control of my own destiny
- ☐ I was invited to become a franchisee by the franchisor organisation
- ☐ I thought franchising was less risky than opening an independent office
- ☐ I wanted brand recognition and support services

8. How many years have you been a franchisee? (use a number please) _____

9. How many years have you been a franchisee with your current organisation?
(use a number please) _____

10. How many offices are operated by your company?

- ☐ 1
- ☐ 2-5
- ☐ 6-10
- ☐ More than 10

11. How many salespeople work in your company? (use a number please and include all your offices) _____

12. Please estimate your company's gross sales revenue (sales revenue before disbursements) in the last financial year? Approximately \$ _____
(e.g.120000)

13. Please estimate your own personal annual gross (pre tax) income before you became a franchisee owner?

\$ _____ (e.g.90000)

14. Would you be in business on your own account if it were not for franchising?

- ☐ Yes
- ☐ No
- ☐ Don't know

15. Please rate each of the following along each line in terms of their influence upon you *before* becoming involved in your present franchise venture. Higher scores indicate a more important influence.

1= Extremely Unimportant 2= Unimportant, 3= Neither Important or Unimportant
4= Important 5= Extremely Important

	1	2	3	4	5
Personal achievement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Job satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Opportunity (Free Enterprise)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Status/Prestige	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Independence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money (Wealth)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economic Security	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A more balanced lifestyle	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Peer Recognition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Belonging to a network group	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16. Please rate your general satisfaction with franchising? Higher scores indicate more satisfaction.

	Not satisfied				Very
Satisfied					
	1	2	3	4	5
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

17. How do you rate each of the following aspects of your franchise?? Higher scores indicate you feel more positive about the statement

	Very Poor 1	2	3	Very Good 45	
Franchisor marketing support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Franchisor business development support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Franchisor technological development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Franchisor trustworthiness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The competitive advantage of the franchise group	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Communication by the franchisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The amount of leeway to differentiate my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. Which one of the following statements comes closest to describing your feelings about franchising? (Please tick one answer)

- ☐ Running a franchised business is like running your own independent small business
- ☐ Running your own independent business, but with a few more strings attached.
- ☐ Running a franchised business is half-way between running your own independent small business and running a managed outlet of a large company
- ☐ Running a franchised business is like running a managed office of a large company, but with fewer strings attached
- ☐ Running a franchised business is like running a managed office of a large company

19. How important in your business is each of the following. Higher scores indicate more importance.

Very	Important		Not Important		
	1	2	3	4	5
The sales team performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Following a business plan and setting reachable goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Developing my own firm culture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Being part of the franchise culture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Innovations introduced by the franchisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My own business innovations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

20. Please list and describe briefly any methods and processes you have introduced that serve to make your firm unique in the overall franchise network.

21. Did you buy your office off an existing franchisee or start an entirely new venture?

- ☐ Purchased off an exiting franchisee
- ☐ Started a new venture
- ☐ My office was converted into the system
- ☐ Other _____

22. If you were to compare your business (in terms of turnover, profitability and number of employees) with others in your franchise network, how would you rate its performance?

- ☐ Among the best in the network
- ☐ Above average
- ☐ Average
- ☐ Lower than average
- ☐ Among the lowest in the network

23. How often do you initiate contact with the franchisor?

- ☐ Weekly
- ☐ Fortnightly
- ☐ Monthly
- ☐ Quarterly
- ☐ 6 monthly
- ☐ Annually
- ☐ Other (please state) _____

24. How important in your business is each of the following: Higher scores indicate more importance.

1= Extremely Unimportant 2= Unimportant, 3= Neither Important or Unimportant

4= Important 5= Extremely Important

	1	2	3	4	5
Sharing important business decisions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Being successful by making lots of money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The ability to accommodate domestic commitments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Delegating responsibility as much as possible	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Being successful by improving my business and continually learning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

25. How do you primarily see yourself? You may tick more than one box.

- ☐ As a leader
- ☐ As a manager or executive officer
- ☐ As a business strategist
- ☐ As an entrepreneur
- ☐ As a salesperson
- ☐ Other (please state) _____

26. Please indicate your age

- ☐ Under 25
- ☐ 25 - 34
- ☐ 35 - 44
- ☐ 45 - 54
- ☐ 55 - 64
- ☐ Over 65

27. Which one of these categories best describes the amount of formal education you have had?

- ☐ Primary school
- ☐ Secondary school for up to 3 years
- ☐ Secondary school for 4 years or more years
- ☐ Trade qualification
- ☐ University graduate diploma
- ☐ University bachelors degree
- ☐ Post graduate qualification

28. What is your highest real estate qualification?

- ☐ Associate
- ☐ Branch Manager
- ☐ National Diploma
- ☐ National Certificate
- ☐ Sales Certificate

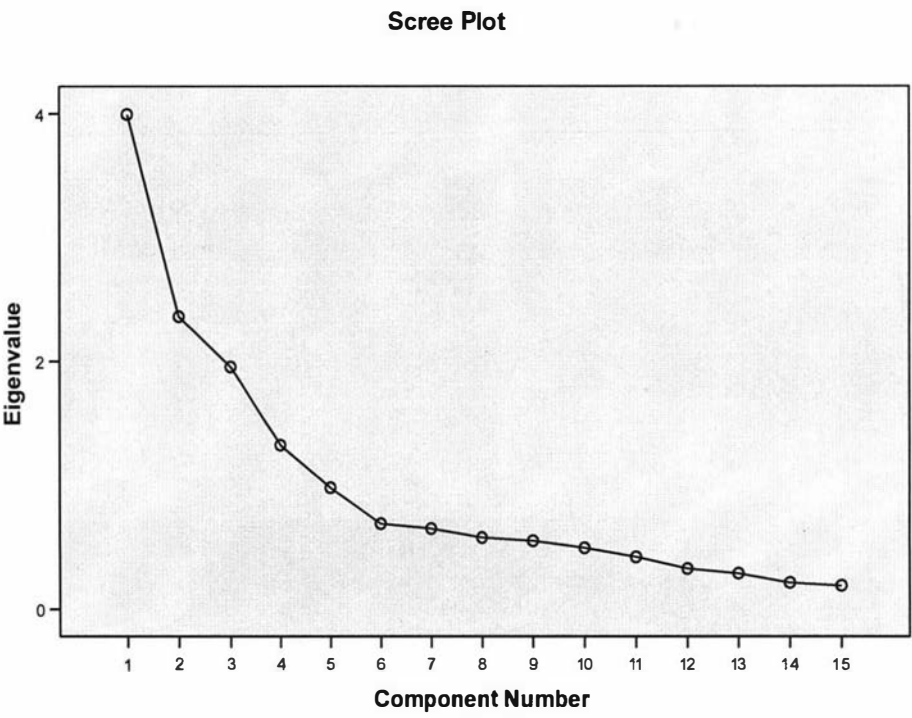
29. Please indicate your gender

- ☐ Male
- ☐ Female

Finally, thank you for helping with my research. I am very grateful.

If you would like copy of the finished paper please contact me on S.L.Flint-Hartle@massey.ac.nz

C7.2: The Cattell Scree Test



**C7.3: KMO and Bartlett's Test and Principal Component Analysis:
Extraction Method**

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.703
Bartlett's Test of Sphericity	Approx. Chi-Square	499.698
	df	105
	Sig.	.000

Communalities

	Initial	Extraction
q15b job satisfaction	1.000	.665
q15f money (wealth)	1.000	.649
q15g economic security	1.000	.821
q15i peer recognition	1.000	.367
q17b business development support	1.000	.656
q17c technology support	1.000	.592
q17d trustworthiness	1.000	.737
q17f communication	1.000	.640
q19a sales team performance	1.000	.713
q19d part of franchise culture	1.000	.695
q19e innovations available	1.000	.661
q24a improving business and learning	1.000	.622
q24b sharing decisions	1.000	.638
q24d accomodate domestic commitments	1.000	.600
q24e delegating responsibility	1.000	.577

Extraction Method: Principal Component Analysis.

C7.4: Rotated Component Matrix

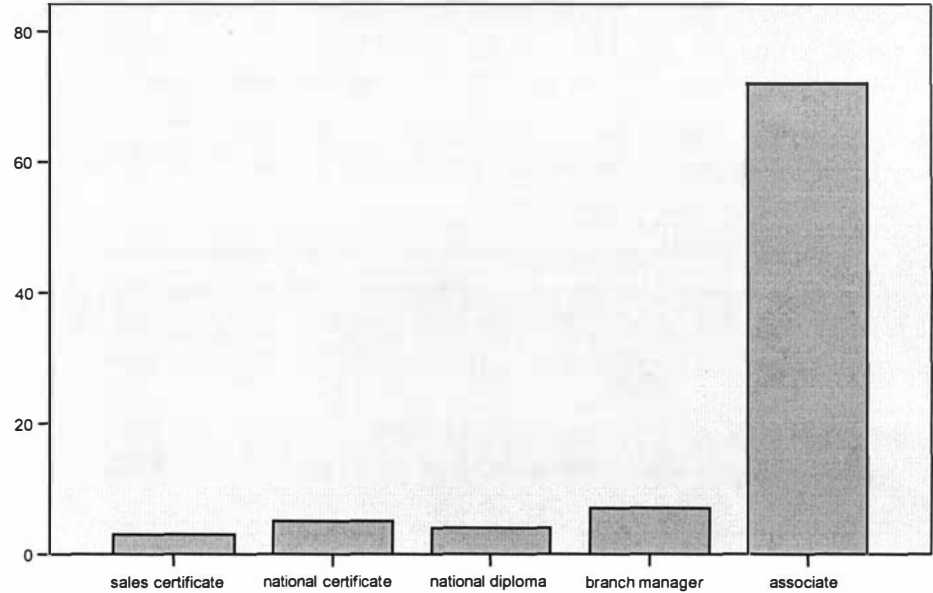
	Rotated Component Matrix ^a							
	Component							
	1	2	3	4	5	6	7	8
q15a personal achievement		.458						.468
q15b job satisfaction		.816						
q15c opportunity		.526		.489				
q15d status/prestige				.328	.711			
q15f money (wealth)				.586	.404			
q15g economic security		.336		.735				
q15h more balanced lifestyle						.715		
q15i peer recognition					.801			
q15j belonging to network	.363				.457	.506		
q16 satisfaction	.478							.468
q17a marketing support	.586							
q17b business development support	.788							
q17c technology support	.721							
q17d trustworthiness	.717			.308				
q17e competitive advantage	.495	.377						
q17f communication	.781							
q17g leeway to differentiate	.421							-.499
q19a sales team performance				.821				
q19b business plan and goals							.610	
q19c developing firm culture						.685		
q19d part of franchise culture		.642				.325		
q19e innovations available	.318	.698						
q23 contact frequency					.313			-.662
q24a improving business and learning			.707					
q24b sharing decisions			.724					
q24c being successful earning lots of money							.803	
q24d accomodate domestic commitments			.768					
q24e delegating responsibility			.737					

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 14 iterations.

C7.5: Real Estate Qualifications

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	sales certificate	3	3.3	3.3	3.3
	national certificate	5	5.4	5.5	8.8
	national diploma	4	4.3	4.4	13.2
	branch manager	7	7.6	7.7	20.9
	associate	72	78.3	79.1	100.0
	Total	91	98.9	100.0	
Missing	System	1	1.1		
Total		92	100.0		



78.3% of respondents hold associate real estate qualification.

C7.6: Self-employed if Not Franchised? * Main Reason to Franchise

		The Main Reason to Franchisee							Total
		Working in organisation	Increase personal wealth	Grow asset	Control own destiny	Invited to become franchisee	Less risky than own office	Brand recognition and support	
Would you be self-employed if not franchised?	yes	12	4	5	3	5	0	20	49
	no	5	0	2	4	5	4	6	26
	don't know	6	1	1	2	4	0	2	16
Total		23	5	8	9	14	4	28	91

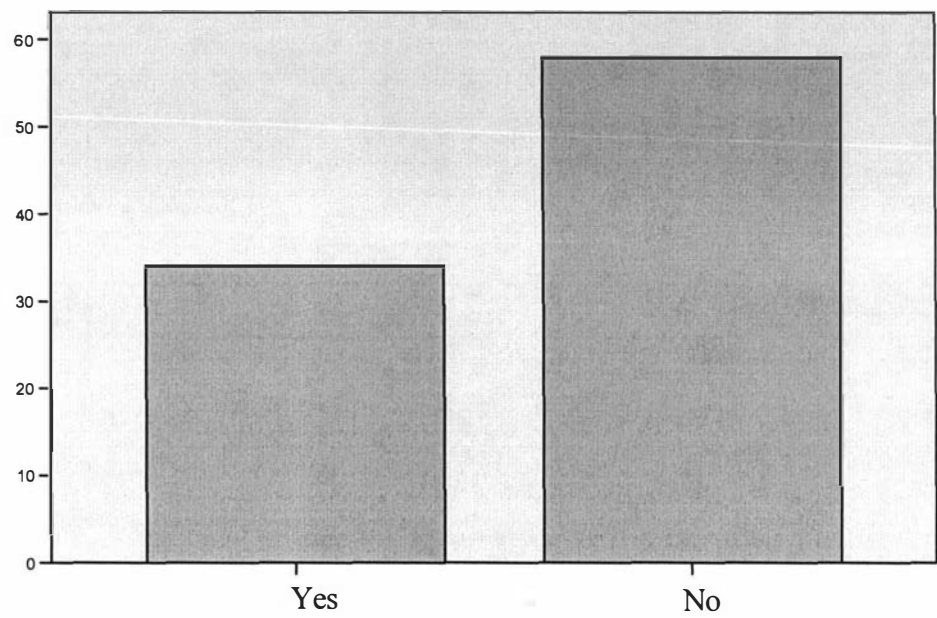
C7.7: Factors of Importance in Business to Franchisees

Question Number	N	Mean	Median	Std. Deviation	Skewness
A Personal achievement	92	4.45	5.00	.843	-2.353
B Job satisfaction	92	4.52	5.00	.637	-1.255
C Opportunity	92	4.25	4.00	.872	-1.631
D Status	92	3.33	3.00	.985	.006
E Independence	92	4.27	4.00	.786	-.663
F Wealth	92	4.18	4.00	.740	-.311
G Economic security	92	4.25	4.00	.847	-1.617
H Balanced lifestyle	92	4.03	4.00	.988	-1.113
I Peer recognition	92	3.24	3.00	1.093	-.131
J Belonging to a group	92	3.90	4.00	.950	-.509
Total	920	4.04	4.00	.973	-.953

C7.8: A Summary of Franchisor Ratings: Composite Factors

	(a) marketing support	(b) business development support	(c) technology support	(d) trust	(e) competitive advantage	(f) communication	(g) leewa differenti
N	92	92	92	92	92	92	92
Mean	3.89	3.78	4.01	4.14	4.21	3.79	3.70
Median	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Std. Deviation	.988	.993	1.074	.944	.884	1.022	.923
Skewness	-.825	-.443	-1.273	-1.249	-1.397	-.834	-.124

C7.9: Is the Current Venture the Franchisee’s First Business Venture?



C7.10: Main Reason to Franchisee: Autonomy?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	*working in organisation	23	25.0	25.3	25.3
	increase personal wealth	5	5.4	5.5	30.8
	grow asset	8	8.7	8.8	39.6
	control own destiny	9	9.8	9.9	49.5
	invited to become franchisee	14	15.2	15.4	64.8
	less risky than own office	4	4.3	4.4	69.2
	*brand recognition and support	28	30.4	30.8	100.0
	Total	91	98.9	100.0	
Missing	System	1	1.1		
Total		92	100.0		

C7.11: Number of Years Franchisee * Years in Current Organisation

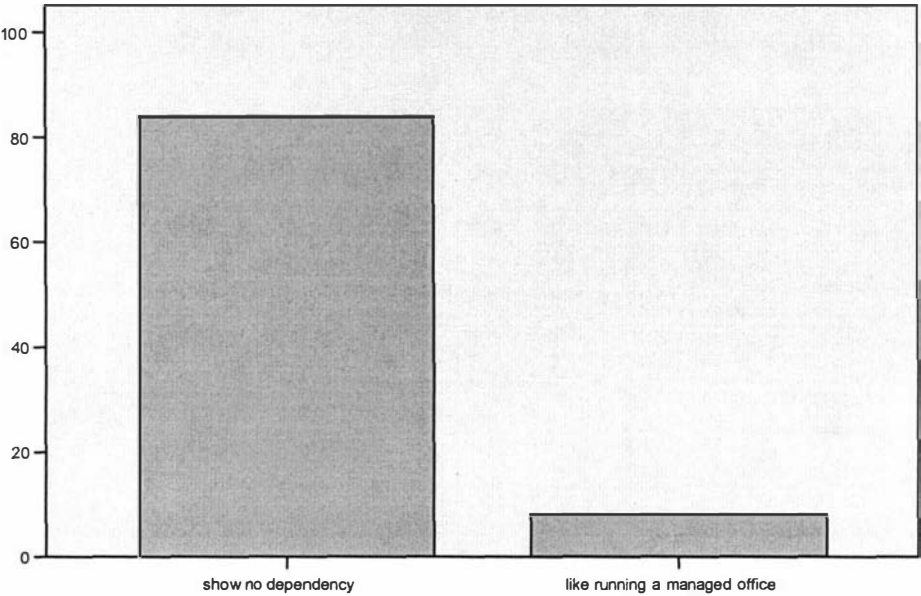
			Years in Current Organisation			Total
			1-5 new to system	6-11 medium time in system	12+ long-term in system	
how many years franchisee	1-5 new franchises	Count	38	0	0	38
		% within how many years franchisee	100.0%	.0%	.0%	100.0%
		% of Total	41.8%	.0%	.0%	41.8%
	6-11 medium term franchises	Count	4	29	0	33
		% within how many years franchisee	12.1%	87.9%	.0%	100.0%
		% of Total	4.4%	31.9%	.0%	36.3%
	12+ experienced franchises	Count	2	3	15	20
		% within how many years franchisee	10.0%	15.0%	75.0%	100.0%
		% of Total	2.2%	3.3%	16.5%	22.0%
Total		Count	44	32	15	91
		% within how many years franchisee	48.4%	35.2%	16.5%	100.0%

Symmetric Measures

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	.870	.050	16.621	.000(c)
Ordinal by Ordinal	Spearman Correlation	.871	.050	16.745	.000(c)
N of Valid Cases		91			

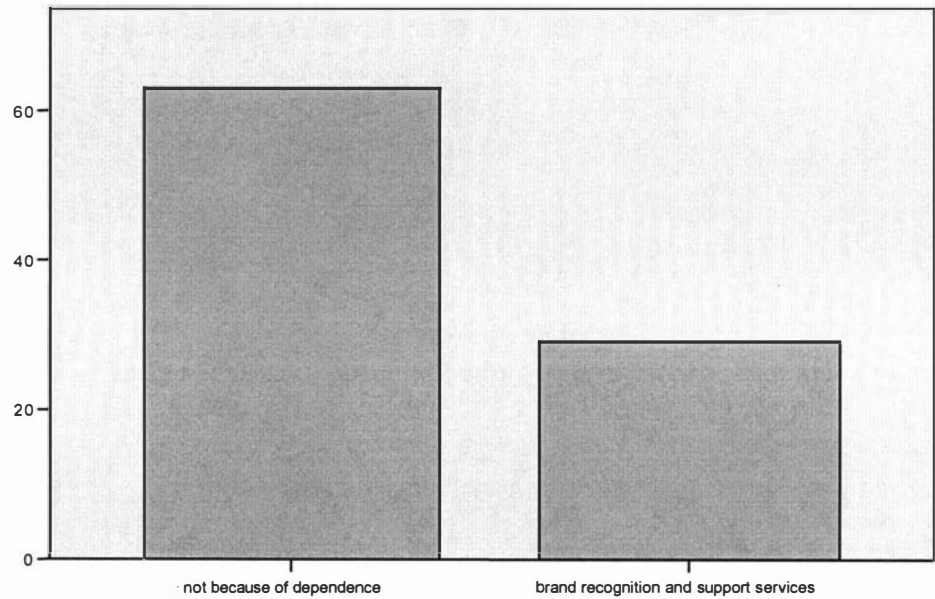
C7.12: Feelings of Dependency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	show no dependency	84	91.3	91.3	91.3
	like running a managed office	8	8.7	8.7	100.0
	Total	92	100.0	100.0	

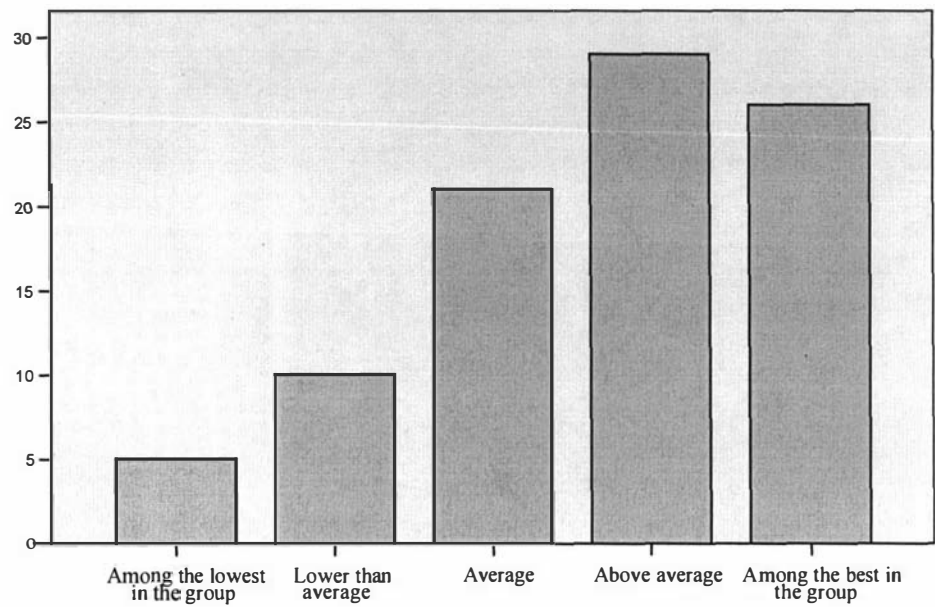


C7.13: Reason of Becoming a Real Estate Franchisee

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not because of dependence	63	68.5	68.5	68.5
	brand recognition and support services	29	31.5	31.5	100.0
	Total	92	100.0	100.0	



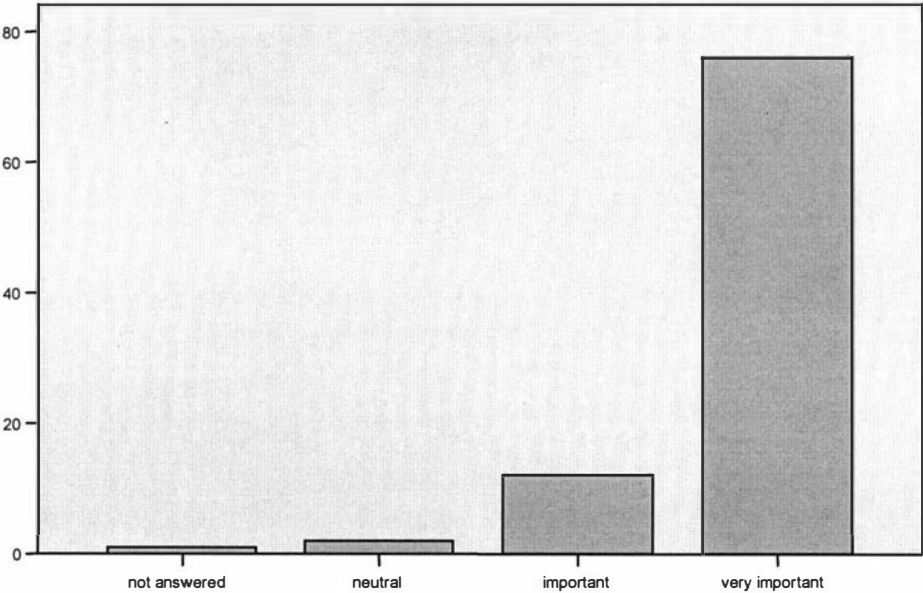
C7.14: Franchisee Perceptions of Their Own Firm Performance



C7.15: Perceptions of Factors Important to the Franchisee in Business

7.15.1 Improving Business and Learning

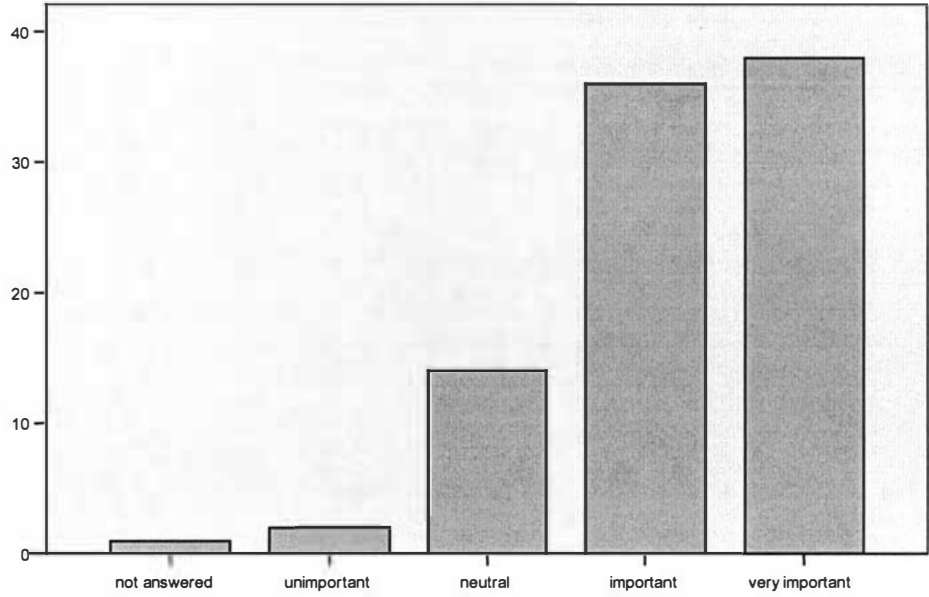
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not answered	1	1.1	1.1	1.1
	neutral	2	2.2	2.2	3.3
	important	12	13.0	13.2	16.5
	very important	76	82.6	83.5	100.0
	Total	91	98.9	100.0	
Missing	System	1	1.1		
Total		92	100.0		



95.6% of respondents suggest that “improving business and learning” is (very) important. No one thinks it is not important.
31.5% of respondents become a real estate franchisee because of brand recognition and support services.

C7.15.2 Share Decisions

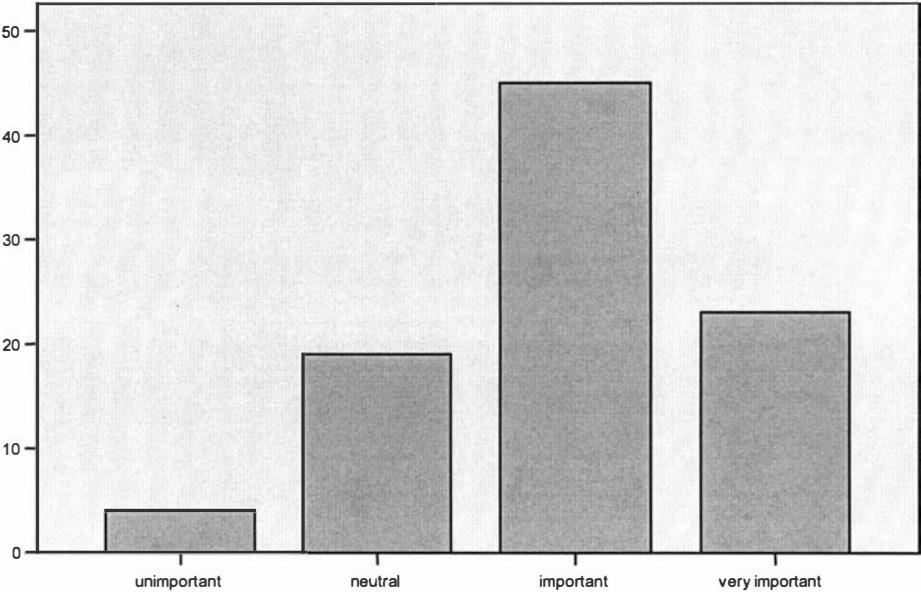
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not answered	1	1.1	1.1	1.1
	unimportant	2	2.2	2.2	3.3
	neutral	14	15.2	15.4	18.7
	important	36	39.1	39.6	58.2
	very important	38	41.3	41.8	100.0
	Total	91	98.9	100.0	
Missing	System	1	1.1		
Total		92	100.0		



81.4% of respondents argue “sharing important business decisions” is (very) important. Also, 2.2% think it is not important.

C7.15.3 Earn Lots of Money

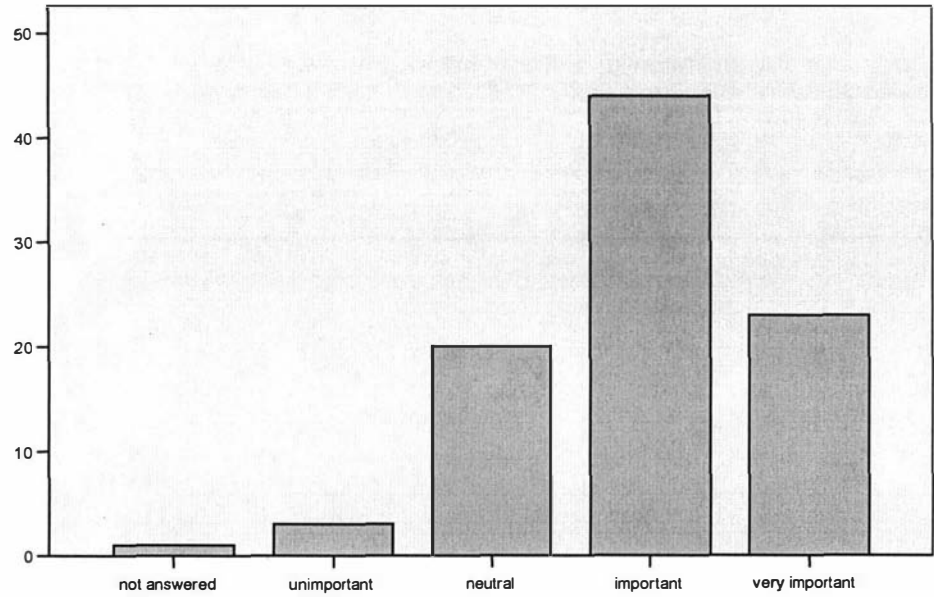
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	unimportant	4	4.3	4.4	4.4
	neutral	19	20.7	20.9	25.3
	important	45	48.9	49.5	74.7
	very important	23	25.0	25.3	100.0
	Total	91	98.9	100.0	
Missing	System	1	1.1		
Total		92	100.0		



73.9% of respondents suggest “earning lots of money” is (very) important. 4.4% suggest it is not important.

C7.15.4 Accommodate Domestic Commitments

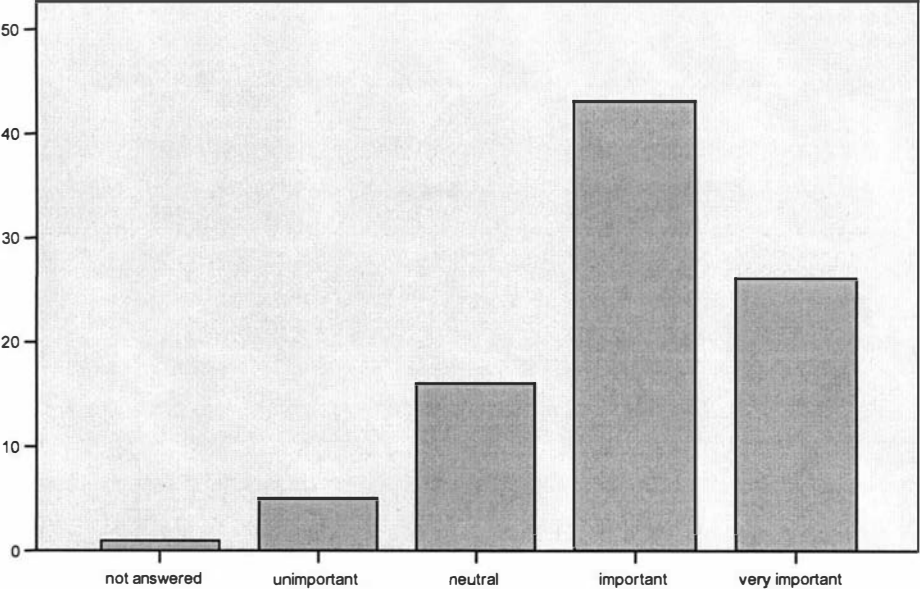
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not answered	1	1.1	1.1	1.1
	unimportant	3	3.3	3.3	4.4
	neutral	20	21.7	22.0	26.4
	important	44	47.8	48.4	74.7
	very important	23	25.0	25.3	100.0
	Total	91	98.9	100.0	
Missing	System	1	1.1		
Total		92	100.0		



73.7% of respondents suggest “the ability to accommodate domestic commitments” is (very) important. 3.3% of them suggest it is not important.

C7.15.5 Delegate Responsibility

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not answered	1	1.1	1.1	1.1
	unimportant	5	5.4	5.5	6.6
	neutral	16	17.4	17.6	24.2
	important	43	46.7	47.3	71.4
	very important	26	28.3	28.6	100.0
	Total	91	98.9	100.0	
Missing	System	1	1.1		
Total		92	100.0		



75% of respondents suggest “delegating responsibility as much as possible” is (very) important. 5.4% suggest it is not important.

C7.15.6 Case Summaries

	improving business and learning	sharing decisions	being successful earning lots of money	accommodate domestic commitments	delegating responsibility
N	91	91	91	91	91
Mean	4.77	4.18	3.96	3.92	3.96
Median	5.00	4.00	4.00	4.00	4.00
Std. Deviation	.668	.902	.802	.885	.930
Skewness	-4.730	-1.473	-.449	-1.127	-1.183

C7.16a: Experienced Franchisee: Six Years Plus

Experience		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 new franchises	39	42.4	42.4	42.4
	6-11 medium term franchises	33	35.9	35.9	78.3
	12+ experienced franchises	20	21.7 TOTAL 57.6	21.7	100.0
	Total	92	100.0	100.0	

C7.16b: Number of Offices Held

Number of Offices		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	39	42.4	42.4	42.4
	2-5	37	40.2	40.2	82.6
	6-10	2	2.2	2.2	84.8
	more than 10	14	15.2 TOTAL 57.6	15.2	100.0
	Total	92	100.0	100.0	

C7.17: Self Perceptions

7.17.1 Cross Tabulation How do you See Yourself?* Age

		age					Total
		25-34	35-44	45-54	55-64	over 65	
	non entrepreneur	0	9	27	22	4	62
	as entrepreneur	1	6	15	6	0	28
Total		1	15	42	28	4	90

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.214(a)	4	.184
Likelihood Ratio	7.563	4	.109
Linear-by-Linear Association	4.895	1	.027
N of Valid Cases	90		

a 5 cells (50.0%) have expected count less than 5. The minimum expected count is .31.

There is no evidence that the distributions of “see themselves as an entrepreneur is different across ages.

C7.17.2 Cross Tabulation Perception of Self?* Real Estate Qualifications

		real estate qualifications					Total
		sales certificate	national certificate	national diploma	branch manager	associate	
	non entrepreneur	2	4	2	1	54	63
	as entrepreneur	1	1	2	6	18	28
Total		3	5	4	7	72	91

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.022(a)	4	.017
Likelihood Ratio	11.252	4	.024
Linear-by-Linear Association	.799	1	.371
N of Valid Cases	91		

There is some evidence that the distributions of “see themselves as an entrepreneur” is different across levels of real estate qualification.