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## CHAPTER 1: BACKGROUND AND ORIENTATION OF THE PROBLEM

*“Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment of providing value for some product or service. The product itself may or may not be new or unique but must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources.”* (Ronstadt, 1996: 28)

### 1.1 INTRODUCTION

Chapter one introduces the background and orientation of the problem, identifying the theme for the balance of the study. An entrepreneurial service vision in a franchised home entertainment environment encapsulates the disciplines of entrepreneurship, franchising and strategic marketing. Within the constraints of this research project, strategic marketing is in turn represented by strategic service initiatives of the service profit chain, service quality, relationship marketing and best practice initiatives. The aim of the study is to empirically evaluate the association of these disciplines toward the development of a conceptual matrix of an entrepreneurial service vision within a defined franchised system.

The background of the study identifies the subject area, together with the primary objective of identifying entrepreneurship and entrepreneurial orientation within a defined franchise system; with synergistic links to a strategic service vision. Entrepreneurship is seen as an integrated concept permeating enterprise in an innovative and creative manner, whereas franchising is regarded as an entrepreneurial option for creating and developing ventures. The strategic service vision links the service profit chain, service quality, relationship marketing and best practice initiatives towards achieving organisational profit and growth objectives. The defined franchise system is Mr. VIDEO, the market leader in the home entertainment industry on the African continent. The organisation commands an eighteen per cent market share, consisting of over one hundred and fifty franchised outlets. The study is limited to this franchise system, and cognisance is taken of the limited availability of literature on the defined disciplines in the home entertainment industry.

The importance of the study revolves around its contribution not only to enhancing understanding of the dynamics of the industry on the African continent, but also to

conceptualising an entrepreneurial service vision in the home entertainment industry. The contribution of such a strategic service vision will facilitate competitive advantage throughout the supply chain; involving distributors, retailers (primarily franchise based) and the interaction with customers. Theoretically, the value the investigation will provide will be in understanding that the home entertainment industry is worthy of developing a body of knowledge, to be shared by all industry participants.

The primary and secondary research questions, together with research objectives, are complemented with primary and secondary hypotheses. The research questions, objectives and hypotheses all revolve around an entrepreneurial orientation and strategic service vision in a franchised home entertainment environment. The research methodology and design are depicted as the sequence of stages underlying the design and implementation of the research project, including the establishment of the research purpose and objectives, information value estimation, research design and implementation. Design includes sources of data, data collection format, measurement scales and instrument design. Data analysis incorporates descriptive and inferential statistics, with the aid of computer software including SPSS version 11.0 and Surveypro. Research results and conclusions elaborate the findings based on the literature review and empirical analysis, towards the development of a conceptual entrepreneurial service matrix.

The thesis consists of eight chapters. Chapter one represents the background and orientation to the problem; chapters two to five represent a literature review on the disciplines identified; and chapters six to eight represent the research methodology, research results, conclusions, interpretation and recommendations.

## **1.2 BACKGROUND OF THE STUDY**

The subject areas of the study include entrepreneurship, entrepreneurial orientation, franchising, service quality dimensions, the service profit chain, relationship marketing and best practice initiatives.

The primary objective of the research project is to identify entrepreneurship and entrepreneurial orientation within a defined franchise system; with synergistic links to a strategic service vision. The strategic service vision in turn includes service quality, the

service profit chain, relationship management and best practice initiatives. Upon identification of the links and relationships amongst constructs, factors and variables; the opportunity exists to develop a matrix to facilitate service-oriented decision-making within the franchise system.

Kuratko and Hodgetts (2004: 3) introduce entrepreneurship as, “an integrated concept that permeates an individual’s business in an innovative manner”. Entrepreneurs are individuals who recognize opportunities, often being aggressive change catalysts within the marketplace. In high growth, global, competitive economies the ability to grow businesses, create wealth, and sustain competitive advantage has become imperative (Acs, Arenius, Hat & Minniti, 2005: 12). Entrepreneurship is associated with adaptation and change of economic systems, often contributing to national economic growth (Bygrave, Reynolds & Autio, 2004: 5). Gartner (2001: 11) highlighted a dual approach to entrepreneurship; consisting of behavioural and trait approaches. He further went on to identify behavioural approaches as a set of activities involved in organisation creation, while in trait approaches an entrepreneur has a set of personality traits and characteristics. Complementing the trait approach, Bolton and Thompson (2004: 100) developed the temperament, talent and technique matrix; identifying facets of focus, advantage, creativity, team, social and ego. Bolton and Thompson (2003: 49) define an entrepreneur as “a person who habitually creates and innovates to build something of value around perceived opportunities”. To this end, their definition is not only limited to the creation of new ventures, but also the exploitation of opportunities. Thompson (2002) identified character themes of the entrepreneur, applicable to the current study.

Franchising is seen as an entrepreneurial option towards creating and developing ventures (Bygrave: 1997). Michael (2003: 61) in agreement herewith, mentions franchising as a technique for entrepreneurs in service industries to assemble resources in order to rapidly create large chains and gain first mover advantage. Franchising is an arrangement between two parties whereby the franchisor grants the franchisee certain rights to sell a firm’s products or services, as per guidelines set down by the franchisor (Nieman, 1998: 3). The franchise association of Southern Africa defines franchising as “a grant by the franchisor to the franchisee, entitling the latter to the use of a complete business package containing all the elements necessary to establish a previously untrained person in the franchised business and enable him or her to run it on an ongoing basis, according to guidelines supplied, efficiently and profitably”. Mendelsohn (2003) emphasises that a

franchise relationship is not self-sustaining, with basic issues being that the franchise cannot succeed without successful franchisees, franchisors to devote resources to enhance franchisor/franchisee relations, franchisor duty to establish and sustain a viable business, a franchisors code of ethics, and a commitment that the franchisor must promote the basic principles upon which franchising is based. Franchisors in many sectors have recognised the benefits of multiple-unit franchisees (Johnson, 2004: 36), and this is seen as an entrepreneurial continuation of the franchise trend. Lindsay and McStay (2004: 3) further explored the entrepreneurial orientation of franchisees, together with the entrepreneurial drivers of franchisee performance. Their findings indicated a proactiveness regarding entrepreneurial orientation, together with a risk-taking entrepreneurial orientation.

The economic growth in service quality, related profit and competitive advantage potential has accelerated the competitive opportunities for companies who can excel in this discipline. The search for new approaches to enhance service quality and customer satisfaction led to the development of the scale SERVQUAL (Parasuraman, Berry & Zeithaml: 1988) that measures the discrepancy between consumers' perceptions and expectations. Zeithaml and Bitner (2003: 93) developed this model further, identifying five service quality dimensions, along with the scale developed to measure them. Dimensions include reliability, responsiveness, assurance, empathy and tangibles. In context, these dimensions represent how consumers perceive service quality. An adaptation is the development of SERVPERF (Cronin & Taylor: 1994), a service quality instrument applicable to the research project on hand.

Whilst service quality is directed towards customer satisfaction, the link to profit and growth of organisations led to the development of the service profit chain (Heskett, Sasser & Schlesinger, 1997: 12). This is a strategic service vision whereby there is a strong and direct relationship between customer satisfaction, customer loyalty and the value of the goods and services delivered to customers. Furthermore, there is a strong link between these elements and overall profit and growth of an organisation. Heskett *et al* (1997) also identified three strategic implementation initiatives of retention, related sales and referrals; as integral components of the service profit chain.

Relationships between value chain participants (Porter: 1995) led to developments in the field of relationship marketing. Peck, Payne, Christopher and Clark (1999: 22) developed a revised version of the six markets model; which included internal, referral, influence,

recruitment and supplier/alliance markets. The six markets model identifies all facets of internal and external relationships that can contribute towards an organisation's marketplace effectiveness.

Complementing the service vision further led to development of best practice initiatives, often adopted by innovative firms in competitive industries and environments. Such initiatives were regarded as pivotal for survival and achievement of competitive advantage (Porter: 1998). The Video Software Dealers Association of America (VSDA: 2001) identified best practice in the industry, as identified by Arthur Andersen Business consultants. These were wide ranging, including understanding customers and markets, developing vision and strategy, refining store product offerings, implementing the marketing plan, creating promotions and in-store merchandising, and clear in-store operations. Customer service findings included that best customer service is one-to-one, and strong relationships and loyalty are developed between staff and customers through consistency of management and staff, and personalising customer service.

An entrepreneurial orientation within a defined franchised system, coupled with service vision components, has been evaluated in the South African home entertainment industry. The industry has an oligopolistic supply channel, dominated by two corporate distributors. Retailers are in turn dominated by a few franchisors, operating on a national (and rest of Africa) basis. The market leader, Mr. VIDEO, was founded ten years ago, and has experienced this domination for the past five years. Mr. VIDEO has a market share of approximately eighteen per cent. Entrepreneurial behaviour will be evaluated within the context of this franchise system. The industry is a major contributor to employment and income, with the market valued at approximately R 600 million per annum. Since the home entertainment market is a product of technology, it aptly fits with the entrepreneurial characteristics of innovation and creativity.

### **1.2.1 Limitations of the study**

A major limitation in this study is the limited existence of literature and material regarding the South African home entertainment industry, notwithstanding competitiveness in the supply channel due to oligopolistic market forces. Whilst the study is on the franchised system within the Mr. VIDEO network; it is the opinion of the researcher that the study cannot be extended to the entire franchised home entertainment

industry, primarily due to confidential marketing strategies. Different franchised groups would not be willing to share their competitive strategies outside their own franchise grouping. This limits this study to a single franchised group, in this case, the market leader (approximately three times larger than its closest competitor). Furthermore, the researcher was the managing director of the second largest franchised group in the industry, and participants may question ethical considerations. Ideally, the entire home entertainment market would have been the optimal population; opening avenues for further research.

Limitations of the applicable research project recommendations rest upon the motivation and entrepreneurial orientation of implementation within a franchised environment, which is ultimately in the hands of the franchisee. The franchisor, however, has to be seen as the change-catalyst towards strategic implementation.

### **1.3 IMPORTANCE OF THE STUDY**

In this study, business management frameworks regarding aspects of an entrepreneurial service vision within a franchised environment are systematically recommended. The conceptual framework is empirically tested and within this framework important conclusions are made, providing insight into these disciplines. Specific implications are tested, with recommendations regarding aspects of implementation within the context of selected South African organisations. The value of this study therefore rests on theoretical and practical levels.

Whilst the existing body of knowledge has influenced strategic service visions in many service related industries; entrepreneurship and the service profit chain, together with other strategic initiatives have received minimal formal research in the lucrative South African home entertainment industry. To date, no published entrepreneurial service vision within this industry is to be found in reviews, standing operating procedures, nor any literature search. This study will not only enhance understanding of the dynamics of the industry on the African continent, but also conceptualise an entrepreneurial service vision in the home entertainment industry. The contribution of such a strategic service vision will facilitate competitive advantage throughout the supply chain; involving distributors, retailers (primarily franchise based) and the interaction with customers.

Theoretically, the value the investigation provides will be in understanding that the home entertainment industry is worthy of developing a body of knowledge, to be shared by all industry participants. Similarly, linking entrepreneurship, franchising and strategic service in the form of a matrix may be of interest and application to other academic disciplines. This will facilitate both researchers and students in related business management disciplines.

As a contribution to practice, the entrepreneurial service vision will enhance the longevity of the industry, while sharing entrepreneurial service vision recommendations with all industry participants. As such, the general oligopolistic nature of major industry participants will be dissolved; making the industry more accessible, creating more employment, and increasing industry participants. Since the industry is a product of technology, the identification of entrepreneurial behaviour of franchisor/franchisees will highlight the re-defining of industry practices.

This study, the first of its kind in the home entertainment industry and in the specific organisation, will smooth the way for implementation of entrepreneurial franchise service initiatives in the organisation. It will also assist franchisees in their advancement in the organisation and could be used to complement other programmes within the home entertainment, entrepreneurial and franchised communities.

On a macro level, successful implementation of the matrix will enhance industry participation; together with entrepreneurial contributions towards the creation of wealth, economic growth and creation of employment in a dynamic, yet turbulent developing economy such as South Africa. In addition, the study will enhance South African companies' competitive advantage in an international marketing environment.

#### **1.4 DEFINITION OF THE RESEARCH PROBLEM**

The research problem is the determination of an entrepreneurial orientation of participants in a defined franchise system, coupled with the association of strategic service vision constructs. Once explored, the entrepreneurial orientation, franchise system and service vision constructs will be synergised to develop an entrepreneurial service vision within a franchised home entertainment environment. The research problem is further segregated

into primary and secondary research questions, key terminology, research objectives and hypotheses to be tested.

### **1.4.1 Research questions**

The purpose of the investigation is to determine the entrepreneurial orientation of participants in a franchised system, coupled with the association of service vision constructs. Once explored, the entrepreneurial orientation and service vision constructs will be synergised to develop an entrepreneurial service vision within a franchised environment.

#### 1.4.1.1 Primary research question

To determine the entrepreneurial orientation within a franchised system.

Question 1: Does entrepreneurial orientation exist within a franchised system, and if so, to what extent?

#### 1.4.1.2 Secondary research questions

To determine the contribution of franchising as an entrepreneurial option towards creating and developing ventures.

Question 2: Does franchising lead to an entrepreneurial option towards creating and developing ventures?

To determine the contribution of the service profit chain to service quality.

Question 3: Do service profit chain initiatives lead to service quality?

To determine the contribution of relationship marketing to service quality.

Question 4: Does relationship marketing lead to service quality?

To determine the contribution of best practice to service quality.

Question 5: Does best practice lead to service quality?

To determine service quality in a franchise system.

Question 6: What is the level of service quality in a franchise system?

### 1.4.2 Key terminology

The view of integrating entrepreneurial activity and strategic service within a franchised system may best be explained in the context of networks. The most widely held view of 'network' refers to an organized system of relationships, linking a defined set of persons, objects or events (Nelson: 1988; Szarka: 1990). This networking in small business serves to provide owner-managers with the necessary support, contacts, and credibility (Ostgarrd & Birley: 1996). Consequently, the owner-managers will benefit from obtaining necessary information and will learn more about their own competitive capabilities relative to their competition, thereby minimizing the harsh lessons the market place may present (Dilts: 2000). As such, networking is seen as a major tool for achieving desired business results, and as a key source of resources that are typically outside the reach of many entrepreneurs (Zhao & Aram: 1995). This network view correlates entrepreneurship and franchising, yet the study of entrepreneurial orientation amongst franchisees in the franchise system requires investigation. In this context, the study includes an entrepreneurial character theme analysis based on twenty associated themes; as developed by Bolton and Thompson (2003). In addition, franchising as an entrepreneurial option towards creating and developing ventures will be evaluated within the defined franchise system.

Extensive literature in the areas of customer satisfaction and loyalty are abounds, yet few link the disciplines of service quality, the service profit chain, relationship marketing and best practice. The development of a service vision matrix (incorporating these disciplines) involves an investigation into the relationship and association between these constructs independently and as a stratified matrix. Such a study will include strategic service initiatives of service quality (Zeithaml & Bitner: 2003), the service profit chain (Heskett *et al*: 1997), the relationship marketing six markets framework (Peck *et al*: 1999), and best practice principles (VSDA: 2001).

An important aspect of the study is synergising the overall entrepreneurial orientation of the franchised system within the framework of a strategic service vision.

### **1.4.3 Research objectives**

The research objectives are to investigate the current situation of entrepreneurial orientation in a franchise environment, together with examining the contribution of a strategic service vision to service quality. The purpose is thus to identify entrepreneurial behaviour amongst franchisees, franchising as an entrepreneurial option; and to identify elements of service quality, service profit chain, relationship management and best practice and finally, to develop a matrix of an entrepreneurial service vision, to be initiated within the defined franchise system.

The first objective of investigating entrepreneurial orientation within the franchise system is based around the entrepreneurial character themes as depicted by Bolton and Thompson (2003: 62-80). The outcome of orientation will facilitate decision-making and implementation of the strategic service vision.

The second objective, consisting of the four constructs (service profit chain; service quality, relationship management and best practice) associated with the vision; include investigation on issues relating to relationships within and between the constructs. An additional construct, the franchise paradox, measures the contribution of the franchise system as an entrepreneurial option towards creating and developing ventures (Bygrave: 1997).

The final objective is the development of an entrepreneurial service vision, based upon the findings of the first two objectives. Such a matrix may be described as a full representation or description of the set of associations between these factors, including statements about the assumptions and interactions in the matrix (Page & Meyer, 2000: 7).

### **1.4.4 Hypotheses to be tested**

Hypothesis testing uses statistical techniques to support predictions arising from theory. This is done at a statistically significant level, in that hypotheses (predictions) are either accepted or rejected. Page and Meyer (2000: 23) define a hypothesis as “a testable speculative statement delineating the relations between all the elements of a theory”. The two hypotheses involved in hypothesis testing are the null and alternate hypothesis

(represented by H0 and H1 respectively). H1 represents the research hypothesis, whilst H0 assumes the research hypothesis is false (Page & Meyer, 2000: 166).

The hypotheses supplement the research questions and objectives:

#### 1.4.4.1 Primary hypothesis

The primary hypothesis postulates that there is evidence of entrepreneurial orientation in a franchise system.

H1: Entrepreneurial orientation exists in a franchise system.

H0: Entrepreneurial orientation does not exist in a franchise system.

A proposition is introduced:

P1: Entrepreneurial orientation exists in a multiple-outlet franchise system.

#### 1.4.4.2 Secondary hypotheses

The secondary hypotheses postulate that there is evidence of a positive association between:

- The franchise system and an entrepreneurial option towards creating and developing ventures
- The service profit chain and service quality
- Relationship marketing and service quality
- Best practice and service quality.

H2: The franchise system is an entrepreneurial option towards creating and developing ventures.

H0: The franchise system is not an entrepreneurial option towards creating and developing ventures.

H3: Service profit chain initiatives are positively associated with service quality.

H0: Service profit chain initiatives are not positively associated with service quality.

- H4: Relationship marketing initiatives are positively associated with service quality.  
H0: Relationship marketing initiatives are not positively associated with service quality.
- H5: Best practice initiatives are positively associated with service quality.  
H0: Best practice initiatives are not positively associated with service quality.

Hypotheses testing include non-parametric testing, indicative of the assumption that the dependent variable does not necessarily have a normal distribution (bell-shaped). Hypothesis tests produce P-values, measuring significance, whereby there is a chance that the null hypothesis is true (Malhotra *et al.*: 2002). Hypothesis tests will include the Kruskal-Wallis one way ANOVA test, together with interaction tests for greater than one independent variables (Page & Meyer: 2003). Service quality, the dependent variable, will be measured using similar inferential statistics as the stated hypotheses.

## **1.5 RESEARCH DESIGN**

The study commences with an exploratory search of published data in the disciplines of entrepreneurship and franchising. Related literature is reviewed, with particular reference to entrepreneurial orientation and characteristics linked to the franchise paradox. In addition, experts and well informed people with respective credentials in these arenas are canvassed for their opinions and thoughts relating to the research objectives. This not only includes academia, but industry knowledgeable individuals. Published data includes books and journals, in addition to international academic conference proceedings.

The literature review (secondary data) forms the foundation on which the research is built, and Neuman (1997) informs that it should integrate and analyse what is known in the specific area by synthesizing different prior studies. To combine a literature study of the service profit chain, service quality, relationship management and best practice; there is in the first place a theoretical perspective investigation to the process of a strategic service vision. Thereafter a theoretical disposition evolves incorporating these factors into a strategic vision.

Research design is the general form or system according to which the study is executed, with surveys enabling the researcher to collect data in a standardized format from a

census. It is done in such a way that it is possible to make generalizations to the population. The survey will be implemented to collect data about a great number of similar cases, executed in a circumscribed area at a given time. The survey follows a deductive approach, whereby it commences with a theoretical or applied research problem and ends with empirical measurement and data analysis (Neuman, 1997: 109).

A composite ideology from three methodology authorities is proposed (Malhotra *et al*: 2002; Page & Meyer: 2003; Dillon *et al*: 1993). What follows is the intention to provide insight into the practical ways and methods that will be employed in gathering the information for the empirical part of this study.

### **1.5.1 Applicable design process**

Research designs may be classified as either being exploratory or conclusive (Malhotra *et al*: 2002). Conclusive research design is further classified as descriptive and causal research. This research project will be conclusive in nature; where the primary objective is to test hypotheses of entrepreneurial orientation and a strategic service vision (service profit chain, service quality, relationship marketing and industry best practice). This however does not negate the use of exploratory data, originally used in this study to develop hypotheses and develop questions (framework).

### **1.5.2 Sources of data**

Information sources available to the researcher can be classified as primary or secondary data (Dillon *et al*: 1993: 78). Aaker, Kumar and Day (2001) postulate that these methods may be used either singly or in combination. They explain secondary data as being already available, being collected for some purpose other than solving the present problem; whilst primary data are collected especially to address a specific research objective. Applicability to the current research project is the criterion for both secondary and primary data.

### **1.5.3 Data collection format**

The relationship between qualitative and quantitative research should not be considered in terms of a mutually exclusive dichotomy but rather as a continuum of complementary

paradigms (Borland: 2001). This complementarily is a point of view shared by Page *et al* (2003), placing emphasis on the research objectives as a guiding formation. The applicability of the current research project is quantitative in nature, despite the advantages and merits of qualitative research being complementary. The two were synergized, evaluated and then determined to construct a niche setting with clear research objectives. Qualitative data was primarily used during the exploratory phase, followed by quantitative primary data to test hypotheses.

#### 1.5.3.1 The survey method

The survey method is identified as the preferred format of data collection (Borland: 2001). The approaches identified by Malhotra *et al* (2002), Aaker *et al* (2001) and the tailored design method of Dillman (2000) were instrumental in the design of the survey applicable to the research project on hand.

#### 1.5.3.2 The sampling plan

Aaker *et al* (2001) identify sampling as the process of surveying only a sample of the population to make inferences about the whole population. Application to the current research project identifies the Mr. VIDEO franchise system within the home entertainment industry as a sample unit and element. The time period is 2004 and 2005, with size indicative of franchise system participants in the home entertainment industry. Martins *et al* (1996) identify the sampling frame as a record of all the sample units available for selection at a given stage of the sampling process. In this research project, the sampling frame will include all of the Mr. VIDEO franchised outlets (one hundred and sixty two stores, one hundred and ten franchisees).

A census is a complete enumeration of the elements of a population, whilst a sample is a subgroup of the population selected for participation in the study. Advantages to using a census primarily revolve around the large variance in the characteristic of interest being large; the high cost of sampling error; and ultimately a small sample (Malhotra *et al*: 2002). The best sample designs ensure that the sampled data represent the research population efficiently and reliably (Page & Meyer: 2003). A census is obtained by collecting information about each member of the group (de Vaus: 1995); applicable to all Mr. VIDEO franchisees in the current research project. Since the sample unit and sample

frame consist of all Mr. VIDEO franchisees, a census was done of the population elements and all 125 franchisees were included in this study.

#### **1.5.4 Measurement scales**

Page and Meyer (2003: 72) refer to measurement scales as, “a set of measures where some level of value or intensity or characteristic is conveyed by a position, usually a number, on the scale”. Four variable measurement scales, namely, nominal, ordinal, interval and ratio scales are identified (Aaker *et al*: 2001). In a nominal variable scale, numbers represent a particular characteristic, despite numbers not conveying any sense of order or value in the measurement (Page & Meyer: 2003). Ordinal variable scales provide some order to the values of the variable being measured, providing more information than nominal scales. Whilst nominal scales do not have the property of order among them, ordinal scales have the property of order among scale points (Sudman & Blair: 1998: 448). Interval variable scales measure variables whereby the measurement units are equidistant, but there is not necessarily a defining beginning point to the measure. There is no true zero point to embed numerical calculations (Page & Meyer: 2003). Ratio scales are an advanced type of interval scale, whereby the spaces between measuring units are exactly the same, with the advantage of an absolute zero point. Ratio measurement scales provide an increasing depth of information about a variable, having order among scaling points, equal distances among all adjacent scale points, and an absolute zero (Sudman & Blair: 1998). Applicability to the current research project involved a bi-variable measurement approach; that of nominal and interval measurement scales. The current research project will predominantly make use of a standard five-point Likert-scale, facilitating consistency and ease of completion.

#### **1.5.5 Instrument design**

This section details the use and applicability of the questionnaire to the current research project. Since this research is of a descriptive and exploratory nature, the questionnaire is deemed to be a feasible data collection alternative (Saunders *et al*: 1997). Self-administration has the advantages of foregoing interviewer bias and geographical dispersion; and due to expected response rates, the instrument is deemed to be effective (Neuman: 1997). The design of questions, structure of the questionnaire and rigor of pilot

testing are determinants of the validity and reliability of collected data (Saunders *et al*: 1997).

The questionnaire takes a two-tiered approach, and is divided into seven distinct sections. The first tier undertakes collection of data regarding franchisee classification, entrepreneurial orientation and franchising; whilst the second tier has responsibility for collection of strategic service data (service quality, service profit chain, relationship management and best practice). The questionnaire can be observed on page 1 in Appendix 1. The sections are depicted as follows:

- Section A: Franchisee demographics and details, questions 1-8
- Section B: Entrepreneurial orientation, questions 9-28
- Section C: Franchise system, questions 29-38
- Section D: The service profit chain, questions 39-48
- Section E: Service quality, questions 49-58
- Section F: Relationship marketing, questions 59-68
- Section G: Best practice, questions 69-78.

### **1.5.6 Data analysis**

Simply defined, data analysis is a statistical procedure employed in coding, editing, analyzing and interpreting data (Aaker *et al*: 2001). Editing entails a thorough and critical review of a completed questionnaire in terms of compliance with the criteria for collecting meaningful data; and deals with questionnaires not duly completed (Martins *et al*, 1996: 295). Coding is the conversion of questionnaire responses into numeric form in order to allow quantitative analysis (Page & Meyer: 2003).

Reliability and validity were evaluated as integral prerequisites for the research data on hand to avoid possible shortcomings and pitfalls in research results. Reliability involves the quality of measurement and refers to the amount of agreement between independent attempts to measure the same theoretical concept (Martins *et al*: 1996; Brien: 1995). Validity relates to the ability of a measurement instrument to measure what it purports to measure (Brien *et al*: 1995). Martins *et al* (1996: 26) relate validity specifically to measuring instruments.

Descriptive statistical techniques identify the application of univariate (single variable) measures of centre and spread and bivariate (two-variable) measures of association. Measures include the mean, standard error of the mean, standard deviation, kurtosis and cross tabulations. Inferential statistics include relevance tests (hypotheses tests), identifying implementation of the Kruskal-Wallis one-way analysis of variance (ANOVA). Cronbach's Alpha is introduced as a construct reliability measure, identifying overall inter-item correlation. The Pearson correlation coefficient is analysed across constructs. Applicable software used for the collection and analysis of data include Surveypro and SPSS version 11.0.

## **1.6 RESEARCH FINDINGS AND RECOMMENDATIONS**

Synthesis and interpretation concludes the theoretical component of research methodology, and is followed by an analysis of research results. This provides an analysis of the results and interpretation of data, together with the outcome of the primary and secondary hypotheses formulated in Section 1.4.4. Furthermore; constructs, factors and variables are evaluated, correlated and examined within the survey framework. The final outcome is portrayed as conclusions and recommendations, identifying and detailing the recommendation of an entrepreneurial service vision matrix in a franchised home entertainment environment.

## **1.7 OUTLINE OF THE THESIS**

The investigation commences with an exploratory to specific review of literature in the disciplines of entrepreneurship, entrepreneurial orientation, franchising, service profit chain, service quality, relationship marketing and best practice initiatives. This is followed by research methodology, identifying the systematic and objective analysis of observations that lead to the development of generalizations and predictions. The penultimate section constitutes the analysis of research results, followed by conclusions and recommendations. The outcome is the recommendation of a conceptual matrix of an entrepreneurial service vision in a franchised home entertainment environment. The programme of investigation is depicted in eight chapters, with complementary appendices.

### **1.7.1 Chapter One: Background and orientation of the problem**

This chapter offers background to the focus of the study within a franchised environment in the home entertainment industry in South Africa. The analogy commences with a background of the study, including the limitation of the study. The background identifies key aspects of entrepreneurship, entrepreneurial orientation, franchising, the service profit chain, service quality, relationship marketing and best practice. The study highlights the scarcity of available literature in the home entertainment industry, and the opportunity of enhancing the understanding of the dynamics of the industry. The research problem is defined; identifying primary and secondary research questions, key terminology, research objectives and finally primary and secondary hypotheses to complement the research questions. Research design places emphasis on the empirical nature of the research project; identifying the applicable design process, sources of data, data collection format (survey and sampling), measurement scales, instrument design and data analysis. Descriptive and inferential statistical techniques are identified. The chapter culminates in a brief description of research results and recommendations. Final comments follow on the outline followed in the study.

### **1.7.2 Chapter Two: Entrepreneurial orientation**

The second chapter covers a broad spectrum of existing literature on entrepreneurship, culminating in empirical studies on entrepreneurial orientation. The literature commences with the nature and development of entrepreneurship, including entrepreneurial participation rates. The review is supported by data from The Global Entrepreneurship Monitor (GEM), identifying assessment of national entrepreneurial activity. Various definitions of the entrepreneur are evaluated, followed by the nature, characteristics and behaviour of the entrepreneur. Comparisons of entrepreneurs, intrapreneurs and traditional managers are highlighted. The talent, temperament and technique of the entrepreneur are introduced, with linkage to Gallup's life themes. Finally, character themes to evaluate entrepreneurial orientation (Thompson: 2002) are discussed with relevance to empirical evidence. An adaptation of this empirical research is implemented as an entrepreneurial orientation measurement tool in this study.

### **1.7.3 Chapter Three: The franchise paradox**

This chapter introduces franchising as an entrepreneurial option towards creating and developing ventures. The nature and development of franchising is examined, together with the franchising link to entrepreneurship. Franchise rationale is developed from existing literature, depicting operational constructs within a franchise system. Rationale includes, but is not limited to, constructs of real estate development, training, continuing support, performance standards, research and development, marketing, operations manual, specialist support, territorial rights and terms of agreement. Franchise system relationships are evaluated in the context of trends, cooperation, leadership, effort, conflict, disputes, quality control, foundation, associations, networks and franchise system merits. The chapter culminates with a literature review of an entrepreneurial orientation in a franchise system, followed by an empirical review of proactivity, innovation and risk-taking in a franchise environment.

### **1.7.4 Chapter Four: Putting the service profit chain to work**

The fourth chapter identifies the service profit chain (Heskett *et al*: 1997) as a strategic service vision, identifying customer satisfaction and loyalty to long term organisational profitability and growth. The literature review commences with an overview of profit and growth related to the components of the service profit chain. Capitalising on the service profit chain identifies links in the chain, consisting of profit and growth link to customer loyalty, loyalty link to customer satisfaction, satisfaction link to service value, value link to employee productivity, productivity link to loyalty, loyalty link to employee satisfaction, and satisfaction link to internal quality of work life. Service profit chain implications are highlighted, lending management theories from many related disciplines. The management of customer satisfaction is reviewed, together with methods used to track customer satisfaction. The customer value equation is introduced, placing emphasis on requirements to add value. Customer loyalty receives emphasis from a determinants point of view, together with loyalty enhancing measures. The lifetime value of customers is analysed, identifying strategic initiatives of retention, related sales and referrals. The final section incorporates the enhancement of service profit chain initiatives, identifying eight strategies which facilitate service profit chain implementation.

### **1.7.5 Chapter five: Integrating service quality, relationship marketing and benchmarking for best practice**

This chapter identifies the disciplines of service quality, relationship marketing and best practice as three separate constructs. Service quality is most often conceptualised as the comparison of service expectations with actual performance perceptions. The various definitions of service quality are evaluated against the backdrop of the dimensionality of service quality, together with the integrated gaps model as identified by Zeithaml and Bitner (2003). Various service quality initiatives are assessed, highlighting service quality relationships. Of particular relevance, is the evaluation of service quality measurement. SERVQUAL and SERVPERF are two measurement instruments identified as being optimal for the study on hand.

A literature review was conducted on relationship marketing, with particular emphasis on the revised version of the six markets model (Peck *et al*: 1999). The six markets reviewed were customer, internal, referral, influence, recruitment and supplier/alliance markets. Each market domain was evaluated, with links to related literature from various sources in the discipline. Best practice initiatives included a review from generic literature, with particular emphasis on best practice in the home entertainment industry in the United States of America. The Video Software Association of America (VSDA: 2001) identified best practice in the industry, as identified by Arthur Andersen Business consultants. These initiatives were wide ranging, including understanding customers and markets, developing vision and strategy, refining store product offering, implementing the marketing plan, creating promotions and in-store merchandising, and clear in-store operations.

The strategic service constructs identified in this research study include the service profit chain, service quality, relationship marketing and best practice. Service quality represents the dependent variable, whereas the other three identified constructs represent the independent variable.

### **1.7.6 Chapter Six: Research methodology**

The sixth chapter explains the research methodology as aligned with the research design. The chapter describes the research process, and details the problem formulation, research

objectives and hypotheses to be tested. Research design clarifies classification of research; whereas methodology incorporates sources of data, the data collection format, sampling plan, measurement scales and instrument design and testing. The chapter culminates in data analysis evaluation; consisting of editing and coding, reliability and validity, descriptive measures and inferential statistics. Hypotheses tests are supported using P-values, Kruskal-Wallis tests and Cronbach's Alpha. Synthesis and interpretation concludes the theoretical component of research methodology.

### **1.7.7 Chapter Seven: Research findings**

Chapter seven reflects an empirical analysis of the data obtained in this study. The first section explains the demographic and biographic profile of the franchisee respondents (section A of the questionnaire). The next section evaluates the entrepreneurial orientation of franchisees, followed by an empirical investigation in the franchise paradox (sections B and C in the questionnaire, respectively). A proposition is proposed, evaluating entrepreneurial orientation in a multiple-outlet franchise environment. The following section tests hypotheses and evaluates relationships between the service profit chain, relationship marketing and best practice (independent variables) and service quality (dependent variable). These constructs are identified in sections D, E, F and G of the questionnaire. Constructs, factors and variables are evaluated using the descriptive and inferential statistical techniques identified in Chapter six. Computer aided software facilitation in this research study include SPSS version 11.0 and Surveypro.

### **1.7.8 Chapter Eight: Summary, conclusions and recommendations**

The final chapter portrays confirmation of the results based on literature and empirical information. The hypotheses tested are discussed, and accepted or rejected based upon empirical analysis. Significant associations and differences amongst respondents, constructs, factors and variables are identified towards the development of a conceptual matrix of an entrepreneurial service vision in a franchised home entertainment environment. The chapter culminates with recommendations regarding the implementation of the conceptual matrix. Opportunity for further research; based on the conceptual matrix, concludes the chapter.

### **1.7.9 Appendices**

The appendices add value as contributory literature to the depicted chapters. Of particular reference is the questionnaire, the Mr. VIDEO franchised outlet distribution and correlation analysis of constructs. The bibliography depicts the extensive first instance reference source of literature used for the research study on hand.

## **1.8 CONCLUSION**

This introductory chapter provided an overview of the research project, highlighting the background against which the study is based. Terminology such as entrepreneurship, entrepreneurial orientation, the franchise paradox, the service profit chain, service quality, relationship marketing and best practice were introduced against the backdrop of the research objectives. The research project involves a study of the entrepreneurial orientation of franchisees within a defined franchise system in the home entertainment industry; coupled with a strategic service vision. The strategic service vision incorporates the synergistic contribution of service profit chain, service quality, relationship marketing and best practice initiatives.

The study has highlighted the scarcity of available literature in the home entertainment industry, together with the opportunity of enhancing the understanding of the dynamics of the industry. The research problem is defined; identifying primary and secondary research questions, key terminology, research objectives and finally primary and secondary hypotheses to complement the research questions. Research design places emphasis on the empirical nature of the research project; identifying the applicable design process, sources of data, data collection format (survey and sampling), measurement scales, instrument design and data analysis. Descriptive and inferential statistical techniques are identified. The chapter culminates in a brief description of research findings and recommendations. Comment is relayed on the chapter outline used in the study. The outcome is a conceptual matrix of an entrepreneurial service vision in a franchised home entertainment environment; a contribution to the development of the body of knowledge to be shared by all industry participants.

Chapter 2 provides a literature review of entrepreneurship, entrepreneur themes and entrepreneurial orientation in a franchise system

## CHAPTER 2: ENTREPRENEURIAL ORIENTATION

### 2.1 INTRODUCTION

Kuratko and Hodgetts (2004: 3) introduce entrepreneurship as, “an integrated concept that permeates an individual’s business in an innovative manner”. Entrepreneurs are individuals who recognize opportunities, being aggressive change catalysts within the marketplace.

In high growth, global, competitive economies the ability to grow businesses, create wealth, and sustain competitive advantage has become imperative. Entrepreneurship is associated with adaptation and change of economic systems, often contributing to national economic growth (Bygrave, Reynolds & Autio, 2004: 5). Gartner (2001: 11) highlighted a dual approach to entrepreneurship; consisting of behavioural and trait approaches. He further went on to identify behavioural approaches as a set of activities involved in organisation creation, while in trait approaches an entrepreneur has a set of personality traits and characteristics. Complementing the trait approach, Bolton and Thompson (2004: 76) developed the temperament, talent and technique matrix; identifying facets of focus, advantage, creativity, team, social and ego. Bolton and Thompson (2003: 49) define an entrepreneur as, “a person who habitually creates and innovates to build something of value around perceived opportunities”. To this end, their definition of entrepreneurship is not limited to the creation of new ventures, but includes the exploitation of opportunities.

Thompson, in *Global Entrepreneurship Monitor* (2003: 34) further developed a twenty-question character theme matrix to measure entrepreneurial orientation. The empirical research, based on the character theme matrix, was published in the *Global Entrepreneurship Monitor 2003 (GEM)*. A character theme is a personality attribute or characteristic that defines our normal, expected behaviour. Thompson’s (2002) set of themes forms our inner psychological core and defines things we do most readily and instinctively. These themes shall be examined and adapted for this study.

Themes consist of mastery, creativity, opportunity taking, urgency, performance orientation, networking, focus, time focus, ego, courage, team, strategic, envisioning, empowering, influencing, developer, systematic, disciplined, woo and relator. The

association of these themes relate to inventor, entrepreneur, leader, enabler and non-entrepreneurial associations. The objective is to evaluate franchisees against these themes and associations.

## **2.2 ENTREPRENEURIAL ORIENTATION**

“It’s not the critic who counts, nor the observer who watches from a safe distance. Wealth is created only by doers in the arena who are marred with dirt, dust, blood and sweat. These are producers who strike out on their own, who know high highs and low lows, great devotions, and who overextend themselves for worthwhile causes. Without exception, they fail more than they succeed and appreciate this reality even before venturing out on their own. But when these producers of wealth fail, they at least fail with style and grace, and then their gut soon recognizes that failure is only a resting place, not a place in which to spend a life-time. Their places will never be with those nameless souls who know neither victory nor defeat, who receive weekly paycheques regardless of their week’s performance, who are hired hands in the labour in someone else’s garden. These doers are producers and no matter what their lot is at any given moment, they’ll never take a place beside the takers, for theirs is a unique place, alone, under the sun.

They are entrepreneurs! ”

Joseph R. Mancuso

Center for Entrepreneurial Management

Nieman, Hough and Nieuwenhuizen (2003: 11) advise that entrepreneurial orientation is critical to the survival and growth of organisations, notwithstanding the importance to prosperity of economic advantage. They further inform that entrepreneurial orientation is focussed by a unique combination of factors, including culture, role models, family, education, work experience and personal orientation. Personal orientation includes factors such as creativity and innovation, risk taking, autonomy, pro-activeness and achievement orientation.

## **2.3 NATURE AND DEVELOPMENT OF ENTREPRENEURSHIP**

Gartner (2001) identifies two main approaches to entrepreneurial behaviour. In behavioural approaches, the study of entrepreneurship is seen as a set of activities involved in organisation creation, whereas in the trait approaches, an entrepreneur is seen

as possessing a set of personality traits and characteristics. Freel and Deaken (2003: 2) however base their concern on three approaches, being the contributions of economic writers, the psychological trait approach on personality characteristics of the entrepreneur, and a social-behavioural approach, stressing the influence of the social environment as well as personality traits.

In examining conventional economic theory, the term ‘entrepreneur’ is noticeably absent. The development of the theory of entrepreneurship parallels to a great extent the development of the term ‘entrepreneurship’ (Hisrich, Peters & Shepherd, 2004: 6). The word entrepreneur originates from French, and literally translated, means “go-between” or “between-taker”. Identifying an entrepreneur as an individual, a literal meaning might translate as “one who takes between”. Looking back through the ages, entrepreneurship development may be the result of many activities:

- Earliest period; early trading had many examples of go-betweens, Marco Polo being an early example. He attempted to establish trade routes to the East, dealing with merchant-adventurers. Activities included trading, physical and emotional risk, profiteering, notwithstanding the risks associated with pioneering itself
- Middle ages; during this period, the term entrepreneur was used to describe an actor and an individual who managed large projects. Such an example was the cleric, the person in charge of great architectural constructions, such as, cathedrals, abbeys and castles. The element of risk was however not prevalent
- 17th Century; the entrepreneurial connection with risk developed during this period, whereby the individual went into contractual arrangements with governments
- 18th Century; this period was characterised by the industrialization of the world, with the person with capital being differentiated from the one requiring capital. Thus, the entrepreneur was distinguished from the capital provider (present day venture capitalist). Examples included inventions by Eli Whitney (developer of the cotton gin) and Thomas Edison (electricity and chemistry), both being capital users (entrepreneurs) and not capital providers (venture capitalists)
- 19th and 20th Centuries; during this period, entrepreneurs and managers were closely associated and undifferentiated from an economic perspective (Hisrich & Peters: 1998). An example was Andrew Carnegie, whilst inventing nothing, adapted new technologies into products to achieve economic vitality. In the mid

20th century however, the link between entrepreneurship and innovation came to the fore. Innovation is however not a new phenomenon, being existent through history, from the Egyptians (pyramids made out of stone blocks, weighing many tons each), to the Apollo lunar module, to laser beam technology.

Whilst Freel and Deakins (2003) recognise the economic approach to entrepreneurship, they also recognise the significant role the entrepreneur has had in economic development. This is emphasised by writers outside mainstream economic thinking:

- Richard Cantillon, a noted economist and author in the 1700s, developed one of the earliest theories of the entrepreneur, and is often regarded as the founder of the term. Together with Say (1803), the entrepreneur was regarded as an organizer of factors of production, with additional insights reflecting the entrepreneur as a catalyst for economic change. Cantillon also regarded the entrepreneur as a risk-taker. Both Cantillon and Say belonged to the French school of thought known as ‘physiocrats’ (the physical nature of the then agrarian economy)
- The Kirznerian entrepreneur makes use of opportunities for trade, the entrepreneur being alert to profitable opportunities. Kirzner is one of the initial Austrian school writers who researched the characteristics of the entrepreneur. He further went on to identify the entrepreneur as having additional knowledge in providing opportunities for creative discoveries. Criticism levelled at Kirzner was that anyone could potentially possess the additional knowledge. Despite this, his identification of the key role of the entrepreneur as an opportunity spotter, together with insights regarding the entrepreneur’s key ability in creative alertness, laid the foundation for current day entrepreneurial thinking
- Whilst also being of the Austrian school of writers, Joseph Schumpeter identified the key role of the entrepreneur as being an innovator (Schumpeter, 1949). He believed that only certain people have the ability to be entrepreneurs, changing convention through innovative activity. In contrast to the Kirznerian entrepreneur, who operates on opportunities that arise out of new technology, the Schumpeter entrepreneur develops new technology. An additional insight according to his theory was the entrepreneur being regarded as a ‘hero’ figure. The best example of the Schumpeter school of thought was the explosive growth of the internet in 1999 and 2000, where dotcom entrepreneurs were seen to be innovative, pioneering new ways of trading using new technology. He however predicted the demise of

the function of the entrepreneur, in that large monopolistic firms have distinct advantages over small firms in the technological process. The concept that the entrepreneur is someone ‘special’, someone ‘different’ is important. Many writers have carried this forward to distinguish entrepreneurs from those simply running their own business (those wishing to merely remain self-employed)

- Knight; the entrepreneur was introduced as being a risk-taker, with additional insights highlighting the risk-reward relationship. He placed emphasis on the opportunity for profit arising out of environmental uncertainty, and identified that the entrepreneur is someone who is prepared to undertake risk in an uncertain world. Knight also made an important distinction between risk and uncertainty. Risk is associated with uncertain outcomes, but those outcomes can be predicted with a certain degree of probability. He further informs that the entrepreneur is someone who is willing to accept risk when outcomes are uncertain. This distinction helps to distinguish an entrepreneur from a small firm manager/owner. The Knightian entrepreneur is an individual who is prepared to undertake the risk of setting up their own business, as well as being a risk taker. This dual risk-taking activity leads to criticism of the Knight theory, despite the importance of risk-taking behaviour on modern entrepreneurial thinking. Knight described the entrepreneur as confident and venturesome to make judgements about the uncertain future, with profit being the reward
- The viewpoint of uncertainty and imperfect information is crucial in Shackle’s model of entrepreneurship. He identifies the entrepreneur as being someone who is creative, imaginative and original. Imagination is important for identifying opportunities. Shackle identifies that a host of factors responsible for creativity, including personal background, education and attitudes. It is only recently that pre-entrepreneurial experiences such as education, employment and learning are beginning to be recognized as important influences on nascent (pre-start) entrepreneurs (Reynolds & White: 1997). Shackle’s additional insights include the notion of uncertainty creating opportunities for profit
- The entrepreneur is seen as an organizer of resources, and Casson attempts to synergize the attributes and concepts of the major writers above. Identifying the different skill sets of entrepreneurs enables the entrepreneur to make judgements and coordinate scarce resources. A resource-based view dominates his theory, in that lack of capital is regarded as a barrier to successful entrepreneurship. His views are closer to Knight’s than any of the other writers. The main link is that the

entrepreneur coordinates demand and supply under uncertainty (associated risk). Casson views change as an accompaniment to entrepreneurship, with additional insights highlighting key influences of the environment

- Thunen; many other economic writers and theorists considered developments of entrepreneurial activity and the role of the entrepreneur. Thunen for example, built upon Knight methodology, seeing the entrepreneur as a risk-taker, innovator and problem solver.

From the writings of these theorists, a consensus emerged that the entrepreneur is a key factor in the economy, particularly in conditions of uncertainty and change. Two major avenues of thought evolved from these theorists, that of the Knightian approach, and that of the Schumpeterian approach. The Knightian approach highlights the risk-bearing and uncertainty-reducing role of entrepreneurs; whilst the Schumpeterian approach highlights the entrepreneur as an innovator. Overall, other distinct roles identified include coordination, business creation, access to resources and participation rates.

Kao, Kao and Kao (2002: 45) identified the evolution of entrepreneurial thought into six distinct stages; early thoughts, incubation, growth and ideas, a confusing proliferation of ideas, consolidation, and maturation. Their definition of entrepreneurship (section 2.5) highlights a self-reliant individual, an agent of creation and innovation; the spirit pervading all economic entities. Kao *et al* (2002: 43) regard entrepreneurship as being interdisciplinary, feeding off all disciplines, including virtually all branches of social science. Entrepreneurship assists in wealth creation for the individual, and contributes to the common good at the same time. Table 2.1 identifies the evolution of entrepreneurship, and is presented on the following page.

The next section identifies entrepreneurship from the Global Entrepreneurship Monitor (GEM).

**TABLE 2.1 The evolution of entrepreneurial thought**

<b>Period</b>	<b>Featuring</b>	<b>Contributors and Definitions</b>	<b>Remarks</b>
Early thought	Not a definition for entrepreneurship, rather describing who is the entrepreneur.	Richard Cantillon (1730); the entrepreneur is a self-employed person with uncertain returns.	After more than 270 years, still is viewed a good definition; clearly refers to owner managed venture and specifies the risk bearing attribute of entrepreneurial undertakings.
Incubation	Entrepreneurship is still considered a branch of business practice.	Carl Menger (1871); obtaining information, calculating value, acts of will and the supervision of production to efficiently satisfy needs.	Activated the thinking of those interested in clarification of entrepreneurship, and its meaning to the individual and society.
Growth of ideas	New thinking: entrepreneurship not confined to domain of self-employment and small business.	Joseph Schumpeter (1910); finding and promoting new combinations of production factors.	A very comprehensive yet simple definition that can be applied to all human endeavours.
A confusing proliferation of ideas	Entrepreneurial function clearly extended beyond self-employed entities.	Harvey Leibenstein (1970); the reduction of organisational inefficiency and the reversal of organisational entropy.	Drive for efficiency, can be part of “make changes to the old,” but entrepreneurship has much greater scope than organisational efficiency.
		Long and McMullan (1990); the building of new organisational growth.	A broader approach at the organisational level. However, organisational growth may not be entrepreneurial unless “sustainable” is added.
Consolidation	Action orientation	J.A. Timmons (1989); the ability to create something from nothing. Initiating and building rather just watching, analysing or describing; sensing an opportunity where others see chaos and confusion.	A good definition that includes both enterprise and organisation.
Maturation	Fostering entrepreneurship as a job creation strategy; entrepreneurship central to economic growth.	OECD (1998); the ability to marshal resources to seize new business opportunities.	Bridging the individual’s initiative and common good.
	The socio-economic value of entrepreneurship. Development into an ideology.	R.W.Y Kao (1993, 1997); creating wealth for the individual and adding value to society through new and innovative undertakings.	An ideology as an alternative to capitalism and communism.

Source: Kao, Kao and Kao (2002: 45-46)

## 2.4 ENTREPRENEURIAL PARTICIPATION RATES

The Global Entrepreneurship Monitor (GEM) is a global assessment of national entrepreneurial activity, led by the London Business School. It constitutes forty-one universities, one hundred and eighty researchers, with a US\$ 2, 78 million annual budget.

The GEM “world” consists of 41 participating countries, which account for two thirds of world population, and ninety per cent of Gross Domestic Product (GDP). Core entrepreneurial drivers have been identified as access to finance, access to innovation, education, training, skills, opportunity, motivation, culture, networks and economic climate (Acs *et al*, GEM 2004 executive report; Bygrave *et al*, GEM 2003 executive report). GEM methodology includes adult population surveys, national expert interviews, national expert questionnaires and standardized national data (for example, International Monetary Fund, World Bank, United Nations).

GEM (2004) identifies two types of entrepreneurs:

- Opportunity entrepreneurs are people who spot an opportunity and pursue it
- Necessity entrepreneurs are people who create self-employment in response to job loss or redundancy (Maritz: 2004a)

GEM (2003) participation rates highlight the following (Bygrave *et al*: 2003):

- The most entrepreneurial countries include Chile, Korea, New Zealand, Uganda and Venezuela. The next most active are Brazil, China, India and Mexico. The intermediate group includes Argentina, Australia, Canada, Denmark, Hong Kong, Hungary, Iceland, Ireland, Slovenia, Spain, Singapore, Thailand, United Kingdom and the United States. The below average group includes Belgium, Finland, Germany, Greece, Israel, Italy, Norway, South Africa, Sweden and Switzerland. The least entrepreneurial countries are Chinese Taipei (Taiwan), Croatia, France, The Netherlands, Japan, Russia and Poland. The most entrepreneurial group of countries is three to six times higher than the least entrepreneurial group on all measures of entrepreneurial activity
- Job creation is highly correlated with the level of start-up activity, and there is a positive, statistically significant association between national economic growth and entrepreneurship
- Men are twice as likely to pursue start-ups than women, and younger adults (25-34 years old) are the most active
- There are at least three ways national entrepreneurial activity may have consequences for a country. These include the scope of activity, job creation and association to economic growth

GEM (2003) South Africa participation rates highlight the following main findings (Orford, Wood, Fischer, Herrington & Segal: 2003):

- Levels of necessity entrepreneurship are significantly lower compared to other developing countries, despite similar or worse levels of poverty and income equality in South Africa
- Total entrepreneurial activity of men are significantly lower than in other GEM developing countries
- Total entrepreneurial activity rates in South Africa are lower than other developing countries particularly due to participation rates of men 18-44 years of age
- The proportion of men who believe they have the skills to start a new business is much lower than other developing countries. This reflects lower education levels and a lower probability of South African men who associate with entrepreneurs
- One of the principal constraints on formal black-owned businesses is the lack of finance. Cash shortages are widespread among Black African, Indian and Coloured entrepreneurs with small and medium registered businesses. Of those that have secured overdraft finance, close to half have exhausted their overdraft facilities in the last six months
- Within the GEM countries, South Africa has the second lowest income per capita and the second highest level of income equality
- Two thirds of South African entrepreneurs claim to be taking advantage of business opportunities (opportunity entrepreneurs), the remaining thirty-seven per cent were necessity entrepreneurs
- Indians dominate contribution by ethnicity, primarily due to their proportionally high necessity entrepreneurship rates. Black Africans have the lowest activity rates, predominantly due to their low opportunity entrepreneurship rates
- There is considerable variation in total entrepreneurial activity across the regions. Gauteng and Western Cape have the highest level of entrepreneurial activity, and the Free State and the Eastern Cape experience similar activity rates (just over half the rate in Gauteng). Kwazulu Natal is not significantly different to the rates in Western Cape
- A positive relationship between educational attainment and entrepreneurial activity was evident.

## 2.5 DEFINITION OF THE ENTREPRENEUR

More recent approaches to entrepreneurship (built upon theories from the pre-Schumpeter era) include those of McClelland (1961), viewing entrepreneurs as energetic and moderate risk takers. Drucker (1964) placed emphasis on the entrepreneur maximizing opportunities, with Shapero (1975) viewing the entrepreneur as taking initiative and accepting the risks of failure. Karl Vesper (1980) raised the notion that economists, psychologists, businesspersons and politicians see entrepreneurs differently. Pinchot (1983) identified the intrapreneur as an entrepreneur within an already established organisation. Robert Hisrich (1985) defined entrepreneurship as the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological, and social risks, and receiving the resultant rewards of monetary and personal satisfaction.

The concept of an entrepreneur is however further refined when considered from a business, managerial and personal perspective. Hisrich *et al* (2004: 9) state that when defining entrepreneurship, most definitions talk about behaviour including initiative taking, the organisation of social and economic mechanisms to turn resources and situations to practical account and the acceptance of risk or failure. They further place emphasis on entrepreneurship being a dynamic process of creating incremental wealth. Individuals taking the risks, whilst providing value for some product or service create wealth.

Hisrich *et al* (2004: 9) define entrepreneurship as, “the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychological, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence”. This definition stresses four basic aspects of being an entrepreneur, which are that entrepreneurship:

- Involves the creation process, which has to have value to it’s target market
- Requires the devotion of the necessary time and effort
- Necessitates assuming the risks
- Delivers the rewards of being an entrepreneur.

Schaper and Volery (2004: 6) define entrepreneurship as, “the process brought about by individuals of identifying new opportunities and converting them into marketable products or services”. They highlight factors that are most commonly cited for entrepreneurship to occur, being an individual, an act, an organisation and innovation.

Kuratko and Hodgetts (2004: 3) introduce entrepreneurship as, “an integrated concept that permeates an individual’s business in an innovative manner”. Entrepreneurs are individuals who recognize opportunities, being aggressive change catalysts within the marketplace. Bygrave (1997: 2) defines an entrepreneur as, “someone who perceives an opportunity and creates an organisation to pursue it”. He further defines the entrepreneurial process as, “involving all the functions, activities, and actions associated with perceiving opportunities and creating organisations to pursue them”. Bygrave (1997) believes the new business is much more likely to be of the incremental kind, as opposed to a revolutionary creation.

Halloran (1994: 4) defines an entrepreneur on a broad basis, as “one who assumes the risk of gaining profits or incurring losses in the undertaking of commercial transactions.” This definition includes entrepreneurs from all walks of life, and it may be useful to incorporate ‘calculated’ risk to make the definition more meaningful to successful entrepreneurs.

Kao (1993: 69) defines entrepreneurship as “the process of doing something new (creation), and/or something different (innovation) for the purpose of creating wealth for the individual and adding value to society”. He defines the entrepreneur as, “a person who undertakes a wealth-creating and value-adding process, through developing ideas, assembling resources and making things happen”. Here it is recognized that entrepreneurship is a process of wealth-creation and adding value. This includes small business, but small business does not automatically make for an entrepreneurial undertaking (Kao, Kao & Kao, 2002: 42). The development of entrepreneurship; seeded in the broad application of entrepreneurship, is defined by Kao *et al* (2002: 44) as, “entrepreneurism is not just a way of conducting business; it is an ideology originating from basic human needs and desires: the need to create wealth for oneself and to add value to society. In practice, entrepreneurism can be considered as the application of ingenuity for self-interest and for the common good. This entails discovering the new, while changing, adapting and preserving the best of the old. It champions the rights of the

individual to acquire ownership through the freedom to make decisions. Although capital will always be an important factor, entrepreneurship is unlike capitalism, which facilitates capital accumulation and delivers ownership to the rich. Likewise, although the community and the good of the state are key concepts, entrepreneurship is like communism, which provokes class struggle through the revolution, taking ownership away from the individual and giving it to the state”.

Entrepreneurism is a societal orientation, whereby every individual is encouraged to be self-reliant, and an agent of creation and innovation. This spirit pervades all economic entities (Kao *et al*, 2002: 46). Zimmerer & Scarborough (1996: 3) point out that, “an entrepreneur, in the face of risk and uncertainty, combines resources in new and different ways to create value, often accomplished via the formation and development of a new business venture. Entrepreneurship is also very much alive in existing companies. It can be found in all sectors of society, not just in business”.

Lumpkin and Dess (1996: 137) refer to entrepreneurial orientation (EO) as the organisational processes, methods, styles, practices and decision-making activities employed by entrepreneurs that lead to new ventures. Contingent on environmental and organisational factors, various studies demonstrate a positive EO relationship in entrepreneurial firms (Lumpkin & Dess: 1996; Miller: 1983; Covin & Slevin: 1989). Various authors concur on OE measures. Miller (1983); Lumpkin & Dess (1996); Covin and Slevin (1989) and Wiklund (1999) regard EO measures as including:

- Proactiveness
- Innovativeness
- Risk taking.

Bolton and Thompson (2004: 16) define an entrepreneur as, “a person who habitually creates and innovates to build something of recognized value around perceived opportunities”.

The definition comprises six important elements:

- ‘a person’ who
- ‘habitually’

- ‘creates and innovates’
- ‘to build’ something of
- ‘recognised value’ around
- ‘perceived opportunities’.

They inform that ‘a person’ can also be a group of people as it is possible to describe teams and even organisations as entrepreneurial. ‘Habitually’ distinguishes entrepreneurs from owner-managers or people who build business simply to achieve a comfortable lifestyle. ‘Create and innovates’ is used to place emphasis on the entrepreneur starting something new. ‘To build something’ describes the output, whilst the words ‘habitually creates and innovates’ refer to the process. ‘Something’ means an entity that can be identified, not just an idea or a concept (despite it starting as that). ‘Of recognized value’ broadens the definition, not limiting it to commercial gain only; but including social and aesthetic capital or value. ‘Perceived opportunities’ are important as it provides direction and focus.

An important implication of this definition is the link between entrepreneurs and enterprise. Bolton and Thompson (2000: 238) believe that, “entrepreneurs are the people who possess the imagination and flexibility to ensure that there is a causal link between them and the enterprise”.

## **2.6 THE NATURE, CHARACTERISTICS AND BEHAVIOUR OF THE ENTREPRENEUR**

Entrepreneurs are all around us. They are the people who make a difference and affect the world around them. Some can be found starting new businesses that grow and prosper because the entrepreneur has identified, engaged and exploited a valuable new opportunity. But it is often entrepreneurs who drive change and develop new initiatives in larger, established corporations. Social entrepreneurs are found at work in the community sector.

Moreover, not everyone who starts a new business is, in reality, an entrepreneur. Those concerned may be enterprising, but there is a subtle difference. The world needs both, but they are different. True entrepreneurs, then, are people who habitually create and innovate to build something of recognised value around perceived opportunities. ‘Build’ implies

growth. Some start-up businesses, though, do not do or achieve anything new or different. There may be an apparently good idea that never finds many customers. The business survives at best, but often disappears. In other cases a real opportunity is identified but again a growth business does not emerge. Perhaps it is inadequately financed. Perhaps it is badly managed. Perhaps the person starting it is the wrong person to do it alone and he or she fails to recognise the vital importance of building an entrepreneurial team of people with complementary abilities. The ability to identify a good potential opportunity does not automatically guarantee a successful business, let alone a growth business, however committed the so-called entrepreneur might be.

At the same time many people have more entrepreneurial talents than they realise. They do not appreciate what they could achieve if they took ‘the first step’. They need a trigger event to set them off on their journey. If the wrong people spot an opportunity, set off and then fail to build an entrepreneurial team, their chances of survival are low. People who set off ‘by necessity’ may well find themselves being successful because they were entrepreneurs in waiting.

The key to understanding the character and potential of any person lies in those behaviours that are habitual, that come naturally and is done well. Each of us has a particular set of character themes that makes us the way we are - that means we excel in some roles but not in others. Thus a character theme is a personality attribute or characteristic that defines our normal, expected behaviour. Our set of themes forms our inner psychological core and defines the things we do most readily and instinctively. In all aspects of our lives we demonstrate our particular set of character themes in the ways we behave - we can’t help it.

The relevant character themes (Bolton & Thompson: 2003) for the entrepreneur, or entrepreneur team, invariably demonstrated by those who are successful, concern:

- Their reason for doing what they do - their motivation
- Their ability to spot, discriminate, select and prioritise opportunities
- Their ability to gather the necessary resources and to build a suitable team.

An approach towards identifying entrepreneurial orientation (Nieman *et al*, 2003: 11) is to identify certain personality characteristics or traits that appear to be possessed by

successful entrepreneurs (Deakins & Freel: 2003). This correlates with the trait approach of Gartner (2001). In the trait approach the entrepreneur is assumed to be a particular personality, whilst in behavioural approaches the entrepreneur is seen as a set of activities involved in organisation creation.

### **2.6.1 Intuition and entrepreneurial behaviour**

Allinson, Chell and Hayes (2000) proposed that entrepreneurs could be differentiated from non-entrepreneurs on the basis of intention, despite intention not always translating into entrepreneurial performance outcomes. Intuition is referred to as a person's preferred way of gathering, processing and evaluating information. They further state that owner managers are not a homogenous group and that not all owner managers are entrepreneurs. The results of their study support the notion that entrepreneurs are more intuitive than members of the general population and middle and junior managers, but in terms of cognitive style, are similar to senior managers. These findings provide empirical support in that entrepreneurs adopt an intuitive approach to information processing. This is notwithstanding the view that entrepreneurs process information differently to salaried employees. Other entrepreneurial activities highlighted by Allinson *et al* (2000: 34) include recognition of wealth-creating opportunities, judging which opportunities to pursue, persistence and non-traditional focus, impulsive synthesis, lateral reasoning and idea generators.

### **2.6.2 Behavioural traits and characteristics**

Thompson (1999: 210) informs that it has become traditional to associate entrepreneurs with certain behavioural traits and characteristics. He identifies entrepreneurs as those with initiative (Lumpkin & Dess: 1996), imagination, achievement orientation, pragmatism, independence, risk takers (Miller: 1983; Covin & Slavin: 1989), creativity, flexibility, conceptual, and see change as an opportunity (Bygrave: 1998). Thompson (1999) identifies ten key points of key research findings:

- Entrepreneurs are individuals who make a difference. Entrepreneurs transform a simple idea into an opportunity that works (Kets de Vries: 1997). These may be individuals who create new ventures or those that entrepreneurially champion

change within the organisation. They have a true vision, which stretches beyond mere ideas

- Entrepreneurship is about spotting and exploiting opportunities. Visionaries are those individuals who spot and act on opportunities that others miss. They are able to synthesise available information and clarify patterns that escape others. Two schools of thought are related in this instance to that of the entrepreneur disrupting stability with innovations (Schumpeter: 1949); and the view of creating equilibrium in an environment of instability (Kirzner: 1973)
- Entrepreneurs find the resources required to exploit opportunities. Entrepreneurship foundations are rooted in flexibility, and when resources are not ‘state-of-the-art’, entrepreneurs will select those that will perform satisfactorily. Within a systems context, the system should become increasingly knowledge-based, to support sharing and learning (Lindsay & McStay: 2004)
- Entrepreneurs add value. Sometimes instinctively, entrepreneurs adapt their offerings to the needs and wants of markets, whilst they add value through a transformation process. Value-adding requires performance measures, which is outcome-driven. Added value may be measured in many ways, which brings rewards of some form (Ostgard & Birley: 1996)
- Entrepreneurs are good networkers. This notion supports the paradigm that ideas can be found anywhere at any time, and entrepreneurs are alert to opportunities. Whilst being constrained by limited resources, the entrepreneur uses creativity, social networking and bargaining to obtain deals and activity (Perry: 2002)
- Entrepreneurs have ‘know-how’ and ‘know-who’. Gibb (1998) informs that entrepreneurs are also aware of where they can obtain the required resources (‘know where’)
- Entrepreneurs create capital. Adding value, networking and acquisition of resources constitute the entrepreneur’s intellectual capital. These attributes are used to create financial capital, social capital and aesthetic capital (Covin & Slavin: 1989)
- Entrepreneurs manage risk. Risk must be taken in context, being risks that the entrepreneur can understand and manage (Lindsay & McStay: 2004; Lumpkin & Dees: 1996). However, over-valuation of risk and avoiding downside risk may result in opportunities being missed (Miller, 1983: 771)
- Entrepreneurs are determined in the face of adversity. Elements of self-belief, determination and motivation are inherent in entrepreneurial success.

Entrepreneurs however have high faith in their own ability, often resulting in failures (in that they often believe they are infallible and can almost do anything). Successful entrepreneurs most often are able to deal with unexpected obstacles. There is a school of thought, which paradoxically, suggests that some entrepreneurs can perceive failure as the price of their success (Kets de Vries: 1997)

- Entrepreneurship involves creativity and innovation. Creativity and innovation are means whereby entrepreneurs make a difference. The creativity and innovation link is manifested in the ability of entrepreneurs to harness the potential of new technologies in turbulent environments (Lumpkin & Dess, 1996: 142).

Thompson (1999) informs that entrepreneurs and entrepreneurial activity can be found everywhere, including, but not limited to: business; the community, consisting particularly of individual initiatives, social entrepreneurship and public sector initiatives; science; theatre and the arts; sport; military service; and exploration and adventure.

A concluding remark regarding the synthesis of key research findings (Thompson: 1999) is that not all entrepreneurs succeed. There are failed entrepreneurs, some of whom disappear from sight and others who return with new ideas and ventures.

### **2.6.3 Creativity, innovation and entrepreneurship**

Successful entrepreneurs come up with ideas and then find ways to make them work to solve a problem or to fill a need (Covin & Dess: 1997). In a world that is changing faster than most of us could ever have imagined, creativity and innovation are vital to a company's success-and survival (Zimmerer & Scarborough: 1996). Creativity is the ability to develop new ideas and develop new ways of approaching problems and opportunities. Innovation is the ability to apply creativity to those problems and opportunities. Entrepreneurship is the result of a disciplined, systematic process of applying creativity and innovation to exploit opportunities in the market. Entrepreneurs are a constant source of creative ideas and innovations, and Zimmerer and Scarborough (1996) have depicted a set of 'rules' for entrepreneurs to live by: create, innovate and activate; always be on the lookout for new opportunities; keep it simple; try it, fix it, do it; shoot for the top; don't be ashamed to start small; don't fear failure; never give up; get on with it.

They went on to identify the following entrepreneurial characteristics:

- Commitment and determination
- Desire for responsibility
- Opportunity obsession
- Tolerance for risk, ambiguity, and uncertainty
- Self-confidence
- Creativity and flexibility
- Desire for immediate feedback
- High level of energy
- Motivation to excel
- Orientation to the future
- Willingness to learn from failure
- Leadership ability.

Schaper and Volery (2004) identified a behaviourist approach to studying characteristics of entrepreneurs, highlighting the following:

- Self-confidence
- Risk-taking propensity
- Flexibility
- Independence of mind
- Energy and diligence
- Hard-work ethic
- Creativity
- The need for achievement
- Internal locus of control
- Tolerance of ambiguity
- Responsiveness to suggestions
- Dynamic leadership qualities
- Initiative
- Resourcefulness
- Good communication skills
- Perseverance

- Profit-orientation
- Perception with foresight.

Amongst an almost endless list of entrepreneurial traits, Schaper and Volery (2004), in agreement with Gartner (1989), believe that only three show a high level of validity, the need for achievement, internal locus of control, and a risk-taking propensity.

Nieman and Bennett (2002: 58) identify key concepts from a number of definitions, which include identifying an opportunity; innovation and creativity; acquiring resources; creating and growing a venture; taking risks; being rewarded and managing the business.

#### **2.6.4 The entrepreneurial personality**

Deakins and Freel (2003) highlight the notion that many of the entrepreneurial characteristics are the same abilities and skills that could be applied to most successful managers, hence the difficulty to separate out specific characteristics of entrepreneurs. They do however list key competencies of successful entrepreneurs:

- Proactivity: initiative and assertiveness
- Achievement orientation: ability to see and act on opportunities
- Commitment to others
- McClelland's need for achievement
- Calculated risk-taker
- High internal locus of control
- Creativity
- Innovative
- Need for autonomy
- Ambiguity of tolerance
- Vision.

Nieman *et al* (2003: 29) also identify similar entrepreneurial characteristics, and inform that they can be acquired through life experience. Dominant characteristics include:

- Passion

- Locus of control
- Need for independence
- Need for achievement
- Risk taking and uncertainty
- Creativity and innovation
- Determination and persistence.

Criticism of the personality characteristics approach as expressed by Deakins and Freel (2003: 15):

- Inappropriate to search for a significant individual trait
- Ignores environmental factors that may be more important than personality
- Comprises an essentially static analysis approach to the dynamic process of entrepreneurship
- Ignores the role of learning, preparation and serendipity in the process of entrepreneurship.

The negative entrepreneurial characteristic of non-conformist (deviant personality) is associated with Kets de Vries (1997), being individuals who do not easily fit in with their existing environment. Timmons (2004) cited additional attributes that are more innate:

- High energy coupled with emotional stability
- Creative and innovative ability
- Conceptual ability
- Vision combined with capacity to inspire.

Deakins and Freel (2003:29) highlight the notion of attempts to develop tests on entrepreneurial characteristics which owes something to the development of theories on entrepreneurship. These include the theories of Shackle (creator), Schumpeter (innovator), Knight (calculated risk-taker), Casson (co-ordinator) and Kirzner (autonomy, internal locus of control).

Halloran (1994) outlines a four-step approach towards identifying entrepreneurial behaviour:

- Goal orientation. Only after achieving goals, does financial reward kick in as a secondary objective. Much of what entrepreneurs accomplish is through sheer determination. The late Sam Walton, founder of Wal-Mart, put it very simply as, “knowing where you want to go and being willing to do what it takes to get there”
- Creative energy. The majority of successful entrepreneurs are individuals who serve existing markets in better ways. Better ways is emphasized, not necessarily reinventing the wheel. Entrepreneurs have certain flair to the way they approach things (Lumpkin & Dees: 1996)
- Abundance of self-confidence. Making decisions requires confidence, and entrepreneurs are decision makers in their enterprises. Cognisance must be taken of the fact that entrepreneurs are not afraid of making the wrong decision. Self-confidence is evident when wrong decisions are made one day, and the individual is confident that the correct decisions will be made the next day (Miller: 1983)
- Determination. The notion of try and try again emerges. Halloran (1994: 6) states that when determination is coupled with creativity, the entrepreneur may only be successful on try number 100.

Kirby (2003) separates the literature on entrepreneurial characteristics, behavioural traits and patterns into a seven-notion framework:

- Risk-taking ability. Classical economic theory suggests that entrepreneurs are risk-takers, and by the very nature of their activities and roles in society, cannot be averse to risk. Koh's (1996) research suggests that entrepreneurially inclined individuals have higher risk scores (Miller: 1983). Busenitz (1999) indicated that entrepreneurs are more confident than managers in large organisations; and as a consequence tend to distort their perception of risk. This introduces the concept of self-confidence, which Koh (1996) believes is a prerequisite for successful entrepreneurship
- Need for achievement (nAch). McClelland (1961) suggested that entrepreneurs are highly achievement orientated, and will choose situations characterised by individual responsibility, moderate risk-taking, knowledge of results of decisions, novel instrumental activity and anticipation of future possibilities. Empirical research supporting McClelland's theory of nAch (1961) is conflicting, with many researchers suggesting that entrepreneurs do not portray significantly different

scores to others (Koh: 1996). Entrepreneurship is however a way of thinking and behaving, and entrepreneurial behaviour is not confined to single traits only

- Locus of control. Internal control individuals are those who believe achievements are dependent on personal characteristics and behaviour (Rotter: 1966). External control individuals are those who believe achievements are dependent on luck, fortune and other people's action. Whilst somewhat inconclusive (Cromie: 2000), entrepreneurs are believed to possess a high internal locus of control
- Desire for autonomy. Entrepreneurs value individualism and freedom more than others, as they have a general dislike of rules, procedures and social norms (Kirby: 2003). Cromie (2000) observes that some entrepreneurs are even deviants
- Deviancy. Entrepreneurial financial benefits and drives do not always lead to personal satisfaction and happiness, being a result of negative characteristics and drives (Kets de Vries: 1977). According to Kets de Vries (1977a: 41) an entrepreneur is "an anxious individual, a non-conformist poorly organized and not a stranger to self-destructive behaviour." As a consequence, the entrepreneur becomes a person with low self-esteem, lacks the ability to reflect critically, and who dreams of being in total control, and independent of everything and everyone. This explains the risk-taking and start-up behaviour of entrepreneurs
- Creativity and opportunism. Entrepreneurs tend to think in non-conventional ways, challenge existing assumptions, being adaptable and flexible in their problem-solving. These traits are integral to the creative process (Kirton: 1976), though some would argue that entrepreneurs are not so much creative as opportunistic (Holt: 1983). Research by Utsch and Rauch (2000) however suggest the powerful link between innovativeness and venture performance, particularly in high technology ventures
- Intuition. Entrepreneurs prefer an intuitive approach that requires synthesis and lateral thinking, rather than sequential reasoning and random methods of exploration (Kirby: 2003). Carland (1982) contested that entrepreneurs are intuitive rather than rational thinkers.

Whilst many knowledgeable in the area of entrepreneurship agree on common personal qualities and traits of successful entrepreneurs, Kuratko & Hodgetts (1992) provided the following entrepreneur profile:

- Commitment, determination and perseverance

- Drive to achieve and opportunity orientation
- Initiative and responsibility
- Persistent problem solving and seeking feedback
- Internal locus of control and tolerance to ambiguity
- Calculated risk taking
- Integrity and reliability
- Tolerance for failure
- High energy level
- Creativity and innovativeness
- Vision, self-confidence and optimism
- Independence
- Team building
- Managerial skill development for entrepreneurs.

Kuratko and Hodgetts (2004) identify managerial skill development for entrepreneurs as including marketing skills, operations/technical skills, financial skills, administrative skills, interpersonal and team skills, and knowledge of applicable law. An extensive survey on entrepreneurial traits and characteristics dates back to Gartner (1989: 36), “be aggressive, be competitive, be goal-oriented, be confident, be egocentric, make decisions, be an achiever early in life, be a loner in your final decision, put family and friends second to business, be an opportunist, do not be security-oriented, be persistent, have determination, be an optimist (to an extreme), have desire to achieve, be hyperactive mentally, be a dreamer, be a calculated risk-taker, want power, learn from previous mistakes, be a perfectionist and be intuitive”.

### **2.6.5 Comparison of entrepreneurs, intrapreneurs and traditional managers**

Intrapreneurship is entrepreneurial activity within an organisational context, receiving sanction and resource commitment for the purpose of innovative results (Kuratko & Hodgetts: 2004). The intrapreneur acts within the confines of an existing business, and is typically the intra-organisational revolutionary- challenging the status quo and fighting to change the system from within (Nieman *et al*, 2003: 347). Corporate entrepreneurship or intrapreneurship, is a term used to describe entrepreneurial behaviour inside established mid-sized and large organisations (Morris & Kuratko, 31: 2002). Management is the process of planning, organizing, leading and controlling resources to achieve goals

(Schermerhorn: 2002). Many of the characteristics of entrepreneurship are similar to those of the intrapreneur, since both are associated with focus on innovation; focus on creation of value-added and risk-taking activities. Differences are however that entrepreneurship is developmental whilst intrapreneurship is restorative; entrepreneurs overcome obstacles in the market, intrapreneurs overcome corporate obstacles; funding is usually a major entrepreneurial constraint, not so considerable with intrapreneurship.

Table 2.2 identifies key characteristic comparisons between entrepreneurs, intrapreneurs and traditional managers. Cognisance must however be taken that one individual may share characteristics between manager, intrapreneur and entrepreneur. Distinguishing traits will however be identified (Bolton & Thompson: 2004). Traditional practices compared to entrepreneurial approaches are highlighted in Table 2.3. The two tables complement each other, in that the former looks at the ‘person’, whilst the latter looks at approaches and practices. Table 2.3 is represented on the following page.

**TABLE 2.2 Comparison of entrepreneurs, intrapreneurs and traditional managers**

	<b>Managers</b>	<b>Entrepreneurs</b>	<b>Intrapreneurs</b>
Primary motives	Promotion and other traditional corporate rewards such as office, staff and power	Independence, opportunity to create, and money	Independence and ability to advance in the organisation Rewards
Time orientation	Short-term –meeting quotas and budgets, weekly, monthly, quarterly, and the annual planning horizon	Survival and achieving 5-10 year growth of business	Between entrepreneurial and traditional managers, depending on urgency to meet self-imposed and corporate timetable
Activity	Delegates and supervises more than direct involvement	Direct involvement	Direct involvement more than delegation
Risk	Careful	Moderate risk taker	Moderate risk taker
Status	Concerned about status symbols	No concern about status symbols	Not concerned about traditional status symbols- desires independence
Failure and mistakes	Tries to avoid mistakes and surprises	Deals with mistakes and failures	Attempts to hide risky projects from view until ready
Decisions	Usually agrees with those in upper management positions	Follows dream with decisions	Able to get others to agree to help achieve dream
Who serves	Others	Self and customers	Self, customers and sponsors
Family	Family members worked for large organisations	Entrepreneurial, small-business, professional or farm background	Entrepreneurial, small-business, professional or farm background
Relations	Hierarchy as basic relationship	Transactions and deal-making as basic relations	Transaction within hierarchy

Source: Hisrich & Peters (1998: 47)

A point of view of Kao *et al* (2002: 40) is that a previously unmentioned (in this study) term of ‘interpreneurship’ concerns how the entrepreneurial environment and activities are found in family businesses. Whilst managed by family members, there is expected to be a continuing entrepreneurial drive inherited from the founders of the business. In the context of the franchise system, this interpreneurial orientation exists in many organisations. A South African example is that of Famous Brands (formerly Steers Holdings), whereby the founders are part of the Halamandres family, and the current Chairman, Peter Halamandares (note surname difference) being an entrepreneurial family member.

Kao *et al* (2002: 18) inform that entrepreneurship focuses on people, the environment and promoting sustainable growth. It differs from traditional management in the fundamentals of management philosophy, and thereby in the process as well. Table 2.3 summarizes the differences of business management practices in respect to a traditional versus an entrepreneurial approach.

**TABLE 2.3 Relative differences between traditional management practice and entrepreneurial approach to business management**

<b>Management Practice</b>	<b>Traditional</b>	<b>Entrepreneurial</b>
Economic system	Market economy: capitalistic	Market economy: entrepreneurial
Ownership	Private ownership. Capital accumulation and ownership augmentation.	Individual ownership. Enterprise creation, personal dedication and pursuit of entrepreneurial value.
Value system	Individuals benefit from the harvest of their efforts. Satisfy consumer needs (sometimes generated through advertising).	Individuals create wealth for themselves and add value to society. Concern for the common good.
Business culture	Maximization, guided by marginal theory. System approach.	Optimization, guided by personal belief. Judgement approach. Self-reliant wherever and whenever feasible.
Mode of managing	Serving investors’ needs for return on investment. Market driven.	Driven by entrepreneurial need to create and innovate.
Rules for managing	Management separate from ownership. Employees serve the interest of capital investors.	All individuals assume decision-making responsibility. Individuals perceived as stakeholders, with or without capital investment.
The goal of the business entity	To make money.	Re-invest for development and growth.
Management practice decision guide	Maximization principle.	Optimisation principle.
Attitude toward resources	Resources are for exploitation.	Resources are limited. Consideration of future generations.

Table 2.3 continued

Attitude towards the environment	Satisfaction of legal responsibilities.	Satisfaction of moral responsibilities.
Attitude toward people	A replaceable and manageable resource.	The source of innovation and creativity. They make or break the business.
Attitude toward innovation and creativity	ROI comes first	Improvement through innovation.
Attitude toward risk	No risk no loss.	No risk no gain.
Profit computation	Deduct all costs from revenue (accounting method).	Residual, taking into account opportunity cost and cost to environment.
Profit distribution	To shareholders, with bonuses to top executives.	Residual, to shareholders.
Individual's remuneration	Contractual agreement through collective bargaining between the firm and its employees.	Conciliatory, possibly with worker participation in management.
The role of the government	The less the better.	Responsible for matters of the common good, where the market system cannot serve public interest.
Education	Professionalism and specialization. Serve corporate interests.	Develop creativity and independent thought.
Profession and professionals	Uphold professional standards.	Manage professionally, but without professional managers.
Human resources management	Employment based on short term contracts. Good soldiers.	Relationships built on mutual loyalty. Risk takers.
Human resource performance	Judged by superiors.	Judged in the marketplace.
Attitude toward the presence of opportunity	Cost and benefit analysis.	Make it happen.
Deal with crisis	Seek responsibility. Investigative approach.	Resolve crisis. Fire fighter's approach.
Action orientation	There are always more opportunities.	Seize the day.
Tasks	Problem solving.	Identify and pursue opportunities.
The bottom line	Accounting profit and ROI attainment.	Sustainable growth and tasks accomplished.

Source: Kao, Kao and Kao (2002: 19-21)

Nieman *et al* (2003: 349) identify key roles that must be performed for intrapreneurship to occur successfully:

- Initiation, being the trigger of the entrepreneurial event
- Facilitation, playing an advisory or mentoring role
- Managing, taking the lead towards implementation.

To bring the entrepreneurial concept to fruition (in an intrapreneurship context), Nieman *et al* (2003: 350) include additional constructs of research, strategy, invention, leading, endorsing, team, resourcefulness, problem solving, coordination, negotiation, politics, change management opportunity and judgement. They regard creativity as a requirement to develop business concepts.

## 2.6.6 Entrepreneurial synthesis (three factors)

Bolton and Thompson (2004) provide an apt synthesis regarding the main conclusions about entrepreneurs and entrepreneurship, based on several people who have studied the subject. They group their findings into three sections, identified below.

### 2.6.6.1 What entrepreneurs are like: the personality factors

Butler and McManus (1998) inform that studies and research into what we do, why we are often alike, yet so different are questions that psychologists have been studying for some time. Bolton and Thompson (2004) identify four main themes:

- Motivation and emotion
- The born or made debate
- Behavioural characteristics
- Personality attributes.

McClelland (1961) looked at the psychological and social elements that drove economic development. He linked motivation of individuals as a crucial factor, linking it to the need for achievement, the need for power and need for affiliation. Thematic Apperception Tests (TAT) concluded that entrepreneurs had a high need for achievement; however, despite being an important finding, a high need for achievement would not necessarily make good entrepreneurs. Competitiveness, a well recognized motivation factor, has received little attention regarding entrepreneurs, as a character trait of successful entrepreneurs. The entrepreneur's ultimate motivator is however striving towards independence, developing their own ideas without having to answer to others (Roberts: 1991).

The born or made debate raises the question of whether entrepreneurs are a product of nature or nurture. Personality is understood to have an inborn (inherited) and an environmental component, hence, the conclusion that entrepreneurs are both born and made. Contrary to the findings of psychologists sharing this view, Burns and Dewhurst: 1989) are of the opinion that entrepreneurs are 'made'. Kuratko and Hodgetts (2004) however say that it is a myth of entrepreneurship that entrepreneurs are born and not

made. They state that entrepreneurship is a discipline that can be taught and mastered like any other.

Behavioural characteristics have received much attention from researchers over the years. Hornaday (1982) compiled a list of forty-two characteristics including perseverance and determination; need to achieve; creativity; independence; honesty and integrity; orientation to clear goals; initiative and taking responsibility; and ability to take calculated risks. The list, albeit rather long, surprisingly excluded opportunity orientation persistent problem-solving and internal locus of control, identified by Kuratko and Hodgetts (1992; 2004). Honesty and integrity may be doubtful to some, as entrepreneurs are often associated with taking of opportunities without too much thought as to the consequences of others. Entrepreneurs are however networkers who most often rely upon trust, highlighting the fast emerging ethical component of entrepreneurial education.

Personality attributes have been studied extensively and a wide range of tests are available to measure them. Examples of such tests, termed 'psychometric testing', are the Cattell sixteen personality factors (PF); and the Myers-Briggs Type Indicator (MBTI). Roberts (1991) conducted research on seventy-three people, with about two-thirds of the sample known to be entrepreneurs (all were however interested in entrepreneurship). His research highlighted personality traits of extroversion (E), intuition (N), thinking (T) and perceiving (P). Whilst this test does not point to a definable entrepreneurial personality, other associated tests, including judging (J) and sensation (S) may be used for start-up programmes.

#### 2.6.6.2 Where entrepreneurs come from: the environmental factors

Entrepreneurs' roots and surrounding influences are highlighted. The environmental factors mould the entrepreneur, and are generally 'static' in nature. This excludes 'dynamic' environmental factors such as redundancy and other changing circumstances. Bolton and Thompson (2000) group this category into three sections; family background; education and age; and work experience.

Family background has an influence on the entrepreneurial heritage, an idea developed by Roberts (1991) to describe the importance of family background for the entrepreneur. He identified many family influences, the father's career being the strongest of the influences

on entrepreneurship. Research has indicated that if entrepreneurial activity dominated the household, it was most likely that this would be conveyed to offspring (Hisrich: 1990; Timmins: 1986; Hisrich & Brush: 1984). A disproportionate number of entrepreneurs are the sons and daughters of entrepreneurs (Roberts: 1991). However, whilst these family influences can be important they are by no means deciding factors.

Education and age appear to have no relevance to entrepreneurial activity, with the only notion that the entrepreneur is likely to do it sooner rather than later. This is in agreement with Larson and Rogers (1986) who have experienced and studied the Silicon Valley story, whereby they concluded that, “anybody, even an eleven-year-old, can become an entrepreneur”.

Regarding work experience, studies have shown that ninety-per cent of entrepreneurs start their own business in similar markets/industries to those they are working in (Brockhaus: 1982). It is also well known that entrepreneurs process through the ‘university of life’ or ‘the school of hard knocks’, as this is what develops their entrepreneurial nature.

#### 2.6.6.3 What entrepreneurs do: the action factors

Bolton and Thompson (2004) examine ten key roles associated with entrepreneurs and entrepreneurship, regardless of the context:

- Entrepreneurs are individuals who make a significant difference (Nieman *et al*: 2003: 16)
- Entrepreneurs are creative and innovative (Lumpkin & Dess, 1996: 142)
- Entrepreneurs spot and exploit opportunities (Covin & Dess: 1997)
- Entrepreneurs find the resources required to spot opportunities (Nieman *et al*: 2003: 9)
- Entrepreneurs are good networkers (Nieman *et al*: 2003: 19)
- Entrepreneurs are determined in the face of adversity (Nieman *et al*: 2003: 17)
- Entrepreneurs manage risk (Miller: 1983; Deakes & Freel, 2003: 69)
- Entrepreneurs have control of the business (Nieman *et al*: 2004: 48)
- Entrepreneurs put the customer first (Nieman *et al*: 2003: 18)
- Entrepreneurs create capital (Acs *et al*: 2005).

Entrepreneurs transform a simple, ill-defined idea into a workable solution (Kets de Vries: 1997). They disturb the status quo, initiating change whilst enjoying what they do. The other factors listed by Bolton and Thompson (2004) all contribute towards entrepreneurs making a significant difference. Creativity and innovation are distinguishing foundations of entrepreneurship. True entrepreneurship may take the premise that the best way to the future is to invent it (George Bernard Shaw, *Man and Superman*, Act IV). The entrepreneur thrives on chaos (Peters: 1989). Creativity entails seeking new ways of doing things, being a continuous activity. Innovation is to create a new idea, and make it work in practice.

Entrepreneurs often see or craft opportunities that others miss, being comfortable with ambiguity. The entrepreneur is the person who exploits the opportunity (Nieman *et al.*: 2003) and turns it into a reality. Limited resources do not put off entrepreneurs; they make it their business to exploit all resources available (Lindsay & McStay: 2004). Entrepreneurs are able to timeously locate required resources via networking capabilities. Larson and Rogers (1986) identified the close networks that characterize Silicon Valley, giving the region an advantage over other areas. Entrepreneurs are motivated to succeed, with high levels of determination and self-belief. In times of adversity, entrepreneurs use their creative and innovative skills to overcome hurdles.

The words of Mark Twain best describe the entrepreneur's view on managing risk; there are two times in a man's life when he should not speculate – when he cannot afford it – and when he can. Entrepreneurs certainly do take risks, but risks they understand and can afford. Whilst not being risk averse, they are willing to accept responsibility for their decisions.

In evaluating the state of their business, entrepreneurs vary in style; however, they do know the state of their business and have a tendency to spot the issues that really matter (Williams: 1994). There is a direct link between entrepreneurship and customer retention; with entrepreneurs being able and willing to respond to what customers are telling them (Bolton & Thompson: 2004). Entrepreneurs create not only financial capital, but also social and aesthetic capital.

The entrepreneurial process consists of the ten key roles identified by Bolton and Thompson (2004), condensing the action factors into two distinct stages:

- Spotting the opportunity
- Project championing the opportunity (Nieman *et al.*: 2004).

The opportunity spotter is the enterprising person who realizes and seizes the opportunity. The interests and values of the opportunity spotter and the personal environment affect the direction of the venture or project. The project champion is the person who makes things happen. Differentiating small business from entrepreneurs, small-business people spot an opportunity, and choose to exploit it – but essentially that is where it stops. The opportunity does not have real growth potential, and they are not regarded as true project champions. Nor do they behave habitually to keep finding further new opportunities. Managers who champion change in larger organisations are often project champions, acting on behalf of the organisation. When encouraged to come up with new ideas and see them through to fruition, they are referred to as internal entrepreneurs, or intrapreneurs (Hisrich & Peters: 2004).

### **2.6.7 Entrepreneurial talent, temperament and technique**

Towards profiling the entrepreneur, a five-phase explanation is required. This commences with identifying the entrepreneur amongst others; linking talent, temperament and technique; Gallup's 'life themes'; Gallup's 'entrepreneurial perceiver' interview; towards a profile of the entrepreneur; and the well of talent (Bolton & Thompson: 2004).

#### **2.6.7.1 The entrepreneur among others**

“What is special about the entrepreneur is the possession of a range of talents and a temperament profile that together with a specific skill set enables an individual to create and innovate to build something of recognized value” (Bolton & Thompson, 2000: 31). Each individual has a grouping of different talents and temperaments; which together with techniques that are learned enable the fulfilment of a particular role, such as entrepreneur, inventor or leader.

Table 2.4 on the following page; breaks the three elements of talent, temperament and technique into some of their constituent parts. It can be seen that whilst the entrepreneur possesses all these characteristics to some degree the others only possess some of them (Bolton & Thompson: 2003). The true entrepreneur, like the the inventor, has creative

talent, whereas the leader typically has little or none. Similarly, the temperament that is high on urgency differentiates the leader from the entrepreneur and inventor, where urgency is an important characteristic of a leader. It must however be noted that environmental influences may alter a set state, such as in hostile situations. In such cases, the entrepreneur may accommodate uncharacteristic behaviour of courage.

**TABLE 2.4 The entrepreneur among others**

Element	The entrepreneur	'Entrepreneurial' behaviour	The inventor	The leader
Talent	Creativity	Yes	Yes	Probably not
	Opportunity	Yes	Yes	Possibly
	Courage	No	Possibly	Yes
Temperament	Urgency	No	No	Yes
	Risk-taking	Yes	No	Possibly
	Ego drive	Possibly	Possibly	Yes
Technique	Finance skills	No	No	Possibly
	Planning skills	No	No	Yes
	Personal skills	No	No	Yes

Source: Bolton and Thompson (2000: 31)

#### 2.6.7.2 Linking talent, temperament and technique

Talent is described as an innate ability, characterised by strength, expertise and exceptional abilities (Woods: 1998). Temperament can be defined in terms of moods that typify our emotional life (Goleman: 1996), our emotional landscape (Whybrow: 1999) and 'highways through the brain' (Buckingham & Coffman: 1999) that are formed as one grows up in the environment and experiences, but relate to a genetic template. Both talent and temperament are inborn, but talent has the potential to develop. The role of technique is to train talent and temperament so that both are enhanced to achieve the desired outcomes.

To clarify which elements of talent, technique and temperament are most commonly associated with successful entrepreneurs; towards identifying an entrepreneur's profile, Gallup's life themes analysis provides a valuable and robust framework for accomplishing this.

### 2.6.7.3 Gallup's 'life themes'

Gallup uses the term 'life theme' for talent which he describes as a 'person's innate behaviour, thoughts and feelings' (Garret: 1998). It may also be reviewed as a consistent pattern of behaviour. Gallup places emphasis on excellence, being the capacity for recurrent high levels of performance. Gallup works out life themes for particular roles by using focus groups made up of prominent achievers in the applicable role. Each role is identified as having its own life themes, and excellence is achieved in a role by individuals who possess some but not all of these themes to an exceptional degree. The leadership role for example has twenty distinct life themes, made up of unsuppressible themes, habitual themes, and themes achievable with effort. Buckingham and Coffman (1999) have summarised the work of Gallup (SRI) over the last twenty-five years, and use the word talent when referring to themes. They in turn group the talents into three basic categories:

- Striving talents, explaining the why of a person
- Thinking talents, explaining the how of a person
- Relating talents, explaining the who of a person.

A selection of Gallup's life themes, are identified by grouping. Striving talents (six selected from eleven) include achiever, competition, belief, mission, service and vision. Thinking talents (seven selected from fourteen) include focus, responsibility, performance orientation, strategic thinking, problem-solving, formulation and creativity. Relating talents (seven selected from fourteen) include woo, multirelator, interpersonal, individual perception, team, activator and courage.

### 2.6.7.4 Gallup's 'entrepreneur-perceiver' interview

Twelve life themes of the entrepreneur were identified by SRI (1986) from a series of focus groups and interviews with successful entrepreneurs. In practice many of these themes should not be seen in isolation, for example, courage and focus come together so that the entrepreneur can target an outcome with confidence and accuracy. Similarly, creativity and focus are combined. As with the general Gallup approach; the successful entrepreneur will possess only some of these life themes to an exceptional degree (different for each entrepreneur); hence the diversity amongst entrepreneurs. This again

brings the inter-connectivity of life themes into context of opportunity spotting (creating ideas and going for opportunities) and project championing (building support and doing). Table 2.5 depicts these entrepreneurial themes identified, with themes from the striving, thinking and relating talents represented with an asterix.

**TABLE 2.5 The original Gallup entrepreneurial themes**

<b>Entrepreneurial life themes</b>	<b>Summary description</b>
1. Dedication	Consumed by a goal or purpose
2. Focus*	Discriminates and targets
3. Profit orientation	Advantage focused
4. Ego drive	Wants to make a recognized difference
5. Urgency	No time to waste, must take action now
6. Courage*	Determined in the face of adversity
7. Activator*	Wants to make it happen
8. Opportunity	Sees possibilities not problems
9. Creativity*	Buzzing with ideas
10. Expertise orientation	Knows own limits and finds experts
11. Team	Gets the right people together
12. Individual perception*	Sees and uses strengths in others

Source: Bolton and Thompson (2000: 37)

#### 2.6.7.5 Towards a profile of the entrepreneur: talent, temperament and technique

The Gallup/SRI ‘entrepreneurial perceiver’ has eighty-four questions in all, representing seven questions across each of the twelve themes (Table 2.5). Bolton and Thompson (2000) analysed these questions, cross tabulating and correlating them to the talent, temperament and technique themes. Whilst many questions correlated across themes, 30 per cent correlated to talent; temperament aspects in 70 per cent and technique in less than 15 per cent. Table 2.6 depicts Bolton and Thompson’s (2000) preferred list of life themes to those already identified for the entrepreneur. To reduce the list to a more manageable size, relevant themes have been grouped, for example, creativity, formulation and problem-solving under creativity.

Their work with the themes continues, constructing a new questionnaire to identify strengths in each of the areas. The next phase is re-introducing the earlier distinction between the opportunity-spotter, the project champion and the entrepreneur.

Table 2.6 is depicted on the following page.

**TABLE 2.6 Profiling the entrepreneur**

<b>Element</b>	<b>Entrepreneurial Themes</b>	<b>Summary Themes</b>
Talent (abilities both thinking and emotional)	Creativity Formulation Problem-solving Courage Focus Opportunity-spotting Team Individual perception Expertise orientation Networker Advantage orientation Resourcing	}Creativity  Courage Focus Opportunity-spotting  }Team  Networker Advantage orientation Resourcing
Temperament	Competition Desire Urgency Opportunity-taking Performance orientation Responsibility	Competition  }Urgency Opportunity-taking Performance orientation Responsibility
	Ego drive Mission Activator Dedication	Ego drive Mission Activator Dedication

Source: Bolton and Thompson (2003: 41)

Opportunity spotters are typically creative, whilst project champions are typically focused and strategic. Whilst the opportunity-spotter opens the window of opportunity, project-champions are able to grasp and enact the opportunity (Bolton & Thompson: 2000). Table 2.6 takes the twenty-two life themes to profile the entrepreneur and re-presents them in the context of opportunity-spotting and project-championing. Some themes are common to both. More life themes are associated with the project champion, indicative of the significant contribution of the entrepreneur that builds something distinctive and valuable. The opportunity spotter and project champion is depicted in relation to talent, temperament and technique in Table 2.7. The table is represented on the following page.

**TABLE 2.7 The opportunity-spotter and the project champion: talent, temperament and technique**

	<b>Talent</b>	<b>Temperament</b>	<b>Technique</b>
Opportunity-spotting (being able to see and grasp the opportunity)	Creativity Formulation Opportunity-spotting	Mission	Techniques to develop talent
Project-championing (being able to grow something)	Problem-solving Courage Focus Team Expertise orientation Advantage orientation Individualized perception Resourcing	Competition Desire Urgency Opportunity-taking Performance orientation Ego drive	Techniques for managing temperament
Themes common to both	Networker	Responsibility Activator Dedication	Experience Skill set

Source: Bolton and Thompson (2000: 43)

#### 2.6.7.6 The well of talent

Bolton and Thompson (2003) liken the talent of various levels to a ‘well of talent’; with talents buried at depths according to how difficult they are to get and exploit. The talents are depicted below in descending order, that is, the inventor talent is the most deeply buried of all the talents, with the follower talent the least buried. Between the follower and inventor are managers, some of who may be enterprising, project champions, leaders and entrepreneurs. As such, inventor talent, followed by entrepreneurial talent, are the most difficult to exploit:

- Followers
- Operational managers
- Enterprising managers
- Project champions
- Leaders
- Entrepreneurs
- Inventors.

## 2.6.8 The entrepreneur's character themes

Bolton and Thompson (2003) went on to develop the FACETS model, representing entrepreneurial character themes. This was based upon the foundations of the talent, temperament and technique paradigm (Bolton & Thompson, 2000). The entrepreneur has six main character themes, being the reason why entrepreneurs are what they are, and do what they do:

- F for Focus
- A for Advantage
- C for Creativity
- E for Ego
- T for Team
- S for Social.

Analysing the mix, number and relative strength of the themes determine the proportional measures of business or social entrepreneurship. Often referred to as the 'face' of the entrepreneur; the Focus, Advantage, Creativity and Ego facets are found in all entrepreneurs. It is what we see when looking at an entrepreneur, being the entrepreneur's character theme set. Successful entrepreneurs require aptitude and ability in these four facets. The facets of team and social supplement the basic entrepreneur profile, and create some important differences. The Team facet is predominantly responsible for growth potential of the business or venture.

### 2.6.8.1 Entrepreneurs, managers and leaders

Some of the facets are shared. The Focus facet for example, is shared with the manager, and both the Focus and Team facets, with the leader. It is thus possible to have an entrepreneurial manager or an entrepreneurial leader. Table 2.8 identifies role identification amongst the three classifications. The table is represented on the following page.

**TABLE 2.8 Role identification of entrepreneurs, managers and leaders**

<b>The entrepreneur</b>	<b>The manager</b>	<b>The leader</b>
has fun	manages	leads
innovates	administers	innovates
creates	maintains	develops
focuses on the business	focuses on systems	focuses on people
builds a team	relies on control	inspires trust
sees opportunities	sees problems	sees the future
asks how and when	asks how and when	asks what and why
acts short term	acts short term	thinks long term
does the right things	does things right	uses influence

Source: Bolton and Thompson (2003: 74)

### 2.6.8.2 Talent, temperament and technique

Bolton and Thompson (2003) link talent, temperament and technique with the facets of the entrepreneur. Talent is represented in the facets of Focus, Advantage, Creativity and Team. These facets are inborn, we either have them or we don't. Temperament is linked to the facets of Ego and Social. These facets are both inborn and acquired, being a case of nature and nurture. All the facets can be enhanced and developed by the learning and application of techniques.

### 2.6.8.3 Focus

The entrepreneur requires the ability to concentrate for long periods and to be dedicated to the end objective. Three shades of focus are depicted, target focus, time focus and action focus. Target focus refers to the ability to concentrate on what is important, and not be distracted by other influences. Characteristics include perseverance and single-mindedness. The project champion is strong on target focus and discriminates between triviality and importance. Time focus reflects upon urgency, and getting things done within certain time constraints. Some entrepreneurs live on a knife-edge when time focus becomes a mania (Kirby: 2003). People weak on this shade will procrastinate, which is not a characteristic of the entrepreneur. Action focus is allied to energy and getting things done. The downside is impatience, which could lead to all sorts of problems. Entrepreneurs are considered to be doers rather than thinkers (Hisrich & Peters: 1998).

#### 2.6.8.4 Advantage

Due to being advantage-oriented, entrepreneurs create economic, social and aesthetic capital. They see the advantage in a course of action, and make it happen. Without a strong advantage facet, the entrepreneur will find it difficult to focus (Bolton & Thompson, 2003: 89). The advantage facet centralises opportunity selection, and radiates four elements. These consist of benefit orientation, performance orientation, resourcing and vision. Opportunity selection incorporates spotting, selecting and targeting opportunities. Selecting the right opportunity at the right time is pivotal to the Advantage facet. Benefit orientation goes hand in hand with profit orientation. A major aspect of benefit orientation is the ability to select and get the right deal. Performance orientation is likened to achieving budgets, hence the importance for the corporate entrepreneur. Being high on performance orientation, the entrepreneur aims for personal advantage rather than advantage to the company. Resourcing is managing scarcity, and the entrepreneur does not see resources as a barrier. Entrepreneurs find ways of limiting resourcing problems, often turning them into opportunities- an example of the combination of Creative and Advantage facets. Vision reflects on the way entrepreneurs see things, and combined with the Advantage facet; see the future in new ways. They use these insights to gain advantage.

#### 2.6.8.5 Creativity

Creativity may be triggered by a problem to solve; the answer can come in a moment of insight; there is delight and excitement in finding the answer; and creativity needs the right environment (inventors and scientists are still having their Eureka moments). Creativity is referred to as a servant talent, expressing itself through other talents (Bolton & Thompson: 2003). Creativity fuels the other facets, provides the opportunities, whilst Advantage selects, and Focus delivers. The creativity facet, being ideas, opportunities and solutions, provides three important outputs. Ideas span across many disciplines, and those entrepreneurs strong on ideas will have some of the characteristics of the inventor. The downfalls are that many ideas are out-dated and that most ideas are impractical or have limited commercial value. Entrepreneurs thrive on opportunities, many of which their Creativity facet has revealed. Opportunities differentiate the entrepreneur from the inventor. An opportunity is one step up from an idea, and can be classified and analysed.

Solutions and problem solving go hand in hand, with solutions being the output of creative ability. Solutions are an indispensable element of the Creativity facet.

#### 2.6.8.6 Ego

The Ego facet provides the temperament to align the Focus, Advantage, Creativity and Team facets to build something of recognised value. A strong Ego facet is important to the entrepreneur, and without it, talent is simply wasted. Bolton and Thompson (2003) divide the Ego facet into two shades, the inner and outer shades. The inner shade explains the entrepreneur on the inside, whilst the outer shade explains how the entrepreneur deals with the outside. The inner shade is made up of self-assurance, dedication and motivation. The outer shade is made up of responsibility, accountability and courage. The outer group all come from the entrepreneur's locus of control, a key entrepreneurial characteristic. Self-assurance is a key attribute, meaning the inner confidence in one's own abilities and values (Nieman *et al*, 2003: 17). This goes hand in hand with confidence (Schaper & Volery, 2004: 35). Dedication refers to the passion that affects what people do, and many entrepreneurs have used dedication to the customer as their competitive advantage. Motivation is a strong trait seen in entrepreneurs, being self-starters, achieving, winning, and proving something (Hisrich *et al*: 2004). The main motivation behind entrepreneurs is their need for independence, followed by the challenge of the task (Morris & Kuratko: 2002). Making money is not a primary motivator, despite being a distinct measure of achievement (Bygrave: 1997).

Those with an external locus of control expect others to take control for them. Entrepreneurs have an internal locus of control. Responsibility follows directly from the locus of control, being willingness to take responsibility for one's actions. This personality characteristic usually shines through in entrepreneurs. Accountability reflects on personal accountability of all aspects of entrepreneurial activity, taking responsibility one-step further. Courage is the most important of the external shade of the Ego facet, as it is what gets the entrepreneur started. Three strands are identified in entrepreneurs; the courage to confront situations, the courage to face reality, and the courage to stand by your beliefs. Courage faces up to problems, whilst creativity finds solutions. Courage to deal with emotions is of a higher order than courage associated with general business issues.

#### 2.6.8.7 Team

Whilst deciding on what type of entrepreneur a person is, the Team facet is optional for the entrepreneur. With a strong team facet, the entrepreneur is able to create social capital as well. The Team facet is seen as being a multiplier facet, as it enables the entrepreneur to multiply their effectiveness (Bolton & Thompson: 2003). This is done in two ways. Team members can either build upon facet strengths missing in the entrepreneur, or expand the business in a way that is not possible alone.

The Team facet has four elements, but it is the combination of these elements that really makes the differences. Elements consist of picking good people, working through a team, using experts-the extended team, and networking. Entrepreneurs and leaders benefit from a strong Team facet. Leaders however have two elements of their own. Gathering followers and empowering others. Linked with the ability to pick good people, working through a team produces a powerful combination. An added social dimension can be achieved in working through a team. When using experts, communication problems may occur, as these specialists have a different mindset to that of the entrepreneur. Despite this, their specialisation (such as accountants, lawyers) usually adds advantage to the entrepreneur, specifically when the entrepreneur is incompetent in that speciality or discipline. Entrepreneurs who are strong in picking good people and using experts have an ideal combination. Networking is usually the strongest element in the entrepreneur's Team facet. Networking contributes towards finding the right people and experts, notwithstanding valuable publicity opportunities. Empowering others is characteristic of the leader, despite the entrepreneurial trait of working through others (Nel *et al*: 2004).

#### 2.6.8.8 Social

Whilst not essential, most entrepreneurs have the Social facet present to some degree. Entrepreneurs with a Social facet create social capital by meeting challenging social needs, making the world a better place for all. The need for commercial viability will always be difficult to accept if the entrepreneur's Social facet dominates the other facets. Some social entrepreneurs do not succeed (finance capital) because the profit versus social need conflict is not resolved (Morris & Kuratko: 2002). Nieman *et al* (2003: 39) inform that a major problem with social entrepreneurs is finding start-up capital. The Social facet depicts four building blocks; belief, values, mission and service to others.

The Social facet demands all these elements; they cannot be taken alone (as in the other facets).

The transition from belief to values is the first dividing line between business and social entrepreneurs (Morris & Kuratko: 2002). Although business entrepreneurs see usefulness in values and ethics, the social entrepreneur accepts these naturally. The entrepreneur is socially minded by adopting values and beliefs, but will only be a true social entrepreneur when moving up to mission (Kuratko & Hodgetts: 2004). Mission is about finding a cause through which belief and values can be channelled (Bolton & Thompson: 2003). Service to others is part of the motivation of the social entrepreneur. Needs are identified as opportunities to the social entrepreneur, but these needs are centred on others rather than themselves.

Table 2.9 summarizes the Facets approach to entrepreneurial character themes, together with talent, temperament and technique. The facets may be developed by enhancement and development techniques.

**TABLE 2.9 Facets approach to character themes**

Facet	Elements	Talent/Temperament
Focus	action focus time focus target focus	
Advantage (Central theme of opportunity selection)	benefit orientation performance orientation resourcing vision	Talent creativity courage focus
Creativity	ideas opportunities solutions	opportunity-spotting team
Team	picking good people working through a team using experts-the extended team networking	networker advantage-orientation
Ego Inner Group	self-assurance dedication motivation	Temperament competition urgency
Outer Group	responsibility accountability courage	opportunity-taking performance-orientation responsibility
Social	belief values mission service to others	ego-drive mission activator dedication

Source: Bolton and Thompson (2003: 142)

## 2.6.9 Application of the facets

Four key points are identified regarding the application of the facets (Bolton & Thompson: 2003). These relate to facets interaction; the entrepreneur and the leader; risk and extreme presence of facets. The ideal is for all the facets to have the same strong presence, however, not too dominant over other facets. Neither absent nor extreme facet presence is ideal, highlighted in Table 2.10.

**TABLE 2.10 Entrepreneurial character themes**

<b>Absent</b>	<b>Visible</b>	<b>Extreme</b>
Random	Focus	Tunnel vision
Switched off	Advantage	Ruthless
Unimaginative	Creativity	Over-imaginative
Purposeless	Ego	Self-deluded
Individualistic/Independent	Team	Abdicated responsibility
Self-centered	Social	Fanatical

Source: Bolton and Thompson (2003: 156)

Bolton and Thompson (2003) use a ten-point scale for measuring the facets. Scores between 8 and 10 are indicative of an entrepreneurial orientation, whilst the enterprising person has a lower score but is still average or above.

### 2.6.9.1 Facets interaction

Synergy is affected when the facets are balanced in a supportive manner. An entrepreneurial characteristic of creating something out of nothing is a result of Creativity, Advantage and Focus facets working together. Successful entrepreneurs never take advantage of all the opportunities; however, the indiscriminate entrepreneur is tempted by all the opportunities. When too many opportunities are spotted, Advantage and Creativity work against Focus. When the entrepreneur really wants to make a difference, Ego may prove to be a problem, countering Focus. Social entrepreneurs often encounter situations where they do more and more to help. Priorities in this case will become confused if Advantage and Focus are not working well together. Team interacts well with the other facets, if that Team is non-existent, the entrepreneur will not have time to exploit opportunities. The Ego and Team facets often have conflict, representing groups and independence.

### 2.6.9.2 The entrepreneur and the leader

The facets identified some overlaps and distinguishing differences between the entrepreneur and leader (identified in Table 2.11). Dependency on trust is depicted in italics.

**TABLE 2.11 Character themes of the entrepreneur and leader**

<b>Character themes specific to the entrepreneur</b>	<b>Character themes shared by the entrepreneur and the leader</b>	<b>Character themes specific to the leader</b>
Creativity Advantage	Focus Ego Team Social	strategic visioning <i>envisioning</i> <i>empowering</i> <i>influencing</i>

Source: Bolton and Thompson (2003: 161)

Creativity and Advantage are character themes essential for the entrepreneur, and not normally associated with the leader. Focus discriminates and grasps the opportunity, and Ego, together with sub-themes (courage, dedication and responsibility) is shared by entrepreneur and leader, as is Team. Networking is more important for leaders, but not as prominent in entrepreneurs.

Four character themes are identified for the leader that does not define the entrepreneur. Strategies are a means to an end, consisting of a range of activities, competition in areas of activity, integration of activities, and how the organisation will manage change and implement strategies. Strategic positioning is closely related to the entrepreneurs Advantage, however, more complex. Jack Welsh may be described as a strategic visionary for his insight into diversification at General Electric. Leaders are able to communicate their strategies and gain support as they continue with the process (envisioning). Being team dependent, the leader has to delegate authority and responsibility (Nel *et al*: 2004), empowering individuals in the process. The leader also gathers others together, organizes and manages resources, achieving things by influencing others (Schermerhorn: 2002). Strategic visioning, envisioning, empowering and influencing are important determinants of the leader; and of utmost importance for the leader-entrepreneur and entrepreneurial leader (Morris & Kuratko: 2002).

Power and effective leadership are dependent on trust (Nel *et al*: 2004), indicating the confidence and respect people have in each other. The Team and Social facets of the

entrepreneur, together with leader themes of envisioning, empowering and influencing are dependent on trust. Others, indicative of strong Focus, Advantage, Creativity and Ego facets; but weak in Team and Social facets, do not trust those entrepreneurs.

### 2.6.9.3 Risk

Most entrepreneurs ‘handle’ risks rather than ‘take’ risks (Wiklund: 1999). Those entrepreneurs with a strong Ego facet are not risk-aware, portraying self-confidence, and being in charge of their own destiny. Those entrepreneurs strong on Creativity and Ego facets take the view that one cannot plan for chaos in uncertain environments. They rather equip themselves with good resources and preventative measures. Creativity, innovation and courage can be used to find a way around obstacles and setbacks (Bolton & Thompson: 2003). Those entrepreneurs high on Advantage believe in the notion of calculated risk (Lumpkin & Dess: 1996). Advantage may also add to the belief that the opportunity cannot fail, highlighting extreme courage, and a sense of invincibility.

### 2.6.9.4 Extreme presence

Regarding extremities, moderation is excluded from reality. Extreme Focus relates to tunnel vision, ignoring influences that might be very important. Focus keeps the entrepreneur on course, whereas extreme Advantage means wanting to accommodate every opportunity arising. Extreme Creativity results in over-imagination, but entrepreneurs need to evaluate only those opportunities that can add value (Nieman & Pretorius: 2004). This extremity is apparent in many science fiction writers. When coupled with greed, extreme Ego is the most difficult facet to cope with. Entrepreneurs with extreme Ego are self-opinionated, and come across as arrogant. Extreme Ego is also damaging in that according to the themes of talent and temperament, Ego is regarded as temperament. When temperament is destructive, it negatively affects the exploitation of talents.

Extreme Team facet is seen when one of the team elements dominates the others. An example is someone high on networking will spend time at conferences whilst neglecting the business. Fanaticism may be the result of extreme Social facet, being an obsession with a cause. Those not sharing the same passion portray impatience. Those with extreme facets across the board will be very driven, very ambitious and very profit-oriented, being

ruthless and winning at all costs. They like to take huge risks, and can be seriously dangerous individuals. Another extreme Social facet is characterised in the criminal entrepreneur (absence of Social character). Many petty criminals, rather than the true professionals who are much focussed, are impulsive. This is indicative of a lack of self-discipline and an individual who is very low on the Focus facet.

### **2.6.10 The character theme questionnaire**

Thompson (2002) conducted a twenty-question questionnaire to two-hundred and forty-two respondents identified as start-up entrepreneurs by the GEM programme. Each question addressed an individual character theme - some related to those characteristics specifically associated with the entrepreneur and others to the inventor, the leader and someone we might call the non-entrepreneur. Some entrepreneur characteristics are shared with other types. Twenty questions and themes are sufficient to provide a useful insight.

The questions investigated behaviour that would typify the presence of a particular character theme. They were read to respondents who were then asked to allocate a personal score (out of 10) indicating the extent to which they believed it described them. Simple averaging of the scores for each respondent and for each question carried out evaluation. The relationship between the themes, their ranking against each other is insightful; the individual scores are less meaningful because individual respondents will have had varying perceptions of the actual score to allocate.

#### **2.6.10.1 Character themes 20-question profile**

The questionnaire consists of twenty statements, which are designed for face-to-face or telephone interviewing. Respondents should be asked to allocate a score to each statement, the score depending upon the extent to which they agree with the particular statement.

<p>Score out of 10, such that: 9 or 10 - Strongly agree with the statement 6, 7 or 8 - Agree it is a good description 3, 4 or 5 - 'Not really' a good description 1 or 2 - 'Not at all' a good description.</p>
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Whilst the questionnaire can be administered directly to a person, the ‘prospective entrepreneur’, it might be more useful in the first instance if the respondent is someone who knows the ‘entrepreneur’ particularly well. A personal or business partner whom they trust. In which case, of course, the ‘I’s’ would need to be read as ‘he/she’s’. A more detailed follow-up with the person in question is then appropriate.

#### 2.6.10.2 Character theme questionnaire

1. I enjoy being able to do things that others can’t and to be seen as something of an expert.
2. I am naturally impatient and often think I am not doing as much as I should.
3. My motto is ‘When the going gets tough, the tough get going’ - because setbacks give me stimulation.
4. My mind is always full of ideas and I enjoy doing unusual things.
5. When I have what I think is a good idea I find I can sell it to other people.
6. I appreciate you have to influence people and situations to make things happen and I am good at it.
7. I am uncomfortable with constant change and uncertainty and prefer a substantial degree of routine and order in my life.
8. When faced with a deadline I find it easy to concentrate my time and effort and meet it.
9. I thrive on uncertainty and can find ways to achieve my goals.
10. I can trust people to take responsibility for things and I am happy to delegate this responsibility to them.
11. I am naturally gregarious, quickly relating to other people, and thinking of things we could work on together.
12. If I can see how something can be improved I want to get on and do it.
13. People would describe me as systematic and organized for I have a keen eye for detail.
14. I set personal targets for myself all the time and check on my progress.
15. I get an extra kick at work when other people visibly approve of the way I do things.
16. I generally know what’s important and so I limit my options and stick with these priority tasks.
17. It matters to me whether I achieve more in life than my parents and my close friends.
18. I enjoy working closely with people I know well.

19. When I am part of a team I play a chairing, co-ordinating role and bring out the best in others.
20. At heart I am a people person and I enjoy helping others achieve their goals and targets.

Table 2.12 mirrors the character themes 20-question profile, depicting the relevant association, character theme and brief definition. Themes in turn relate to talent, temperament and technique, together with the Facets approach (Bolton and Thompson: 2003). The themes are also applicable to the research questionnaire of an entrepreneurial orientation in a franchise system. Applicability to the current research project is a five point Likert scale adaptation of the character theme questionnaire (Thompson: 2002).

**TABLE 2.12 Character themes to evaluate entrepreneurial orientation**

Association	Character Theme	Definition
Inventor	Mastery	Basking in expertise others don't have
Inventor + Entrepreneur	Creativity	Constantly buzzing with ideas
Entrepreneur	Opportunity taking	Engaging and taking on perceived opportunities
Entrepreneur	Urgency	Real drive to get on with things now
Entrepreneur	Performance orientation	Setting milestones and measuring progress
Entrepreneur	Networking	Developing a set of potentially valuable contacts
Entrepreneur + Leader	Focus	Concentrating on the task in hand, staying on course
Entrepreneur + Leader	Time focus	Setting, engaging and meeting deadlines
Entrepreneur + Leader	Ego	Wanting to make a recognised difference
Entrepreneur + Leader	Courage	Determination in the face of setbacks
Entrepreneur + Leader	Team	Getting the right people together
Leader	Strategic	Seeing a clear route forward
Leader	Envisioning	Communicating a strategy to others
Leader	Empowering	Getting people to accept responsibility for things
Leader	Influencing	Getting people to take things on, to provide resources
Entrepreneur enabler	Developer	Seeing and encouraging potential in others
Non-entrepreneur	Systematic	Enjoying detail, systems and procedures
Non-entrepreneur	Disciplined	Enjoying structure and organisation
Non-entrepreneur	Woo	Winning others over and enjoying their approval
Non-entrepreneur	Relator	Preferring to work with trusted colleagues

Source: Thompson (2002: 3)

## 2.7 CONCLUSION

The nature and development, participation rates, definitions, characteristics and behaviour of entrepreneurs are discussed. Differences between the entrepreneur, intrapreneur and leader are also analysed. Particular reference is made to entrepreneurial talent, temperament and technique, associated with the facets of the entrepreneur.

Entrepreneurs have distinct character themes (individual and combination thereof) that separate them from others. They also share certain character themes with the leader. These include intuition, behavioural traits, personality traits, talent, temperament, technique and entrepreneurial facets. Character themes for franchise analysis are introduced in the character theme questionnaire.

In Chapter 3 the franchise paradox is discussed. In an entrepreneurial context, franchising is viewed as an influencing factor on entrepreneurship development. Franchising is a relatively low-cost means of setting up a new-venture that has grown rapidly in recent years, both in South Africa and internationally. The entrepreneurial link to small business is facilitated by franchising, whereby a business owner sells to another the right to operate the same business in another location. The chapter concludes with a literature study of entrepreneurial orientation in a franchised environment.

## CHAPTER 3: THE FRANCHISE PARADOX

### “Challenge to Growth: Nothing New Under the Sun”

Martin Mendelsohn, 2001

“ That which hath been is that which shall be, and that which hath been done is that which shall be done; and there is nothing new under the sun, Is there a thing whereof it is said: See this is new?—it hath been already in the ages which went before us”

Ecclesiastes 1:9-10

### 3.1 INTRODUCTION

Franchising is seen as an entrepreneurial option towards creating and developing ventures (Bygrave: 1997). Michael (2003: 61) in agreement herewith, mentions franchising as a technique for entrepreneurs in service industries to assemble resources in order to rapidly create large chains and gain first mover advantage. Nieman *et al* (2004: 156) view franchising as a method of entrepreneurial expansion.

Franchising is an arrangement between two parties whereby the franchisor grants the franchisee certain rights to sell a firm’s products or services, as per guidelines set down by the franchisor (Nieman, 1998: 3). The Franchise Association of Southern Africa (FASA) defines franchising as, “a grant by the franchisor to the franchisee, entitling the latter to the use of a complete business package containing all the elements necessary to establish a previously untrained person in the franchised business and enable him or her to run it on an ongoing basis, according to guidelines supplied, efficiently and profitably”.

Mendelsohn (2003: 17) emphasises that a franchise relationship is not self sustaining, with basic issues being that the franchise cannot succeed without successful franchisees, franchisors to devote resources to enhance franchisor/franchisee relations, franchisor duty to establish and sustain a viable business, franchisors code of ethics, and that the franchisor must promote the basic principles upon which franchising is based. Franchisors in many sectors have recognised the benefits of multiple-unit franchisees (Johnson, 2004: 36), and this is seen as an entrepreneurial continuation of the franchise trend. Lindsay and McStay (2004: 3) further explored the entrepreneurial orientation of franchisees, together with the entrepreneurial drivers of franchisee performance. Their findings indicated a

proactiveness regarding entrepreneurial orientation, together with a risk-taking entrepreneurial orientation.

In an entrepreneurial context, franchising is viewed as an influencing factor on entrepreneurship development (Nieman *et al.*: 2003). Franchising is a relatively low-cost means of setting up a new-venture that has grown rapidly in recent years (Kirby, 2003: 67), both in South Africa and internationally. The entrepreneurial link to small business is facilitated by franchising, whereby a business owner sells to another the right to operate the same business in another location (Schermerhorn, 2002: 125).

The final section of the chapter investigates entrepreneurial orientation within a franchise system (franchisee specific); from a literature and empirical perspective. Tentative review is indicative of a relationship between the entrepreneur, intrapreneur and franchisee. Final analysis is however subject to an empirical study within a defined franchise system.

### **3.2 NATURE AND DEVELOPMENT OF FRANCHISING**

Franchising is a method of marketing goods and services, which knows almost no boundaries (Mendelsohn: 2004). Franchising is considered as one of the most effective systems for distribution of goods and services (Nieman: 1998). In context of entrepreneurship, franchising has been argued to be a technique for entrepreneurs to assemble resources in order to rapidly create large chains and gain first mover advantage (Michael: 2003).

Dhir and Bruno (2004: 20) inform that franchising is an extraordinary international success story, generating millions of jobs and billions of dollars in economic activity. Franchising is enormous, especially in developing countries where discretionary income is increasing. Towards facilitating entrepreneurial growth, Johnson (2004: 35) advises that multiple-unit and multiple-brand franchising offer successful operators both the possibility of spreading risk over multiple units or brands and economies of scale. An example of this success is apparent within the Famous Brands (formerly Steers Holdings) franchise portfolio; housing Steers, Debonairs Pizza, Wimpy, Whistle-Stop, House of Coffees, Fish-Aways and Church's Chicken brands (excluding shareholding in Blockbusters Video). These multiple-brand franchise outlets dominate the South African

franchise food sector, and have won more Franchise Association of South Africa (FASA) awards than any of their competitors.

Franchising dates back to 200BC when Chinese businessman Los Kas created a franchised chain-store concept for the distribution of branded food items throughout China. However, the concept of franchising as we know it today originated in the United States where in the 1860's, the Singer Sewing Machine Company established a franchised network of dealers (Mendelsohn: 1992). The United States is regarded as being the full accreditors of developing the franchise system internationally. They are undoubted leaders in the exporting of franchise systems. Franchising in some form exists in over one hundred countries around the world, and is continuously growing.

From a pure historical point of view, the extensive 'pub' network in the United Kingdom may be the oldest franchise system in the world. This dates back to 740-750, during the Roman occupation of Britain. By 957 King Edgar decided there were too many alehouses, and decreed a limit of one per village. Standards were instituted and a monitoring system established, with fines levied against violators. Franchising was born (Monckton, 1969: 87). After the 1840's, two types of franchising evolved in the United States. Product franchising involved durable goods manufacturers integrating vertically, developing their own distribution channels. Business format franchising, created in the 1950's, results from evidence that the outlet itself could be a vehicle for entrepreneurial activity (Spinelli: 1997).

Three categories of a franchise system are identified; franchisor-operated outlets; franchisee-operated outlets or a combination thereof. Types of businesses generally included in business format franchising include food and non-food retailing, business services, restaurants and business services. Petrol stations and soft drink bottlers are excluded from business format franchising as they incorporate other forms of licensing and development arrangements. The International Franchise Association (1997) predicted that close to forty-three per cent of USA retail sales will be attributable to franchise sales.

### **3.2.1 Franchising link to entrepreneurship**

Franchising is seen as an entrepreneurial option towards creating and developing ventures (Bygrave: 1997). Franchising is an arrangement between two parties whereby the

franchisor grants the franchisee certain rights to sell a firm's products or services, as per guidelines set down by the franchisor (Nieman, 1998: 3). The Franchise Association of Southern Africa (FASA) define franchising as, "a grant by the franchisor to the franchisee, entitling the latter to the use of a complete business package containing all the elements necessary to establish a previously untrained person in the franchised business and enabling him or her to run it on an ongoing basis, according to guidelines supplied, efficiently and profitably".

Mendelsohn (2003: 145) emphasises that a franchise relationship is not self sustaining, with basic issues being that the franchise cannot succeed without successful franchisees, franchisors to devote resources to enhance franchisor/franchisee relations, franchisor duty to establish and sustain a viable business, franchisors code of ethic, and that the franchisor must promote the basic principles upon which franchising is based. Lindsay and McStay (2004: 3) further explored the entrepreneurial orientation of franchisees, together with the entrepreneurial drivers of franchisee performance. Their findings indicated a proactiveness regarding entrepreneurial orientation, together with a risk-taking entrepreneurial orientation.

Sherman and Dewis (2003: 34) define franchising from a strategic viewpoint: "a franchising system is a distribution channel; a licensing of brands and systems by the franchisor to a dedicated network of franchisees who pay initial and ongoing fees (typically expressed as a per centage of gross sales) to operate businesses under contractually prescribed systems and standards. From a strategic perspective, franchising is a popular method of leveraging a company's intellectual capital by opening up new markets with a highly motivated owner-operator who will work harder than the average salaried manager to ensure the success of a particular location". The link to entrepreneurship is in that franchising is a capital efficient growth model. It provides the franchisor/entrepreneur with the opportunity to leverage the capital invested and the equity of the local franchisee operator to build and strengthen brands and systems of the franchisor.

The leadership and team facets (Bolton & Thompson: 2003) of entrepreneurship are interrelated with franchising in that a strong management team that is experienced in building brands and developing and enforcing operational and IT systems can operate with relatively low overhead. Healthy profit margins may be yielded when predictable

revenue streams provided by royalty payments are linked with this cost structure. Revenue growth platforms are opportunistic- ranging from sales to franchisees, to international expansion and acquisition of additional brands in the franchise system.

Franchising is not a business itself, but a way of doing business (Williams, 2000: 12). It is a marketing concept, being an innovative method of distributing goods and services. A rising sense of entrepreneurship among key groups within the American population (1950's), together with increasing limits on the ability of companies to expand by more rational means, provided a growing pool of potential franchisees and franchisors willing to undertake new ventures in response to these business opportunities. The term franchising describes a wide variety of different practices, which are used in different ways and with varying degrees of sophistication in many different industries.

Robert T. Justis, Professor of Franchising at the University of Nebraska, defines franchising as, “a business opportunity by which the owner, producer, or distributor (franchisor) of a service or trademarked product grants exclusive rights to an individual (franchisee) for the local distribution of the product or service, and in return receives a payment or royalty and conformance to quality standards”. A direct link to entrepreneurship is the unique association of corporate organisations and a unique form of raising capital. This is all part of the Facets entrepreneurial terminology (Bolton & Thompson: 2003); consisting of issues of dynamic relationships (between franchisor and franchisee), congruent goals, interdependence and focus.

Schaper and Volery (2004: 19) define franchising as, “an arrangement whereby the originator of a business product or operating system permits another business owner to sell the goods and/or to use the business operating system on the originator's behalf”. The most common form of franchising is business system franchising, whereby there is an arrangement in which the franchisor not only supplies the product, but also gives comprehensive guidelines as to how the business is to be run. Whilst entrepreneurial activity is linked to the franchisor, the link to the franchisee may be questioned. Non-entrepreneurial activities such as restricted growth, moderate flexibility and low flexibility in decision-making are representative of the franchisee (Schaper & Volery: 2004).

Hisrich *et al* (2004) inform that an advantage of buying a franchise (that is, as a franchisee) is that the entrepreneur does not have to incur all the risks often associated with starting a business from scratch. Typically, entrepreneurs often have problems in starting new ventures in the areas of product acceptance, management expertise, knowledge of the market, operating controls, and meeting capital requirements. These are all negated (to a large extent) in a successful franchise system. The disadvantage to the entrepreneur is that problems often occur between franchisor and franchisee, negating the entrepreneurial independence motive. The formal relationship may not be to the entrepreneur's liking. Seltz (1982: 1) defines franchising as, "an arrangement whereby the manufacturer or sole distributor of a trade-marked product or service gives exclusive rights of local distribution to independent retailers in return for their payment of royalties and conformance to standardized operating procedures". The franchisee is given the opportunity to enter a new business with a better chance to succeed than if he/she were to commence a start-up business (Hisrich *et al*: 2004).

Halloran (1994: 40) considers franchising as a way of becoming an entrepreneur with a built-in market and proven product. However, the downside is in the restrictions and regulations of many franchisors; taking away the feeling of independence and the satisfaction of self-determination that comes from new venture creation. He defines a franchise agreement as, "when one party, the franchisor, grants to another party, the franchisee, the rights to market/distribute a trademarked product or service in exchange for payment or royalties. Or in some cases the franchisee is granted the right to offer, sell, or distribute goods or services under a marketing format designed by the franchisor". Whilst the term trademark regularly appears in American texts, this may be somewhat misleading in a South African context. Many South African successful franchised organisations, particularly in the home entertainment industry; started out in franchising prior to trademark registration (Mr. VIDEO, Blockbusters, Stax Video and Video Town being examples). This however does not negate the importance of trademarks and registration whatsoever.

Deakins and Freel (2003) regard franchising as another market entry route, yet not always associated with entrepreneurship. Despite the loss of control in a franchise (as a franchisee), the popularity of franchising has mirrored the importance and growth of small firms in the economy. The franchisor undertakes much of the venture creation activities, including idea formulation, opportunity recognition, pre-start planning and

market research. Tikoo (1996: 78) places emphasis on the massive growth of franchised start-ups, with one in two franchise systems being less than five years old. The International Franchise Association (1997) estimate that one new franchise open every eight minutes. Dickie (1993), in an international franchise study, informed that forty-three per cent of franchises have fewer than ten outlets. Nieman *et al* (2004) regard franchising as an entrepreneurial expansion opportunity, placing emphasis on the expansion of the distribution channel.

The appeal of the reduced risk, while still retaining elements of entrepreneurship has been a powerful motivating factor for entrepreneurs, and the growth of franchising appears likely to continue unabated in the new millennium (Deakins & Freel, 2003: 69). The potential of franchising within the emerging entrepreneurial sector in the South African context is supported by government initiatives towards sustainable development of small to medium and micro enterprises (SMME). Economic empowerment and the upliftment of the redistribution of wealth to the previously disadvantaged make franchising a unique and competitive means of development (Nieman *et al*, 2003: 207). Emerging entrepreneurs, particularly in developing rural areas, may benefit from the franchise system. Franchising is seen as a key determinant towards the upliftment and development of the micro- and small business sector growth in South Africa (FASA 2002).

### **3.2.2 Franchise rationale**

Prior to looking into the merits and demerits of a franchise system, becoming a franchisee versus starting a stand-alone business requires evaluation. Spinelli (1997) informs that this evaluation hinges on the mitigation of risk by the trademark value, operating system, economies of scale, support process of the franchise and the personality/management style to sharing decision-making responsibilities within the system. To quantify the evaluation, Spinelli (1997: 365) derived the following:

Franchise Fee + PV of royalty = PV of the increased net income from the value of the franchise trademark. PV is the present value of a sum of money. An analysis of services provided by the franchisor requires review.

### 3.2.2.1 Real estate development

Many business format-franchising systems include a real estate ingredient, therefore sight selection and development is an integral part of franchising. This predominantly surfaced during second generation franchising in the 1950's, when Harlan Sanders (Kentucky Fried Chicken) and Ray Kroc (McDonalds) built national chains along the developing interstate networks. Ray Kroc is generally recognised as the founder of business format franchising, and based his initial model on real estate development (Williams, 2000: 7). Market research into the primary target audience (PTA) includes viability studies including the market that will patronize the franchise outlet. Real estate development includes:

- Cost, location standards for successful expansion
- Population, how wide a market area, PTA members, pro forma market share
- Traffic volume, pedestrians, traffic flow, shoppers
- Traffic patterns, timing, bottlenecks, peaks and troughs, seasonality
- Visibility, impulse, signage, building, entrance
- Zoning and permits, local councils, governing bodies, landlords
- Ingress and Egress, entrance to and from the site
- Location success factors, link to business format, rental relationship.

### 3.2.2.2 Construction specifications and supervision

The franchisor usually has a standard set of blueprints, despite modifications per site. Those strong on brand reputation and consumer sovereignty will include building contracts, specifications, and usually supply their own, or accredited outsourced partners to do the construction and layout.

### 3.2.2.3 Training

The licence agreement should stipulate the time and cost of trading, pre-opening and ongoing training, and specifying the form in which the franchisors responsibilities span (Spinelli, 1997: 372). The trademark and name are the most important assets in a franchise system, and franchisees should be adequately trained to uphold the desired value. A poor training regime will inevitably dilute the standardized and consistent

delivery, and reduce or tarnish trade name value. Mendelsohn (2003: 113) informs that franchisees must be trained in the system and business methods which the franchisor has developed, including any special methods of production/value added, processes to be applied to goods, methods of preparation and manner of providing services. Training is also to be provided in methods of marketing and merchandising.

#### 3.2.2.4 Pre-opening support

Preopening support is a concentrated, multifunctional program to launch the new franchise (Spinelli: 1997). The franchisor has the expertise in place to provide sophisticated start-up assistance, and is leveraged in a partnership association, to the benefit of franchisee and franchisor alike. After training, assistance will be given in getting the business ready to open for trading (Mendelsohn, 1992: 4).

To develop the local target market in the area of the new franchise, the franchisor is obliged to assist the franchisee in localised marketing communications. The new franchisee is unlikely to have the competence to implement this task, thus necessitating franchisor assistance (Nieman, 1998: 33).

#### 3.2.2.5 Continuing support

Not only must the franchisor create a market for the brand/service, but also all participants in the system must be sustained and nurtured (Spinelli: 1997). As such, the actions of each franchisee have bearing on overall franchise performance. Unfortunately, the degree of franchisor support is usually inversely proportionate; in that struggling franchisees receive more attention and support. A key ingredient for success is a balance of franchisor resources. Apart from the proper level of support in the business operation, the franchisor should be creating good franchisor-franchisee relations on an ongoing basis. Mendelsohn (2003: 153) suggests a range of ongoing services to include:

- Monitoring and support
- Training
- 'Head office' organisation
- Market research
- Advertising and promotion

- Communications.

#### 3.2.2.6 Performance standards and monitoring

By developing and implementing a variety of financial and operational information systems, the franchisor may identify exceptional and sub-par performance. The franchisor has to support and maintain the business format, image and quality of services provided in the franchise system (Nieman, 1998: 134). The entire franchise system should deliver the same quality to the customer. This is also facilitated by monitoring relationships and performance management (Section 2.8.4). Sophisticated computer interface management information systems not only provide a channel of franchise communications, but that of management interaction. This is a distinct advantage of network communication not available to individual or stand-alone outlets.

#### 3.2.2.7 Field support

Franchisor staff to regularly interact with franchisees in relation to trade, activities including operating procedures, business and performance reviews, field training, relationship management, supplier compliance, local marketing and overall operations audit. Field visits go a long way towards franchisees justifying royalty payments. Advantages include corrective action when franchisees are not following the system correctly. Mendelsohn (1992: 112) recommends that the franchisee should contact his field support representative from time to time if he has not been visited, even if just to catch up on other successes within the franchise operation.

#### 3.2.2.8 Operational research and development

Although standards and operational management maintenance across operating units must be adhered to, it must not be seen as a hindrance to change and innovation. A benefit regarding research and development centres on economies of scale in a franchised system, being optimally achieved through centralized and monitored inputs. The franchiser should constantly be seeking innovative methods for improving the business of the franchised network (Mendelsohn, 2003: 113). Important research and development activities can include the exploitation of new sources of supply, good quality materials and products for the franchise system, facilitating both quality and cost.

### 3.2.2.9 Marketing, advertising and promotions

Varying amongst franchisors, the standard format is a group-advertising fund, resultant from franchisee royalty payments (Nieman: 1998). Management thereof is usually contractual, either at the discretion of the franchisor, or most often in the control of a franchise council or franchisee representation of sorts. Mendelsohn (2003: 86) advises that there are three alternative methods of dealing with the expense when the franchisor undertakes the obligation to advertise and promote:

- The franchisee is charged a sum calculated as a per cent of the franchisee's gross income (similar to franchise fees)
- The advertising expense is included within the continuing franchise fee and undertakes to spend not less than a minimum per centage of such fees
- The franchisor undertakes all marketing communications activity without collecting a contribution for this purpose.

### 3.2.2.10 Product purchase provision

Economies of scale take effect, particularly regarding quantity discounts, group buying and related discounts and trading terms. Rebates and confidential allowances are usually paid to the franchisor, and depending upon contractual obligations, may be shared between the franchisees. Confidential allowances have been an issue of contention in the industry, being the reason for ethical evaluation into franchise business practices. Included may be contractual provision for approved suppliers and distributors, and method of procurement. Franchise system purchasing usually covers three areas (Nieman, 1998: 86):

- Purchases of the franchisor/franchisee
- Group purchase programmes
- Product and supply restrictions.

The report of the competitions board (Act 96 of 1979) is relevant, investigating acquisitions, monopolies and restrictive practices. The home entertainment industry was subject to such investigation in 1997/8, with respect to restrictive sale of intellectual property.

### 3.2.2.11 The operations manual

Often the heart of the franchise asset, as it delineates the manner in which the trade name and mark are to be delivered to the customer (Spinelli: 1997). Failure to operate within the confines of the manual often leads to dispute within the franchise system. To this end, an operations manual should include a dispute resolution process. Williams (2000: 17) advises that the operations manual should be supplemented with administration/reporting manuals; corporate identity manuals; speciality manuals, training manuals; trouble-shooting guide; Franchisor manuals and ongoing development and upgrading of system. Nieman (1998: 51) informs that as the franchise system develops, the operations manual usually becomes the backbone of the system. Together with the trade name, the know-how detailed in the manual is the most important asset of the franchise. Mendelsohn (2003: 183) lists an overview of suggested operating instructions, to be included in the manual:

- Hours of operation
- Trading patterns, peaks and troughs
- Franchisee involvement and staff schedules
- Standard forms and procedures (including invoicing and brand-name communication)
- Staff appearance (such as uniforms)
- Staff training procedures
- Employment of staff (statutory requirements included)
- Disciplining staff
- Product, pricing and promotional policies
- Customer service policies
- In-store appearance and ambiance
- Purchasing policies
- Product standards
- Customer complaint procedures, such as listening posts
- Service standards
- Staff duties, including job descriptions, methods of performing responsibilities
- Payment of franchise fees, calculation and timing thereof
- Accounting, generally accepted accounting practices

- Marketing communications, local marketing, group cohesion and offering, selling techniques, customer retention
- Use of trade-name, trademark usage in course of business
- Operational policies and procedures
- Communication channels within the franchise system.

#### 3.2.2.12 Specialist support

Depending on the nature of the business, the franchisor should provide the necessary professional support. Not only related to business activity or discipline, this also includes participation in industry initiatives and proactive market environment activities. Such examples involve membership and participation in FASA, Video Software Dealers Association of America (VSDA), representative bodies in training, financial institutions and governance.

#### 3.2.2.13 Territorial rights

Robinson (2004: 79) informs that the setting and operation of territories is one of the more complicated components within franchise systems. Second only to fees, territories are potentially the most contentious issue for franchise networks. Demographics are a constantly evolving factor, hence the true market area will inevitably change (Spinelli: 1997). A relocation clause is most often associated to territorial issues, contained within an exclusive territory clause or operations clause. Robinson (2004: 80) identifies different basic structures and applications in territory allocation:

- No territory, with no territorial or geographic restrictions, but may be limited to specific location only
- Regional territories, possibly limiting the number of franchisees per region
- Non-exclusive territories, nominal territories in which the franchisee operates, normally restrictions of sort
- Exclusive territories, no other franchise of the same system can be established or operate in a given territory. Issues involve the right to establish further territories, right to expand trading operations, right to subdivide territories and sub-franchising.

When developing territories, Robinson (2004) highlights the inclusion of:

- Population size
- Number of dwellings
- Growth of an area (normally via population or dwellings)
- Number of businesses/commercial premises
- Number of businesses within certain industry types
- Level of income/economic strata
- Other demographic data such as racial mix, age, psychographics
- Price of housing
- Road traffic, foot traffic
- Amount of competition in the area
- Proximity to other key influencers or sources of business, such as shopping malls
- Planned roading changes or shopping complexes
- Market media used to attract/secure business, such as direct mail areas, television regions.

A territory may be defined in a number of ways. The most common way of dividing physical territories is via a detailed map, which is often appended to the franchise agreement. Some franchisors set their territories to toll free number areas and then use that toll-free number for all promotion, secure in the knowledge that responses can be directed to the correct territory (Robinson: 2004). Entrepreneurs are quick to adapt and accept new technologies, and the internet may not only provide opportunistic distribution channels, but conflict within the distribution channel (Porter: 2001). The key to success with territories and the internet is to take a fair and long-term approach, either directing the business from the internet to the relevant franchisee, or involve a specialist internet franchisee. Another possible option is that franchisees should each own a share of the internet marketing channel so that they can all profit from internet sales (Robinson: 2004).

#### 3.2.2.14 Terms of the agreement

At the heart of almost every franchise relationship is a lengthy legal document, the franchise agreement. Agmen-Smith (2003) explains the franchise agreement as setting out

the rules by which the franchisor (who owns the franchise network) and the franchisee will have to live by for the period of the franchise. It is by far the most important of the franchise legal documents. Mendelsohn (2003: 184) refers to the franchise agreement as the moment of truth, where the franchisee and franchisor formally agree to their relationship. It should be read alongside the franchise operations manual, which every full format franchise will have. The franchise agreement usually refers to the operations manual and disclosure document, binding the franchisee (and franchisor) to certain obligations within the manual. The operations manual usually forms an integral part of the franchise relationship, and requires that the franchisee operate the business according to the systems and methods set out in the manual. Franchise agreements start by identifying the parties, a background to the agreement itself, then a rendition of the main terms. At the end, there are schedules including specific duties such as dates, values, territory boundaries and renewal rights. Other documents may include non-disclosure agreements; together with a disclosure statement, providing financial and other information about the franchisor. Successful franchised systems should include a full presale disclosure in a document that provides information about aspects of a franchise offering (Hisrich & Peters, 1998: 554). Kauffmann & Robbins (1991: 100-105) summarize a twenty-point disclosure document:

- Identification of the franchisor, affiliates and business experience
- Business experience of each of the franchisor's officers, directors, management and personnel responsible for services, training and other aspects of the franchise
- Lawsuits in which the franchisor and its officers have been involved
- Previous bankruptcies of franchisor officers
- Initial franchise fee and other initial fees to obtain the franchise
- The continuing payments that franchisees are required to make after the franchise opens
- Any restrictions on the quality of goods and services used in the franchise and where they may be purchased, including restrictions requiring purchases from the franchisor or its affiliates
- Any assistance available from the franchisor or its affiliates in financing the purchase of the franchise
- Restrictions on the goods or services franchisees are permitted to sell
- Any restrictions on the customers with whom franchisees may deal
- Any territorial protection that will be granted to the franchisee

- The conditions under which the franchise may be repurchased or refused renewal by the franchisor, transferred to a third party by the franchisee, and terminated or modified by either party
- The training programs provided to the franchisee
- The involvement of any celebrities or public figures in the franchise
- Any assistance in selecting a site for the franchise that will be provided by the franchisor
- Statistical information about the present number of franchises; the number of franchises projected for the future; and the number of franchises terminated, the number the franchisor has decided not to renew, and the number repurchased in the past
- The financial statement of the franchisor
- The extent to which the franchisees must personally participate in the operation of the franchise
- A complete statement of the basis of any earnings claims made to the franchisee, including the per centage of existing franchises that have actually achieved the results that are claimed
- A list of the names and addresses of other franchises.

Should a franchise have a consolidated and accurate disclosure document, the franchise contract will be understood more easily. The Federal Trade Commission (USA) requires all franchisors to supply prospective franchisees with the disclosure document at least ten days before entering a purchase contract (Halloran, 1994: 44). The franchise agreement between the franchisor and franchisee is the legal document that details the franchise relationship. It also shows how the information in the disclosure document applies to the franchisee.

The franchise agreement is often an exhaustive, lengthy and sometimes complex legal document, the most important contents being:

- Period of grant of rights. The franchise agreement is usually established on a long-term basis, with a 15-20 year period being the norm (Spinelli: 1997). The key is however in the renewal rights, and absence thereof is indicative that the franchisor is predisposed not to grant renewals. Renewal provision includes required notice periods; payment of a renewal fee; allowing the franchisor to change the wording

of the franchise agreement upon renewal and allowing the franchisor to change the size of the territory of the franchisee. The franchise may be likened to a lease, allowing the franchisee to ‘rent’ the right to the franchise system for a set number of years (Agmen-Smith, 2003: 31)

- Payments and fees. A large initial up-front payment is usually required, most often consisting of a registration or acceptance fee. The identification hereof will depend on the franchise package (Mendelsohn, 2004: 85). The sale of the franchise package may be that of turnkey methodology, whereby the franchisor is involved in acquiring the premises, shopfitting and equipping so that it is ready for the franchisee at the commencement of business (Mendelsohn, 2003: 93). This also includes set-up and other initial fees, all dependent on the type of franchise. This follows ongoing payments during the franchise term. These are primarily made up of royalty payments on a regular basis (usually monthly), based upon gross turnover, a set amount (flat fee), or combination thereof. Other fees include levies for advertising and training; with obligations for brand renewals, re-launches, conferences and meetings. Marketing (includes advertising and promotions) costs are usually provided for from contributions of the franchisee, by the way of a levy. There are often agreements on what the funds may be spent on, with the franchisor usually having full discretion. This is an avenue of conflict within the system, hence the formation of franchise councils, acting as a communication conduit between franchisor and franchisees. Franchisees are usually required to co-operate with major promotions, such as recommended price discounts and ‘specials’
- Opening. Most often there are requirements for the franchisee to spend a specified minimum amount on store launch promotions. Store layouts and fitment is usually a prerequisite of the franchisor, together with working capital requirements. This includes, but is not limited to signage, décor, shopfitting, landlord requirements and municipal costs
- Premises, leases and mobiles. Since location plays a vital role in the success of the franchise, the franchisor is most often actively involved in site selection. The franchise agreement will usually contain various provisions relating to leases (Agmen-Smith: 2003). The leaseholder may be the franchisee or franchisor, dependent on the objectives of the franchisor. Regarding mobile franchises, the franchisee may be required to implement vehicle sign writing, and the franchisee may be required to purchase the fully set-up vehicle from the franchisor.

Mendelsohn (2003: 95) regards leasing as “a complex aspect of franchising, with problems which arise not only from the legal implications but also the attitudes, practices and balances of negotiation power which are prevalent in the property market at the relevant time”. This notion is predominant in the South African context, where Franchisors have standing relationships with landlords, often negotiating prime sites at competitive rates

- The franchise business. Both the term ‘business’ and the term ‘system’ (which refers to the method of operating the business) will be formally defined and regularly referred to in the contract. The operations manual usually defines and explains many of the franchise business terms
- The manual. Most often initial training programmes review a ‘how to do it’ manual, a blueprint for franchise operations. The agreement normally provides that a manual will be supplied, normally remaining the property of the franchisor; to be returned at the end of the term. The agreement will allow for the manual to be updated from time to time
- Obligations. These include clauses setting out initial and ongoing obligations of both franchisor and franchisee. There will invariably be strict obligations on the franchisee to keep accurate and up-to-date accounting records (Agmen-Smith, 2003: 33), with requirements of electronic linking of point of sale systems to the franchisor
- Intellectual property rights. These are legal rights, which have developed to protect ownership of inventions and creations of various types. These include copyright, trademarks, designs, layout designs and patents
- Sale or termination. Totally dependent on the terms of agreement, and the type of business. Most agreements will allow for the sale of the business during term, with the franchisor usually having first option to repurchase. Spinelli (1997: 379) refers to this as right of first refusal, whereby the price should be equal to or a premium of the *bona fide* third-party offer. Upon sale of an existing franchise, the incoming franchisee must be approved by the franchisor, and undertake the required training. A new transfer or approval fee may be applicable. The franchise agreement may run its original term, or a new contract drawn up. The agreement may also be terminated prematurely. Events such as death or incapacity of the franchisee (Spinelli: 1997), bankruptcy, liquidation, criminal convictions, termination of lease of franchise premises, and failure to pay money due to the

franchisor, as well as breaches of party obligations may also qualify for termination

- Disputes. Most agreements now provide for mediation or arbitration should disputes not be resolved by discussion. The objective is minimising disturbances to franchise operations, whilst maintaining harmonious franchise relationships
- Cooling-off periods. Many Franchise Associations, such as Franchise Association of South Africa (FASA) and Franchise Association of New Zealand (FANZ) requires its members to provide an option for franchisees to withdraw from the agreements. This is currently within a 7-day period after signing the agreement. Inclusions of such clauses are usually a favourable indication of the franchiser's intentions and approach (Agmen-Smith: 2003).

Parties are not always limited to franchisor and franchisee, but may include master franchisors, sub-franchisors or area franchisees. A franchisee may also elect to open up a franchise in the name of a limited liability company or partnership.

### **3.2.3 Challenges to growth: nothing new under the sun**

Franchising is a relatively low-cost means of creating new ventures which has grown rapidly internationally (Kirby, 2003: 67). Mendelsohn (2001: 16) breaks down the growth challenges of franchise systems into two headings, internal and external issues.

#### **3.2.3.1 Internal issues**

Within the franchise system, it is the opinion of Mendelsohn (2001: 16) that many franchisees confronted with problems treat the symptoms and not the underlying cause. As such, once realizing what they have done, the problem has multiplied from its original complexity. Franchisors are well advised to go back to the basics (issues addressed in Section 2.8.3) before addressing the symptoms. In going off the beaten track, there is a chance that franchisees have been receiving conflicting messages. The franchisees join the life cycle of the franchise system, keen to get started. Some stay keen and succeed, others do not achieve such levels of success and most often demand a disproportionate share of the system (franchisor) resources. Mendelsohn (2001: 16) further identifies two major ingredients of internal issues:

- The product. The challenge for the franchise system is in appreciating that the product offering has a life-cycle, and that strategic initiatives are in place to anticipate market demands; prior to being forced to making changes. Proactivity and not reactivity is the key. Market research, market testing, innovation and opportunity spotting should receive priority from the franchisor. These issues relate to the facets of the entrepreneur as well (Bolton & Thompson: 2003)
- Systems growth. With growth in franchisees, there will come a time when franchisor and franchisee disagree. It is the duty of the franchisor to ensure principles of relationship management are maintained, resulting in strong and well-founded relationships. Franchisees should in turn feel proud to belong to the system, and that the value they receive is greater than the price they pay for it (Mendelsohn, 2001: 16). It is however difficult to analyse why a franchisee is failing or has failed. It may be location, but since much of a franchisee's success is in his own hands, the franchisee that faces up to his responsibilities will do best (Mendelsohn, 1995: 66).

#### 3.2.3.2 External challenges

These challenges are generally not in the direct control of the franchise system, mostly part of the macro-external environment. These predominantly refer to opportunities and threats:

- Economic downturns. Cyclical trends should be analysed, and the franchisor must ensure that they have capacity during peaks, together with market stimulation activity during troughs. The problem is often that of motivating franchisees during times of uncertainty
- Regulatory and legal issues. The unfortunate intervention of regulatory and legal issues in many cases is the product of a lack of information and not founded on any market behaviour, which needs correction (Mendelsohn, 2001: 17). This is not an issue of dominance in the South African context, as the franchise system is relatively well developed (Mendelsohn, 1997: 46). Mendelsohn (1995: 66) relates that the lesson to be learned from the USA is that legislation, regulation and contention should be avoided. He believes such measures stifle franchise opportunities. Mendelsohn (1997: 46), after a visit to South Africa assumed that

according to indication that the government will continue to take a keen interest in franchising, making entry prospects good

- Availability of franchisees. Real estate availability is the biggest threat in most South African franchised systems. As such, there are not always sufficient prospective franchisees available to meet the requirements of franchise systems
- Market forces. The franchise environment is very competitive, with many franchise systems not effectively differentiating. The result is many new systems opening, which are not significantly different from existing systems. Notwithstanding this, competitors still eat into the systems market share. Due to the lack of differentiation, many of these systems compete on price alone. This in turn places stress on the franchisor to negotiate better terms with suppliers. Other alternatives are to achieve competitive advantage by being the cost leader or differentiation (Porter: 1995). Another response is the expansion of current offerings, replacing that which has become unpopular.

Mendelsohn (2001: 17) concludes by stating that the basic principles of franchising have not changed since 1964. Mendelsohn (2003: 24) identifies these basics as:

- Only franchisors with successful franchisees succeed
- The franchisor must establish a viable and successful business
- The franchisor's support role must provide value in excess of the cost thereof to the franchisee
- The franchisor must recognize and promote the basic principles upon which franchising is based
- The franchisor must initiate relationship marketing, enhancing networks and ensuring franchisor/franchisee relationships are at a high level of mutual cooperation.

The author of Ecclesiastes was right, there is nothing new. Emphasis is placed on strategising, using the past as a gauge. "The task is meeting the challenges with an open mind and a sense of historical experience" (Mendelsohn, 2001: 17).

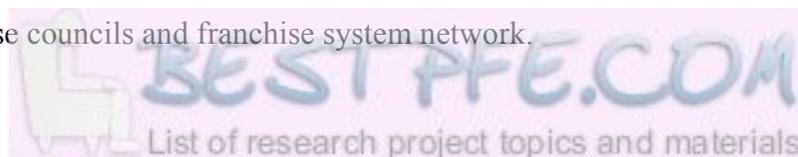
### 3.3 FRANCHISE SYSTEM RELATIONSHIPS

The franchise system constitutes a long-term relationship from the moment of first contact to the development and continuation of a mature network (Mendelsohn, 2004: 153). This research study however examines relationships in the continuation of mature networks phase (Ostgarrd & Birly: 1996). Mendelsohn (1992: 142) advises that franchising involves the development of a multiple chain of outlets in multiple ownership. It however does not involve multiple ownership of a multiplicity of subtly different outlets. As such, it would appear that franchise agreements are rigid, with minimal qualification. This notion facilitates objectivity within the system. Mendelsohn (2003: 148) identifies that mutual respect (franchisor/franchisee) must be present, particularly in the following areas:

- Respect by both parties for the basic marketing principles on which the franchise system is based
- Respect by the franchisee for guidance provided by the franchisor, particularly in respect to the intellectual property of the name, system and know-how
- Respect by the franchisor for achievements and contributions of the franchisee.

Good franchisor-franchisee relationships require a conscious effort (Mendelsohn, 1992: 150) from both parties, with the economic motive being enhanced accordingly. In taking cognisance of the maturity phase (Nieman, 1998: 130) of relationships, the following is identified:

- Macro trends influencing relationships
- Basic principles of franchise system relationships
- Cooperation within the system
- Franchise system leadership
- The product of conscious efforts
- Guidelines for good franchise relations
- Common franchise relationship problem areas and resolving franchise disputes
- Relationships and quality control and relationships requiring a solid foundation
- Franchise councils and franchise system network.



Bloom (2003) informs that successful franchise systems are the result of strong relationships built upon careful listening and mutual respect between franchisors and franchisees (Szarka: 1990). Amos (2003: 20) identifies franchising as one of the most synergistic relationships in all business.

### **3.3.1 Macro trends influencing relationships**

Four primary macro-trends are seen as influencing franchise relationships in the new millennium (Amos, 2003: 21). The first is the globalisation of franchising, followed by the involvement of mega-franchisees as multiple-franchise owners. Third is the emergence of self-regulation within the franchise community; and fourthly, as key to franchising in the new millennium, relationships between the franchisor and franchisee.

### **3.3.2 Basic principles of franchise relationships**

The basic premise of respect between franchisor and franchisee is of paramount importance to both parties. Mendelsohn (2003: 145) identifies respect based on basic principles of the franchise system itself; franchisor respect for achievement and contribution of franchisees, and franchisee respect for achievements and guidance of franchisors. Without this mutual respect, a relationship of trust will not be possible.

### **3.3.3 Franchise system cooperation**

Other than trust and respect (Mendelsohn: 2003), it has become apparent that franchisors are listening more than ever to franchisees. Moreover both are cooperating to build brand identity and integrity, which is essential to a profitable and lasting franchise system (Amos & James, 2003: 21). A study was conducted by Maritz (2004) which highlighted the cooperation and trust involved in the branding decisions of co-branded franchise systems. Cooperation was evaluated as one of the most important aspects of the co-branding venture. Mentoring and cooperative programmes have played a major role in facilitating these open relationships. Amos and James (2003) also identify how franchisors and franchisees are cooperating more often on marketing efforts and effective training programs for franchisees.

Das & Teng (1998: 492) examined confidence in partner cooperation, highlighting two distinct sources; trust and control. In generating confidence, these two sources were seen as supplementary. The benefits of trust in franchise relationships appear wide ranging in character, including lowering transaction costs (Gulati, 1995: 87), inducing desirable behaviour (Madhok, 1995: 127), reducing the extent of formal contracts (Larson, 1992: 79), and facilitating dispute resolution (Ring & Van de Ven, 1994: 111). Lane (1996: 371) however argued that, whereas trust is a contributor in partner cooperation, along with control, certainty of partner cooperation cannot be equated with trust, which is merely about positive expectations of partner motives. Since trust and control are the two contributory factors of confidence in partner cooperation, either one by itself is insufficient to explain this confidence.

### **3.3.4 Franchise leadership**

Amos and James (2003: 20) inform that leadership in a franchise system is about being solution-oriented as opposed to conflict-oriented. They inform of a leadership approach being that of an art, practiced with care, concern and diligence. Leadership is however lacking at most levels of franchise relationships, and the deficit may be felt exceptionally hard in the world of franchising. Amos and James (2003) believe this to be the result of the requirement for enlightened leadership that is necessary to manage the franchisee-franchisor relationship. They inform that this leadership is neither top-down nor bottom-up; recognising that business is more about people than it is about pro-forma models, net-present values and spreadsheets. Identified are elevated levels of integrity, values, motivation and performance. They further identify focus on softer business issues, recognizing that core values have a greater potential to influence behaviour than process or system. Amos and James (2003) identify culture as being the glue that holds any organisation together, reflecting the beliefs and values of the people making up the system. They place emphasis that these values and beliefs are set by leadership and executed with the permission of the culture. The importance of the macro-trends is further amplified whereby enlightened leadership at all levels of the franchise system are recognizing how critical this relationship is and how important it is to the continued growth of the most powerful economic engine in the world (Amos & James, 2003: 21). Amos and James (2003: 22) conclude as follows, “the essence of practising the leadership art of franchise relationships is to always be faithful to a set of core values and traditions that has the greater good in view for the greater number”.

### **3.3.5 Franchise relationships as products of conscious efforts**

Ties that bind: Franchise relationships, like marriages, are products of conscious effort. A USA national survey, “Franchise Relationships, The State of the Nation 2003”, revealed that 39 per cent of all franchisees rate their franchisors fair or poor overall. Nearly half would not recommend their franchise to a friend or family member, and more than two in five franchisees would not purchase their franchise again if they had known then what they know now. It is obvious that many franchise relationships are in need of repair-even major overhaul (Johnson, 2003: 22). Johnson (2003) believes that one of the best strategies is to head off problems before they start by creating avenues for meaningful franchisee participation. Examples are advisory councils and policy boards; together with giving franchisees advance say in store policies and procedures. Johnson (2003: 24) advises that one of the most important rules for franchisors is simply to follow through on promises; facilitated by an environment of respect.

Johnson (2003) further comments on the role of franchisees, placing emphasis on the importance of letting go of old grudges and biases that have nothing to do with the people and situations at hand. In agreement with Amos and James (2003); Johnson (2003) believes the best franchise systems are those in which mutual trust and shared objectives are the norm. The requirement is the open, resolute and ongoing application of specific policies that affirm the value of franchisor and franchisee goals and abilities. Meaningful communication and growth is the result when franchisees and franchisors join forces to each other’s mutual benefit.

### **3.3.6 Guidelines for optimal franchise system relationships**

Nieman (1998: 129) makes mention of the notion that the franchisee is in business with someone else, and not by themselves. This special relationship should be one of mutual trust and independence, notwithstanding the performance motive. A guiding coalition between the two parties facilitates this independence. Towards a guideline hereof, Justis & Judd (2002; 1989) developed an independent framework, identified in Table 3.1 on the following page.

**TABLE 3.1 Guidelines for optimal franchisor-franchisee relationships**

<b>Guideline</b>	<b>Franchisor</b>	<b>Franchisee</b>
Training	Development of appropriate training programmes and facilities	Active participation and involvement of franchisee and related staff
Meetings	Facilitate regular meetings, conferences and system interaction	Active participation and attendance
Franchise advisory committee (FAC)	Develop FAC, joint consultation with franchisees	Participation of relevant parties to FAC
Advertising committee	Facilitate and support advertising committee, provide required information	Involvement and proactive participation relevant to franchise system objectives
Information exchange	Develop newsletters and other means of information exchange	Provides information and achievements
Electronic media	Intranet, internet, email and electronic interface communication development	Involvement, participation and competence
Internal marketing	Franchise system advisory medium development, communication to franchisee staff	Communication and information flow to franchisee staff
Marketing communication and localised marketing	Development of generic marketing materials, theme promotions, branding specifications	Adherence to franchise system branding and programmes
Performance Incentives	Develop franchise system incentives	Participation in incentive programmes
Award Structures	Develop recognition awards	Active participation in award recognition process
Operational, financial and management reports	Provide pertinent reports, templates and structures.	Use reports, provide information for reports
Field interaction	Provide field support	Allow field support full access
Basic commitments	Support, assistance and interaction.	Interaction, franchise fees and report requirements.

Source: adapted from Justis and Judd (1989: 501)

### **3.3.7 Common franchise system conflict areas**

Predominantly due to rapid growth, competitive forces and business dynamics, franchise systems often concentrate on expansion, losing the quality of relationships focus (Nieman, 1998: 135). Justis and Judd (2002: 497) identified guidelines for resolving various problems in the system. For his part, the franchisor must concentrate on maintaining and improving the quality of his services (Mendlesohn, 2003: 108). Spinelli (1997: 386) implies that there may be problem areas between franchisor and franchisee in areas of pricing, promotion, and operational issues. The potential for conflict is exacerbated by the phenomenon of larger and more sophisticated franchisees in the system. Potential conflict areas are depicted in Table 3.2 on the following page.

**TABLE 3.2 Franchise system potential areas of conflict and resolutions**

<b>Conflict areas</b>	<b>Resolutions</b>
Training standards and implementation	Revamp training in accordance to franchise system objectives and franchisee needs analysis
Operations manual	Update and revise appropriateness of operations manual
Information disclosure	Improve facets of internal marketing, franchisee communication (see Table 2.13)
Availability of advice	Develop channels of clear communication, training for franchisor staff, improve field services
Marketing communications	Franchisee involvement in advertising committee
Marketing and industry research	Implement research activities (inclusion of advertising committee involvement)
Ongoing support	Franchise Advisory Council (FAC) and advertising committee recommendations). Renew standing operating procedures.
Site selection	Optimal site selection, in accordance with franchise system requirements, leasing facilities and availability
Discriminatory practices	Evaluate deviations by franchisee, uniformity in accordance to franchise agreements

Source: adapted from Justis and Judd (1989: 502)

### **3.3.8 Resolving franchise system disputes**

Franchising is an ongoing relationship between two or more parties and it is inevitable that disputes will periodically arise. Newton (2003: 71) identifies disputes commonly arising, together with recommended methods of resolving them:

- Quality, price or delivery of products or services, recommended or required by the franchisor. A franchisor can legitimately require franchisees to source their supplies from a particular supplier where this is relevant to uniformity of the quality or nature of the franchise system
- Franchisee royalties and payments due. Franchisees may fail to pay the franchisor amounts due, which may be a reflection of the fact that the franchise is just not proving financially viable for the franchisee. It may also be due to some other dispute as a result of which the franchisee withholds payment of royalties or other amounts
- Alleged misrepresentations, misleading conduct or unconscionable conduct by the Franchisor. These allegations are often raised as an expression of the frustration of franchisees in a dispute situation. Mediation, arbitration or the courts however often resolve perceptions of the franchisees. Newton (2003) advises that the dispute is usually about something else and these allegations are raised as a supplementary item

- Other disputes, including, but not limited to disputes about the franchised territory, termination of the franchise agreement, franchisor advertising, franchisor competing with the franchisee, franchisee not following the franchised system, franchisor communication, rent or lease obligation (franchise system dependent), initial franchisor disclosure, provision of operations manuals and/or other information and amount of the franchise royalties.

Newton (2003: 72) goes on to advise on negotiating solutions to franchise problems:

- Negotiating with the person who can do something about the problem
- Research and preparation of facts prior to negotiation
- Identify value of the franchise relationship, highlighting positive aspects
- Briefly state the problem objectively (non-blaming, neutral)
- Listen to responses, asking for disclosure of reasons for their point of view
- Concentrate on the problem (issue on hand), leave personalities out of it
- Acknowledge your understanding of the process thus far
- Assert an objective rendition of the problem from a point of view, providing reasons and details
- Focus on needs and objectives rather than rights
- Attempt to understand the other party's needs and objectives
- Attempt to identify realistic solutions that meet both parties' objectives
- Be prepared to consider more than one alternative
- If not successful at first, attempt to negotiate with higher authority.

The negotiating meeting itself requires factors including timing; agenda items; venue; freedom of interruptions; representation equality; final decision-makers and participants. Legal action is advisable where one side is using trade marks without permission; has been fraudulent; refuses to negotiate or enter mediation; or has failed to implement an agreement at mediation.

Most literature reviewed however holds the opinion that successful franchise relationships are borne on pro-active participation, and identifying issues prior to reaching conflict (Mendelsohn, 2003; Newton, 1993; Spinelli, 1997; Johnson, 2003; Justis & Judd, 2002; Bloom, 2003; Agmen-Smith, 2003).

### 3.3.9 Franchise relationships and quality control

Franchising involves the marketing of goods and services. It is a powerful and effective marketing strategy, placing emphasis on networks (Kirby, 2003: 68) and market entry methods (Kirby, 2003: 223). It is also about good marketing and business practices which must be of a high standard, and franchisors and franchisees must understand that they are in the relationship business (Germann, 2002: 39). He proclaims the relationship between franchisor and franchisee built on trust and respect. Germann (2002) informs that all franchise relationships require a purpose, a sense of belonging and the wish to be treated with respect and good relationships allow businesses to expand and flourish so that all parties succeed. He places emphasis in the fact that there is quality control at all levels in franchise relationships. Customer retention depends on this quality aspect, with customer satisfaction a result thereof. Germann (2002: 39) identifies the franchise system relationship link to customer service:

- Accepting that it is everyone in the franchise system's responsibility to keep the customer happy
- Customer service is the key issue in franchise system survival
- Customer satisfaction is the key to long term success
- Give authority to staff in the front line as no person can do everything themselves
- Bad news travels fast and good news rarely overtakes it
- Dissatisfied customers tell eight to ten others of their dissatisfaction and one in five will tell twenty people. Five will tell a total of sixty people, some of whom will tell others
- It costs six times as much to attract a new customer as it does to keep an existing customer
- Sixty per cent of customers say that a company does not pay enough attention to them and does not value them
- The majority of customers are reasonable people and all you require is the first chance to satisfy them.

Together with franchise system links to customer satisfaction, Germann (2002: 40) believes the link to quality is an essential component. Towards this justification, he regards quality in the following light: quality defined as conformance and not goodness;

all non-conformances are caused; anything that can be caused can be prevented; and it has been known for generations that organisations that do what they promise to do, and take good care of their franchisees in the process, always come out top. Germann (2002) concludes by stating it is essential for both franchisors and franchisees to have a policy on quality which should be along the lines that they will deliver defect-free products and services to customers, both internal and external, on time and thereby show reliability.

### **3.3.10 Franchise system relationships require a solid foundation**

Only three elements must be present in a transaction for a business to be considered a legal franchise: trademark licensing; substantial assistance with the business's operations; and the payment of a franchise fee; according to Washington, D.C. based franchise attorney Andrew A. Caffey. While this definition is technically true, the relationship between franchisor and franchisee is far more complicated (Haneborg, 2003: 35). Crucial elements such as trust, communication and relationship-building must be present for both franchisor and franchisee to reach their fullest earning potential (Gulati: 1995; Larson: 1992; Ring & Van de Ven: 1994; Madhok: 1995). While franchise relations issues exist in any economic condition, bear markets are indicative of shrinking profits, tough competition, taking its toll on franchise system relationships.

Haneborg (2003) believes that adhering to team mentality; facilitating open communication and practicing the basics, are primary factors that determine the long-term viability of the relationship. With regard to field franchised operational staff, Haneborg (2003) believes that they, together with the franchisee's staff, should know what the organisation's goals and objectives are, and the role each person plays to achieve those goals. Both the franchisor and franchisee are in the business to make money and grow. The franchisee wants to grow their business, while the franchisor is working to grow the brand.

Haneborg (2003: 36) believes communicating is more than just talking; not just hearing, but listening to franchisees, and asking how the franchisor can assist in creating a solution. Many franchisees believe in the notion that 'a franchisor needs to remember that the franchisee is closest to the dollar'. She concludes that it is up to the franchisor to foster a symbiotic relationship; listen to all comments and complaints, and to take action; and reinforce the basics of the business that will ensure their relationship is built on a

solid foundation. Mendelsohn (1992: 151) believes the franchisor must not only give the franchisee value for money, but the franchisee must perceive the value as greater than the money paid to the franchisor. This requires rock-solid communication between the parties.

### **3.3.11 Franchise system advisory association/council**

Two distinct groupings are identified as external and internal associations. External associations refer to governing bodies for the industry, examples being the Franchise Association of South Africa (FASA), Franchise Association of Australia (FAA), Franchise Association of New Zealand (FANZ) and the International Franchise Association (IFA). Of pertinence in this study are the internal associations, those formed within a particular franchise system, commonly referred to as Franchise Advisory Councils (FACs). Bloom (2003: 27) regards FACs as franchisee organisations formed to provide valuable input into different operational aspects of their franchise system, ensuring that franchisees can accomplish this goal in an organized manner.

Franchisors may also then be in a position to realize that franchisees have valuable contributions into operational issues, including marketing campaigns, new product development, training, or any franchise system functions. Patel (2000: 56) informs that the FAC is an idea intended to benefit both parties. Instead, it too often causes frustration for franchisees and fear for franchisors. The FAC is either subsidized by the franchisor or is independent and funded by the franchisees. The disadvantage of the former is that the franchisor controls the activities; whilst the drawback of the latter is that the FAC is seen as a threat by the franchisor. Patel (2000: 56) recommends that for a FAC to be truly effective, the following factors must be synergized:

- Candid, complete and continuing communication, between FAC members themselves, and also between the members they represent
- The advice offered by the FAC should be taken and considered seriously by the franchisor, tokenism is unsatisfactory
- In their dealings and discussions, both sides must be realistic, mature and flexible.

The primary role of the FAC for franchisees is that of access to other franchisees, access to franchise executives and access to franchise data. These usually revolve around the collection of franchise fees and funds available for marketing communications support. The primary role of the FAC for the franchisor is also access based, being access to franchisee feedback. Patel (2000: 57) thus informs that the overriding objective of the FAC is access, and this should be the driving force behind the council. Apart from access, the FAC can be valuable in replacing dysfunctional relationships with co-dependency (Justis & Judd, 2002: 496). There is a connotation that the name is inappropriate to relationship management, with suggestions for a name change to “franchise-owners council” or “franchise-relations council” (Patel, 2000: 57).

Mendelsohn (2003: 158) informs that FACs born out of frustration and dissatisfaction of franchisees should be avoided at all costs. These allow for hostile positions between the parties, however, they may be a means of resort for franchisees. Mendlesohn (2003: 159) identifies areas in which the FAC can operate effectively:

- Communication; improvements, ideas, new technologies, identification of barriers to communication, style and content of communication
- Franchisee experience in the field may be relayed to the franchisor, facilitating functionalities
- Sharing of new ideas and franchise system innovations via franchise grouping
- Suggestions for improvement of procedures, an example being the operations manuals
- Training, re-training procedures, training needs from franchisees
- Field support recommendations and requirements
- Reporting and accounting opportunities and problems, identified and rectified
- Proposals for contractual changes
- Marketing communications funding and allocations
- New product, development and research initiatives including franchisee participation
- Raising topics of concern to franchisees.

Patel (2001: 21) identifies the merits of the FAC as three tiered towards evaluating, reviewing and revising franchise systems from the franchisee’s point of view.

### 3.3.12 Franchise system networking

The view of integrating entrepreneurial activity and strategic service within a franchised system may best be explained in the context of networks. The most widely held view of 'network' refers to an organized system of relationships, linking a defined set of persons, objects or events (Nelson: 1988; Szarka: 1990). This networking in small business serves to provide owner-managers with the necessary support, contacts, and credibility (Ostgarrd & Birley: 1996). Consequently, the owner-managers will benefit from obtaining necessary information and will learn more about their own capabilities relative to their competition, thereby minimizing the harsh lessons the market place may present (Dilts: 2000). As such, networking is seen as a major tool for achieving desired business results, and as a key source of resources that are typically outside the reach of many entrepreneurs (Zhao & Aram: 1995). This network view correlates entrepreneurship and franchising, yet entrepreneurial orientation amongst franchisees in the franchise system requires investigation.

Relationship management within the franchise system will be incomplete without prioritising the effect of the internet and electronic commerce on strategy (Porter, 2001: 63). Perry (2002: 27) identifies that technical and social bonds contribute to the success of a relationship. He identifies social bonds as including trust, commitment, equity, conflict and benevolence. Technical bonds identified include competence (the degree to which business transactions meet performance expectations) and investment. Perry (2002) postulates that the trend to invest in information technology to replace mail, fax, telephone and face-to-face contact may make the relationship between buyers and suppliers technically and economically more efficient, whilst simultaneously enhancing the social bonds between the parties.

Information must flow freely for franchise arrangements to be successful. Such examples include the franchisor informing franchisees about new procedures, prices, products, marketing information and training. Franchisees too must regularly communicate performance information to the franchisor. There must also be communication with external parties such as suppliers, banks, advertising agencies and consultants.

### 3.3.13 Franchise system merits

In an entrepreneurial context, franchising is viewed as an influencing factor on entrepreneurship development. Franchising is a relatively low-cost means of setting up a new-venture and has grown rapidly in recent years (Kirby, 2003: 67), both in South Africa and internationally. The entrepreneurial link to small business is facilitated by franchising, whereby a business owner sells to another the right to operate the same business in another location (Schermerhorn, 2002: 125). Franchising is a means of expansion using limited equity finance (Nieman *et al.*: 2004: 157).

Franchisees join franchise systems because of the advantages offered (Lindsay & McStay, 2004: 2). These include affiliation with a trademark or trade name (Knight, 1986: 7; Stanworth: 1977), franchisor support (Hough: 1986), proven business format (Withane, 1991: 24), established name, lower development costs, and training (Peterson & Dant, 1990: 49). Mendelsohn (2003: 19) informs that the failure rate of new franchise businesses is one-tenth that of non-franchised new businesses. The risk inherent of a new business is reduced, but by no means totally marginalized. In evaluating reasons to purchase a franchise, Lord (2003: 8) identifies the following:

- Many managers/workers are specialists and do not have the knowledge to successfully operate a new venture. Franchising provides the training and ‘know-how’ to overcome this weakness
- Franchising offers a freedom of lifestyle, a choice between indoors/outdoors; an office or shop; premises/home; alone or with spouse; the opportunities are virtually endless
- The opportunity to use existing skills in another context
- Transformation from employment to self-employment made easier in that you are part of a group, in business for yourself, but not by yourself (Nieman: 1998)
- Large variety of opportunities, with the initial investment most often proportional to the possible return
- Part-time or full-time, with many start-ups being run by one person, with a second only entering the system once the start-up has grown
- Regional franchises offer opportunity for the more experienced individuals, when a higher risk-reward is sought. This may be more applicable to entrepreneurs.

Master franchises are usually a longer term investment, with high financial outlays.

Hisrich *et al* (2004: 486) consider the merits of franchising from the point of view of the franchisee and the franchisor. They consider these merits from the point of view of entrepreneurial activity. One of the most important advantages of buying a franchise is that the entrepreneur does not have to incur all the risks often associated with starting a business from scratch. Entrepreneurs typically have problems with starting new ventures in the areas of product acceptance; management expertise; meeting capital requirements; knowledge of the market, and operating and structural controls (Hisrich & Peters, 1998: 548). Franchising minimizes the risk associated with these factors through the franchise relationship.

From the point of view of the franchisor, advantages to the entrepreneur are related to expansion risk, capital requirements, and cost advantages due to extensive buying power. However, Schermerhorn (2002: 237), in agreement with Hisrich and Peters (1998: 550) and Hisrich *et al* (2004: 488), advise that the franchisor must have established an entity of value and credibility that someone else is willing to buy.

Mendelsohn (2003: 36) believes that the proven success formula leads to a number of advantages from which the franchisee may benefit. On the other hand, certain disadvantages to the franchisee may be seen. Freel & Deakins (2003: 69) also evaluate similar advantages and disadvantages, however from an entrepreneurial perspective. The main salient activities from Medelsohn (2003) and Deakins and Freel (2003) are depicted in Table 3.3.

Deakins and Freel (2003) conclude that despite the loss of control in a franchise; the reduction of risk while still retaining elements of entrepreneurship, has been a powerful motivating factor and the growth of franchising appears likely to continue unabated in the new millennium.

Table 3.3 is represented on the following page.

**TABLE 3.3 The main advantages and disadvantages of buying a franchise as a means of business start-up**

<b>Advantages</b>	<b>Disadvantages</b>
Franchise usually based on a proven recipe for success	A proven recipe for success usually comes at a price, at a premium to the franchisee
Benefit from economies of scale, such as marketing and group buying	Although the business may be sold to another taking over your role as franchisee, this may be less than could be achieved with <i>de novo</i> entrepreneurship
Market research usually undertaken by the franchisor	Trading limited to a geographical area and location, with marginal growth capabilities
Training provided by the franchisor	Possibility of franchise disputes with the franchisor or fellow franchisees
Early stage advice, as the franchisor may act as a mentor	Innovation and creativity limited due to the franchise operating to strict formula for production, sales and marketing
The franchise package most often includes a turn-key operation, facilitating a time and effort advantage	The turn-key advantage comes at a price, and the franchisee may not agree with certain initial undertakings, such as computer systems
Benefits from a strong brand name	Brand image of the franchisor may be tarnished, reflecting on all the franchisees
Franchised systems are often favoured by investors and banks due to established track records	Entrepreneurs may feel confined working within the systems, guidelines and requirements of the franchisor
The franchisee has the disposal of the franchisor's expertise	Imposition of control, disturbing the facets approach of the entrepreneur
The franchisee has the services of field staff from the franchisor, to assist with any problems which may arise	Difficult to assess the quality of the franchisor
Usually a lower investment than setting up a new venture, due to experience gained by the franchisor from pilot and other operations	The franchisee may become too dependent on the franchisor, failing to produce the required personal drive
Guidance of regional activities, including municipal approvals, regional council grants, planning zones, shop fitting, refurbishments	Franchisor's policies may affect the franchisees proactivity regarding local marketing initiatives
Social entrepreneurial activities of integrating opportunities from fellow franchisees	Although relatively independent, the entrepreneur is not master of his own destiny in a franchise environment, always bound by the intellectual property of the franchisor

Source: adapted from Deakins & Freel (2003: 69) and Mendelsohn (2003: 32-33)

### **3.4 ENTREPRENEURIAL ORIENTATION IN A FRANCHISE SYSTEM**

The global contribution and growth of the franchised system has been the subject of much research; however, the research exploring entrepreneurial orientation (EO) in these systems is scant (Lindsay & McStay, 2004: 1). Lumpkin & Dess (1996: 137) refer to EO as the organisational processes, methods, styles, practices and decision-making activities employed by entrepreneurs that lead to new ventures. Bird (1991) identifies new ventures as a start-up firm, via an existing firm, or internally via a larger corporation. Lumpkin & Dess (1996) advise that entering new or established markets with new or existing goods or services can attain new ventures.

### 3.4.1 Franchisee entrepreneurial orientation literature

From an entrepreneurial perspective, franchising is seen as an entrepreneurial route towards starting and expending new ventures (Bygrave: 1997; Deakins & Freel: 2003). Franchising literature is however dominant in the areas of franchise system relationships (Hopkinson & Hogarth-Scott: 1997; Lewis & Lambert: 1991; Fayerman: 2002; Mendelsohn: 2003; Amos: 2003); franchise system functioning and objectives (Sherman & Dewis: 2003; Deakins & Freel: 2003; Nieman & Pretorius: 2004; Mendelsohn: 2001); and the development of franchising in an international arena (Dhir & Bruno: 2004; Nieman: 1998). Limited literature is available regarding entrepreneurial orientation of franchisees (Lindsay & McStay: 2004).

Entrepreneurial orientation from the franchisor's point of view is not disputed (Bygrave: 1997; Spinelli: 1997; Sherman: 2003); however, this orientation is questioned from a franchisee point of view (Hisrich *et al*: 2004; Kuratko & Hodgetts: 2004). Klein (2002) believes that individuals with an entrepreneurial personality should think twice about entering the franchise system as franchisees. Michael Seid (in Klein :2002), a franchising consultant based in West Hartford, Connecticut; emphasizes that franchisees often think of themselves as entrepreneurs, but they are not. His justification is that entrepreneurs want to start new businesses and they want to make their own decisions. They like to experiment and have the need to operate and market their business based upon their own vision of how things should be done. Franchisees, on the other hand, are contractually obliged not to deviate from the operational plans of the franchisor (Newton: 2003).

Deakins and Freel (2003) however believe that despite the appeal of reduced risk; elements of entrepreneurial activity in a franchise system are motivators for prospective franchisees. Halloran (1994) believes franchising is a way of becoming an entrepreneur with a built-in market and proven formula. Spinelli (1997) developed a value model depicting merits and demerits of entrepreneurs becoming franchisees, concluding that if the present value of the outcome is positive; the franchise system route is recommended. It is the objective of this study to empirically demonstrate the entrepreneurial orientation of franchisees, with the author of the opinion that franchisees do exhibit an entrepreneurial orientation in certain situations. This will however not apply to all franchisees in all franchise systems, but is largely dependent on character themes (Thompson: 2003).

In justification of this point of view, a review shall be conducted; identifying entrepreneurial thought from existing literature (Nieman *et al*: 2003; Hisrich *et al*: 2004; Kao *et al*: 2004; Kuratka & Hodgetts: 2004; Lumpkin & Dess: 1996; Bolton & Thompson: 2003; Bolton & Thompson: 2000; Thompson: 2003) coupled with a review of the franchise system literature (Mendelsohn: 2003; Nieman: 1998; Nieman *et al*: 2003; Deakins & Freel: 2003). Thereafter, an empirical study on constructs of proactivity, innovation and risk-taking is recommended (Lindsay & McStay: 2004). Links between entrepreneurship and franchising, with specific reference to franchisee entrepreneurial orientation revolves around highlighted relationships prior to empirical investigation. The literature analysis is depicted in Table 3.4 on the following page.

Cognisance must however be taken of the nature of entrepreneurial activity, varying between opportunity, necessity and social entrepreneurs (Bygrave *et al*: 2004). This classification identifies reasons for entering entrepreneurial activity, coupled with relevant entrepreneurial background (Frederick: 2001). Comparisons of entrepreneurial behaviour between the entrepreneur, intrapreneur and traditional manager also affect franchisee involvement in entrepreneurial activity (Hisrich & Peters: 1998). Nieman *et al* (2003) define an entrepreneur as an individual who establishes and manages a business for the main purpose of profit and growth; characterized by innovative and strategic behaviour. Pivotal to the definition is the creation of incremental wealth (Hisrich *et al*: 2004). Intrapreneurship in turn is entrepreneurial activity within an organisational context, receiving sanctions and resource commitment for the purpose of innovative results (Kuratko & Hodgetts: 2004). An assumption is made not to distinguish between entrepreneur and intrapreneur in the franchise context, as both involve entrepreneurial activity.

Notwithstanding this assumption, it must however be highlighted that franchisees may well be intrapreneurs, particularly when commanding senior positions on franchise councils and advisory associations (Bloom: 2003). Franchisors may well delegate the necessary authority to relevant franchisees for the purpose of innovative results in the franchise system (Morris & Kuratko: 2002). The franchisor may well motivate an intrapreneurial environment, including the encouragement of new ideas; limited opportunity parameters; resource availability and accessibility and operations on the frontiers of technology (Hisrich & Peters: 1998).

**TABLE 3.4 Entrepreneurial orientation of franchisees in a franchise system: a review of the literature across disciplines (entrepreneurship and franchising)**

<b>Entrepreneurial Orientation</b>	<b>Franchise System (Franchisee Involvement)</b>
An individual who establishes and manages a business for the main purpose of profit and growth (Nieman <i>et al.</i> : 2003); profit-orientation (Schaper & Volery: 2004); leadership ability (Zimmerer & Scarborough: 1996)	Franchisees and franchisors are interdependent, the higher the franchisee income, the better for the franchisor (Tikoo: 1996); ignores the role of learning, preparation and serendipity in the process of entrepreneurship (Deakins & Freel: 2003). Franchising is the product of conscious efforts towards enhancing franchise system relationships (Nieman: 1998); Amos and James (2003) inform that leadership of franchisees is about being solution-oriented, corresponding to focus traits of the entrepreneur (Thompson: 1999)
Innovative behaviour, employing strategic management practices in business (Carland, Hoy, Boulton & Carland: 1984); entrepreneurship involves creativity and innovation (Thompson: 1999); creativity and flexibility (Zimmerer & Scarborough: 1996)	The creativity and innovation link is manifested in the ability of entrepreneurs to harness the potential of new technologies in turbulent environments (Lumpkin & Dess: 1996). Innovation is seen to be in the hand of the franchisor, whilst creativity a distinct franchisee trait (Lindsay & McStay: 2004); franchisees are an important part in the franchise system, enabling entrepreneurs in service industries to assemble resources in order to rapidly create large chains and gain first mover advantage (Mendelsohn: 2003)
An individual who sees an opportunity in the market, gathers resources and creates and grows a business venture (Nieman <i>et al.</i> : 2003); maximizing opportunities (Drucker: 1964; Shapero: 1975); the process of doing something new (creation) or something different (innovation) for the purpose of creating wealth and adding value to society (Kao: 1993); creating value for oneself and adding value to society (Kao <i>et al.</i> : 2002); entrepreneur as a leader (Kotter: 1999)	Bygrave (1997) believes the new business is much more likely to be of the incremental kind, as opposed to a revolutionary creation; the creation of mega franchisee multi-store ventures (Amos: 2003); The franchisee is in business for themselves with others (Nieman: 1998), and that the special relationship should be one of trust and mutual independence, notwithstanding the performance motive; Traditional entrepreneur stumbling blocks (knowledge of the market, management expertise, structural controls) eradicated by becoming a franchisee (Hisrich & Peters: 1998); Franchisee benefit from economies of scale, marketing and group buying (Deakins & Freel: 2003); Franchise leadership makes the difference, with franchisees being informal leaders in the system (Frith: 2004)
Taking Risk (Nieman & Bennet: 2002); Innovative risk-takers (McClelland: 1961); accepting risk of failures (Shapero: 1975); one who assumes the risk of gaining profits or incurring losses in the undertaking of commercial transactions (Halloran: 1994); Entrepreneurs manage risk (Thompson: 1999); calculated risk-taker (Deakins & Freel: 2003)	Halloran's (1994) definition of an entrepreneur includes entrepreneurs from all walks of life, and may be useful to incorporate 'calculated risk'. Risk must be taken in context, being risks that the franchisee as entrepreneur can understand and manage (Lindsay & McStay: 2004; Lumpkin & Dees: 1996). Calculated risk due to benefits from an existing brand (Mendelsohn: 2003); franchise system often favoured by investors and banks (Deakins & Freel: 2003)
Being rewarded (Nieman & Bennet: 2002); wealth creating opportunities, judging which opportunities to pursue, idea generators (Allinson <i>et al.</i> :2000); creating incremental wealth (Hisrich <i>et al.</i> : 2004)	Macro trends on franchisee performance include globalisation of franchising and evolvment of mega-franchisees as multiple franchise owners (Amos: 2003), indicative of new venture creation (Bygrave: 1997); proven recipe for success (Mendelsohn: 1992); franchisees are undoubtedly wealth creators, often more successful than the franchisor (Dhir & Bruno: 2004)

Table 3.4 continued

Managing a business (Nieman & Bennet: 2002); vision (Deakins & Freel: 2003); desire for autonomy (Halloran: 1994); strategic orientation (Morris & Kuratko: 2002); Managing growth (Nieman <i>et al.</i> : 2004)	Cromie (2000) observes that some entrepreneurs are even deviants, reason why many franchise agreements often end up in disputes (Newton: 2003); from a strategic perspective, franchisees are committed to the long-term success of their venture (Sherman & Dewis: 2003); opportunities for self employment, combining the elements of the independence normally associated with self employment (Dant, Paswan & Stanworth: 1996)
Prefer to be in control of their own business (Nieman <i>et al.</i> : 2003); desire for responsibility (Zimmerer & Scarborough: 1996); internal locus of control (Schaper & Volery (2004); leadership ability (Zimmerer & Scarborough: 1996); independence of mind (Schaper & Volery (2004)	Entrepreneurial activity can be seen in organisations where they have the freedom to build their own organisation (Nieman <i>et al.</i> : 2003), often referred to as intrapreneurs. Pinchot (1983) identified the intrapreneur as an entrepreneur within an already established organisation; freedom of lifestyle (Lord: 2003); large variety of opportunities, with the initial investment most often proportional to the possible return (Lord: 2003)
Entrepreneurial orientation critical to the survival and growth of organisations (Nieman <i>et al.</i> : 2003); motivation to excel (Zimmerer & Scarborough: 1996); Maritz (2005)	Franchisees must initiate relationship marketing, enhancing networks and cooperation towards achieving system objectives, mutually beneficial to all participants in the franchise system (Mendelsohn: 2003); franchising is booming, franchisees are succeeding more so than small business (Halloran: 1994)
Importance to the prosperity of economic advantage (Nieman <i>et al.</i> : 2003); hard-work ethic (Schaper & Volery: 2004)	The franchisee as entrepreneur identifies that the franchisor's support role must provide value in excess of the cost thereof to the franchisee (Mendelsohn: 2003)
Entrepreneurial orientation is focussed by a unique combination of factors: culture, role models, education, work experience, personal orientation (Nieman <i>et al.</i> : 2003)	Franchisees come from varying roles and backgrounds (Mendelsohn: 2003). Franchisees are responsible for development of the culture in the system (Amos & James: 2003), with relationships being the product of conscious effort (Johnson: 2003)
Creating something different with value by devoting time and effort (Hisrich: 1990); creativity & flexibility (Zimmerer & Scarborough: 1996)	Entrepreneurs are able to timeously locate required resources via networking capabilities (Larson & Rogers: 1986), similarly, franchisees network to achieve business objectives (Mendelsohn: 1999)
Initiative taking, and the organisation of social and economic mechanisms (Hisrich <i>et al.</i> : 2004); Nieman <i>et al.</i> (2004)	Despite the lack of initiative as a franchisee, the popularity of franchising has mirrored the importance and growth of entrepreneurship in the economy (Deakins & Freel: 2003)
Entrepreneurs are determined in the face of adversity (Thompson: 1999); tolerance for risk, ambiguity and uncertainty (Zimmerer & Scarborough: 1996), self-confidence (Zimmerer & Scarborough: 1996); energy and diligence (Schaper & Volery: 2004)	Elements of self-belief, determination and motivation are inherent towards franchisee success, characteristics shared by entrepreneurs. Paradoxically, a school of thought suggests that entrepreneurs and franchisees can perceive failure as the price of their success (Kets de Vries: 1997)
Adding value to target markets (Hisrich <i>et al.</i> : 2004); combine resources in new and different ways to create value (Zimmerer & Scarborough: 1996); entrepreneurs add value (Thompson: 1999)	Sometimes instinctively, entrepreneurs adapt their offerings to the needs and wants of markets, whilst they add value through the transformation process (Thompson: 1999); Value adding requires performance measures, which is outcome-driven (Ostgard & Birley: 1996), a distinct franchise system characteristic (Mendelsohn: 2003)
Devotion of necessary time and effort (Hisrich <i>et al.</i> : 2004); creative energy (Halloran: 1994)	Entrepreneurs have certain flair to the way they approach things (Lumpkin & Dees: 1996); Franchisees are able to timeously locate required resources via networking capabilities (Lindsay & McStay: 2004)
The process brought about by individuals of identifying new opportunities and converting them into marketable products or services (Schaper & Volery: 2004)	Franchisees in many segments have recognised the benefits of multiple unit franchisees, creating new ventures in a multi-site network (Johnson: 2004). Franchisees as entrepreneurs join franchise systems because of the advantages offered (Lindsay & McStay: 2004)

Table 3.4 continued

<p>An integrated concept that permeates an individual's business in an innovative manner (Kuratko &amp; Hodgetts: 2004); vision combined with capacity to inspire (Timmons: 2004); goal orientation (Halloran: 1994)</p>	<p>Franchisees make it their business to exploit all the resources available (Lindsay &amp; McStay: 2004); Halloran (1994) considers franchising as a way of becoming an entrepreneur with a built-in market and proven product; the opportunity to use existing skills in another area (Lord: 2003); franchisees and franchisors interdependent to achieve system vision (Sherman &amp; Dewis: 2003)</p>
<p>Someone who perceives an opportunity and creates an organisation to pursue it (Bygrave: 1997); Entrepreneurship is about spotting and exploiting opportunities (Schumpeter: 1949; Kirzner: 1973); Entrepreneurs find the resources to exploit opportunities (Kirby: 2003)</p>	<p>Entrepreneurship foundations are rooted in flexibility, and when resources are not 'state-of-the-art', entrepreneurs will select those that will perform satisfactorily. Within a systems context, such as franchising, the system should become increasingly knowledge based, to support sharing and learning (Lindsay &amp; McStay: 2004)</p>
<p>A social orientation, whereby each individual is encouraged to be self-reliant, and an agent of innovation and creation (Kao <i>et al.</i>: 2002); conceptual ability (Timmons: 2004)</p>	<p>The franchisee as entrepreneur is given the opportunity to enter a new business with a better chance to succeed than if he/she were to commence a start-up business (Hisrich &amp; Peters: 2004); the franchisee as entrepreneur is involved in a relationship, being one of the most synergistic relationships in all business (Amos: 2003)</p>
<p>Entrepreneurism is also very much alive in existing companies (Zimmerer &amp; Scarborough: 1996)</p>	<p>Entrepreneurism can be found in all sectors of society, not just in new ventures (Zimmerer &amp; Scarborough: 1996); the franchise system network correlates entrepreneurship and franchising (Zhao &amp; Aram: 1995)</p>
<p>Organisational processes, methods, styles, and decision-making activities employed by entrepreneurs that lead to new ventures (Lumpkin &amp; Dess: 1996)</p>	<p>Contingent on environmental and organisational factors, various studies demonstrate a positive EO relationship in entrepreneurial organisations (Covin &amp; Slevin: 1989); Franchisees are instrumental in developing marketing entry methods (Kirby: 2003)</p>
<p>Proactivity, innovativeness and risk-taking activities (Wiklund: 1999; Miller: 1983; Covin &amp; Slevin: 1999); Nieman <i>et al.</i> (2003)</p>	<p>Franchisees exhibit proactive and risk-taking behaviour (Lindsay &amp; McStay: 2004); ignores environmental factors that may be more important than personality (Deakins &amp; Freel: 2003); regional franchises offer opportunity for the more experienced entrepreneur, when a higher risk-reward is sought (Lord: 2003)</p>
<p>A person who habitually creates and innovates to build something of recognized value around perceived opportunities (Bolton &amp; Thompson: 2000); perception with foresight (Schaper &amp; Volery: 2004)</p>	<p>Bolton and Thompson (2000) inform that a person can also be a group of people as it is possible to describe teams and even organisations as entrepreneurial. They also believe entrepreneurs are the people who possess the imagination and flexibility to ensure there is a causal link between them and the enterprise (such as a franchise system)</p>
<p>Initiative, imagination, achievement orientation, pragmatism, independence, flexibility (Thompson: 1999)</p>	<p>Inappropriate to search for a significant individual trait, comprises an essentially static approach to the dynamic process of entrepreneurship (Deakins &amp; Freel: 2003)</p>
<p>Entrepreneurs are individuals who make a difference (Thompson: 1999); the need for achievement (Schaper &amp; Volery: 2004)</p>	<p>Entrepreneurs transform a simple idea into an opportunity that works (Kets de Vries: 1997), similar to idea generation in franchise councils (Amos 2003); Justis and Judd (2002) provide guidelines for franchisees on advertising committees; advising on involvement and proactive participation</p>
<p>Entrepreneurs are good networkers (Thompson: 1999); good communication skills (Schaper &amp; Volery: 2004)</p>	<p>Whilst being constrained by limited resources, the entrepreneur uses creativity, social networking and bargaining to obtain deals and activity (Perry: 2002); evident of franchisee participation in system decision-making (Johnson: 2003)</p>

Table 3.4 continued

Entrepreneurs have ‘know-how’ and ‘know-who’ (Thompson: 1999); commitment to others (Deakins & Freel: 2003)	Gibb (1998) informs that entrepreneurs are aware of where they can obtain the required resources; namely in the case of the franchisee, assistance from the expertise of the franchisor (Spinelli: 1997); communication, knowledge-sharing and informal assistance are keys to franchisee success (Siegel: 2002)
Entrepreneurs create capital (Thompson: 1999)	Adding value, networking and acquisition of resources constitute the entrepreneur’s intellectual capital. These attributes are used to create financial capital, social capital and aesthetic capital (Covin & Slavin: 1989). So too, franchisees create capital by similar methods, predominantly through multi-site expansion within the franchise system (Johnson: 2004)
Entrepreneurs value individualism and freedom more than others, as they have a general dislike to rules, procedures and social norms (Kirby: 2003)	The individualistic value of the entrepreneur identifies areas of disputes in franchise systems, such as information disclosure, ongoing support, discriminatory practices and training standards (Justis & Judd: 1989)
Entrepreneurs put the customer first (Bolton & Thompson (2000)	Franchisees are integral at the moment of truth, being catalysts for service quality (Zeithaml & Bitner: 2003); customer retention and satisfaction is the result of franchisee relationships built upon trust and respect (Germann: 2002); everything a franchisee does, even with customers, is based on relationships (Siegel: 2002)
Thompson (2003) character themes: inventor, entrepreneur, leader, entrepreneur enabler and non-entrepreneur	Empirical study to evaluate entrepreneurial orientation in a franchise system in the home entertainment industry

Table 3.4 highlights many similarities of the franchisee and entrepreneur, with minimal contradictory literature findings. It is however the opinion of the author that the franchisee is more closely aligned to the corporate entrepreneur (also known as intrapreneur). Reasoning is due to the integration functioning of the franchise system (Mendelsohn: 2003), indicative of business relationships and paradigms similar to business organisations (Kuratko & Hodgetts: 2004). The family entrepreneur is another important form of entrepreneur (Maas: 2003), particularly due to family involvement in many franchise systems (Maritz: 2002). The development of an emerging entrepreneur into the franchise system (Hough: 2003) facilitates growth in the system, particularly in the case of the previously disadvantaged/ previous dispensation. This however warrants a study in its own right, being characterized by changes in tolerance levels (Hough: 2003) and cultural diversity (Nel *et al*: 2004).

Comparisons of the entrepreneur and intrapreneur are depicted in section 2.6.5, and summarized in Table 2.2 (Hisrich & Peters: 1998). Differences between traditional managers and entrepreneurs are depicted in table 2.3 (Kao *et al*: 2002). What follows is a brief rendition of the proposed similarities between the intrapreneur and franchisee, using

literature from prominent authors in the discipline. Research is indicative of similarities between the intrapreneur and franchisee. Findings are depicted in Table 3.5.

**TABLE 3.5 The intrapreneur and franchisee: an adaptation of literature on the disciplines**

Characteristic	Intrapreneur	Franchisee
Primary motives	Freedom of access to corporate resources: goal oriented and self-motivated, but also responds to corporate rewards and recognition	In business for oneself, but not by oneself (Nieman <i>et al</i> : 2003); an important goal for entrepreneurs running established business ventures is growth (Nieman: 1998)
Time orientation	End goal of three to fifteen years, depending on the type of venture; urgency to meet self-imposed and corporate timetables	End goal of twenty years, dependent on franchise contract (Agmen-Smith: 2003); focus often operational as opposed to strategic (Perry: 2002); personal and system differential (Mendelsohn: 2003)
Tendency to action	Gets hands dirty; may know how to delegate but, when necessary, does what needs to be done	Hands on, participative at franchise level (Mendelsohn: 1994); interactive at franchise council level (system specific) (Bloom: 2003)
Skills	Good business acumen, requires help with managerial or political skill to prosper within the organisation	Small business management and general managerial acumen (Schaper & Volery: 2004); Interpersonal and relationship management (Peck <i>et a</i> : 1999)
Focus of attention	Both inside and outside; sells insiders on needs of venture and marketplace but also focuses on customers	Inside and outside, plus within the system (Hopkinson & Hogarth-Scott: 1999); managing own franchised outlet, managing customers and interaction within franchise system (Bloom: 2003)
Attitude towards risk	Likes moderate risk: generally not afraid of being fired, so sees little personal risk	Moderate risk; operating a system within a system (Michael: 2003); guidance from franchisor on risk related factors (Spinelli: 1997)
Use of market research	Does own market research, an intuitive market evaluation, like the entrepreneur	Joint research with franchisor (Mendelsohn: 2003); own research when evaluating a multiple-unit system (Michael: 2003)
Attitude towards status	Considers traditional status symbols a joke; treasures symbols of freedom	Non-traditional, more hygiene factor sensitive, such as need for achievement (McClelland: 1961); franchisee performance, for example status of being franchisee of the year (Mendelsohn: 2003)
Decision-making style	Adept at getting others to agree with private vision; somewhat patient and willing to compromise than the entrepreneur but still a doer	Informal leadership qualities to gain support and commitment from fellow franchisees (Haneborg: 2003); impatient for short term results (Mendelsohn: 1994); vary with interest across the system and own interest (Mendelsohn: 2003)
Attitude towards the system	Dislikes the system but learns to manipulate it	Often critical, due to realising he/she is operating someone else's system (Mendelsohn: 2003); depends on hierarchy within the system (Mendelsohn: 1992)
Problem-solving style	Works out problems within the system or bypasses them without leaving	One on one with the franchisor, but may lead to disagreement if the environment is not conducive to trust and open communication (Das & Teng: 1998); solution oriented as opposed to conflict oriented (Amos & James: 2003)
Educational level	Often highly educated, particularly in technical fields	Moderate education levels, often from corporate sector (Amos & James: 2003)

Table 3.5 continued

Relationship with others	Perceives transactions within hierarchy as basic relationship	Essential to a profitable and lasting franchise system (Amos & James: 2003), the franchisee facilitates open relationships
Attitude toward courage and destiny	Self-confident and courageous; many are cynical about the system but optimistic about their ability to outwit it	Confident in own capabilities (Hisrich & Peters: 1998), but sceptical about franchisor and system if not involved in the decision-making process (Johnson: 2003)
Attitude towards failure and mistakes	Sensitive to need to appear orderly; attempts to hide risky projects from view so as to learn from mistakes without political cost of public failure	Open to constructive criticism from system participants (Das & Teng: 1998), confidence in partner cooperation, trust and control. However, resistance to adhering to non-agreed upon system initiatives (Madhok: 1995)

Source: original intrapreneur characteristics adapted from Pinchot (1985) and Morris and Kuratko (2002)

Contingent on environmental and organisational factors, various studies demonstrate a positive EO relationship in entrepreneurial firms (Lumpkin & Dess: 1996; Miller: 1983; Covin & Slevin: 1989). Entrepreneurial firms are actively involved in product-market innovations, participate in ventures requiring risk, and are proactive (Miller, 1983: 771). In contrast, non-entrepreneurial firms innovate very little, are risk averse, and imitate competitors (Miller, 1983: 771).

Research in the area of the franchise system lacks consensus of EO of franchisees in the system. Whilst the merits of the franchising system are primarily focussed upon risk reduction (Mendelsohn, 2003: 31; Deakins & Freel, 2003: 69), this somewhat negates the risk facet of the entrepreneur (Bolton & Thompson: 2003). The demerits of the system (Table 3.3) are also indicative of minimizing entrepreneurial creative and innovative talent (Bolton and Thompson: 2000).

Intrapreneurial leadership characteristics, most often shared by the entrepreneurial franchisee include (Hisrich *et al.*: 2004): understanding the environment; visionary and flexibility; creating management options; encouraging teamwork; encouraging open discussion; building a coalition of supporters and persistence. Of the dominating traits, it can be identified that relationship management (Peck *et al.*: 1999) is paramount towards the achievement of personal and system objectives. Without mutual respect, a relationship of trust towards the smoothly operating system will not be possible (Mendelsohn: 2003).

Whilst many similarities are evident in the intrapreneur and franchisee relationship, the talent, temperament and technique (Bolton & Thompson: 2004) of all individuals differ.

The empirical research shall analyse these individual traits (Chapter 7). As a concluding remark on the literature review of franchisee and entrepreneurial orientation; the author supports the following characteristics of entrepreneurial (intrapreneurs included) and franchisee mindset (McGrath & MacMillan: 2000):

- They passionately seek new opportunities, staying alert and profiting from change
- They pursue opportunities with enormous discipline, and act on these opportunities
- They pursue only the very best opportunities and avoid exhausting themselves and their organisation by chasing after every option, being ruthlessly disciplined
- They focus on execution- specifically adaptive execution, exploiting real opportunities
- They engage the energies of everyone in their domain, relationship management in pursuit of their opportunities

Additional studies linking franchising and entrepreneurship have been investigated by Maritz (2005; 2005a). These included a link between GEM entrepreneurs and the franchise system, with the entrepreneurial link to small business facilitated by franchising. Findings were also indicative of franchise system entrepreneurs being significantly prone to ecommerce capability. Both studies identified an entrepreneurial orientation within the franchised system; together with franchising being an entrepreneurial option towards creating and developing ventures.

What follows is an empirical study conducted on the EO of franchisees Lindsay and McStay (2004), specifically on the entrepreneurial constructs of innovation, creativity and risk-taking.

### **3.4.2 Franchisee entrepreneurial orientation: an empirical review**

Lindsay and McStay (2004: 3) relate that from the franchise system perspective, benefits in maintaining system integrity may be achieved by constraining franchisee entrepreneurial behaviour. However, they advise that this will be costly to both franchisor and franchisee from a performance perspective. Those organisations demonstrating entrepreneurial activities, contingent upon environmental and organisational factors, experience improved performance (Covin & Slevin, 1989: 77; Lumpkin & Dess, 1996:

434). EO is furthermore an essential feature of high performance organisations (Lumpkin & Dess: 1996). Various authors concur on OE measures. Morris and Kuratko (2002); Miller (1983); Lumpkin and Dess (1996); Covin and Slevin (1989) and Wiklund (1999) regard EO measures as including proactiveness, innovativeness and risk-taking.

#### 3.4.2.1 Proactiveness

Seen as an opportunity-seeking and forward-looking perspective in anticipating future demand (Morris & Kuratko: 2002). Whilst not necessarily meaning ‘first to market’ (Lumpkin & Dess: 1996), proactivity represents an aggressive competitive orientation (Covin & Dess: 1997). Morris and Kuratko consider proactiveness as being concerned with implementation, with taking responsibility and doing whatever is necessary to bring an entrepreneurial concept to fruition. It is manifested as acting on rather than reacting (Miller: 1983) from a corporate entrepreneurship perspective. The essence of proactiveness is captured in the well known Nike slogan “just do it”. The author is however of the opinion that proactiveness would better be described as “just did it”.

#### 3.4.2.2 Innovativeness

Viewed as the basic willingness to venture beyond current paradigms or state of the art; departing from existing technologies or practices (Lumpkin & Dess, 1996: 142). Often associated with creativity, Nieman *et al* (2003) add that something new and different is required. Seven perspectives of creation and innovation are identified by Morris (1998): creation of wealth; creation of enterprise; creation of innovation; creation of change; creation of employment; creation of value and creation of growth. Morris and Kuratko (2002) inform that innovation is concerned with combinations of resources that make existing methods or products obsolete.

#### 3.4.2.3 Risk-taking

A tendency to unfold bold, yet calculated dynamism to achieve goals. Such activities include venturing into new and unknown markets and entering ventures with uncertain outcomes (Lumpkin & Dess: 1996). Nieman *et al* (2003) identify risk as involving personal and financial sacrifice. Morris and Kuratko (2002) consider risk-taking as involving anything new, or some likelihood that actual results will differ from

expectations. They advise that emphasis is usually placed on risks that are moderate and calculated.

A combination of these three dimensions makes unique contributions to an organisation's entrepreneurial orientation (Miller: 1983; Covin & Slavin: 1989). In evaluating these three dimensions within the franchise system, Lindsay and McStay (2004) developed hypotheses to research EO within the system. They inform that franchisees will need to be proactive in scanning the environment to highlight opportunity areas for franchisor approval or implementation. Franchisors are protective of their intellectual property, not allowing franchisees opportunity to innovate franchisor capital. Although innovations may originate from the franchisee, Lindsay and McStay (2004) believe innovation will only be implemented with franchisor approval. Despite the risk reduction elements of the franchise system (Mendelsohn: 1992), franchisees will still need to engage in risk taking activities within their environments in the pursuit of profits (Lindsay & McStay, 2004: 4).

Lindsay and McStay (2004: 6) inform that results demonstrate that franchisee organisations are capable of demonstrating an EO, in spite of the constraints of the franchise system. Depending on specific surrounds and context, the entrepreneurial dimensions can vary independently. The results provided support that proactiveness and risk taking are inherent dimensions within the franchise system (Mendelsohn: 2003), whilst innovation is primarily at the hand of the franchisor. Both proactiveness and risk-taking were found to drive franchisee performance.

Managerial implications highlight the need for entrepreneurial freedom so that franchisees may respond to uncertainty, change and complexity. The research examined the EO construct and EO-performance relationship with respect to franchisees. Research findings are indicative that franchisees may not be dissimilar to entrepreneurs (Lindsay & McStay, 2004: 7; Freel & Deakins, 2003: 69).

Section 3.4 concludes two chapters on entrepreneurship and franchising, identifying the causal relationship between the two disciplines. The seven perspectives on the nature of entrepreneurship (Morris & Kuratko: 2002) are by implication applicable to the entrepreneur, intrapreneur and franchisee. These are identified as:

- Creation of wealth
- Creation of enterprise
- Creation of innovation
- Creation of change
- Creation of employment
- Creation of value
- Creation of growth.

The seven perspectives (Morris & Kuratko: 2002) are identified in Section 3.4, and in Tables 3.4 and 3.5. Predominant literature (franchise system specific) identifying the causal relationship revolves around Mendelsohn (2003); Nieman (1998); Nieman *et al* (2003); Bygrave (1997); Michael (2003); Lindsay & McStay (2004); Spinelli (1997); Schaper and Volery (2004); Hisrich *et al* (2004); Deakins and Freel (2003); Amos and James (2003) and Johnson (2003). Empirical analysis will identify the strength of the relationship in a pre-determined franchise system; albeit the opinion of the author that such a relationship in fact exists.

### **3.5 CONCLUSION**

Franchising is a market initiative facilitating entrepreneurial new venture development, primarily reducing associated risk. It is seen as an entrepreneurial option towards creating and developing ventures, and is seen as a relatively low-cost means of creating new ventures.

The nature and development of franchising is examined, together with a link of franchising and entrepreneurship. Franchise rationale is analysed, consisting of franchise agreements, franchise manuals and disclosure documents. Challenges to growth are analysed, highlighting franchisor and franchisee interaction.

Franchise system relationships are the driving force of franchise activity, highlighting merits and demerits of the franchise system. Entrepreneurial orientation has been analysed within the franchise system. An entrepreneurial orientation of the franchisee is evaluated by means of a literature review on the disciplines. Whilst there is evidence of entrepreneurial orientation on behalf of the franchisor, such evidence is scant regarding the franchisee. The literature review is indicative of an entrepreneurial orientation

amongst the entrepreneur, intrapreneur and franchisee. An empirical study will however validate the opinion of the author. Research is indicative of proactive and risk taking dimensions on franchisee performance; whereas innovation is the prime responsibility of the franchisor.

In Chapter 4, the service profit chain is discussed within the context of the franchise system. The service profit chain primarily includes customer and employee satisfaction, loyalty and value; identifying strategic initiatives of referrals, retention and related sales. Customer loyalty is introduced as experiencing a positive relationship with profit, highlighting determinants, relationships, and methods of enhancing loyalty. The chapter concludes with an entrepreneurial spirit of service profit chain enhancement, identifying strategies to facilitate service profit chain implementation.

## CHAPTER 4: PUTTING THE SERVICE PROFIT CHAIN TO WORK

“The service profit chain unveils a great model that managers can use to maximize both customer loyalty and profit. It links an action plan for managing all elements of a business with a thorough process for measuring results”.

John B. McCoy, Chairman and CEO, Bank One Corporation, USA.

### 4.1 INTRODUCTION

The service profit chain is a well-received model to explain the sustainable competitiveness of many service organisations (Lau, 2000: 422). The model attributes a service organisation’s financial and market performance to its relationships with its customers and employees (Heskett: 2002). Internal service quality serves the foundation of the model, igniting a chain effect to an organisation’s growth and profit (Silvestro: 2002).

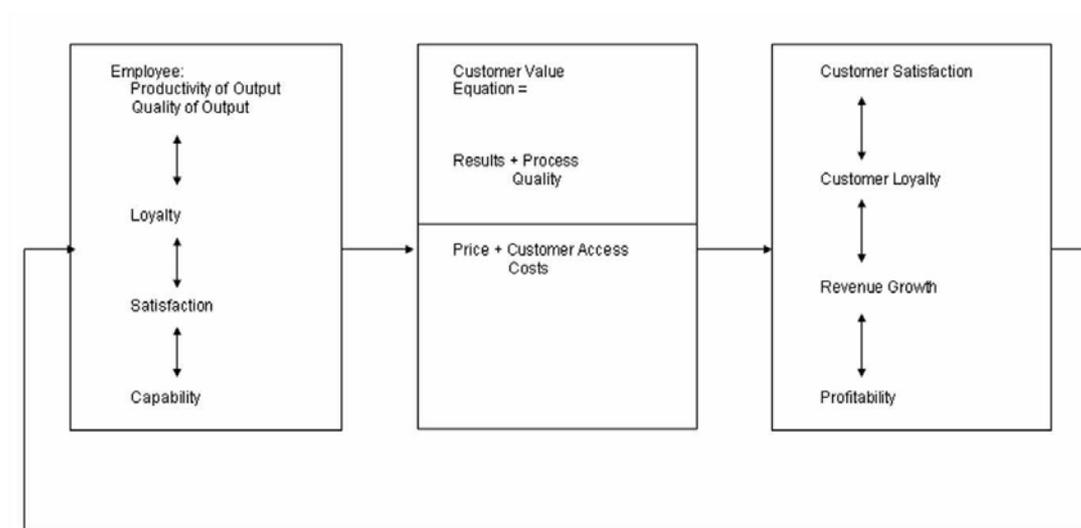
The Service Profit Chain is a strategic service vision, whereby there is a strong and direct relationship between customer satisfaction (Andreassen: 1994), customer loyalty (de Ruyter & Bloemer: 1999) and the value (Silvestro & Cross: 2000) of goods and services delivered to customers. Furthermore, there is a strong link between these elements and overall profit and growth of an organisation (Heskett, Sasser & Schlesinger, 1997: 11). Organisational profit and growth are linked to customer loyalty, satisfaction and value via the strategic implementation of referral, related sales and retention strategies (Heskett, Jones, Loveman, Sasser & Schlesinger: 1994).

In contrast to economic market forces (Porter: 1998), whereby competitors believe a high correlation between profitability and market share prevail, many management authors (Reichheld & Sasser: 1990) are of the opinion that it is quality of market share which is important (Andreassen: 1994), and a high correlation actually occurs between service value and profitability (Maranto & Reynoso: 2003; Ho & Cheng: 1999). This correlation was evident in Southwest Airlines (USA), who never made the top five largest in its industry, but has over the years been the most consistently profitable (Herbert D. Kelleher, Chairman, President and CEO of Southwest Airline Company). The Service profit chain identifies direct and strong relationships between profit, customer satisfaction, employee satisfaction and capability (Heskett *et al*: 1994).

The customer value equation is pivotal to the other two elements of the service profit chain, with the employee at one end, and the customer at the other (Ho & Cheng: 1999). The employee links productivity and quality of output with employee loyalty, satisfaction and capability (Andreassen: 1994; Sivestro: 2002). The customer value equation equates results plus process quality against price plus customer access costs, linking profitability and growth with customer satisfaction and customer loyalty (Ruyter & Bloemen (1999). In service settings, these relationships are self-reinforcing; whereby satisfied customers contribute to employee satisfaction and *vice versa* (Reichheld: 2001).

Figure 4.1 identifies the elements of the service profit chain, depicting the centralisation of the customer value equation. Internal service quality serves the foundation of the model (Lau, 2000: 422), represented by employee loyalty, satisfaction and capability (Silvestro: 2002). The output is depicted on the lateral flank, represented by customer satisfaction and loyalty; resulting in organisational revenue growth and profitability (Heskett *et al*: 1997).

**FIGURE 4.1 Elements of the service profit chain**



Source: Heskett, Sasser and Schlesinger (1997:12)

## 4.2 PROFIT AND LONG TERM GROWTH

Walker, Boyd and Larrache (1999), highlight that marketing is ultimately the art of attracting and keeping profitable customers. Kotler (2000: 55) further identifies a profitable customer as, "a person, household, or company that over time yields a revenue

stream that exceeds by an acceptable amount the company's cost stream of attracting, selling, and servicing that customer." The emphasis is not on the profit from a particular transaction, but from the lifetime stream of revenue and cost (Sherden: 1994).

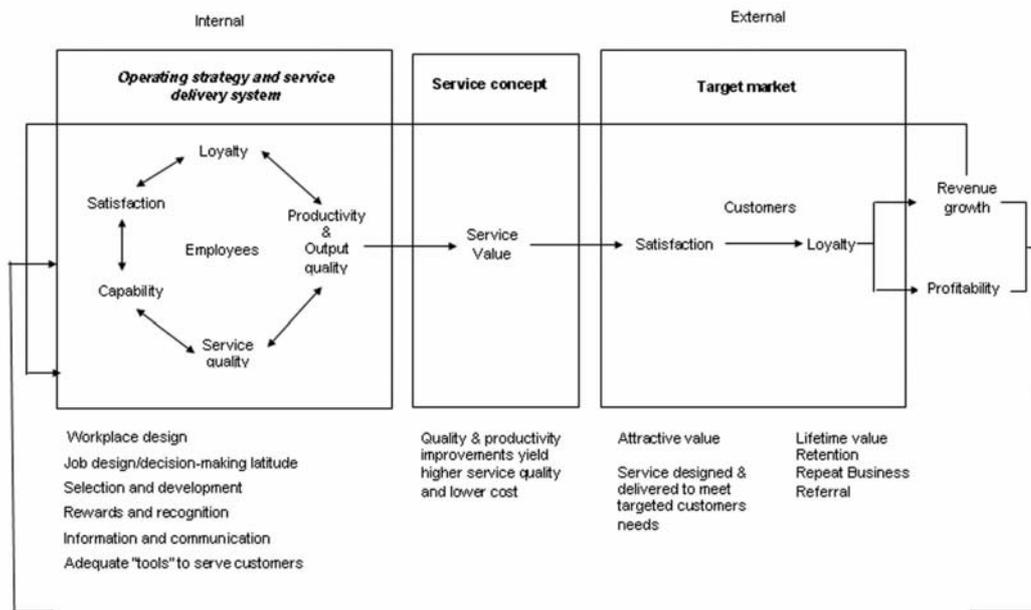
Hayes (1993) highlighted the Taco Bell (a leading Mexican take-out chain in USA) retention strategy, whereby their managers help employees understand the value of keeping customers satisfied. Although tacos cost less than a dollar each, one wouldn't think they would fret over lost customers. Yet, executives at Taco Bell have determined that a repeat customer is worth as much as \$ 11,000. Service Profit Chain implementation is seen as a means towards achieving long-term profit and growth (Heskett *et al*: 1997).

Figure 4.2 (overleaf) identifies internal and external components of the service profit chain, further segmented into four core sections:

- Operating strategy and service delivery system; consisting of internal employee's loyalty, productivity, service quality, capability and satisfaction. Inputs include workplace design, job design/decision making latitude, selection and development, rewards and recognition, information and communication, and adequate 'tools' to serve customers (Lau: 2000; Silvestro: 2002)
- The service concept; consisting of service value, identifying quality and productivity improvements that yield higher service quality and lower cost (Ho & Cheng: 1999)
- The target market; consisting of external customer satisfaction and loyalty (de Ruyter & Bloemer: 1999). Inputs include attractive value, designed service, lifetime value (McDougal, Wyner & Vazdauskas: 1997), retention (Ahmad & Buttle: 2002), repeat business and referrals (Helm: 2003)
- Profitability represented by organisational revenue growth (Bowen & Chen: 2001).

Figure 4.2 is represented on the following page.

**FIGURE 4.2 The service profit chain**



Source: Heskett, Sasser and Schlesinger (1997: 19)

### 4.3 CAPITALISING ON THE SERVICE PROFIT CHAIN

Heskett *et al* (1997) identify issues linking profit and growth, stating that when companies put employees and customers first; a radical shift occurs in the way they manage and measure success. Heskett *et al* (1994) identify the links in the service profit chain, commencing with the primary stimulation of customer loyalty. A closer analysis of each link reveals how the service profit chain functions as a whole.

#### 4.3.1 Profit and growth link to customer loyalty

The principle of market share equals profit is replaced by the opinion of Reichheld and Sasser (1990), concluding that customer loyalty is a more important determinant of profit than market share in a wide range of industries. As such, they believed that quality of market share, measured in terms of customer loyalty, deserves as much attention as quantity of market share. Loyal customers are customers who hold favourable attitudes toward the company, commit to repurchase the product/service, and recommend the product to others (Bowen & Chen: 2001). It has been regarded as the *sine qua non* of an effective business strategy (Heskett: 2002). Hallowell (1996) identifies loyalty from a

cognitive (attitudinal) and behavioural point of view. Customer loyalty is purchase behaviour, unlike customer satisfaction, which is an attitude (Griffin: 1996). Duffy (1998) identifies loyalty marketing as more than just a program, being a state of mind and a business strategy. Southwest Airlines, the leading budget 'no frills' American airline, implement loyalty programmes, primarily by keeping in touch with their customers at the front-line. As Colleen Barrett, Executive Vice President at Southwest, puts it, "Once customers fly on us three times they're hooked". This contributes to Southwest's record of being the only U.S. airline to report twenty-four straight years of profitability. When properly embraced, developed and implemented, loyalty marketing strategies become integrally linked to the product (Duffy: 1998).

Reichheld and Sasser (1990) found that when a company retains just five per cent more of its customers, profits increase by twenty-five per cent to one hundred and twenty-five per cent. Gould (1995) consolidated the interest in loyalty through his research that supported Reichheld and Sasser's work. The increased profit from loyalty comes from reduced marketing costs, increased sales and reduced operational costs (Bowen & Chen: 2001). Loyal customers are less likely to switch because of price and they make more purchases than similar non-loyal customers (Reichheld: 2001; Reichheld & Sasser: 1990). Loyal customers will also provide strong word-of-mouth, create referrals, provide references and portray a positive image of the organisation (Bowen & Chen: 2001). Finally, loyal customers cost less to serve, in part because they know the product/service and require less information (Heskett *et al*: 1994). The results of the Bowen and Chen (2001) study supported the contentions that there is a positive correlation between loyal customers and profitability.

Hallowell's (1996) regression analysis also supports the inference of a relationship between customer loyalty and profitability. Heskett (2002) believes there is a real opportunity to build loyalty from a core of apostles and owners who have extraordinary lifetime value for the provider of goods and services. Marketers use loyalty-building strategies to help increase customer retention and boost share of customer (Mulhern & Duffy: 2004). Loyalty behaviour such as increased scale or scope of relationship, relationship continuance, and word-of-mouth (recommendation) result from customers' beliefs that the quantity of value received from one supplier is greater than that available from other suppliers (Hallowell: 1996). Duffy (2003) identifies benefits of loyalty to

include cost savings, referrals, complain rather than defect, channel migration, unaided awareness and greater awareness of brand assets.

The financial performance and customer loyalty link demonstrates strong correlation, indicating that retailers with loyal customers are more profitable than those with less loyal customers (Silvestro & Cross: 2000). Heskett *et al* (1997) emphasized the importance of evaluating the lifetime value of the customer. Service providers need to consider retaining customers in a continuing relationship through consumer orientated initiatives of retention, related sales and referrals (Lau: 2000).

#### **4.3.2 Customer loyalty link to customer satisfaction**

Leading companies quantify customer satisfaction; often revealing that there is no constant link between customer satisfaction and loyalty (Soderlund: 1998). Based on recent research, this link has been found to be the least reliable in the service profit chain (Heskett *et al*: 1997). Customer satisfaction (or dissatisfaction) results from experiencing a service quality encounter and comparing that encounter with what was expected (Caruana, Money & Berthon: 2000). Reichheld (1996) expressed the suspicion that those things satisfying customers may not be the same things that enhance loyalty to the provider. He further informs of short-term tactics, such as price discounting, which may entice satisfied customers to migrate to competitors. Hallowell's (1996) regression results support the inference of customer satisfaction and customer loyalty relationship. Results are however ambiguous regarding the role of price satisfaction in predicting customer loyalty. Support for a view that the effects of customer satisfaction on loyalty are different depending on the level of satisfaction is offered by Jones and Sasser (1995). They argue that the relationship is non-linear, being subject to different patterns depending on the product/service. Soderlund (1998) concludes that the relationship between customer satisfaction and loyalty is different at different levels of satisfaction.

Van der Wiele, Boselie and Hesselink (2002) relayed empirical data finding evidence that there is a positive relationship between customer satisfaction and organisational performance indicators (albeit not very strong), and that there is a significant time-lag effect on the relationship. Considerable research has focussed on service quality dimensions as the primary determinants of customer satisfaction (Parasuraman *et al*: 1998; Ziethaml & Bittner: 2003). There is a correlation between satisfaction and service

quality, emphasized by cross-tabulation analysis (Sureshchander, Rajendran & Anantharaman: 2002). The two constructs do however exhibit independence, and are different constructs from the customer's point of view. McDougall and Levesque (2000) empirically identified a strong relationship between loyalty and satisfaction, suggesting the importance of perceived value to loyalty and, in turn, to profitability. It is further well understood that increasing customer loyalty is positively correlated with increasing profitability (Heskett *et al*: 1997; Reichheld: 1996). Andreassen (1994), in agreement with Soderlund (1998) identifies the satisfaction and loyalty link dependent on the nature of the product/service. Silvestro and Cross (2000) do not suggest a significant relationship between customer satisfaction and loyalty, except for the link between satisfaction and a customer's propensity to recommend services to friends and relatives.

Due to the link between customer service and loyalty being the weakest in the chain, the relationship between them is not constant, with varying relationships dependent on complexities of the situation (Heskett, *et al*: 1997). The service profit chain however reflects the behavioural side of customer loyalty, as opposed to attitudinal loyalty (Hallowell: 1996); which can only be reinforced by increased customer satisfaction (Lau: 2000).

#### **4.3.3 Customer satisfaction link to service value**

The value-orientation of customers is emphasized as a driver of customer satisfaction (Andreassen: 1994; Heskett *et al*: 1994). Value is seen as the primary motivator, again evidenced at Southwest Airlines, where customer perceptions of value are very high, even though the airline does not offer all the services and amenities provided by its competition. Similarly, value at American Express (AMEX) Travel Services is a combination of results produced for customers; such as quick and accurate ticketing (Heskett *et al*: 1997). Customers today are strongly value-oriented and they seek results and service process quality that far exceed the price and acquisition costs they incur for that service (Heskett *et al*: 1997). Winning value combinations comprise good results, superb process quality, reasonable pricing and product quality (Jones & Sasser: 1995).

Service value is the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given (Zeithaml: 1988). The author identifies value as low price, whatever I want in a product, the quality I get for the price I pay, and

what I get for what I give. Empirical results from Caruana *et al* (2000) suggest that the effect of quality on satisfaction is not just direct but is also moderated by value. Value however does not have a strong independent effect on satisfaction. The negative coefficient for the interaction between service quality and value implies that this factor can have a negative impact on satisfaction. Ho and Cheng (1999) developed a new concept called the value mix, focussing on the customer's perception of the value of a product or service in terms of function, quality and price. Value is suggested as integral to strategy in pursuing customer satisfaction. Heinonen (2004) proposed and empirically investigated a conceptual model of customer perceived value, highlighting dimensions of location and time frame of service offerings. An important implication of this is that value dimensions can be used to target customers in a new way.

The connection between perceived value and customer satisfaction contends that value has a direct impact on satisfaction (Heskett *et al*: 1997). From an empirical perspective, perceived value should be recognized as a contributing factor to satisfaction and loyalty (McDougall & Levesque: 2000). They identify that the strong relationship between loyalty and satisfaction suggests the importance of perceived value to loyalty, and in turn, to profitability. McDougall *et al* (1997) reflect that customers differ widely in the long-term value they represent to a company, and the optimal customers are often many times more valuable than the average ones. They identify value components of acquisition cost, revenue stream, cost stream and length of relationships. In agreement with Heskett *et al* (1997), they too identify the service value link to the lifetime value of the customer.

Silvestro and Cross (2000) identified a strong positive correlation between customer satisfaction and perceived service value at the 95 per cent level. Customers appear to be strongly value-driven, suggesting a strategy of improving service value to customers. When customers perceive a high service value they are more likely to display loyal behaviour, including relationship continuance, word of mouth and recommendations (Hallowell: 1996).

#### **4.3.4 Service value link to employee productivity**

Highlighting the link between quality service and the productivity of employees (Lau: 2000), Southwest Airlines can board many more passengers per employee than any other major U.S. airline. Even pilots have been known to assist with baggage for late

departures. A recent study indicated that Southwest served 50% more passengers per employee than its closest competitor (Heskett *et al*: 1997). Similarly, at American Express Travel Services, productivity is defined in terms valued by customers (Heskett: 2002), for example, the speed and accuracy with which tickets are prepared. As such, quality of service and high productivity most often go hand in hand (Escover: 1993).

Through their long tenure serving specific groups of customers, loyal employees make it easier to create increased profit through enhanced services, reduced costs of acquiring customers, and lower customer-price sensitivity (Reicheld & Sasser: 1990). The result of enhanced communications and employee involvement is increased productivity and employee satisfaction. Escover (1993) regards the process as involving negotiating expectations, objectives, levels of performance and pay for performance. Gomez-Mejia (1990) developed a model highlighting performance appraisal and reward systems in enhancing employee performance. He further argued that feedback is a powerful instrument in performance enhancement. Honeycutt (1989) identified service value and employee productivity by providing open channels of communication, interpersonal trust and acceptance, which are the building blocks to construct motivation, productivity and commitment.

Schermerhorn (2002) identifies productivity as the quantity and quality of work performance, with performance effectiveness being an output measure of task/goal accomplishment. He applies the individual performance equation (Schermerhorn, 2002: 392), which includes individual ability, support and effort. Sivestro and Cross (2000: 249) identified a strong correlation ( $r= 0.92$ ) between service value and productivity. Friendly service encounters were seen as determinants for efficient purchasing, enhancing service value.

#### **4.3.5 Employee productivity link to loyalty**

Employee loyalty is highlighted at Southwest Airlines, whereby the airline was voted one of the 10 best places to work in the United States. This was coupled with their high levels of employee productivity; and the highest staff retention in the industry (Heskett *et al*: 1997). A study by VSDA (2001), found that strong relationships and loyalty are developed between staff and customers through consistency of management and staff. Through their long tenure services, loyal employees tend to develop personal

relationships with their customers (Lau: 2000). These relationships serve as the foundation for a reinforcing cycle of positive interactions between the service employees and customers (Reichheld: 1993). Choosing the right employees is the first step in retaining productive employees (Lau: 2000). Traditional measures of losses incurred by high employee turnover related to cost of recruiting, hiring and training replacements. In most service positions, the real cost is the loss of productivity and decreased customer satisfaction (Heskett *et al*: 1994).

Reichheld (1996) deems that increasing employee loyalty, in terms of length of service, should reduce costs and improve profitability. Loveman (1998) found a positive link between employee tenure and financial performance. Loyalty is however a construct of two dimensions; length of service, and employees' stated willingness to refer the place of employment to friends and colleagues (Nel *et al*: 2004). Silvestro (2002) empirically tested the loyalty relationship, postulating that the only measure of employee loyalty which correlated significantly with hard measures of performance was length of service. There was a significant and negative correlation with profit and all the productivity measures. These conflicting results suggest that the link between employee loyalty and profit is more complex than originally stated by Heskett *et al* (1997). There appears to be a significant rift between employee loyalty and the rest of the service profit chain (Silvestro & Cross, 2000: 249).

#### **4.3.6 Employee loyalty link to employee satisfaction**

This link raises the question of what employee satisfaction is linked to. Employee satisfaction levels at Southwest Airlines are high and cultivated by management. Many companies characterize themselves as big families; often seen in after-work activities such as involvement with charities, sports, events and the like. This tends towards satisfied employees, making them less vulnerable to leaving the employ of the company (Heskett *et al*: 1997). Schermerhorn (2002) identifies employee satisfaction as the degree to which an individual feels positively or negatively about their employment.

Bitner (1990) believes that inferior performance will lead to customer dissatisfaction, firm switching and negative word of mouth communication on the part of the customers about the employee and the firm. Rogers, Clow and Kash (1994) conceptualised a satisfaction model, highlighting the loyalty and profitability link. Constructs consisted of empathy;

job satisfaction; job tension; conflict and role clarity. Contrary to compelling evidence (Heskett *et al.*: 1997), the model conceptualised by Vilarés and Coelho (2003) does not consider the business climate; or more specifically, the cause and effect relationship between employee behaviour and customer satisfaction. They however incorporate satisfaction, loyalty and commitment as a construct, as they are perceived by customers (ECSI model). The effects of the positive encounter cycle correlate employee and customer attitudes (Heskett: 2002).

The retention of employees who develop continuing positive interactions with customers will become even more critical in the future (Rust & Stewart: 1996). They present a customer satisfaction measurement approach to evaluating employee satisfaction and retention, providing a foundation towards the ultimate link to profit and growth (Heskett *et al.*: 1994). A study by Schlesinger and Zornitsky (1991) showed that the potential turnover rate of dissatisfied employees is three times higher than that of satisfied employees. High employee turnover can be costly. Solomon (1998) reported that separation, replacement and training costs are up to two-and-a-half-times annual salary for each leaving employee.

Silvestro (2002) however revealed striking employee satisfaction results (albeit a small sample). Employee satisfaction was negatively and significantly correlated with profit margins, and with the productivity indicator. This however is applicable to a busy retail environment, indicative of employees being over-stretched in retail outlets. This notion does not accord with the assumption in management literature that empowered staff are better equipped to meet customer needs and more likely to find job satisfaction (Nel *et al.*: 2004; Heskett: 2002; Hisrich & Peters: 1998; Hamel & Prahalad: 1995; Lindsay & McStay: 2004; Ring & Van de Ven: 1994; Ziethaml & Bitner: 2003). In a separate study, Silvestro & Cross (2000) found no significant correlation between any of the measures of employee loyalty and overall staff satisfaction at retail level. They did however suggest that employee satisfaction and loyalty are linked, even though the correlation was not statistically significant.

#### 4.3.7 Employee satisfaction link to internal quality of work life

Internal quality of work life is measured by the feelings that employees have toward their jobs, colleagues, and companies. This includes the attitudes that employees have towards each other. Many companies successfully implement teambuilding to enhance this link, which includes conferences, group sport events and social clubs. According to the service profit chain, internal service quality serves the foundation of the model and it ignites a chain effect leading to an organisation's growth and profitability (Lau: 2000). Heskett *et al* (1994) referred internal service quality to the quality of work environment that contributes to employee satisfaction, which has also been known as quality of work life (QWL).

Schermerhorn (2002) identifies quality of work life opportunities in the areas of career development, career planning, work-life balance, compensation and benefits, retention and turnover, and labour-management relations. Internal quality of work is most often identified with internal marketing (Kang, James & Alexandris: 2002). They propose that a critical component of internal marketing is the provision of internal service quality. Their study modified the SERVQUAL instrument (Parasuraman *et al*: 1988; Ziethaml & Bitner: 2003) for a service setting and empirically tested and confirmed that it is appropriate for measuring internal service quality. They identified distinct and conceptually clear dimensions of reliability, assurance, tangibles, empathy and responsiveness.

Internal marketing focuses on identifying and satisfying employees' needs as individuals and as service providers (Varey: 1995), just as external marketing focuses on identifying and satisfying the external customers' needs (Kang *et al*: 2002). Yoon, Beatty and Suh (2001) empirically indicated that in addition to job satisfaction, employees' work effort plays a strong, central role in determining customers' perception of employee service quality. Their study investigates two components for successful implementation of internal marketing, service climate and supportive management.

Common beliefs support the contention that quality of work life will positively nurture a more flexible, loyal and motivated workforce (Bassi & Vanburen: 1997; Meyer & Cooke: 1993). Lau (2000) empirically analysed the quality of work life (QWL) construct, and found that QWL companies indeed enjoy higher growth rates than those not portraying QWL, and their differences are statistically significant. With regards to profit, QWL

companies managed to have a higher average profit margin than their counterparts, however, the difference was not statistically significant ( $p= 0.1977$ ). QWL is an important issue as it determines the ability of an organisation to attract and retain prospective employees (Lau: 2000).

These links highlight the interaction between the customer; value; and the employee-attributing towards the implementation of the service profit chain within leading organisations (Heskett *et al*: 1997). The connection between employee satisfaction and customer satisfaction is conceptually strong because of many active interactions between them (Lau: 2000). The threat is however that the ‘human resources trap’ may result in the belief that all good (and bad) things that happen to customers in a service business are caused by human resource policies, practices and procedures (Schneider & Bowen: 1995). It must however be that some of the concepts linked together in the chain are not single constructs which can be linked together in the simplistic way proposed by Heskett *et al*'s (1997) model (Silvestro & Cross: 2000). Bloemer and Kasper (1995) demonstrated that the relationship between some of these concepts could vary depending on the nature of the construct, as well as being contingent upon environmental and operational variables.

#### **4.4 SERVICE PROFIT CHAIN MANAGEMENT IMPLICATIONS**

Leadership underlies the success of the service profit chain, and leaders who understand the concept develop initiatives to develop and maintain a service culture around customers and employees (Heskett *et al*: 1997). Implications of the service profit chain vary according to situational factors (Bloemer & Kasper: 1995), but most often incorporate guidelines depicted by Heskett *et al* (1994). These include inter-organisational activities.

##### **4.4.1 Measuring across operating units**

System orientation (Perry: 2002) is particularly evident when an organisation has multiple outlets (Mendelsohn: 2001), an example being franchising. The objective is to maintain high levels of service across the franchise chain, linking satisfaction to consistency throughout the network (Heskett, Sasser & Hart: 1990). Such measurement is facilitated by implementing customer satisfaction surveys throughout the network, highlighting

correlations and variances. Similarly, employee satisfaction is usually obtained through direct periodic surveys (Kang *et al.*: 2002).

#### **4.4.2 Developing a balanced scorecard**

Kaplan and Norton (1993; 1996a; 1996b) recommend not only using financial measures, but also non-financial outcomes as innovation, human resources effectiveness, and customer satisfaction or loyalty. Although the service profit chain places emphasis on the overall link to growth and profitability (Heskett: 2002), other less tangible factors have to be monitored (Meyer & Cook: 1993). Such examples include strategic alliances for long-term benefit, whereby financial means are not readily available for analysis (Porter: 2001). Low, Siesfeld and Larcker (1999) place emphasis on new technologies and e-commerce, stating that corporate wealth is now being accumulated through non-financial measures by electronic webs formed through corporate alliances and joint ventures.

According to Brinker (1999) a company's competitive advantage is defined by the know-how, relationships, secrets and collective knowledge of its employees. The balanced scorecard (BSC) is a performance management indicator, whereby strategy-focused organisations thrive in new business environments (Kaplan: 2000). The balanced scorecard calls on managers to make a commitment to introduce an array of measures or scorecards that will guide their decisions away from narrowly focussed financial measures. In agreement with Heskett *et al.* (1997), Sim and Koh (2001) advise that the balanced scorecard serves to guide business into greater profitability as managers position themselves to better serve their customers, employees and shareholders at large. The rationale behind the balanced scorecard appeals to managers who face new challenges in the current business climate (Hasan & Tibbits: 2000). The scorecard views four business aspects, being management (financial), external (customers), operations (internal business) and organisational (innovation and learning) (Kaplan & Norton: 1996b).

The balanced scorecard and management by objectives are similar in nature, as both are based on the development of strategic measures, despite BSC being more explicit about the measures (Dinesh & Palmer: 1998). No organisation has made a more comprehensive effort to measure performance and relationships using BSC and the service profit chain than the fast-food company, Taco Bell (Heskett *et al.*: 1994). The integration of the BSC and service profit chain depends not only on placing hard values on soft measures, but

also on linking those individual measures together into a comprehensive service picture (Heskett *et al.*: 1997).

#### **4.4.3 Communication of results**

Satisfaction monitoring and results are communicated throughout the organisation, enabling management and employees to facilitate corrective measures, together with building upon opportunities (Heskett *et al.*: 1997). Many organisations provide a base for sharing information, triggering a best practice approach between operating units. This aspect correlates to internal marketing, an important approach for fostering a service and customer oriented culture in an organisation (Kang *et al.*: 2002). Schneider and Bowen (1985) suggested that employees would deliver excellent service to customers when the organisation provides them with the necessary resources, including logistical, administrative, equipment, and management support. Internal communication of results is communication within distinct organisational units or the people working in these departments, to other units or employees within the organisation (Stauss: 1995).

The provision of optimal communication and internal services to employees is crucial to the overall success of an organisation (Heskett: 2002; Schlesinger & Heskett: 1991; Schneider & Bowen: 1985). The link to the service profit chain is that satisfied employees are a critical prerequisite to the satisfaction of external customers (Kang *et al.*: 2002). Internal marketing includes those activities that improve internal communications and customer consciousness among employees, and the link between these activities and external market-place performance (Hogg, Carter & Dunne: 1998).

#### **4.4.4 Performance management**

Performance Management goes hand in hand with designing efforts to enhance performance (Kaplan & Norton: 1996b; Heskett *et al.*: 1997). Terminology such as business process re-engineering and paradigm shifts (Hamel & Prahalad: 1995); are often associated with improvements (Porter: 1996). Whilst service profit chain initiatives do not necessarily have to be of such a magnitude, implementation can be guided by simple training and development, change in policies and procedures, reorganisation and redesign of processes (Heskett: 2002). Methods of performance management also include management by objectives and the balanced scorecard approaches (Dinesh & Palmer:

1998). In the context of the service profit chain, performance management is about designing efforts to enhance performance (Heskett *et al.*: 1997). Performance management entails setting standards, assessing results, and planning for performance improvements (Nel *et al.*: 2004).

Performance appraisal is the process of evaluating performance and providing feedback to an employee (Schermerhorn: 2002). Service profit chain performance objectives may be centred on customer/employee satisfaction, loyalty and value (Heskett *et al.*: 1994), using techniques such as behaviourally anchored rating scales (Grote: 1999), critical-incident technique, a multiple comparison or 360 degree feedback (Edwards & Ewin: 1996). Kang *et al.* (2002) identified SERVQUAL as an appropriate performance management study regarding internal service quality. Yoon *et al.* (2001) identify performance issues centred on work effort; service climate; supportive management; job satisfaction and employee service quality. This equates to the service profit chain link of internal quality of work life.

Levering and Moskowitz (1999) identified five characteristics of performance management areas; more employee participation, more sensitivity to work/family issues, more two-way communication, more sharing of the wealth, and more fun. They also identify quality of work life performance around pay and benefits; opportunities; job security; pride in work and company; openness and fairness; and camaraderie and friendliness. Similarly, Lau (2000) identifies links in the service profit chain as integral to performance management. In agreement with Heskett *et al.* (1994), these include internal service quality, employee satisfaction, employee loyalty, employee productivity, service value, customer satisfaction and customer loyalty.

#### **4.4.5 Encouraging internal best practice exchanges**

This is particularly useful when dealing with geographically dispersed units or branches, such as the franchise system (Siegel: 2002). Managers are motivated to discuss issues with other business units, sharing success stories. Bank One, a leading retail bank in the U.S; purposely budget high travel and communication costs to encourage operating unit heads to talk frequently to discuss ways of improving their performance (Heskett *et al.*: 1994). Heskett *et al.* (1997: 37) state that, "it's this process of continual improvement

through internal best practice comparisons that utilizes the full competitive advantage of a large organisation with multiple operating sites".

A best practice perspective towards managing customer satisfaction is described by Zairi (2000) as a total concept which not only encapsulates the measurement aspects of customer satisfaction *per se* but also as a long-term pursuit of improvement; a culture change that can yield to competitive advantage in the higher order. To support the process of developing a customer-focused culture, Zairi (2000) believes there are some key drivers. These are based on best practice and used to measure business excellence at world-class level; identifying who the customer is; identifying and evaluating market dynamics, competition, opportunities, threats and environmental factors and identifying methods of creating customer focus.

Davies and Kochhar (2000) developed a structural framework of best practice, encouraged by their having a strong relationship with performance objectives, with no major adverse effects and having the necessary supporting practices in place for the desired practice to be implemented successfully. Their framework can be used to identify best practices with the strongest effect on the area to be improved, together with a sequence of desired practices. Also highlighted is the need to consider the dependency relationships that exist between the practices themselves.

Best practice is often associated with benchmarking, a concept whereby one learns from others (Heskett *et al*: 1990). Andersen, Fagerhaug, Randmoel and Prenninger (1999) identify this learning from others using terminology of measurement, comparison, learning and improvement. Benchmarking emphasizes attaining so-called breakthrough improvements, usually accomplished by introducing best practices that are new to an industry, through generic benchmarking (Andersen & Pettersen: 1995).

Andersen *et al* (1999) advise that the primary information from benchmarking activities are flow charts and process descriptions. In developing benchmarking, the following steps are identified (Andersen & Randmoel: 1997):

- Plan: critical success factors, select a process for benchmarking
- Search: find benchmarking partners

- Observe: understand and document the partners' process, both performance and practice
- Analyze: identify gaps in performance and find the root causes for the performance gaps
- Adapt: choose best practice, adapt to the company's conditions, and implement changes.

Jarrar and Zairi (2000) refer to best practice as those practices that have been shown to produce superior results; selected by a systematic process and judged as exemplary, good or successfully demonstrated. They identify a six stage process for the effective transfer of best practice, somewhat similar to the Andersen and Randmoel (1997) process: searching, evaluating, validating, implementing (transfer and enabling), review and routinising.

They identify internal transfer of best practices as arguably the most difficult stage. Transfer is identifying and learning from best practice and applying them in the new setting/location (O'Dell & Grayson: 1997). In addition to removing obstacles and barriers, organisations must create enabling structures for the effective transfer of best practices (Jarrar & Zairi: 2000). Best practice is further studied in chapter 5.

#### **4.5 MANAGING CUSTOMER SATISFACTION**

One in four customers has a problem with products purchased. If the item purchased is relatively low in price, only one in five will register a complaint. Research indicates that thirty-five per cent of customers will return and purchase the product/service if they are not actually satisfied with the service they have received (Eccles & Durand: 1998). In theory, this suggests that if customers are dissatisfied, two-thirds will not return. When a successful service recovery process is in place, the statistics somewhat change; eighty per cent of customers will return if satisfied with the response to a complaint (Plymire: 1992).

Kotler (2000: 36) identifies satisfaction as, "a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations". Zeithaml and Bitner (2003) review satisfaction as the customer's evaluation of a product or service in terms of meeting needs and expectations. Oliver (1997) identifies customer satisfaction as the consumer's fulfilment

response. Customer satisfaction is the leading criterion for determining the quality that is actually delivered to customers through the product/service and by the accompanying servicing (Vavra: 1997). Vavra's (1997: 4) outcome definition of customer service characterises satisfaction as the end-state resulting from the experience of consumption. Customer satisfaction is influenced by specific product or service features and by perceptions of quality (Parasuraman *et al*: 1998). Satisfaction is also influenced by customers' emotional responses, attributions and perceptions of equity (Zeithaml & Bitner: 2003). Sureshchandar *et al* (2002) further identify five factors of customer satisfaction as core services or service product; human element of service delivery; systematization of service delivery (non-human element); tangibles of service (servicescapes) and social responsibility.

Zairi (2000) believes organisations need to indicate that they are truly focussed on their customers through deeds and actions. He places emphasis on a customer-focused culture, highlighting the following guidelines:

- Customer focus is not necessarily a written statement
- The focus intention will have to be examined in terms of appropriateness and degree of seriousness to instigate a culture of customer focus
- Customer focus is a statement of intent, enabling the intent of a company to challenge existing operations, and adopt new innovations
- Creating new systems, benchmarking, best practices, and by doing the right things right first time and on time
- An evolutionary rather than revolutionary process
- A state of mind rather than an absolute concept which indicates optimised performance and reaching the pinnacle of success.

Zairi (2000) believes being customer focussed means having a clear service strategy which is deployed with vision, purpose and goals. He further identified benchmarking and best practice guidelines, depicted in Section 4.4.5.

In order to track customer satisfaction, companies need to monitor their competitors' performance in similar areas. For example, a company cannot be content when it receives an 80% satisfaction vote in a survey; when compared to a direct competitor, who receives a 90% satisfaction vote, notwithstanding that the competitor was aiming for a 95%

satisfaction score (Heskett *et al*: 1997). The dialogue created with customers has to be based on a strong system, constantly seeking views, feedback, future needs, putting action plans into place, monitoring satisfaction levels and drivers; enhancing loyalty and retention (Zairi: 2000). Hallowell (1996) in agreement with Duffy (1998; 2003), Helm (2003), Heskett (2002), Zairi (2000) and Bitner (1990) reflect on the many studies whereby customer satisfaction influences purchase intentions as well as post-purchase attitude. Various other studies also identified that customer satisfaction is strongly correlated to repurchase intentions, the willingness to recommend the company and to improve cross buying (Reichheld: 1996; van der Wiele *et al*: 2002; Parasuraman *et al*: 1998; Yu & Dean: 2001). The relationship and link of customer satisfaction to customer loyalty and value are represented in Sections 4.3.2 and 4.3.3 respectively. At the opposite end, researchers have also found that there is a strong link between dissatisfaction and disloyalty or defection (Anderson & Mittal: 2000).

Van der Wiele *et al* (2002) focused on the analysis of empirical data on customer satisfaction and the relationship with organisational performance data, finding evidence of a positive relationship between the two constructs. Hallowel (1996) identified that higher customer satisfaction translates into higher than normal market share growth, the ability to charge higher prices, improved customer loyalty with a strong link to improved profitability, and lower transaction costs.

For customer-oriented companies, customer satisfaction is both an objective and a marketing tool (Ziethaml & Bitner: 2003). Companies with high customer satisfaction rankings make sure their target market knows it (Kotler: 2000). Cognisance must be taken that striving for superior customer service must be in synergy with the strategy of the company, as maximizing customer satisfaction may have a negative effect on profit, should the company offer substantial discounts (Porter: 1996). The opposite rings true, in that issues such as enhanced research and development, or improvements in manufacturing processes may also lead to improved profits, emphasizing company wide initiatives to increase profits; not customer satisfaction on its own (Heskett: 2002). Kotler (2000) identifies the total resource approach, whereby the company must ultimately operate on the philosophy of achieving high levels of customer satisfaction, subject to delivering acceptable levels of satisfaction to the stakeholders within the constraints of its total resources.

The Dell Computer Corporation's direct-to-customer business model has resulted in high levels of customer satisfaction due to quick response levels, coupled with their business ethic of being accessible, fast and effective. Zairi (2000) summarizes the impact of customer satisfaction on repeat purchase, loyalty and retention:

- Satisfied customers are more likely to share their experiences with other people to the order of five or six people, as opposed to dissatisfied customers to the order of ten people
- Many customers do not complain, either accepting poor service, or migrating to competitors
- Whilst dealing with customer satisfaction/complaint is costly, it costs as much as 25 per cent more to recruit new customers.

Another point of view is that of Williams and Visser (2002), who inform that, customers are more and more being rewarded for being dissatisfied. Research has indicated that the most loyal customers are those who complain and report, subsequently, that their complaints have been well attended to by the company concerned (Goodman, Broetzmann & Ward: 1993). Yu and Dean (2001) believe that the emotional component of satisfaction serves as a better predictor of loyalty than the cognitive component. They postulate that negative emotions are negatively related to positive word of mouth and willingness to pay more, and positively associated with switching behaviour. Organisations use many methods to track customer satisfaction (Heskett *et al*: 1997). An overview of such methods follows.

#### **4.5.1 Customer feedback, complaint and suggestion systems**

Such systems make it easy for customers to deliver suggestions and complaints. Zeithaml and Bitner (2003: 128) identify complaint solicitation as identifying and attending to dissatisfied customers and common service failure points. The data is qualitative in nature, relatively low cost in value and time, and of continuous frequency. The feedback can take many forms, including on-site customer complaints, calls to toll-free customer-response phone numbers, and customer comment cards; most often facilitating two way communications. In each of these forms, the feedback information is either unsolicited or passively solicited (Sampson: 1998). Customers generally appeal to passive solicitation as focus is not directed on any specific customer. Sampson (1998) identifies the internet as

an effective means of gathering customer feedback. Complaints provide crucial information feedback which organisations should respond to positively (Andreassen: 1997). There is a distinct need for employee training in handling information feedback, to provide people with the skills, encourage positive attitudes and so bring about the behavioural change that will ensure converted, loyal customers (Bitner: 1990).

Organisations are seen to be paying lip service to customers and their complaints, while the lack of customer focus in design of systems and procedures is a cause for the complaint in itself (Heinonen: 2004). Ironically, the front line of many organisations faces as many battles internally as hassles from external customers. Additionally, some reward systems actively discourage effective complaint handling (Schlesinger & Heskett: 1991). Plymire (1992) advises that the complaints-generation process results in a customer-focused culture in which complaints are viewed as a source of opportunities.

#### **4.5.2 Lost customer analysis**

Organisations contact customers who no longer portray patronage, to discover with their reasons for defection (Heskett: 2002). Zeithaml & Berry (2003) identify lost customer analysis as identifying reasons for customer defections, being qualitative in nature, low monetary and time congruence, and continuous frequency. Bolting (1989) proposes ways of managing customer complaints of harmful types of dissatisfaction and for maximizing opportunities to develop loyal customer bases through effective handling of problems. Focussing on customer defections and service failures can assist organisations in improving service quality and improving long-term retention (Mack, Mueller, Crotts & Broderick: 2000). Keaveney (1995) empirically analysed (critical incident) service customers to study defections, finding eight general categories for switching: price; inconvenience; core service failures; service encounter failures; competitive issues; failed employee response to service failures; ethical problems and involuntary factors.

Fifty-five per cent of the respondents in the Keaveney (1995) study reported complex switching incidents due to more than one category, which were often interactive. Keaveney (1995) pointed out that six of the eight factors are controllable by the firm, and he identified suggested actions to prevent switching. High levels of successful recovery are positively associated with high levels of customer satisfaction (Bitner: 1990; Heskett: 1994). Sundaram, Jurowski and Webster (1997) used hypothetical service failure

recovery efforts to identify the positive association with quality and satisfaction. Banwari and Walfred (1998) suggest that unsatisfied customers may not wish to defect, however, satisfied customers may look for other suppliers because they can get an even better service level elsewhere (Trubik & Smith: 2000). It is estimated that 35 per cent of defecting customers defect as a result of uncontrollable external factors (Varney: 1996), with controllable factors including those identified by Keaveney (1995). Database management is a crucial method of analysing defections, together with studying retention strategies (Trubik & Smith: 2000). Zairi (2000a) believes effective management of defection strategies may turn around into customer loyalty and retention.

#### **4.5.3 Customer satisfaction surveys**

Surveys are conducted with emphasis on service related issues of importance to customers, representative of the entire customer base (Parasuraman *et al.*: 1998). The qualitative and quantitative measurement of customer perceptions about the quality of a product or service are important element of conducting a business (Hayes: 1997). Active solicitation is accomplished at moderate cost (such as mail surveys) to high cost (such as personal interviews) (Churchill: 1995). Zeithaml and Bitner (2003: 128) identify relationship surveys and SERVQUAL surveys as identifying customer requirements in various settings:

- As input for quantitative research (qualitative and periodic frequency)
- Monitoring and tracking service performance (quantitative and infrequent)
- Assessing overall company performance (quantitative and infrequent)
- Compared with that of competition (triangulation and situational)
- Determination of links between satisfaction and behaviour intentions
- To assess gaps between customer expectations and perceptions.

#### **4.5.4 Ghost shopping**

Often referred to as mystery shoppers, the company ascertains the degree of service in a real life shopping experience, together with gauging the level of employee competence (Heskett *et al.*: 1997). The mystery shopper evaluation is a formal observation method, gathering primary data by physically recording a designated aspect of behaviour. Grove and Fiske (1992) identify this form of research as unique to services, whereby

experienced researchers evaluate service as though they were customers. Mystery shoppers deliver objective assessment about service performance by completing questionnaires about service standards (Zeithaml & Berry: 2003). Mystery shopping is a technique used to measure individual employee performance for evaluation, recognition and rewards; and to identify systematic strengths and weaknesses in customer-contact-service (Zeithaml & Berry: 2003). Data is most often quantitative, relatively low in time and value, and optimally, quarterly in frequency. Au Bon Pain, a take out convenience food outlet sends mystery shoppers to their stores to evaluate service and the servicescape (Heskett *et al*: 1997). Servers are evaluated on standards including the following (Zeithaml & Bitner, 2003: 142):

- Acknowledged pleasantly
- Acknowledged within three seconds after reaching first place in line
- Server suggested additional items
- Server requested payment prior to delivering order
- Received receipt and received correct change
- Correct order received.

The mystery shopper is also used by Au Bon Pain as a key element in its compensation and reward system (Heskett *et al*: 1997). Mystery shopping can be a very effective way of reinforcing service standards (Zeithaml & Bitner: 2003); however, when more than one mystery shopper is involved, steps need to be taken to ensure that the measurements being taken are uniform for all observers - this is otherwise known as inter-rater reliability (Page & Meyer: 2003).

Measuring customer satisfaction can be tracked by means of 'listening posts' such as formal marketing research; customer surveys; feedback from customers; frontline reports; and most importantly, by the actual customer involvement in certain organisational issues (Heskett *et al*: 1997). The importance however rests on the interpretation and analysis of these mechanisms, coupled with the appropriate corrective measures to be implemented (Page & Meyer: 2003). Becoming customer oriented does not mean achieving high scores on ratings, but gaining an awareness of the needs of customers (van der Wiele *et al*: 2002). Pizam and Ellis (1999) empirically evaluated customer satisfaction in hospitality enterprises, concluding that, if properly administered and analyzed, the process of

monitoring customer satisfaction can be beneficial to any enterprise and make the difference between offering a mediocre product and an excellent quality product.

#### 4.6 THE CUSTOMER VALUE EQUATION

A central link to the service profit chain is that of customer value, representing the results created for the customer, together with the quality of the process to deliver the results (Heskett *et al.*: 1997). This is in relation to the price and acquisition of the service offered. Value defined in this way is related to customer satisfaction, identifying the customer satisfaction link to service value (McDougall & Levesque: 2000). This link was depicted in section 4.2.3, evaluating the research of Heskett *et al.* (1997), Caruana *et al.* (2000), Ho and Cheng (1999), Andreassen (1994), Heinonen (2004) and McDougall and Levesque (2000). Zeithaml and Bitner (2003) believe consumer value is a component of a myriad of attributes, appearing to be highly personal and idiosyncratic. They attribute four customer meanings to value:

- Value is low price; indicating that what consumers have to give up in terms of money is most salient in their perception of value
- Value is whatever I want in a product or service; negating money, but incorporating the benefits they receive from a product/service as the most important component of value
- Value is quality I get for the price I pay; whereby other consumers see value as a trade-off between money they give up and the quality they receive
- Value is what I get for what I give; indicating that some consumers consider all benefits they receive as well as all sacrifice components (money, time, effort) when describing value.

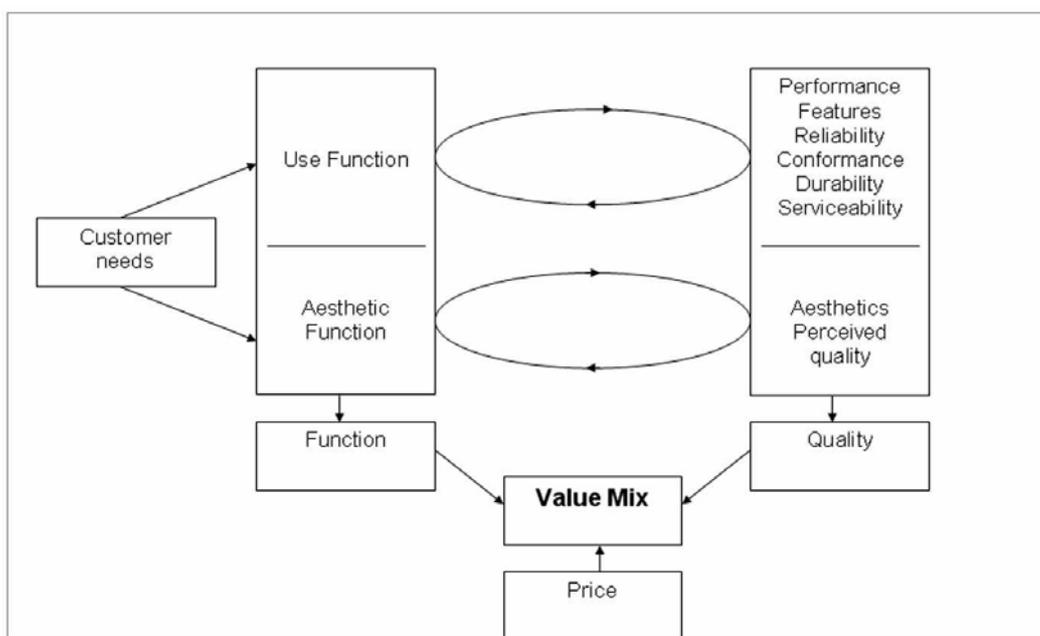
These four components may be captured in a single definition, consistent with the concept of utility. Utility theory (Lancaster: 1971) provides the theoretical underpinning for the value construct. Zeithaml and Bitner (2003: 491) define perceived value as, “the consumer’s overall assessment of the utility of a service based on perceptions of what is received and what is given”. In other words, value has been seen as the trade-off between benefit and the sacrifice in an offering (Heinonen: 2004). Customers will derive value according to the utility provided by the combination of attributes less the disutility represented by the final price (Heskett *et al.*: 1994; Caruana *et al.*: 2000). In a study

conducted by Caruana *et al* (2000), a negative regression coefficient for the interaction between service quality and value implied that value can have a negative impact on satisfaction.

Ho and Cheng (1999) evaluated the quest for the value mix, embracing the essence of the traditional approaches to value and quality. As Cooper and Slagmulder (1997) suggested, quality and function are considered as two separate but closely related characteristics. Components of the value mix (Ho & Cheng: 1999) include price; function; customer needs (use function and aesthetic function); and quality (performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality). The interaction is depicted in Figure 4.3.

Dimensions that affect service quality indirectly affect perceived value and quality dimensions may thus be used to define perceived value (Heinonen: 2004). Lanning (1998) identifies delivering profitable value as the sum of developing a competitively superior value proposition and a superior value-delivery system. As such, the brand must represent a promise about the total experience that customers can expect. A similar theme emphasized by Knox and Maklan (1998), is that too many companies create a value gap by failing to align brand value with customer value.

**FIGURE 4.3 Components of the value mix**



Source: adapted from Ho and Cheng (1999: 205).

The value concept is achieved with maximum benefit for customers, employees, partners, and investors through an operating strategy that seeks to leverage results over costs by means of such factors as organisation; policies; processes; practices; measures; controls and incentives (Heskett *et al*: 1994). The strongest predictors of customer satisfaction are those conditions that support process value (Brooks: 2000). He sees internal process value as a product of the organisation's tools; information systems; policies and procedures' collaboration among departments; management support; goal alignment, training; communication and appropriate recognition and reward for delivering value.

Ultimately, the higher the company's value-creation ability; the more efficient internal operations activity, and the greater its competitive advantage, the higher the profits will be (Heskett *et al*: 1997). This is all viewed from the perspective of the customer, and is incorporated in the customer value equation.

#### **4.6.1 The components of the customer value equation**

Customers don't simply purchase products and services, but purchase the results they wish to achieve (Ho & Cheng: 1999). As such, in the case of home entertainment, they are purchasing home relaxation, satisfaction, enjoyment and entertainment (Maritz: 2003a,b). Heskett *et al* (1997) conceptualised the value equation, placing emphasis on the conceptual link between strategic service vision and service profit chain. In line with the principles of the service profit chain, viewed from the perspective of the customer, the value equation may be depicted as follows:

$$\text{Value} = \frac{\text{Results produced for the customer} + \text{Process Quality}}{\text{Price to the customer} + \text{Costs of Acquiring the Service}}$$

The four integral dimensions of the value chain as identified by Heskett *et al* (1997) are central to the service profit chain. The value chain suggests that the value of goods and services delivered to customers is equivalent to the results created for them (Caruana *et al*: 2000) as well as the quality of the processes used to deliver the results (Ho & Cheng: 2004), all in relation to the price of a service (Zeithaml & Bitner: 2003) to the customer

and other costs incurred by the customer in acquiring the service (Cooper & Slagmulder: 1997). The four integral dimensions are now detailed (Heskett *et al*: 1997).

#### 4.6.1.1 Results produced for customers

Customers buy results, not products (McDougall & Levesque: 2000). As such, it is the benefit of the transaction which is of importance, not the product itself. An example is the purchase of petrol for a vehicle, the desired result being transportation, not the petrol itself. The value attached to results varies with the size of the service task, together with its importance to the customer (Ho & Cheng: 1999). This again highlights the value trade-off between benefit and sacrifice (Heinonen: 2004). Utility is of importance, dating back to economic theory postulated by Lancaster (1971). Caruana *et al* (2000) also added to derived value as a product of utility provided by the combination of attributes.

#### 4.6.1.2 Service process quality

Placing emphasis on the way in which the service is delivered, is often being as important as results (Zeithaml & Bitner: 2003). Five universal dimensions of service process quality (SERVQUAL) were identified by Parasuraman *et al* (1988):

- Dependability/Reliability; did the service provider do as promised?
- Responsiveness; was the service provided in a timely manner?
- Authority/Assurance; did the service provider elicit a feeling of confidence in the customer during the service process?
- Empathy; was the service provider able to take the customer's point of view?
- Tangible evidence; was evidence left that the service was indeed performed?

Other research (Lau: 2000), Heskett (2002), Silvestro and Cross (2000), Maranto and Reynoso (2003) is indicative of the profound implications for service providers, including the following findings:

- Process quality is abstract, not absolute (Kang *et al*: 2002)
- Process quality is determined by the customer, not the service provider (Zairi: 2000)
- Process quality varies from one customer to another (Yu & Dean: 2000)

- Process quality can be enhanced by action to control expectations; or by meeting or exceeding customer expectations (Andreassen: 1994).

Process quality and customer satisfaction are the key to competitive advantage (Sureschandar *et al*: 2002). Building upon SERVQUAL, Sureschandar *et al* (2002) identified five factors of service process quality as critical from the customers' point of view. These included the core service or product; human element of delivery; systemization of service delivery (non-human element); tangibles of service (servicescape) and social responsibility.

From a best value perspective, the measurement of process quality should take into account customer expectations of service as well as perceptions of service (Wisniewski: 2001). It is generally agreed that process quality is an attitude or global judgement about the superiority of a process, although the exact nature of this attitude is not agreed (Robinson: 1999). Some suggest that it stems from a comparison of expectations with performance perceptions (disconfirmation) (Parasuraman *et al*: 1988), whilst others argue that it is derived from a comparison of performance with the ideal processes (Teas: 1993) or from perceptions of performance alone (Cronin & Taylor: 1992). This is made evident by the variety of models for process quality measurement (Kang *et al*: 2002; Zairi: 2000; Yu & Dean: 2000; Andreassen: 1994; Lau: 2000; Silvestro & Cross: 2000).

Cronin and Taylor (1992) believe literature lends more support to performance measures of process quality, as opposed to the notion of the expectations-performance gap, as identified by Parasuraman *et al* (1998). They believe the adequacy-importance attitude model is the most appropriate if the main objective is to predict behaviour (Mazis, Ahtola & Klipel: 1975). In this model performance is weighted by importance to define an individual's attitude, and expectations are not considered. Not all studies however reach the conclusion that performance-only measures provide the greatest predictive power (Robinson: 1999).

Using SERVQUAL as a measurement of process quality has been empirically tested (Parasuraman *et al*: 1998; McDougall *et al*: 2000; Heinonen: 2004); however, cognisance must be taken of areas of debate. These include diagnostic or predictive purpose, the nature of attitude, measuring expectations or not, and whether the five dimension model is correct for its original context (Robinson: 1999). As a concluding remark on process

quality, there is no value in a product or service until it is in the hands of its customers (Li, Tan & Xie: 2003). Process quality is determined by the interaction of all those factors that affect the process of making products/services available to the customer (Christopher: 1998).

#### 4.6.1.3 Price and acquisition costs

Whilst many customers and service providers measure their costs only in terms of price, the costs of acquiring a service may in some cases outweigh the price. Added value, such as range extensions; convenience; adaptability and portability often allow the service provider to negate price as the only measure of cost (Palmer; 2001). Service providers however need to convince customers of the value of such efforts (Caruana *et al.*: 2000). Managing by the customer value equation is a way of life in outstanding service organisations (Heskett *et al.*: 1997). The customer value equation suggests that service value to customers can be enhanced by increasing either (or both) results delivered or process quality, while reducing either (or both) prices or service acquisition costs.

Regarding price, British Airways do not seek to charge the lowest airfares, but have won many awards for superior service (Heskett *et al.*: 1997). Their ‘putting people first’ campaign went a long way to enhancing customer value, via the increase in customer satisfaction levels. This was however a long process, involving a reduction in service acquisition costs, together with an enhancement of results delivered. Organisational influence on pricing incorporates a wide variation in the objectives they seek to achieve. Palmer (2001) identifies the following objectives for price decisions: profit maximisation; market share maximization; survival and social considerations.

In practice, organisations work to a number of objectives simultaneously (Kotler: 2000). Rather than seeing each customer transaction in isolation, the development of ongoing buyer-seller relationships is becoming a much more important part of business strategy (McDougall *et al.*: 1997). Customer lifetime pricing may be an accepted strategy to develop lifetime value customers over the long term (Palmer: 2001; Heskett: 2002; Reichheld: 2001).

#### 4.6.2 Requirements to add value

Heskett *et al* (1997) identify various requirements which facilitate the implementation and adoption of the customer value equation. Whilst not limited to these requirements only, organisations implement the following as groundwork essentials:

- Understanding customer needs. Although customer needs can be gauged by traditional forms of marketing research, modern business practices actually involve customers in the design and ways in which services are delivered (Kotler: 2000). British Airways place emphasis on more traditional research methods, including on-board customer service surveys, together with focus groups. Of paramount importance, however, is the interpretation and analysis thereof. Customers are also encouraged to register complaints with the airline, via numerous listening posts. Moral and ethical development in business has been integral to the development of global consumerism (Boone & Kurts: 2000), and forms an important part of the marketing concept (Chaston: 2000). Meeting the needs and wants of the consumer, together with a societal responsibility (Kotler: 2000), are key inputs into the marketing strategy. Nieman *et al* (2004) mention the importance of product leadership, differentiation and market domination toward managing growth
- Influencing attitudes towards the value equation. Company wide initiatives involve a customer service orientation throughout the organisation, whereby even the lowest ranking employees are trained regarding handling of customer queries (Vilares & Coelho: 2003). The Sheraton Hotel chain regularly develops such skills with their cleaning and maintenance staff; as these employees come face to face with most customer complaints. Of importance is the recording of complaints registered by customers, along with potential root causes, providing a basis for establishing priorities for timeous corrective action (Brooks: 2000). Influencing attitudes consists of communication within and outside the organisation (Boone & Kurts: 2000), and consists primarily of empowering employees in the form of sharing information, sharing decision-making authority and linking rewards to company performance (Nel *et al*: 2004)
- Establishing a return on value-enhancing initiatives. This relates primarily to service quality improvements (Zeithaml & Bitner: 2003), and measurement of root causes of complaints (Heskett *et al*: 1997). British Airways (BA), for example,

received complaints from 30% of customers regarding seat allocations and overbooking. These customers indicated that they would seek alternative airlines that do not continually have these problems (Heskett *et al.*: 1997). Measuring these problems, resulted in an anticipated loss of over eight million pounds sterling in revenue, should these problems not be rectified. As a result of such measurement, BA estimated that for every pound spent on customer retention, the Airline would net two pounds in revenue

- Developing different value packages for various market segments. Different sectors of the market demand different service offerings at varied prices (Walker *et al.*: 1999). The airline industry discriminates on value and price with regards their first, business and economy modes of flying. Although it is said that the real profits on airlines are made from those flying up front (business and first class), all other passengers contribute to the vast overheads. Customers travelling in the different classes have distinctively different needs, together with value expectations. Problems can however arise when companies have multiple offerings, for example, when passengers compare the different options while travelling in adjacent seats. In differentiated marketing, the firm operates in several market segments and develops different programs for each segment (Chaston: 2000), and differentiated marketing typically creates more total sales than undifferentiated marketing (Kotler, 2000: 276)
- Establishing that value can be provided at a profit. Little margin for error exists in establishing value (Caruana *et al.*: 2000), as once a customer defects, the cost of re-acquiring their patronage comes at a huge cost, relative to retaining current customers (Brooks: 2000). To deliver value at a profit, it is necessary to link the value equation to the strategic service vision (Heinonen: 2004). Customer value and loyalty is a prime determinant of long-term financial performance of firms (McDougall & Levesque: 2000).

#### **4.6.3 Linking the strategic service vision and the service profit chain**

The margin between the cost of providing the service, and the provision itself, is deemed necessary for the long-term survival of the business (Duffy: 1998). It is the margin between value and cost that represents a profit opportunity to the service provider. Heskett *et al.* (1997) suggest that the value equation serves as a conceptual link between the service profit chain and the strategic service vision. The strategic service vision

incorporates all activities of the organisation, and their overall objectives towards the realization of superior service and value (Waker *et al*: 1999). This includes the service delivery system, operating strategy, service concept, and target market; linking profit, value to the customer, and overall organisational growth (Heskett: 2002).

#### 4.7 CUSTOMER LOYALTY

Previous mention was made of leading service organisations' link of profitability and quality of customer service (Maranto & Reynoso: 2003; Ho & Cheng: 1999), together with not equating profitability only with market share (Andreassen: 1994). It is an objective to have true and faithful customers (Bowen & Chen: 2001), however, this is only possible upon the implementation of superior service and value initiatives (Duffy: 1998). Sections 4.2.1 and 4.2.2 identify the profit and growth link to loyalty; and the loyalty link to satisfaction.

Peck *et al* (1999) identified the customer loyalty ladder, depicting two extremes of customer loyalty. The bottom extreme, with emphasis on one-off transactions is represented by the prospector, through purchaser, through client. The upper extreme, with emphasis on long-term loyalty, is represented by the supporter, advocate and ultimately partner. It is generally held that there are three distinctive approaches to measuring loyalty; being behavioural, attitudinal and composite measurements (Bowen & Chen: 2001).

From a composite point of view, loyal customers are those who hold favourable attitudes toward the company, commit to repurchase the product/service, and recommend the product to others (Bowen & Chen: 2001). Customer loyalty is purchase behaviour, unlike customer satisfaction, which is an attitude (Griffin: 1996). Customer loyalty, a key mediating variable in explaining customer retention (Pritchard & Howard: 1997), is concerned with the likelihood of a customer returning, making business referrals, providing strong word-of-mouth, as well as providing reference and publicity (Bowen & Shoemaker: 1998). Loyal customers are less likely to switch to a competitor due to a given price inducement, and these customers make more purchases compared to less loyal customers (Baldinger & Robinson: 1996).

Duffy (2003) identifies benefits of loyalty as cost savings, referrals complain rather than defect, channel migration, unaided awareness, greater awareness of brand assets, and turn left rather than turn right. The latter represents the subtle, psychological reluctance to defect created by a loyalty strategy. Duffy (1998) sees building customer loyalty as a business strategy, not just a marketing programme. He states that all businesses should seek to boost loyalty and maximize share of customer. A service organisation's long term success in a market is essentially determined by its ability to expand and maintain a large and loyal customer base (Wong & Sohal: 2003). They found that the most significant predictor of customer loyalty at a company level is tangibles, while the most significant predictor of customer loyalty at an interpersonal level is empathy.

#### **4.7.1 Determinants of customer loyalty**

Adopting the belief of processing the ability to relate to customers, latitude of front-line judgment, together with the rewards for doing so (Caruana *et al*: 2000). This was implemented in Au Bon Pain restaurants, resulting in reduced employee turnover, and increased customer satisfaction. The link between employee and customer loyalty is highlighted in this example (Reichheld: 1996).

#### **4.7.2 The relationship between customer loyalty and profit and growth**

As emphasized in the Service Profit Chain, once again highlighting leading service organisations' approach of negating the profit and market share relationship, with that of customer loyalty (Heskett: 2002).

#### **4.7.3 Customer loyalty and customer satisfaction**

Also linked in the Service Profit Chain, however of all the links, this is the least reliable. Competitive prices, locality marketing and other competitive initiatives have made satisfied customers migrate/defect to opposition outlets, somewhat questioning the loyalty/satisfaction relationship (Silvestro & Cross: 2000).

#### 4.7.4 Enhancing loyalty

This includes learning opportunities from those customers defecting to opposition service providers (Sundaram *et al.*: 1997). The reasons for defecting may be lengthy; however, root causes have to be identified. In addition, incentivising front-line staff, not only for signing up new customers, but retaining existing clientele, requires continual analysis (Heskett *et al.*: 1994). This again emphasizes the link between employee and customer loyalty (Rogers *et al.*: 1994).

The satisfaction/loyalty relationship advocates how an organisation approaches the competitive environment with particular reference to defectors. Heskett (2002) identifies the fruits of loyalty through three customer behaviours; commitment, apostle-like behaviour and ownership. Committed customers are not only loyal, but tell others of their satisfaction (Helm: 2003). Apostles are not only viral, but convincing. They possess credibility and a certain degree of authority in the eyes of others (Heskett *et al.*: 1997). ‘Owners’ are defined as those loyal customers that take responsibility for the continuing success of a product or service offering. Gremler and Brown (1999) identified the loyalty ripple effect, highlighting the behaviours and effects they have on margins and profitability.

Heskett (2001) also identified how a committed customer as an apostle or owner can generate the same lifetime value of as many as one hundred customers who are merely loyal but who do not recruit other customers or provide ideas for product or service improvement. Heskett (2002) informs that explicit efforts can be made to develop ‘owners’. They involve a hierarchy of initiatives to fast-track customer loyalty, one that complements in some ways the hierarchy of customer behaviours. First level strategy to develop extraordinary loyalty is transactional, involving product warranties and service guarantees. Higher-order strategy (strategic) involves repositioning the business to deliver solutions rather than products or services. A third level, reflected as cultural, involves the linking of operational functions, such as product development and improvement, to customers or suppliers, often regarded as partners.

The top of the hierarchy is represented by organic strategies designed to develop customers who regard themselves as owners. At such levels, efforts are made to identify such customers as well as ensure they are treated in a manner that leads them to believe

they are part of a community of preferred customers who are able to influence company strategies. An example of this is the input loyal customers have in selecting cabin assistants at Southwest Airlines. Heskett (2002) further postulates that the potential payoff from building commitment, apostle-like behaviour, and ownership among customers is so great that it often outweighs the potential costs. He concludes that mere loyalty is not enough; and that there is a real opportunity to build loyalty from a core of apostles and owners who have extraordinary lifetime values for the provider of goods and services.

The extreme on the other end of the scale are referred to as 'terrorists', indicative of very dissatisfied customers with low loyalty and low retention behaviour. This is in contrast to apostles indicating a zone of affection, with highly satisfied and loyal customers. Upon evaluating terrorist motives, particularly those with reasonable and pertinent service issues, effort must be made to conform them from an area of defection; through the zone of indifference, to that of apostles in the zone of affection (Heskett *et al.*: 1997). To this end, Xerox (USA) found that a high rating on customer satisfaction led to a higher probability of repurchase from Xerox.

#### **4.7.5 Recognition and rewards**

This construct involves a double barrel approach, incorporating both customers and employees, aligning the customer and employee performance link to long term profitability (Lau 2000). Employee Recognition and Rewards include implementation of performance appraisals, profit share, incentives, training and development, participation in decision-making, involvement, towards the achievement of overall organisational objectives (Bassi & Vanburen: 1997). Customer recognition and rewards include enhancement of the current loyalty programme, birthday and special event cards, frequent viewer initiatives, and most of all, superior service at the point of rental, for example, thanking the customer for using the services of the particular service provider (Heskett: 2001).

Kotler (2000) places emphasis on customer satisfaction as a method of strengthening customer retention. The task of creating enhanced customer loyalty is referred to as relationship marketing; embracing all those steps that companies undertake to understand their valued customers better. Relationship marketing centres on developing more loyal

customers, thereby increasing revenues (Heskett: 2002). The introduction of loyalty programmes facilitates this element of retention, however, if not administered correctly, could actually have adverse effects. South African Airways employ a loyalty programme known as Voyager, whereby commuters are rewarded for flights on the airline. The redemption of award certificates is, however, cumbersome, together with continual non-availability of free seats on selected flights. This negates the entire programme, resulting in passengers migrating to opposition airlines.

Adding financial benefits facilitates additional usage, together with retention (Heskett *et al.*: 1997). Frequency marketing programmes are produced to reward loyal customers who use a company's services in substantial amounts. This is an acknowledgement of the fact that eighty per cent of the company's business is done by twenty per cent of its customers (pareto-analysis). Typically, the first company to introduce such programmes in an industry stands to gain the most benefit; however, after competitors respond, the frequency programmes may become a financial burden to all the offering companies. Another form of loyalty programme includes club membership, which is aimed at bonding customers closer to the company. Such affinity clubs also have the advantage of developing a customer database. Harley-Davidson, the world famous motorcycle company, sponsors the Harley Owners Group (HOG), being in the region of half a million members. First time Harley Davidson buyers receive a free one-year membership, which includes free magazines, handbooks, insurance, discount hotel rates, and other related services. And, of course, the 'stigma' attached to being a 'HOG' member. In relation to recognition and rewards, three constructs are developed.

#### 4.7.5.1 Empowering employees

The positive relationship between quality of work life (QWL) and growth and profitability is emphasised by Lau (2000). QWL will positively nurture a more flexible, loyal and motivated workforce, which is essential in determining the company's competitiveness (Meyer & Cooke: 1993). Positive associations have also been found between progressive human resources practices, such as training, staffing selectivity, empowering employees and common firm performance measures (Nel *et al.*: 2004).

Empowerment refers to the educational, training and developmental activities of employees towards the achievement of objectives (Nel *et al.*: 2004), with particular

emphasis on training and employee development in this context. Towards the successful implementation of internal marketing, service climate and supportive management are two pre-requisites (Yoon *et al.*: 2001). They identify employee empowerment as one of the key constructs. Employee perception of work climate not only influences organisational variables such as work effort and job satisfaction, but also affects service evaluation by customers. Yoon *et al.* (2001) believe it necessary to explicitly design and establish various organisational policies such as employee empowerment, detailed service codes, service performance reward/award, and employee education/training, in order to develop a system that will facilitate service-oriented environment and supportive management.

Empowerment is when management promotes this goal by giving employees authority and responsibility to make decisions about their work without traditional managerial approval and control. Managers empower employees by sharing company information, delegating decision-making authority and rewarding employees based on company performance (Boone & Kurtz: 2000). The concept of empowerment is truly implemented when employees have the power to make decisions that influence their work procedures in ways that are linked to organisational strategy, not only in suggesting improvements, but allowing employees to turn ideas into actions (Boon & Kurtz: 2000). Wal-Mart's computer and communications technology puts information in the hands of employees. Every employee knows the price of the products, their mark-ups, and how many are sold. Sharing information results in high-quality communication among employees and between Wal-Mart and its customers.

#### 4.7.5.2 Relationship marketing

Whilst the discipline of relationship marketing is worthy of its own chapter, relevance to loyalty will be emphasized. From this point of view, relationship marketing is viewed as a philosophy of doing business that focuses on keeping and improving (retaining) current customers rather than on acquiring new customers (Zeithaml & Bitner: 2003). Relationship marketing has evolved from an acquisition and transaction focus toward a retention focus (Webster: 1992). The primary goal of relationship marketing is to build and maintain a base of committed customers who are profitable for the organisation, and to achieve this, organisations will use attraction, retention and enhancement strategies (Berry: 1983).

Benefits of effective relationship management revolve around value, where consumers evaluate the trade off between receiving and giving. Apart from receiving service value, other customer benefits include confidence benefits (trust and confidence in the provider), social benefits (familiarity, social support system), and special treatment benefits (benefit of doubt, preference) (Gwinner, Gremler & Bitner: 1998). Benefits to the organisation are that relationship-oriented service firms achieve higher overall returns on their investment than do transaction-oriented firms (Kumar: 1999). Other benefits include increased customer purchases over time (Reichheld: 2001), lower costs (Zeithaml & Bitner: 2003), free advertising through word of mouth (Helm: 2003) and the indirect effect of employee retention (Lau: 2000). Relationship marketing is further evaluated in Chapter 5.

#### 4.7.5.3 Customer loyalty strategies

Specific application is geared towards loyalty marketing and programmes in the context of the service profit chain (Heskett *et al*: 1997). The aim of loyalty programmes is to extend the customer's life with a company so that their lifetime profitability is increased (Palmer: 1998). Loyalty programmes create communities of customers that are organized and initiated by companies (Butscher & Muller: 1999; Diller (1997). The current customers are approached for a potential membership to enable a steady direct communication and to intensify the relationship during the total time of business relationship (Tomzcek & Dittrich: 1999). A loyalty programme is regarded as a suitable platform to increase the interaction frequency between company and customer (customer interaction effect) by creating contact and feedback opportunities (Diller: 1997). The customer's willingness for membership depends on the distinct advantage to them (customer benefit effect), and most often only if the cost-benefit-calculation leads to a positive result (Strauss, Chojnacki, Decker & Hoffmann: 2001).

Building customer loyalty is a business strategy, not just a program. Structuring customer loyalty strategies centres on share of the customer. Customers from whom you get twenty per cent to eighty per cent share represent the best opportunity for growth (Duffy: 1998). He informs that the effort to boost share of customer in the middle is considerably less than at the low end and high end of the share-of-customer scale. Loyalty programmes commercially started in the airline industry in 1978, due to airlines struggling for a point of differentiation. Remarkably, it has been said that frequent flyer programs have played a significant role in the demise of many post-deregulation airline start-ups (GAO Report:

1996). A characteristic of airline loyalty marketing is the term promotional currency, being miles or points earned as the member spends. The promotional currency is redeemed for something of value- in this case free travel, accommodation and related services. When effectively developed and implemented, loyalty marketing strategies become integrally linked to the product/service (Reichheld: 2001).

Loyalty strategies seek to enhance customer relationships, which in turn facilitate customers to have a point of contact for product/service concerns; rather than quietly defecting (Duffy: 1998). As a result, this may result in customers becoming advocates or disciples (Heskett *et al*: 1997). Duffy (1998) postulates that loyalty strategies can create a reluctance to defect, particularly when the customer may associate loss of a benefit in so doing. Duffy (1998) further explores and recommends typical loyalty strategy initiatives:

- Name the promotional currency. This may be referred to as miles or points, rule of thumb being simplicity
- Select an appropriate unit of measure. Not too large and not too small
- Select an appropriate tier structure. The first approach is tiers based on spending (the more you spend the more you earn, motivates spending); the second approach is tiers based on balance (the more you save the more it's worth, motivates spending and saving)
- Require redemption in fixed units. Guarantees members will mostly have a balance remaining after redemption, and be reluctant to defect
- Use redemption to drive sales. Mechanisms must be built in to ensure that loyalty programs build business, being incremental sales
- Program accounting. Contrary to being a database only, the system requires full accounting capability.

Strauss *et al* (2001) confirm that the essential result of their study is the fact that a loyalty programme cannot only obtain an indirect retention effect for an organisation because of the use of an improved customer data base, but that a direct retention effect actually can be achieved with regard to higher relationship satisfaction and customer retention. Loyalty club members definitely show a higher degree of relationship satisfaction and customer retention than non-members, once again highlighting the customer satisfaction and loyalty link to long term growth and profit (Heskett: 2002).

#### 4.7.6 Lifetime value

The discussion on customer value in section 4.4.1 revolves around the customer value equation, whereas the lifetime value reflects the equation over a strategic period, with long-term implications for the organisation (Heskett *et al*: 1997). Customer equity is the total of the discounted lifetime values summed over all of the organisation's customers, and is the most important determinant of the long term value of the firm (Zeithaml & Bitner: 2003).

Towards lifetime values, McDougall, Wyner and Vazdauskas (1997) indicate four basic components to customer value:

- Acquisition costs. The sum of sales, advertising and communications mix elements spent in acquiring the customer
- Revenue stream. The total revenue generated by the customer through the purchase of products and services
- Cost stream. The cost to provide these products and services to the customer (including customer service costs)
- Length of relationship. How long the customer remains a customer of the organisation.

McDougall *et al* (1997) identify three essential steps in performing customer valuation, consisting of defining the relevant customer universe, collecting data (based on relevant behavioural and economic components of lifetime value), and determining overall value (integrating these components into overall measures of value). TeleCheck, a large cheque acceptance company in USA calculated a 33 per cent increase in profit with a 5 per cent increase in their retention rate (Heskett *et al*, 1997: 200-201). Value based customer segments can be used in aspects of strategic planning, share goals (retention, win-back, acquisitions), new product development (needs and behaviours of most valuable customer segment/s), brand management (most appropriate communications strategy, competitive differentiation, brand repositioning) and customer service (depending on expected lifetime value to the company) (McDougall *et al*: 1997).

Reichheld (2002) links loyalty to profitability via the lifetime value of the customer. McDougall *et al* (1997) argue that by understanding and managing lifetime customer

value, a company not only allocates resources to its customers more effectively, but also becomes better able to focus on developing long-term customer relationships. Heskett *et al* (1997) identify the strategies of retention, related sales and referrals towards achieving the lifetime value objective.

#### 4.7.6.1 Retention strategies

Retention can be defined as a commitment by customers to do business or exchange with a particular company on an ongoing basis (Zineldin: 2000). Customer retention brings with it benefits such as employee retention and satisfaction, better service, lower costs (Reichheld: 1996), lower price sensitivity, positive word-of-mouth, higher market share, higher efficiency and higher productivity (Zineldin: 2000). Retention of current customers refers to the ability of organisations to maintain active relationships with their current customer base (Ruyter & Bloemer: 1999). In return, the revenue received becomes increasingly profitable, due to less effort required to analyse their needs (Andreassen: 1994). The key to retaining customers is relationship marketing, highlighted in the previous section. MBNA (USA), a large insurance company, had one of the lowest defection rates in the industry, and as a result, achieved phenomenal profits, despite no acquisitions or mergers.

The higher the employee and customer retention rates (loyalty) the higher the profit (Brooks: 2000). Not paying attention to all major stakeholders' results in a hidden cost to cash flow resulting from the churn in fickle customers, disinterested employees and short-term owners. While satisfaction may be an important retention driver, trust and brand switching barriers are also likely to influence retention, both independently and in tandem (Ranaweera & Prabhu: 2003). In their empirical investigation on the effect of these constructs on retention, the following was highlighted:

- In a low customer contact, mass service setting, satisfaction is the strongest driver of customer retention
- Results confirm the expected positive effect of trust on retention
- No evidence that trust, as a direct determinant of retention, is more important than satisfaction, not even in a continuous purchasing setting more suited to trust relationships

- Trust can be lost in the event of service failure, despite a satisfying service recovery experience
- Customers appear to be willing to accept the apology and compensation offered by the service provider to offer a trouble free service in the future
- The main and the interaction effects of switching barriers on retention were highly significant. The suggestion is that, in an industry with switching barriers, service providers are likely to be able to retain even those customers who are less than satisfied
- Customers could become resentful to switching barriers especially if these barriers lead to a scenario of complete entrapment
- While switching barriers could be thought of as an alternative means of retaining customers, they could also be a complementary source of satisfaction through the provision of added value to the service bundle.

In an empirical study conducted by Hansemark and Albinsson (2004), they found the strongest connections between satisfaction and retention pertaining to the experiences of relationships and confidence, and frequent contact accompanied by open dialogue. Complaint handling was also strongly connected to both concepts. Appiah-Adu (1999) finds that the most critical element in retaining customers is the company's customer philosophy. He also stresses that there is a difference between satisfaction and complete satisfaction, the goal being to achieve the latter. Ranaweera & Neely (2003) empirically showed that increasing service quality perceptions strengthen the rate of retention of even those who are unhappy about price. They do however inform that there are price ceiling which negate perceived service quality.

Many studies have revealed that attracting new customers is at least five times more expensive than retaining existing ones (Bowen & Chen: 2001; Mulhern & Duffy: 2004; Wong & Sohal: 2003). To this end, even though incentives should be put in place to procure new customers at the point of purchase and to increase usage, companies should also implement retention incentives to frontline and support personnel.

Kotler (2000) identifies the tendency of most companies to concentrate on attracting new customers rather than on retaining existing ones. Many companies, however, have always cared passionately about customer retention, and are determined not to lose customers. To this end, Sherden (1994) identifies key questions regarding customer defections. The

analysis commences with internal records, followed by extending defection research to outside sources. Key questions include:

- Do customers defect at different rates during the year?
- What is the relationship between defection rates and changes in price?
- What are retention and defection norms of the industry?
- Which Competitor in the industry enjoys the highest retention rates?
- Where do defection customers go?
- Does defection vary by outlet or location?

Heskett *et al* (1997) identify the use of listening posts, facilitating retention via open communication channels between companies and customers. Such listening posts are not only implemented for customer complaints, but also for recommendations, ideas, requests and the like. Albrecht and Zemke (1985: 67) emphasized that listening is not enough; but that companies must respond quickly and constructively to complaints and requests. They also link retention with referrals as, “of the customers who register a complaint, between 54 and 70 per cent will do business again with the organisation if their complaint is resolved. The figure goes up to a staggering 95 per cent if the customer feels that the complaint was resolved quickly. Customers who have complained to an organisation and had their complaints satisfactorily resolved tell an average of five people about the good treatment they received”.

As loyal customers account for a substantial amount of company profits (Heskett: 2002), a company should not risk losing a customer by ignoring grievances and queries. However, a small per centage of customers will never be content with service offerings, no matter when and where they shop. Wal-Mart actually have a strategy where they 'fire' customers, yet only as a last resort. In such cases, and only upon confirmation from management, the customer is requested to use the services of another retailer, who might be able to satisfy their needs (Heskett *et al*: 1997).

Reichheld (1996) identifies some interesting facts bearing on customer retention:

- The average company loses 10 per cent of its customers per annum
- Acquiring new customers can cost at least five times more than retaining existing ones

- Profits can increase by twenty-five to eighty-five per cent (industry dependent) by having a five per cent reduction in the customer defection rate
- The customer profit rate tends to increase over the life-cycle of existing customers.

Computing the cost of lost customers identifies eight steps in attempting to reduce the defection rate. These include (Reichheld: 1996):

- The organisation must define and measure its retention rate
- The organisation must distinguish causes of defection, and identify those causes that can be managed better
- The organisation needs to estimate loss in profits per defection, which involves the lifetime value, being the present value of the profit stream that the company would have realized, had the customer not defected prematurely
- Changing channels of distribution
- Minimising adverse selection of customers through creative filtering
- Rewarding the sales force for retaining customers, not just winning new customers
- Designing special programmes to attract and hold the most valuable customers
- Finally, the company needs to ascertain the costs involved to reduce the defection rate. As long as the cost is less than the loss in profit from defections, the company should expend that amount to reduce the defection rate.

Reichheld (1996) places emphasis on retaining the right employees, suggesting measures such as designing career paths for maximum productivity, adopting a concept of partnership that aligns the company's interests with the employees, making a proactive effort to keep its best employees, and recruiting staff carefully; staff that will maintain and improve the character and integrity of the firm. Reichheld (1996) identifies the third tier of involvement as attracting and keeping investors. In this regard, he advises as follows: educating current investors, and attracting the right kind of core owner, that is, those that have a long term view. Those organisations that implement competitive advantage and succeed; deliver high customer value and satisfaction, which leads to high repeat purchasers, and, therefore, higher profitability (Heskett: 2002).

#### 4.7.6.2 Related sales of new products and services

It is more profitable to sell new products and services to the existing customer base than to new customers (Reichheld: 2001). Given the existence of a loyal customer base, there is a strong incentive to exploitation, by developing related products and services that appeal to it (Heskett *et al*: 1997). Many companies have diversified to accommodate related sales, thus enhancing their product offering, in turn improving profitability (Gibson: 1998). Whilst Ster-Kinekor theatres are in the business of movie exhibition, their related services include the sale of confectionery items, which account for twenty-seven per cent of their profits. Whilst related sales are directed at the lifetime customer, organisations may be in the position to leverage their core product (Porter: 1985), whereby additional revenue streams may be introduced. These streams are not always directed at the customer. Such leverage occurs at Ster-Kinekor theatres, where substantial revenues are a result of advertising opportunities within theatres and theatre foyers (CineMark). Similarly, Exclusive Books have introduced coffee shops in all their outlets; affording their customers the opportunity of reading books in a friendly and convenient location.

From a strategic marketing perspective, related sales may be aligned to extending volume growth via extended usage in current markets (Walker *et al*: 1999). The aim is to get current customers to spend more, either by increasing consumption on current products or services, or introducing new products or services (Kotler: 2000). Implementation may centre on affordability, convenience, needs, complementarity, notwithstanding impulse purchases. Whilst related sales are aimed at an existing customer base (lifetime value), increased penetration and market expansion are not relevant in this case. A study of purchase intentions in the home entertainment industry (Maritz: 2002; 2003a,b) found that customers had idle cash on hand once receiving change from transactions. The objective was to convince the customer to spend that change in-store; via related sales of confectionery, phone cards, movie paraphernalia and accessory items.

#### 4.7.6.3 Referrals

Referral is used to describe communications (either positive or negative) between groups such as the product provider, independent experts, family and friends and the actual or potential consumer. Word-of-mouth is a similar concept, except that it constitutes verbal

communication (Hel & Schlei: 1998). Referrals from existing customers to other consumers rate amongst the highest form of positive communication (Stokes & Lomax: 2002). This necessitates efforts to enhance customer satisfaction, not only for repeat business, but also for the high value of referrals (Soderlund: 1998). Reichheld & Sasser (1990) found that recommendations from friends and acquaintances carry twice the impact of paid advertising when consumers make purchasing decisions. The U.S. Office of Consumer Affairs identified that dissatisfied customers tell at least eleven other people of their dissatisfaction, whereas satisfied customers only tell five other people of their satisfaction (Heskett *et al*: 1997). Reichheld (2001) reported that research indicates that people only tell eight friends about a truly satisfying experience, whilst a bad experience may be communicated to twelve people. Soderlund (1998) is of the opinion that the explanation is due to the theory of asymmetrical effects of positive and negative events. Word-of-mouth (WOM) is regarded as the primary referral medium (Ennew, Banerjee & Li: 2000).

Zeithaml and Bitner (2003) believe that people regularly turn to others for information rather than to traditional marketing channels; which may be due to services often being high in experience and credence properties. Referrals from satisfied customers go a long way in developing the trust needed for a new customer to purchase a service that may appear risky (Heskett: 2002). Word-of-mouth is considered more credible than other sources of information, and satisfied, loyal customers are likely to provide an organisation with strong word-of-mouth endorsements (Zeithaml & Bitner: 2003). Palmer (1998) recommends that opinion leaders be used to convey positive word-of-mouth, as this is seen as credible to the consumer.

Haywood (1989) examined the importance of the verbal exchange of positive and negative information about an organisation's products and services. He further presented suggestions for learning what is said and how to gain systematic control over the word-of-mouth process. This was depicted in a model of interpersonal communication among a variety of stakeholder groups. Stokes and Lomax (2002) builds upon this model, highlighting that marketing in entrepreneurial contexts relies heavily on WOM recommendations for customer acquisition. Their research identified two sets of dissonance, one between input WOM types and sources, the other between output WOM content and targets. They conclude that WOM effectiveness can be improved through a

variety of interventions, thus demonstrating that WOM can be an effective part of a marketing strategy.

Ennew *et al* (2000) inform that positive WOM from satisfied customers can increase purchases; while negative comments from dissatisfied customers can decrease purchases. They believe dissatisfaction can serve as an antecedent to negative WOM, relating to customer loyalty being a WOM antecedent. They further provide insights into why consumers use WOM (risk reduction), and why they might engage in WOM (satisfaction, loyalty). Customer referral campaigns (CRC's) are identified as one of the most direct forms of managing WOM and promoting acquisitions, identified by organisations incentivising existing customers to introduce new customers (Ennew *et al*: 2000). Haywood (1989) identified a plan for the management of WOM directly through acquisition and indirectly through retention. Constructs included: listen and question effectively, interact with customers on a personal level, consumer orientation, deliver on promises, targeting of opinion leaders, working with suppliers, joint advertising campaigns, helping potential customers with information, competitor analysis and development programmes.

Wilson (1994) considers the referral system as an interpersonal network and is one of the most important business communication mediums. She recommends a methodology of stimulating referrals: identify sources of referrals, offer reciprocation where appropriate, compile a centralised list of referrers, keep referrers informed of progress, and establish reasons for referral. Helm (2003) identifies different approaches to the calculation (value) of positive WOM, leading to a monetary referral value of an organisation's customers. She however concludes that the cost of monetizing referral value will probably outweigh the positive potential of WOM in a lot of cases, and that lifetime values are more pertinent. The effect of referral strategies on lifetime values and overall organisational long term and growth indicates a positive relationship between the constructs, facilitated by the focus on developing long-term relationships (McDougall *et al*: 1997). Furthermore, the positive association between WOM, customer and employee satisfaction and loyalty are emphasised (Ennew *et al*: 2000).

The objective of retaining the customer, enhancing referrals and providing related sales, leads to an increase in profitability which is threefold to base profits (Heskett: 2002). This is in agreement with Reichheld (1996: 2001), whereby he analysed the lifetime

profitability of customers. Managing the lifetime value requires management of retention, related sales and referrals (Heskett *et al*: 1997). Such initiatives, most of which have been identified in some context within this chapter, include:

- Creating listening posts. This involves the creation, identification and enhancement of listening posts. Listening posts include any form of medium which facilitates the handling of queries, for example, toll-free help lines, service counters, satisfaction surveys, salespeople, reception areas, point of purchase, and data base management (Bolting: 1989). One of the most effective ways of creating listening posts is loyalty programmes, such as frequent-flyer models by the airlines (Duffy: 1998). In return for communicating special offers, discounts and promotions, the airlines create information processing from their customer details. In addition, special training of staff to identify problems and opportunities has been installed at many leading organisations, including the Ritz-Carlton chain of luxury hotels. This listening mode forms a central part of the hotel's strategy (Ahmad & Buttle: 2002). Sampson (1998) identifies active solicitation and passive solicitation as means of creating listening posts. He sees e commerce capability as great opportunity for the use of feedback in quality monitoring and improvement processes. The digital nature of the medium lends itself to the establishment of automatic customer feedback collection and response database systems, or what one might call customer feedback information systems. Plymire (1992) regards the creation of listening posts as a sure way to a customer-focused culture. Zairi (2000) demonstrates that the effective management of listening posts can deliver customer loyalty and satisfaction
- Measuring and communicating lifetime values. The key is to highlight lifetime values as opposed to transaction based revenues (McDougall *et al*: 1997). The reality is to think of customers in terms of their present value over a lifetime, which places emphasis on the importance of retaining customers (Brooks: 2000). This excludes the effect of referrals from satisfied customers, which will increase lifetime values substantially (Ennew *et al*: 2000). Phil Bressler, one of Dominos Pizza's most successful franchisees in the Baltimore area, calculated the lifetime value of a loyal Pizza buyer in the region of \$4000. Employees were encouraged to have this figure in mind when serving customers, leading to policies of trusting customer's judgement on delivery-time, for which they received guarantees. McDougall *et al* (1997) argues that by understanding and managing lifetime

customer value, a company not only allocates resources to its customers more effectively, but also becomes better able to focus on developing long-term customer relationships. Employees should be motivated to enhance lifetime relationships with customers, by understanding the benefits of repeat business and making customers less likely to shop around for the best deals than non-loyal customers (Bowen & Chen: 2001)

- Customer defections as learning opportunities. Vital information can be provided by customers leaving an organisation, including how to get them back. Bolting (1989) proposes ways of managing customer complaints, and for controlling the more harmful types of dissatisfaction experienced from customers that have defected. Mack *et al* (2000) inform that focusing on service failures and defections can assist organisations in improving service quality and improving long-term customer retention. They identify potential failure points in the service process (from defectors) and identify methods to prevent, as well as recover, these failures to prevent negative customer perceptions and the ensuing customer loss and potential negative word of mouth. Trubik and Smith (2000) identified implications for organisations of the costs of retaining customer rather than acquiring them as new, and the resulting increased profitability of customers the longer they are with the organisation. The objective is to identify root causes for defections, enabling management to implement corrective action, instead of basing initiatives on management intuition
- Incentives to enhance customer loyalty. This reflects not only on business generated, but also on the ability to maintain and develop loyal customers. At MBNA, incentives are in place to reduce customer defection rates. Contributing towards a bonus pool for predetermined standards of performance are common practice in many leading service organisations, which also link customer loyalty to employee loyalty (Lau: 2000). Eccles and Durand (1998) consider factors such as the reason for complaints; reciprocity and complaint handling and ways to instil a service recover strategy, for enhancing customer retention and satisfaction. Mack *et al* (2000) postulate that focusing on service failures can improve service quality and improve long-term customer loyalty. Carr (1994: 13) identifies database marketing (‘talking directly to our listening clients’) as an integral connection to customer loyalty. Zairi (2000) sees the issue of complaints handling and management as essential for achieving retention and loyalty. A retail study (Wong & Sohal: 2003) empirically evaluated the connection between incentivizing staff

and associated customer loyalty, and a positive association was found. The link of employee satisfaction, loyalty and internal quality of worklife to customer loyalty is emphasized with the introduction of incentives to employees; towards retaining current customers (Lau: 2000)

- Relationship marketing. In essence, relationship marketing is based on building customer loyalty (Zeithaml & Bitner: 2003). It is a strategy, which advocates actions to seek lifetime relationships with loyal customers, rather than merely transacting with them (Peck *et al*: 1999). Loyalty programmes and clubs form an integral part of relationship marketing, as highlighted in the section on recognition and rewards (Section 4.7.5)
- Potential-based marketing. This combines measures of loyalty with data describing potential levels of usage (Walker *et al*: 1999). Its goals are to increase penetration and increase purchases by customers who have the greatest need, or exhibit strong loyalty to the service provider. In turn, such organisations attempt to extend the relationship through increased sales, lengthen the relationship, and increase profitability at each opportunity (Reichheld: 2001). Section 4.7.2.2 identifies related sales as an opportune strategy towards increasing customer share in mature markets (Maritz: 2002; 2003a).

Attracting customers and customer acquisitions are paramount to any company wishing to grow their revenues and profits (Kotler: 2000). Customer acquisitions require substantial skills in lead generations, whereby the company places adverts/promotions in the media to reach new prospects. The chain continues to lead qualification; whereby a prospective customer is introduced to the company, followed by account conversion, whereby the prospective customer becomes an active customer of the company (Palmer: 1998).

The cost of attracting a new customer is estimated to be five times the cost of keeping an existing customer happy (Heskett: 2002). The challenge, however, is not to produce satisfied customers, as several organisations can do this (Reichheld: 2001). The challenge is to produce loyal customers who will contribute to lifetime value (McDougall *et al*: 1997).

## 4.8 ENHANCING SERVICE PROFIT CHAIN INITIATIVES

Customers should no longer be satisfied, they must be delighted (Kotler: 2000). This is in agreement with Heskett *et al.* (1997), whereby loyalty, satisfaction and value are linked with long term organisational profit and growth. Total customer value is enhanced when benefits expected are met or exceeded, complementing satisfaction; which is the reaction towards the actual satisfaction derived, as compared to the perceived or expected satisfaction (Caruana *et al.*: 2000).

Heskett *et al.* (1997) identified beliefs of leading service organisations such as Wal-Mart, Southwest Airlines, Taco Bell and British Airways. These organisations have a common belief in the values relating to:

- Customers buy results (Ho & Cheng: 1999)
- Employees with the right attitude, the right incentives, the right training, and the right amount of latitude who will listen to customers are the key to designing and providing services that create such results (Lau: 2000)
- Because financial performance is the result of past performance, measurement and incentives must concentrate on determinants of future performance, customer and employee satisfaction and loyalty (Reichheld: 2001)
- The real payoff from listening to customers is not just results-driven service design and delivery that produces outstanding current performance, it is maintenance of a strong, adaptive organisation culture that insures continued excellence (Zairi: 2000).

These; and other leading service organisations believe in communicating the basics, and to this end, eight core strategies are identified, all of which facilitate service profit chain implementation (Heskett *et al.*: 1997). This is concluded with communication of the initiatives.

### 4.8.1 Spending time on the front line

Executives should periodically circulate and be involved at the point of purchase. Much too often management do not have a hands on approach, and therefore are not in touch with their customers (Rogers, Clow & Kash: 1994). Chairman William Pollard and his

colleagues at Service Master clean customers' hospital operating rooms at least one day a year. Pollard states that it reminds them of what their business is about.

#### **4.8.2 Putting employees first**

The links identified between loyal employees and loyal customers (Silvestro: 2002, Lau: 2000, Vilares & Coelho: 2001) necessitate careful attention and recognition of employees. Putting employees first necessitates management to spend unusually large amounts of time at the front line with employees, personally attending to customers, and making front-liners more successful at what they do (Rogers *et al*: 1994).

#### **4.8.3 Leading personal development**

Service Masters leaders invest personally in the development of a core of promising managers. This is in tandem with spending time on the front line and developing employees to the limits of their capabilities. Personal development is aligned to quality of work life, supporting the contention that quality of work life will positively nurture a more flexible, loyal and motivated workforce, which is essential in determining an organisation's competitiveness (Lau: 2000; Bassi & Vanburen: 1997).

#### **4.8.4 Supporting greater job latitude**

Employees are encouraged to portray greater latitude, together with employers facilitating training and developmental programmes to implement such latitude (Nel *et al*: 2004). Southwest Airlines have mastered the enhancement of greater job latitude, resulting in productivity levels twenty per cent higher than the average in the industry. They have achieved this by broadly defined jobs, whereby employees are trained in multi-functioning across the organisation (Heskett *et al*: 1997). Section 4.6.1 refers, relating to empowerment of employees (Lau: 2000; Nel *et al*: 2004). Boon and Kurtz (2000) identify the importance of empowerment of employees on quality of work life (Lau: 2000), whereby employees turn ideas into action.

#### **4.8.5 Reducing labour costs by paying higher wages**

This is usually achieved by eliminating unnecessary jobs, and providing technological support to enhance productivity. Heskett *et al* (1997) identify efforts which make employees more successful at what they do and increase their continuity on the job are regarded as the primary means to insure that customers will be served well. The employee satisfaction link to customer satisfaction is again highlighted (Silvestro: 2002).

#### **4.8.6 Investing in customers**

The value equation places emphasis on identifying and understanding customers' needs. Another objective is to retain customers, realizing the lifetime value (Reichheld: 2001). Customer needs are identified in terms of results sought by customers, process quality, product/service package price and access costs (Heinonen: 2004); along dimensions suggested by the value equation. Ensuring customer retention is implemented by Taco Bell, where they are called 'safety nets', periodic surveys of customer satisfaction are conducted and acted upon. At Service Master, there are annual customer reviews. At Wal-Mart, they include greeting senior citizens at the door, and low-price guarantees for the organisation's retail customers (Heskett *et al*: 1997).

#### **4.8.7 Maintaining measures and rewards that influence behaviour**

These measures are regarded as drivers of growth and profitability, directed at employees and customers (Lau: 2000; Yoon, Beatty & Suh: 2001). The financial results may take time to fruition; however, leading service organisations believe that profits will follow good performance on the non-financial measures (Heskett: 2002; Reichheld: 2001), and that the result is worth waiting for.

#### **4.8.8 Communicating the message**

Role models are important in any organisation (Stokes & Lomax: 2002), and related hereto, is the communication of superior customer service to employees and customers (Zeithaml & Bitner: 2003). Of importance is the effective communication of the service strategy of the organisation, and underlying reasons for the implementation thereof. The

communication process is that of a combination of external and internal, placing emphasis on the service profit chain links (Heskett *et al.*: 1997).

#### **4.9 CONCLUSION**

The service profit chain is a strategic service vision, whereby organisational profit and growth are linked to customer value, satisfaction and loyalty. Implementation is via the strategic initiatives of retention, related sales and referrals. Capitalising on the service profit chain entails analysing the links in the chain. The construct of long term profit and growth is linked to customer loyalty, satisfaction and service value. The construct of the employee is analysed in context of employee productivity, loyalty, satisfaction and quality of work-life; as a determinant of long term organisational profit.

Service profit chain management implications include measuring across operating units, developing a balanced scorecard, communication of results, performance management and encouraging internal best practice. The management of customer satisfaction incorporates customer feedback and suggestion systems, lost customer analysis, satisfaction surveys and mystery shoppers. Central to the service profit chain; the customer value equation is a factor of results produced for customers, process quality and price and acquisition costs. Requirements adding to value are introduced as understanding customer needs, influencing attitudes, and return on value enhancing initiatives, developing differentiation amongst market segments, and establishing value at a profit.

Customer loyalty is introduced as experiencing a positive relationship with profit, highlighting determinants, relationships, and methods of enhancing loyalty. The lifetime value of the customer is identified, together with links to satisfaction, value and loyalty. Strategic initiatives of retention, related-sales and referral strategies are evaluated. Management of lifetime value includes creating listening posts, communicating lifetime values, customer defection reasons, loyalty enhancement, relationship marketing and potential-based initiatives.

The chapter concludes with an entrepreneurial spirit of service profit chain enhancement; identifying strategies to facilitate service profit chain implementation.

In Chapter 5, service quality, relationship marketing and best practice is discussed. Service quality is studied from an integrated gaps model perspective; identifying dimensions of tangibility, reliability, assurance, empathy and responsiveness. Relationship management is studied from a six model framework, consisting of customer, internal, referral, influence, recruitment and supplier/alliance markets. Benchmarking for best practice is evaluated from a cross-industry perspective, culminating in a home entertainment industry best practice initiative from an international context. The objective of the chapter is to synergize and link service quality, relationship management and best practice with entrepreneurial orientation, the franchise system and the service profit chain.

## CHAPTER 5: INTEGRATING SERVICE QUALITY, RELATIONSHIP MARKETING AND BENCHMARKING FOR BEST PRACTICE

Improving service quality (Zeithaml & Bitner: 2003) is a strategy for keeping customers as well as getting them in the first place (Ballantyne, Christopher & Payne: 1995). This has been expressed as a developmental approach to relationship marketing (Gronroos: 1984; Payne *et al*: 1999); via benchmarking for best practice (TBE: 2004; Jarrar & Zairi: 2000).

### 5.1 INTRODUCTION

Service quality is often conceptualised as the comparison of service expectations with actual performance perceptions (Zeithaml & Bitner: 2003). Emphasis is placed on the combined attitudinal construct of service quality, highlighting constituents of both cognitive and affective components. Parasuraman *et al* (1998) tend to delineate service quality using more cognitive items, whereas Edwards (1990) found that the affective attitudes exhibited more change under affective means of persuasion than under cognitive means of persuasion. Teas (1993), however, argues that service quality is a combination of transaction and overall attitude.

Research suggests that customers perceive service quality in a multi-dimensional way, based on multiple factors relevant to the context. Zeithaml and Bitner (2003) identify dimensions of reliability, assurance, tangibles, empathy and responsiveness. They further identify the gaps model of service quality, identified in Figure 5.2. The gaps model provides input into managing the services marketing mix for service quality and setting of service standards. Integration of service relationships include market orientation; loyalty; customer satisfaction; marketing culture; previous experience; internal marketing; future consumer behaviour and culture.

Service quality measurement includes analyses of a number of tools, including SERVQUAL (Parasuraman *et al*: 1998); SERVPERF (Cronin & Taylor: 1992); EP/NQ model (Teas: 1993); Qualitometro (Franceschini & Rossetto (1997); critical factor approach (Sureshchander *et al*: 2002); bank service quality (Bahia & Nantel: 2000); and two-way model (Schvaneveldt *et al*: 1991). It is proposed to evaluate the merits of each approach, and implement an applicable measurement tool for this study.

Relationships between value chain participants (Porter: 1995) led to developments in the field of relationship marketing. Peck *et al* (1999: 22) developed a revised version of the relationship management six markets model; which includes customer, internal, referral, influence, recruitment and supplier/alliance markets. The six markets model identifies all facets of internal and external relationships that can contribute towards an organisation's marketplace effectiveness.

The purpose of evaluating relationship marketing is to analyse the effect of networks and relationships towards customer satisfaction and loyalty (Heskett: 2002; Reichheld: 2001). Literature from franchise systems relationships (Section 3.3) is combined with the six markets relationship model (Peck *et al*: 1999); together with entrepreneurial orientation in a franchised system (Bolton & Thompson: 2003; Lindsay & McStay: 2004) represented in sections 2.6.10 and 3.4.

Complementing the service vision further led to development of best practice initiatives, often initiated by innovative firms in competitive industries and environment. Such initiatives were regarded as pivotal in survival and achievement of competitive advantage (Porter: 1998). The Video Software Association of America (VSDA: 2001) identified best practice in the industry, as identified by Arthur Andersen Business Consultants. These were wide ranging, including understanding customers and markets; developing vision and strategy; refining store product offering; implementing the marketing plan; creating promotions and in-store merchandising; and clear in-store operations. Customer service findings included the best customer service is one-to-one, strong relationships and loyalty are developed between staff and customers through consistency of management and staff, and personalising customer service.

## **5.2 SERVICE QUALITY**

Service quality is an attitude or global judgement about the superiority of a service, although the exact nature of this attitude is not agreed (Robinson: 1999). Viewpoints differ regarding the origins, suggesting that it stems from a comparison with ideal standards (Teas: 1993); from perceptions of performance alone (Cronin & Taylor: 1994), to a comparison of expectations with performance perceptions/disconfirmation (Parasuraman *et al*: 1988). This is made evident by the variety of service quality measurement models and dimensions, discussed in section 5.2.2. Service quality differs

from customer satisfaction in that service quality is an overall attitude towards a service organisation (Caruana *et al*: 2000), whilst customer satisfaction is specific to an individual service encounter (Zeithaml & Bitner: 2003).

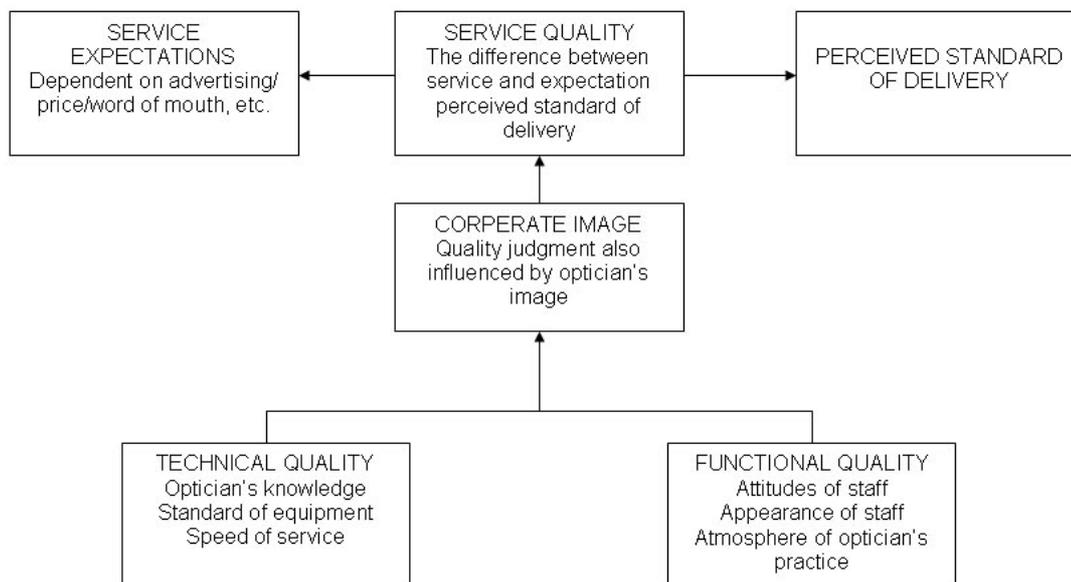
### 5.2.1 Defining service quality

Service quality is most often conceptualised as the comparison of service expectations with actual performance perceptions (Zeithaml & Bitner: 2003; Parasuraman *et al*: 1998). Hung-Chang (2002) placed emphasis on the combined attitudinal construct of service quality, highlighting constituents of both cognitive and affective components. Parasuraman *et al* (1998) tend to delineate service quality using more cognitive items, whereas Edwards (1990) found that the affective attitudes exhibited more change under affective means of persuasion than under cognitive means of persuasion. Meanwhile, Teas (1993) argues that service quality is not just an overall attitude, but that it is also transaction specific.

Palmer (2001) identifies a two-series approach to defining service quality; that of conforming to requirements and that of fitness for use. The latter is based primarily on satisfying customers' needs, and the former on complying with specifications. This approach may be united in the concept of customer perceived service quality; whereby quality can only be defined by customers, occurring when an organisation supplies services to a specification satisfying their needs.

Gronroos (1984) defines service quality as the difference between service expectations and perceived standard of delivery. He identified technical and functional quality as being two principle components of quality. Technical quality is the relatively quantifiable aspects of a service received by interacting with organisations; examples being waiting time at check-out counters and reliability of public transport services. Services also however involve consumer-producer interaction, identifying the method of delivering technical quality. This perception is referred to as functional quality, and cannot be measured as objectively as the elements of technical quality (Mels, Boshoff & Deon: 1997). Figure 5.1 illustrates diagrammatically Gronroos' conceptualisation of service quality, as applied to an optician's practice. The figure is represented on the following page.

**FIGURE 5.1 Consumer perception of technical and functional quality applied to an optician’s practice**



Source: Gronroos (1984: 167)

Service quality is a highly abstract construct, with many conceptualisations of service quality addressing the abstract expectations that consumers hold in respect of quality (Palmer: 2001). Consumers subsequently judge service quality as the extent to which perceived service delivery matches expectations (Robinson: 1999). From a perspective of the GAPS model of service quality (Zeithaml & Bitner: 2003), service quality dimensions (Parasuraman *et al*: 1998), service profit chain (Heskett *et al*: 1997), transactional model (Teas: 1993) and Gronroos’ conceptual model (Gronroos: 1984); a unified definition accepted in this study is that of Parasuraman (1994: 202), being “the degree of discrepancy between customers, normative expectations for the service and their perceptions of the service performance”.

### 5.2.2 The dimensionality of service quality

Identification of the multi-dimensional nature of service quality aids attainment of the marketing concept, and there is general agreement that quality evaluations are made on the outcome of the service and on the process of service delivery (ONeill & Palmer: 2003). This point of view is supported by Gronroos (1984), who identified technical and functional quality (see Figure 5.1). Functional quality is associated with the process of

service delivery, whereas technical quality is associated with the actual output of the service (Palmer: 2001).

Research suggests that customers perceive quality in a multi-dimensional way, based on multiple factors relevant to the context (Zeithaml & Bitner: 2003). The early works of Berry, Zeithaml and Parasuraman (1985) provide a strong foundation for understanding the dimensionality of service quality. Their original qualitative study identified ten key dimensions, each of which relates not only to the service consumed, but also to the customers' confidence in those providing the service. These included tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, communication and empathy. Over the years, the authors have distilled this list into five broader categories. These dimensions represent how consumers perceive service quality, and may use all or a combination of dimensions (Zeithaml & Berry: 2003). Widely referred to as SERVQUAL, the five elements include reliability, assurance, tangibles, empathy and responsiveness.

- Reliability; the ability to perform the promised service dependably and accurately. Of the five dimensions, reliability has been identified as the most important determinant of perception of service quality. Reliability means that the organisation delivers on its promises, particularly promises about the service outcomes and core service attributes (Heskett: 2002)
- Assurance; the knowledge and courtesy of employees and their ability to inspire trust and confidence. This is a particularly important dimension for services with high risk perceptions. Relationship management forms an integral part of the assurance dimension (Peck *et al*: 1999)
- Tangibles; the physical facilities, equipment, and appearance of personnel. This dimension is particularly important in service quality perceptions of new customers (Zeithaml & Bitner: 2003), with emphasis on hospitality industries such as restaurants, retail stores and entertainment organisations. The tangible dimension is mostly used in combination with other service quality dimensions to enhance quality perceptions
- Empathy; the caring and individualised attention given to customers. The essence of empathy is conveying to consumers that they are unique and special, via personalized or customized service offerings (Zeithaml & Bitner: 2003). Business-to-business services are particularly prone to the empathy dimension

- Responsiveness; the willingness of service providers to help customers and provide prompt service. This dimension captures the notion of flexibility and ability to customize the service to consumer requirements, and emphasizes attentiveness and promptness in dealing with the consumer (Zeithaml & Bitner: 2003).

The various statistical analyses conducted in constructing SERVQUAL revealed considerable correlation among items representing several of the original ten dimensions for evaluating service quality (Zeithaml, Parasuraman & Berry: 1990). The authors believe that these five dimensions are a more concise representation of the “core criteria that customers employ in evaluating service quality”. They are represented further in the chapter under service quality in Figure 5.3.

SERVQUAL has however been challenged on a number of grounds, such as an absolute measure of attitudes (Cronin & Taylor: 1994); the inductive nature of original research (Andersson: 1992) and the psychometric properties of the instrument (Carman: 1990). All this provides further evidence of the complexity of the service quality construct and that it cannot be defined in any one way for all service encounters (O’Neill & Palmer: 2003). SERVQUAL, however, is discussed as a measurement tool in Section 5.2.8.

Hung-Chang (2002) emphasised the cognitive and affective dimensions of service quality. Cognitive dimensions included a seventeen point scale, including promises, dependability, performance, correctness, information, prompt service, active contact, response, correcting errors, convenience, modern equipment, personnel appearance, comfortable environment, appealing facilities, convenience, integrated services and reliability. The second construct of affective components included a thirteen point scale, consisting of attention, care, best interest, customer needs, confidence, willingness, courtesy, safety, honour, treatment, self-esteem, societal and self-actualization.

### **5.2.3 The integrated gaps model of service quality**

The gaps model of service quality positions key concepts in services marketing that commences with the consumer and builds the organisation’s tasks around requirements to close the gap between customer expectations and perceptions (Zeithaml & Bitner: 2003).



To close the customer gap, the model suggests that four other gaps, the provider gaps, also need to be closed (Zeithaml *et al.*: 1990). These are represented as gaps 1, 2, 3 and 4 in Figure 5.2. Key factors leading to provider gap one include (Zeithaml & Bitner: 2003):

- Inadequate marketing research orientation
- Lack of upward communication
- Insufficient relationship focus
- Inadequate service recovery.

Provider gap two is the gap between customer-driven service designs and standards and management perceptions of customer expectations. Key factors leading to provider gap two include (Zeithaml & Bitner: 2003):

- Poor service design
- Absence of customer-defined standards
- Inappropriate physical evidence and servicescape.

Not delivering to service standards is core to gap three, the gap between service delivery and customer-driven service designs and standards. Key reasons leading to provider gap three include (Zeithaml & Bitner: 2003):

- Deficiencies in human resource policies
- Failure to match supply and demand
- Customers not fulfilling roles
- Problems with service intermediaries.

When promises do not match performance, Zeithaml and Bitner (2003) identify key reasons for provider gap four:

- Lack of integrated services marketing communications
- Ineffective management of customer expectations
- Over-promising
- Inadequate horizontal communications.

Zeithaml and Bitner (2003) believe the foundation of the gaps model emphasis is warranted; due to the strong focus on the customer and the need to use knowledge about the customer to drive business strategy. Using the background of the gaps model, management of service quality follows.

#### **5.2.4 Organizing and implementing service quality**

Organisations need to develop strategies to enhance the delivery of consistent and high-level service quality (O'Neill & Palmer: 2003). Kotler (2000) researched successful service organisations in the United States of America, and proposed the following requirements:

- A strategic concept which is customer-focused
- A history of senior management commitment to quality
- The setting of high standards and communication of these standards to employees
- Systems for monitoring performance
- Systems for satisfying complaining customers
- Satisfying employees as well as customers.

Service employees have emerged as a key element in the process of quality management (Palmer: 2001). This is in tandem with the line of thought represented in Section 4.7, highlighting an entrepreneurial spirit to enhancing service profit chain initiatives (Heskett *et al*: 1997). Emphasis on the employee as service provider is emphasized in Section 4.2.7, highlighting positive quality of work-life effects on successful organisations (Lau: 2000). Vilares and Coelho (2001) identify the notion of putting employees first; Bassi and Vanburen (1997) explain organisational competitiveness as a result of a motivated workforce; whilst Nel *et al* (2004) discuss training and development programmes in supporting greater job latitude. Services marketing mix decisions (Kotler: 2000) of personnel, price, promotion and distribution require additional insight towards closing the gaps.

### 5.2.5 Managing the services marketing mix for service quality

Service quality management is the process of limiting the gap between consumer expectations and the perceived service delivery (Palmer: 2001). He informs that the marketing mix is at the forefront of implementations towards this objective. Firstly, the marketing mix formulation and communication thereof should be as realistic as possible, not enhancing false expectations (Walker *et al*: 1999). Secondly, non-marketer dominated factors such as referrals (for example, word of mouth) also require consideration as their presence may also effect increasing expectations (Heskett: 2002). Finally, there is the importance of recognizing the dynamic relationship between customers' perceptions and expectations (Zeithaml & Bitner: 2003).

Services marketing mix management is concerned with closing the quality gap over time, either by improving the service offer, or restraining customers' expectations (Palmer: 2001). All elements of the mix can affect the level of customer expectations and perceptions, and the elements should not be taken in isolation (Kotler: 2000). Elements of the mix, together with synergies towards narrowing the service quality gap include (Palmer: 2001):

- Front-line contact personnel are particularly important elements of consumers' perceptions of functional quality; making the buyer-seller interaction vital in service settings. This again highlights the service profit chain links identifying the employee as an integrated and important element (Heskett *et al*: 1997). Training and development go a long way in providing employee latitude, enhancing quick decision making (Nel *et al*: 2004)
- Place (distribution); often regarded as accessibility in services, can affect customers' expectations of quality as well as actual performance. A poor quality service offered through a high-quality provider may increase expectations; similarly, a high quality service offered through a low-quality provider may decrease perceptions. This places emphasis on the recruitment of service providers, monitoring a network of intermediaries who are able to share the service principal's commitment to quality standards. Such is the case in franchising, whereby the franchisor should recruit service oriented franchisees towards adhering and maintaining expected service standards (Mendelsohn: 2003)

- Pricing decisions affect both customer's expectations and perceptions of service quality. With all other factors being equal, price is often used by potential customers as a basis for judging service quality. Low price may however lead to insufficient margins to provide high quality service. Price is an important link to the customer value equation, highlighted in the service profit chain (section 4.6.6). Added value, convenience and portability often allow the service provider to negate price as the only measure of cost. Caruana *et al* (2000) however inform that service providers need to convince customers of the value of such efforts. This rotates back to customer expectations
- Promotion. Decisions have the effect of enhancing consumers' expectations of service quality. The message and communication medium may have a significant contribution to quality expectations. To a lesser degree, promotion may also enhance perceptions of service quality, such as value added, loyalty cards and membership schemes. Promotion is linked to the strategic initiatives of retention and related sales in the service profit chain (Heskett *et al*: 1997). This is highlighted in Section 4.7.6, identifying the lifetime value of the customer (Reichheld: 2002).

In order to communicate the standard of service quality a customer can expect to receive, service providers implement precise specifications of service standards. This is discussed in setting service standards.

### **5.2.6 Setting service standards**

The general manner in which an organisation promotes itself may give a general impression as to the service quality it wishes to deliver; however, more specific standards can be stated in a variety of ways (Palmer: 2001):

- At most basic, service providers can rely on its terms of business as a basis for determining the service quality level. This may be as a result of business strategies, identifying generic competitive advantage of low cost or specialisation (Porter: 1998). The franchise agreement, for example, may state the franchise system terms of service quality, to be adhered to by all system members (Mendelsohn: 2003). Customers can thus expect a similar service quality standard throughout the network (Justis & Judd: 2002)

- Customer charters go beyond the basic terms of business, by stating in a general manner the standards of performance which the organisation aims to achieve. This specific standard may be likened to creating listening posts and avenues of customer complaints in the service profit chain (Heskett *et al*: 1997), identified in Section 4.5. This may also be likened to the charters provided by many franchise organisations, whereby toll-free communication is provided for customers to air complaints directly to the franchisor (Zairi: 2000). Mack *et al* (2000) postulate that focusing on customer complaints and service failures can assist in improving service quality
- Specific guarantees of service performance are most often offered in respect of service outcomes. As an example, the Blockbusters franchise display specific customer service quality guarantees, such as being addressed by name, receiving prompt attention, and assurance of an enjoyable home entertainment experience (Maritz: 2003). Compensation is promised if certain specified services are not delivered correctly. These specific guarantees are however inevitably dependent on employee capability and attitudes, a primary driver being employee motivation and quality of work-life (Nel *et al*: 2004). The link to the employee in the service profit chain is once again highlighted (Heskett *et al*: 1997). The operations manual is a means of stating the service requirements in a franchised environment, often a bone of contention between the relationship parties (Germann: 2002)
- Many services organisations belong to a professional association, incorporating the association's code of conduct into their own service offering. The code of conduct provides consumer reassurance to potential customers, and a statement of minimum standards to employees. In the franchised environment, such associations may include the Franchise Association of South Africa (FASA: 2002), or in the home entertainment industry, the Video Software Dealers Association of America (VSDA: 2001). A home entertainment association does however not exist in South Africa, making membership to an international association somewhat meaningless in the mind of the consumer (Maritz: 2002)
- General trade affiliations, safety associations, charitable associations and social responsibility associations also go a long way to enhancing customer loyalty (Reichheld: 2001). Whilst not directly associated to service quality, these initiatives impose a sense of integrity, effecting expectations and perceptions of service quality (Zeithaml & Bitner: 2003).

Service quality is associated and linked to many strategic marketing initiatives, placing emphasis on the synergistic approach between all the dimensions of service quality (as depicted in Section 5.2.2).

### **5.2.7 Integration of service quality relationships**

Much has been researched and written on the various service quality relationships (Tung-Zong & Su-Jane: 1998; Heskett *et al.*: 1997; Peck *et al.*: 1999; Mendelsohn: 2003; Chaston: 2003; VSDA: 2003; Bolton & Thompson: 2003), particularly due to service quality being a factor that has a significant impact on business performance (Silvestro & Cross: 2000; Duffy: 2003). The link between entrepreneurial orientation (Chapter 2), the franchise paradox (Chapter 3), and the service profit chain (Chapter 4) are integral to the formulation of a proposed strategic service vision. Furthermore, the link and relationship between best practice and relationship marketing facilitates a synergistic service vision. Prior to linking service quality with the depicted chapters, peripheral links are examined.

#### **5.2.7.1 Service quality and market orientation**

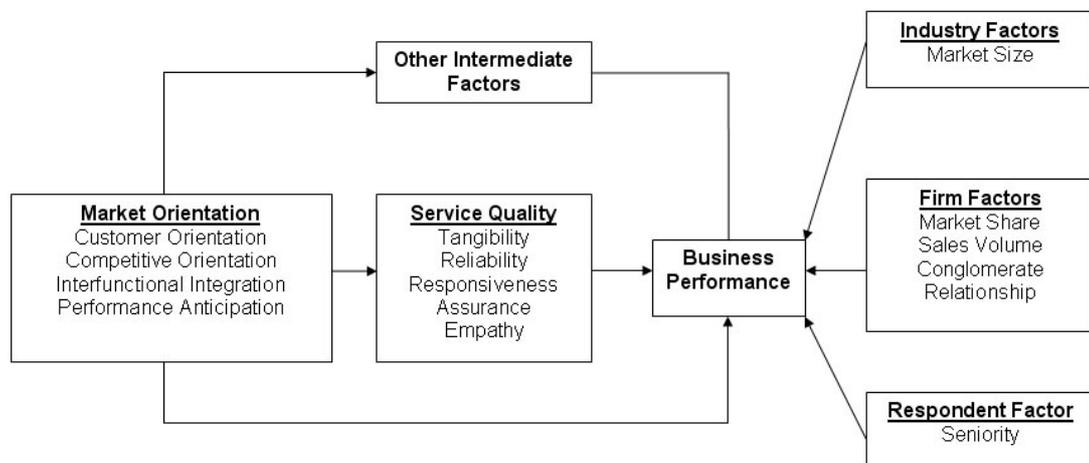
The implementation of a market-oriented campaign has an immediate effect on how a firm meets its customers' perceived expectations (Tung-Zong & Su-Jane: 1998). They inform that service quality is specifically found to be the most influential determinant of a strategic business unit's performance. Heskett (2002) found that service quality has a strong positive relationship with loyalty, and a negative effect on propensity to switch. Both market orientation and service quality moderate service offerings and have a positive association on business profitability (Maranto & Reynoso: 2003; Silvestro: 2002).

Market orientation implies that an organisation obtains information from consumers about their needs and wants, and then takes appropriate action based on the information (Kotler: 2000). In a dynamic environment, organisations continuously modify their offering mix in response to and/or in anticipation of changing needs and competitors' actions (Tung-Zong & Su-Jane: 1998). Such consistent efforts narrow the perceptual gap between the organisation and its customers (Zeithaml *et al.*: 1990). They also state that in the long run, a market-oriented organisation may produce higher profits through superior service quality, which, in turn, leads to higher productivity and stronger loyalty. Tung-Zong and

Su-Jane (1998) developed a conceptual model depicting the service quality and market orientation relationship, together with influences to/from business performance, industry factors, organisation factors, and response factors. This is depicted in Figure 5.3.

In their empirical study, Tung-Zong and Su-Jane (1998) identified the positive relationship in the retail stock brokerage industry. The market orientation measure consisted of three core themes, being customer focus, coordinated marketing and profitability. Service quality measures included the SERVQUAL scale, built upon the five dimensions identified in Section 5.2.2. A higher degree of market orientation was found to be correlated with superior service quality. They conclude the study by informing that only when a market oriented effort yields meaningful improvement in service quality, will any improvement on business profitability occur.

**FIGURE 5.3 The conceptual model of market orientation effects on service quality and business performance**



Source: Tung-Zong and Su-Jane (1998: 251)

### 5.2.7.2 Service quality and loyalty

Bloemer, de Ruyter & Wetzels (1999) empirically investigated the relationship between dimensions of service quality and service loyalty dimensions. Their study consisted of a large sample of customers from four different service industries, of particular relevance (to this research document) being the entertainment industry. They evaluate

preconceptions, whereby Zeithaml *et al* (1990) report such a relationship; whereas Cronin and Taylor (1992) failed to find one. Bloemer *et al* (1999) further identified that to date no studies have addressed the link between the individual dimensions of service quality and service loyalty. The relationship between overall service quality and individual service loyalty dimensions has however been empirically examined (Cronin & Taylor: 1992; Boulding, Kalra, Staelin & Zeithaml: 1993). Cronin and Taylor (1992) focussed solely on repurchase intentions, whereas Boulding *et al* (1993) focused on willingness to recommend and repurchase intentions. Whilst Cronin and Taylor (1992) found no significant relationship, the extended model of Boulding *et al* (1993) found a positive relationship between service loyalty and overall service quality.

The empirical study (Bloemer *et al*: 1999) identified dimensions of service loyalty and service quality. Zeithaml *et al* (1996) proposed a comprehensive multi-dimensional framework of customer behavioural intentions in services, which Bloemer *et al* (1999) adapted to represent service loyalty. Initial dimensions across a 13-item scale included:

- Word-of-mouth communications; which includes recommendations, positive and encouraging stimuli to support an organisation. This may be similar to referrals in the service profit chain (Section 4.7.6.3), where similar constructs are evaluated by Heskett (2002), Stokes and Lomax (2002), Ennew *et al* (2002) and Heskett *et al* (1997). Stokes and Lomax (2002) identify word-of-mouth recommendations in an entrepreneurial environment, linking service quality, customer service and the service profit chain
- Purchase intentions, representing customer intention to re-purchase and lifetime values. The empirical study of Cronin and Taylor (1992) refers. The link to the service profit chain (Heskett *et al*: 1997) is measuring and communicating lifetime values (McDougall *et al*: 1997) and retaining customers (Brooks: 2000)
- Price sensitivity, indicative of defection behaviour, and customer responsiveness to pricing. Linking the service profit chain is represented in Section 4.6, identifying the customer value equation (Heskett *et al*: 1997), and the study on switching behaviour by Ranaweera and Prabhu (2003), Section 4.7.6.1
- Complaining behaviour; including avenues of customer complaints, and associated behaviour. Service profit chain linkages are customer feedback, complaint and suggestion systems (Zeithaml & Berry: 2003); lost customer analysis (Mack *et al*: 2000); represented in Section 4.5.2. The creation of listening

posts (Ahmad & Buttle: 2002; Zairi: 2000), represented in Section 4.7.6.3 identifies strategies to complement this loyalty factor.

On the basis of factor analysis on the 13-item scale, five dimensions were identified (Zeithaml *et al*: 1996):

- Loyalty to company
- Propensity to switch
- Willingness to pay more
- External response to problem
- Internal response to problem.

Bloemer *et al* (1999) however questioned the factor analysis of Zeithaml *et al* (1996), and made use of the 13-item behavioural intention battery. Perceived service quality was measured on the basis of the 22-item SERVPERF instrument with a nine-point scale (Cronin & Taylor: 1992). Descriptive analysis, entertainment industry specific, is depicted in Table 5.1.

**TABLE 5.1 Linking perceived service quality and service loyalty: an entertainment industry perspective**

Quality/Loyalty	Mean	Standard Deviation
<i>Quality dimensions</i>		
Reliability	6.58	1.56
Responsiveness	6.60	1.57
Assurance	6.59	1.75
Empathy	6.33	1.51
Tangibles	7.09	1.32
<i>Loyalty dimensions</i>		
Word-of-mouth	6.72	1.87
Purchase intention	6.07	2.10
Price sensitivity	4.46	1.91
Complaining behaviour	5.28	1.53
<i>n=203</i>		

Source: adapted from Bloemer *et al* (1999: 1090)

Findings varied across the four identified service industries, with entertainment industry specifics including (Bloemer: 1999):

- Word-of-mouth is positively affected by responsiveness ( $\beta=0,44$ ) and tangibles ( $\beta=0,36$ )

- Purchase intentions are primarily determined in a positive manner by reliability ( $y_{21}=0,44$ ), responsiveness ( $y_{22}=0,39$ ) and tangibles ( $y_{25}=0,32$ )
- Prompt service (for instance, no waiting lines) is a key factor in determining customer preference and recommendation to others
- Tangible service attributes form the core element of the entertainment service experience, and are a key determinant of both word-of-mouth and purchase intentions
- As far as purchase intentions are concerned, it appears that reliability is crucial in determining whether or not customers will return to the entertainment venue
- Considerations about the core service are decisive in determining a customer's own behaviour as compared to the willingness to recommend the service to others.

The importance of a multi-dimensional and cross-industry approach to service loyalty is emphasised by Bloemer *et al* (1999), due to different relationships between service quality and loyalty dimensions. Managerial implications highlighted by Bloemer *et al* (1999) are indicative of the service quality-customer loyalty link providing actionable benchmarks that individual organisations may use to guide their service policies, aimed at securing customer loyalty. An adaptation of this empirical research is implemented in this research project.

### 5.2.7.3 Service quality and customer satisfaction

A literature review reveals that the terms quality and satisfaction are often used interchangeably, enhancing debate concerning the relationship between the constructs (Zeithaml & Bitner: 2003; Palmer: 2001; Parasuraman: 1998; Sureshchandar *et al*: 2002). Customer satisfaction has been dealt with in relation to the service profit chain (Heskett *et al*: 1997) in Section 4.5. Oliver (1997) identifies conceptual definitions to the two constructs:

- Service quality is a comparison to excellence in service by a customer
- Customer satisfaction is a process (based on expectancy disconfirmation) yielding a state of fulfilment related to reinforcement or arousal.

The majority of literature suggests that service quality is a vital antecedent to customer satisfaction (Cronin & Taylor: 1992; Parasuraman *et al*: 1998; Oliver: 1997). There is

also strong evidence that customer satisfaction is an antecedent to service quality (Bitner: 1990; Bolton and Drew: 1991). Lee, Lee & Yoo (2000) empirically found that service quality as an antecedent of customer satisfaction and that customer satisfaction exerts a stronger influence on purchase intention than service quality. Regardless of which view is taken, the relationship between service quality and satisfaction is strong when examined from either direction.

Caruana *et al* (2000) included the possible role of value as a moderating variable. Their empirical results suggest that the effect of quality on satisfaction is not just direct but is also moderated by value. Implications are in agreement with the service profit chain (Heskett *et al*: 1997; Heinonen: 2004), concerning the important effect of price and therefore value (refer to the value equation, section 4.6; and the customer satisfaction link to service value in Section 4.3.3).

Zeithaml & Bitner (2003) identify strategies to enhance service quality perceptions and customer satisfaction, most in agreement with service profit chain implications (refer to section 4.5, managing customer satisfaction). Approaches include:

- Measure and manage customer satisfaction and service quality. This includes tracking trends to diagnose problems and to link to other customer-focused strategies. Other strategies, linking the service profit chain, include employee training (Nel *et al*: 2004); reward systems (Heskett: 2002); internal process metrics (Lau: 2000); organisation structure and leadership goals (Hamel & Prahalad: 1995)
- Aim for customer quality and satisfaction in every service encounter. The service encounter may be seen as the period of time during which a consumer directly interacts with a service (Joseph: 1996). Themes underlying satisfaction/dissatisfaction in service encounters (recovery, adaptability, spontaneity and coping) suggest specific types of actions that would aid an organisation aiming for zero defects (Zeithaml & Bitner: 2003). Planning for effective recovery highlight service failures and subsequent recovery efforts which create strong memories for customers and employees. Facilitation, adaptability and flexibility are paralleled in the service profit chain by giving employees latitude and responsibility (Heskett: 2002). Encouraging spontaneity is primarily uncontrollable in service encounters, usually facilitated by hiring employees with

a strong service orientation (Lau: 2000). This is of interest in the selection of franchisees along similar guidelines (Mendelsohn: 2003). Helping employees cope with problem customers requires that employees are taught appropriate coping and problem-solving skills to handle difficult customers as well as their own feelings in such situations (Schlesinger & Zornitsky: 1991). Managing the dimensions of quality at the encounter level is the ability of employees to relate dimensions of service quality, reliability, responsiveness, assurance, empathy and tangibles to each individual encounter. The interaction is reflective of the moment of truth (Zeithaml & Bitner: 2003). Every episode where a customer interacts with a service provider represents a moment of truth because each episode can shape a customer's impressions and judgements about the organisation (Joseph: 1996)

- Manage the evidence of service to reinforce perceptions. The evidence of service, (people, process and physical evidence), provides a framework for implementation of customer satisfaction strategies. This may also include maintaining measures and rewards that influence behaviour (Yoon, Beatty & Suh: 2001).

Service profit chain synergies include enhancement activities in section 4.8, including putting employees first (Lau: 2000); spending time on the front line (Heskett: 2002); leading personal development (Bassi & Vanburen: 1997); supporting greater job latitude (Nel *et al.*: 2004; Boon & Kurtz: 2000); investing in customers (Reichheld: 2001); communicating the message (Stokes & Lomax: 2002) and reducing labour costs by paying higher wages (Silvestro: 2002).

#### 5.2.7.4 Service quality and marketing culture

Whilst this construct may be closely related to marketing orientation, marketing culture is more of a set of unwritten decrees, rituals and a shared pattern of shared values and norms which permeate an organisation (Deshpande & Webster: 1989). Albrect and Zempke (1985) use the term service culture for marketing culture and reiterate that contribution of marketing culture to service organisations as providing the only effective means to win employees commitments to serving customers. Strauss (1995) identified the challenge to services marketing as being the positive link between marketing culture and successful marketing in cultivating and sustaining a service culture. It urges service marketers to implant service culture among service employees. However, marketing culture is the result of careful planning and involves a series of ongoing training activities (Luk: 1997).

Webster (1990) identified marketing culture in terms of six dimensions: service quality, interpersonal relationship, interpersonal communications, innovativeness, organisation and selling tasks. This operational dimensionality allows measurement of an organisation's marketing culture, to discover its nature, and to identify linkages with service performance. Empirical research conducted by Luk (1997) indicated that high quality service can only be delivered when organisations successfully foster a customer-oriented marketing culture characterized by emphasis on service quality orientation and interpersonal relationship. The positive relationship confirms that perceived service quality is a function of marketing culture.

#### 5.2.7.5 Service quality and previous experience

O'Neill and Palmer (2003) empirically investigated the role of experience on the dimensions of service quality; postulating that the service quality construct for a type of service is positively related to consumers' experience of consuming that type of service. Van Der Wagen (1994) informs that customers have many different perceptions which are influenced by their education, upbringing, experience and many other factors. Similarly, Williams and Visser (2002) suggest that experience depends on and influences perception, since it involves changes in behaviour which necessitate meaning and order being given to sensory data. Blythe (1997) refers to this process as cognitive mapping or a construct of the imagination, wherein consumers analyse purchase and post-purchase situations taking into account previous experiences, and make evaluative judgements based on these experiences. Consumers normally bring with them all of their previous knowledge and experience, which they use to try to make sense of the mass of conflicting stimuli with which they are bombarded (Chisnall: 1985). He informs that perception is seldom an objective scientific assessment of comparative values.

Analysis of service quality dimensions related to experience found that consumer perceptions of service quality may to a large extent be influenced by the degree of prior experience the consumer has or acquires in relation to a particular service. The degree of prior experience with a particular service provider, type of service provided or particular attribute of a service also has a bearing on the extent of any perceptual change over time.

Findings (O'Neill & Palmer: 2003) suggest that inexperience may limit the dimensionality of quality, which is implicit in consumers' evaluations. They recommend

that practitioners include experience variables in their measurement instruments of service quality, thereby not relying on performance only variables.

#### 5.2.7.6 Service quality and internal marketing

Kang *et al* (2002) identify internal marketing as an important approach for fostering a service and customer oriented culture in an organisation. They see the provision of internal service quality as a critical component of internal marketing. The link to the service profit chain is emphasized in Section 4.3.7, identifying the employee satisfaction link to internal quality of work life (Lau: 2000); together with the work of Yoon *et al* (2001), empirically indicating the positive relationship between employees' work effort and customers' perception of employee service quality. The Kang *et al* (2002) empirical results confirm the five-factor SERVQUAL model as a valid and reliable tool for measuring internal service quality. While many service quality attributes may influence an employee's perception of service quality, the results are indicative of some attributes having a greater impact on the overall perception of internal service quality.

The dimensions of reliability and responsiveness were found to be critical to the overall internal service quality perceptions. It is therefore a prerequisite to have support employees providing services accurately and quickly to front-line employees, and having knowledgeable and service-oriented employees (Lau: 2000; Bassi & Vanburen: 1997). Joseph (1996) informs that internal service quality is not the responsibility of just one department or individual; but is organisation-wide and involves all members of a service organisation. Frost and Kumar (2000) developed the Internal Service Quality Model (Intservqual), based on the original GAP model (Zeithaml & Bitner: 2003). Their empirical investigation found that perceptions and expectations of internal customers and internal suppliers play a major role in recognising the level of internal service quality perceived.

Corresponding with many service profit chain initiatives of internal marketing (Heskett *et al*: 1997); Joseph (1996) identifies initiatives in the healthcare industry towards building internal service quality. Initiatives include listening to internal customers (Lau: 2000), involving, empowering and enfranchising (Nel *et al*: 2004), senior management to the front lines (Heskett: 2002), fostering team spirit (Reichheld: 1996), and communicating formally and informally (related to communication of results, Heskett: 2001; and

franchise system relationships; Mendelsohn: 2003). Joseph (1996) also identified the positive relationship between internal marketing and service quality.

#### 5.2.7.7 Service quality and future consumer behaviour

Headley and Miller (1993) empirically evaluated the existence of the significant relationship between perceived service quality and intent to repurchase, complement, complain, recommend, switch and non-use of services. They inform that if resources for improving service quality are limited; ensuring that the promised service is performed accurately, dependably, and with caring, individualized attention offers the best return in customer satisfaction and bonding for repeat business. Their study included measurement efforts based on SERVQUAL, advising that the measure is appropriate for the services field, but that practitioners should take note in unique situations that call for adaptation (Bloemer *et al.*: 1999; Robinson: 1999).

Headley and Miller (1993) confirm that anticipated relationships between perceived service quality and various consumer intentions suggest that perceived higher service quality will generate favourable intentions (such as, repurchase, complementing) and that perceived lower service quality will lead to unfavourable intentions (such as, complaining, switching, and non-use of any services). Their study is related to the service profit chain in many ways, primarily involving retention strategies (Section 4.7.6.1). Synergies include customer commitment (Zineldin: 2000), employee retention (Reichheld: 1996), active relationships with customers (Ruyter & Bloemer: 1999), less effort in need analysis (Andreassen: 1994), retention rates (Brooks: 2000), switching barriers (Ranaweera & Prabhu: 2003), customer confidence (Hansemark & Albinsson (2004), pricing (Ranaweera & Neely: 2003), defections (Sherden: 1994), and profitability (Heskett: 2002).

#### 5.2.7.8 Service quality and culture

Imrie, Cadogen and McNaughton (2002) inform that the eagerness of global marketers to establish a competitive advantage based upon service quality within emerging markets (such as South Africa and the rest of Africa) displays a degree of naiveté in respect to the influence of environmental factors upon consumption behaviour. Shortcomings of the SERVQUAL model, identified by Parasuruman (1998) include the exclusion of the

possible influence of the variety of cultures found in international markets. The results of the Imrie *et al* (2002) empirical study indicate that not only do cultural values influence the hierarchy of service quality dimensions, but also that Parasuraman *et al*'s (1988) SERVQUAL conceptual model does not capture the breadth of criteria utilised by many globally spread consumers. They inform that interpersonal relations are highlighted as a dimension of service quality that is not adequately addressed by SERVQUAL.

Culture has been described as an accumulation of learned meaning or values within a human population, contending that these values endow individuals with rules that provide guidance in their behaviour as consumers (Soderland: 1998). Imrie *et al* (2002) in particular identified interpersonal relations as a dimension of service quality, with the emergence of three major themes. These themes included sincerity (an assessment of the genuineness with which service personnel performed tasks in order to gratify consumer preferences); politeness (associated with a customer's social status, giving appropriate respect, and service employees adherence to their respective roles within the service encounter); and generosity (need anticipation and service employees' unsolicited service provision as active service delivery). The research of Imrie *et al* (2002) converges with Rust & Oliver (2000) in acknowledgement that delighting the customer raises expectations, such that it may be difficult to exceed customer expectations in future encounters.

The integration of service quality relationships has identified strong synergies with elements of the service profit chain (Heskett *et al*: 1997). Furthermore, these synergies are complemented with developmental links to entrepreneurship (Kuratka & Hodgetts: 2004; Bolton & Thompson: 2003) and franchising as a form of business venturing for entrepreneurs (Mendelsohn: 2003; Spinelli: 1997).

Notwithstanding positive evidence of measuring service quality, together with contrasting points of view, the literature lends itself to the merits of measurement towards the attainment of organisational performance objectives (Palmer: 2001; Zeithaml & Bitner: 2003).

### 5.2.8 Measuring service quality: current thinking and future requirements

It is generally agreed that service quality is an attitude or global judgement about the superiority of a service, being distinct from customer satisfaction (Kang *et al.*: 2002; Parasuraman *et al.*: 1998). Despite varying measures of evaluating service quality, all agree that some measure of perceived performance is important in assessing service quality (Robinson: 1999). Popular measurement tools include SERVQUAL (Parasuraman *et al.*: 1998), SERVPERF (Cronin *et al.*: 1992), QUALITOMETRO (Franceschini, Rosetto & Caldara: 1998), evaluated performance model, NQ (normed quality) (Teas: 1993), behavioural intent (Headley & Miller: 1993), GAP model (Zeithaml & Bitner: 2003) and critical factor approach (Sureshchandar *et al.*: 2002).

In the past decade SERVQUAL has proved to be the most popular instrument for measuring service quality, despite areas of disagreement amongst many researchers (Robinson: 1999). A summary of areas of disagreement is depicted in Table 5.2. Despite SERVQUAL's popularity, a number of criticisms are levelled on the conceptual and operational level (O'Neill & Palmer: 2003). Cronin and Taylor (1992; 1994) and Teas (1993) in particular, are particularly vociferous in their critique, both developing their own measurement instruments. From the results of their empirical investigation Cronin and Taylor (1992) conclude that the unweighted SERVPERF measure (performance only) performs better than any other measure of service quality.

Teas (1993) proposes and empirically tests two alternative perceived service quality models, concluding out-performance of SERVQUAL. Parasuraman (1998) defended and made changes to the SERVQUAL model in response to the criticism and additional empirical research. What is apparent is that the debate over how best to measure service quality is far from complete (Robinson: 1999).

Table 5.2 is represented on the following page.

**TABLE 5.2 Service quality measurement debate: summary of areas of disagreement**

Area	Nature of disagreement
The purpose of the measurement	Whether the prime purpose is diagnostic or predictive
The definition of service quality	The nature and attitude: whether it relates to performance, expectations and/or ideal standards
Models for service quality measurement	Whether to measure expectations or not Whether to measure importance or not
The dimensionality of service quality	Whether the five dimension model is correct for its original context
Issues relating to expectations	The definition of expectations Whether it is necessary to identify which items are vector attributes and which are classic ideal point attributes When to measure expectations, before or after the encounter
The format of the measurement instrument	Which measurement instrument approach is best: difference score, non-difference score or semantic-differential scales Whether importance should be measured by item or dimension, or inferred from performance and expectations scores

Source: Robinson (1999: 27)

What follows is an evaluation of the more popular service quality measurement instruments.

#### 5.2.8.1 SERVQUAL

The SERVQUAL instrument aims to measure expectations and perceptions of service quality across the five service quality dimensions (Section 5.2.2) identified by Parasuraman *et al.*: 1994): tangibles, reliability, responsiveness, assurance and empathy. SERVQUAL is identified by Zeithaml and Bitner (2003) as identifying customer requirements in various settings, detailed in Section 4.5.

The instrument consists of two sets of twenty-two statements; the first set to determine a customer's expectations of a service firm, while the second set seeks to ascertain the customer's perceptions of the organisation's performance. The respondent is requested to rate his/her expectations and perceptions of performance on a seven-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). The results identify gaps in the organisation's performance on the five service quality dimensions. Based on empirical tests with the instrument and various theoretical considerations; Parasuraman *et al.* (1985; 1994; 1998) claim that SERVQUAL is both reliable and valid as a measure of service quality. They also claim that the instrument is applicable to a wide variety of service

industries, although it may be necessary to reword or augment some of the measurement items.

Kang *et al* (2002) empirically tested the application of the SERVQUAL instrument, concluding that the instrument is appropriate for measuring internal service quality. Lins and Brooks (1998) also proposed that the SERVQUAL instrument may be an appropriate tool to measure the quality of service delivered by internal suppliers to their internal customers, and to assess the effectiveness of internal marketing. Headley and Miller (1993) empirically examined the positive reliability and validity of SERVQUAL to future consumer behaviour, whilst Kuei and Lu (1997) empirically tested SERVQUAL as an integrated approach to service quality improvement. Reichheld and Sasser (1990) evaluated SERVQUAL as a measure of service quality for evaluating loyalty, complemented by the similar study of Heskett (2002). Mehta and Durvasula (1998) identified SERVQUAL as an appropriate tool in measuring the relationship between service quality dimensions and organisational performance in the case of a business-to-business service environment. Despite empirical evidence of the appropriateness of SERVQUAL, critique has met with much enthusiasm (Robinson: 1999).

Disconfirmation models of service quality have challenged SERVQUAL on a number of grounds (Palmer: 2001). Numerous criticisms of SERVQUAL are based on the inductive nature of the original research in that it failed to draw on the theory base in the disciplines of psychology, social sciences and economics (Andersson: 1992; Sureschandar *et al*: 2002). O'Neill and Palmer (2003) identify one stream of objections suggesting that absolute measures of attitudes provide a more appropriate measure of quality than explanations based disconfirmation models (Cronin & Taylor: 1994). Criticism against the psychometric properties of the instrument and the stability of its five-factor structure across industry sectors are widespread (Cronin & Taylor: 1992; Carman: 1990). Imrie *et al* (2002) critique SERVQUAL on a lack of consideration of the possible influence of cultures found in international markets.

Buttle (1996) summarized the major criticisms of SERVQUAL in two broad categories-theoretical and operational. Theoretical objections included:

- Paradigmatic objections: SERVQUAL is based on a disconfirmation paradigm rather than an attitudinal paradigm; and SERVQUAL fails to draw on established

economic, statistical and psychological theory (Cronin & Taylor: 1992; 1994; Andersson: 1992)

- Gaps model in that there is little evidence that customers assess service quality in terms of perception-expectation gaps (Zeithaml & Bitner: 2003)
- Process orientation, focussing on service delivery and not outcomes of the service encounter (Cronin & Taylor: 1992)
- Dimensionality, in that the SERVQUAL five dimensions are not universals and a high degree of intercorrelation between the five dimensions (Carman: 1990).

Operational objections cited by Buttle (1996) included:

- Expectations: consumers use standards other than expectations to evaluate service quality, and SERVQUAL fails to evaluate absolute service quality expectations (Gronroos: 1984; Teas: 1993)
- Item composition, in that four or five items cannot capture the variability within each service quality dimension (Bloemer *et al*: 1999)
- Moments of truth, whereby customers' assessments of service quality may vary from service interaction to service interaction (Carman: 1990)
- Polarity, in that the reversed polarity of items in the scale cause respondent error (Babakus & Mangold: 1992)
- Scale points: the seven-point Likert scale is flawed (Babakus & Mangold: 1992)
- Two administrations of the instrument causes respondent boredom and confusion (Gronroos: 1984; Carman: 1990; Cronin & Taylor: 1994)
- Variance extracted: the overall SERVQUAL score accounts for a disappointing proportion of item variances (Carman: 1990; Bouman & van der Wiele: 1992).

The criticism levied against SERVQUAL provides evidence of the complexity of the service quality construct and the fact that it cannot be defined in any one way for all service encounters (O'Neill & Palmer: 1999).

#### 5.2.8.2 SERVPERF

Cronin and Taylor (1992) suggest that the conceptualization and operationalization of SEVQUAL is adequate. They believe little if any theoretical or empirical evidence supports the relevance of the expectations-performance gap as the basis for measuring

service quality (Carman: 1990). They do however believe that the 22 performance items identified by SERVQUAL adequately define the domain of service quality, and propose an alternative to the SERVQUAL scale. An empirical investigation into service quality suggests that service quality should be conceptualized and measured as an attitude, and that the literature clearly supports the performance-only (SERVPERF) approach (Lee *et al*: 2000; Cronin & Taylor: 1992; 1994).

The main feature of SERVPERF is its focus on customers' perceptions (Franceschini *et al*: 1998). Service quality is evaluated by perceptions only without expectations and without importance weights (Cronin & Taylor: 1994). In an empirical investigation of the determinants of perceived service quality and its relationship with satisfaction across four service industries, Lee *et al* (2000) found SERVPERF to be an adequate measurement tool. Their result implies that service managers should place emphasis on performance perceived by customers (SERVPERF) rather than the difference between perceived performance and prior expectation (SERVQUAL). Extending the research on service quality in health care, and constructs of satisfaction and purchase intentions, McAlexander, Kaldenberg and Koenig (1994) conclude that SERVPERF methods are superior to SERVQUAL methods. Bloemer *et al* (1999) also empirically tested the 22-item SERVPERF scale in an entertainment setting, relevant to the relationship between service quality and loyalty dimensions.

Similar to SERVQUAL, the SERVPERF approach requires the customer to rate an organisation's performance across a five point scale. Unlike SERVQUAL, however, it does not seek to estimate difference in scores and is a one-off set of items addressing post-consumption perceptions only (Palmer: 2001). SERVPERF is seen as an absolute rating of perceived service quality (O'Neill & Palmer: 2003; Cronin & Taylor: 1994).

### 5.2.8.3 Auxiliary measurement methods

SERVQUAL and SERVPERF dominate service quality literature (Cronin & Taylor: 1994; Parasuraman *et al*: 1994), however, other measurement methods abound (Franceschini *et al*: 1988; Palmer: 2001).

Teas (1993) developed the evaluated performance model (EP model) and normative quality model (NQ model). The EP model incorporates the classic ideal point concepts

into a perceived quality model while the NQ model integrates the classic ideal point concept with the SERVQUAL revised expectation concept (Lee *et al*: 2000). Teas' (1993) empirical investigation indicated that the criterion and construct validity of the EP model was higher than the concurrent and construct validity of both the SERVQUAL and NQ model. Teas (1993) inform that expectations may be interpreted by customers in two different ways: at the ideal level, by giving each attribute the highest score, or at the feasible level when considered under the actual conditions in which service may be delivered. The NQ method focuses customers' attention towards two kinds of expectations, but asks the customer another set of questions, stimulating potential idiosyncratic effects.

QUALITOMETRO is a service quality tool conceived for evaluation and on-line service quality control by Franceschini and Rossetto (1997). An integral feature of this method is the possibility of a separate measurement of expected and perceived quality without the potential of cross-influence (Franceschini *et al*: 1998). The QUALITOMETRO method is based on service quality dimensions proposed by Parasuraman *et al* (1994), allowing online quality monitoring of differential quality between expected and perceived quality. Franceschini *et al* (1998) empirically evaluated tools for service quality evaluation, suggesting that QUALITOMETRO appears easy to use in comparison to SERVQUAL.

Sureshchandar *et al* (2002) developed a new model to improve understanding of the way in which customers perceive service quality. They adopt a critical factor approach, identifying core service or service product; human element of service delivery; systematization of service delivery (non-human element); tangibles of service; and social responsibility. Forty-one items are identified across these five factors, in the context of the financial services industry. The instrument has been empirically tested for unidimensionality, reliability and construct validity using a confirmatory factor analysis approach; offering a systematic procedure that could provide insights on conceptual comprehension of customer perceived service quality (Sureshchandar *et al*: 2002).

Bahia and Nantel (2000) developed the bank service quality scale (BSQ) for perceived service quality in bank services. Possible adaptation is however possible across other service industries. Their scale comprises thirty-one items which span six dimensions: effectiveness and assurance; access; price; tangibles; service portfolio and reliability. Their empirical investigation compared favourably to SERVQUAL, producing a six-

dimension scale which covers a broader range of marketing variables. Reliability ( $0.78 \leq \alpha \leq 0.98$ ) and loading (0.57 to 0.89 for all the 31 variables) far surpass these measures in the SERVQUAL scale.

Schvaneveldt, Enkawa and Miyakawa (1991) evaluated service quality from two perspectives. The first involved the presence or absence of a particular quality dimension, representing an objective approach. The second perspective involved the users' resulting sense of satisfaction or dissatisfaction, representing a subjective approach (Franceschini *et al.*: 1998). Their model is represented as the Two-Way service quality model. Schvaneveldt *et al.* (1991) identified five dimensions: performance; security; completeness; ease of use and emotively/environment across a five-point semantic response scale. In contrast to SERVQUAL and SERVPERF (22+22 and 22 items respectively), Two-Way expectations and perception items are not declared.

Brown, Churchill and Peter (1993) developed the non-difference score measure, postulating that the calculation of a difference score in the SERVQUAL measure could lead to several psychometric problems. Their empirical investigation indicated that the reliability of SERVQUAL was below that of a non-difference score measure and that a non-difference score displayed better discriminant validity (SERVQUAL could not achieve discriminant validity). Brown *et al.* (1993) in agreement with Cronin and Taylor (1993), confirmed that a non-difference score measure outperformed SERVQUAL on other psychometric considerations while requiring subjects to respond to only half as many items. In addition, variance restrictions were exhibited in using SERVQUAL (Lee *et al.*: 2000).

A suggestion is to incorporate merits from each method (SERVPERF and SERVQUAL in particular), linked to service profit chain initiatives (Heskett *et al.*: 1997) and contributing service quality integration and links (identified in Section 5.2.7). A contribution will be evaluated taking best practice/benchmarking and relationship management into account.

### **5.3 RELATIONSHIP MARKETING**

Relationships between value chain participants (Porter: 1995) led to developments in the field of relationship marketing. Peck *et al.* (1999: 22) developed a revised version of the six markets model; which included customer, internal, referral, influence, recruitment and

supplier/alliance markets. The six markets model identifies all facets of internal and external relationships that can contribute towards an organisation's marketplace effectiveness.

The purpose of evaluating relationship marketing is to analyse the effect of networks and relationships towards customer satisfaction and loyalty (Heskett: 2002; Reichheld: 2001). Literature from franchise systems relationships (Section 3.3) is combined with the six markets relationship model (Peck *et al*: 1999); together with entrepreneurial orientation in a franchised system (Bolton & Thompson: 2003; Lindsay & McStay: 2004) represented in Sections 2.6.10 and 3.4. The empirical study of Kang *et al* (2002) into the measurement of internal service quality may be mirrored in a franchise system, with franchisees representing the internal marketing arm of the system (Mendelsohn: 2003). This in turn links internal service quality (Lau: 2000) to the service profit chain (Heskett *et al*: 1997) and service quality (Zeithaml & Bitner: 2003). Hopkinson and Hogarth-Scott (1999) in turn identify franchise relationship quality from a micro-economic perspective. They empirically examine the behavioural implications of the three main micro-economic explanations of resource constraint, agency theory and search cost theory – for franchising. The outcome of the study is a conceptual model, linking strategic direction, franchise motivation and relational quality.

Operationalizing the six markets model, Peck *et al* (1999) addressed each market domain in greater detail, consisting of key participants; research to identify expectations and needs of key participants; current and proposed level of emphasis in each market; and the formulation of a desired relationship strategy. The six markets framework is represented in Figure 5.4. What follows is a review of each of the domains.

Table 5.4 is represented on the following page.

**FIGURE 5.4 The six markets framework**



Source: Peck, Payne, Christopher and Clark (1999: 220)

### **5.3.1 The customer market domain**

This domain is integral in managing relationships with buyers, intermediaries and consumers. Within the domain, Webster and Wind (1972) identify the decision-making unit, comprising users, influencers, deciders, approvers, buyers and gatekeepers. Customer acquisition and retention highlights a move from a transaction focus to relationship focus, involving customer retention (Zineldin: 2000); customer value (McDougall & Levesque: 2000); customer service (Zairi: 2000) and service quality (Zeithaml & Bitner: 2003). The customer market domain (Peck *et al*: 1999) relates directly to the service profit chain (Heskett *et al*: 1997) and service quality (Zeithaml & Bitner: 2003).

The customer market domain links to customer relationship management (CRM), being an organisational wide business strategy designed to optimize revenue and customer satisfaction by organizing the institution around customer segments (Fayerman: 2002). From a knowledge management perspective, CRM allows for better understanding of

customers and providing the means to achieve competitive advantage through improved customer tracking and responsiveness. Andrade (2003) postulates that CRM strategies help organisations redefine their business processes to be more customer-centred and more efficient. He identifies benefits as including: greater customer loyalty as a result of more personal and efficient service (Reichheld: 2001); more effective sales efforts through better management of the sales process; and improved success rates for marketing campaigns through better targeting (Kotler: 2000).

Crosby (2002) initiated a study of myths associated with customer relationship management strategy, identifying realities of competitive advantage:

- Customer relationship marketing/management is a comprehensive business strategy (Heskett: 2002)
- Customer relationship strategy begins with segmentation and ends with the individual customer
- Measures of service quality differ in the level of relationship commitments, and none is a *bona fide* indicator of relationship strength (Kang *et al*: 2002)
- Customer relationship strategy and brand strategy are intimately connected and serve a common purpose (Chaston: 2002)
- Adequate interpretation of customer data is essential for efficient customer relationship strategies (Storbacka, Strandvik & Gronroos: 1994)
- The success of a customer relationship strategy hinges on the leadership team taking ownership of the strategy and building the organisational competencies necessary to compete on this basis.

Storbacka *et al* (1994) emphasize that in order to enable an organisation to capitalize on available customer relationship economics opportunities, and to manage its customer relationships at a profit; the dynamic nature of such relationships has to be understood. Relationship management and conceptualization of the relationship marketing chain (Peck *et al*: 1999) go a long way to understanding these dynamic relationships (Palmer: 2001).

### 5.3.2 The supplier and alliance market domain

Supplier markets or vendors are the providers of resources to an organisation, whereas the alliance market is also seen as suppliers, but typically supply competencies and capabilities (Buono: 1997). Strategic outsourcing is identified as a component of the alliance domain, with motivation to engage in such activity a factor of competitive advantage, being either cost or value (Porter: 1998; 1995). Supplier development is also integral to competitive advantage, identifying optimization of value-chain analysis (Porter: 1995), with partnerships based upon commitment, trust and continuous improvement (Mockler: 2001). As the critical role of suppliers and alliance partners evolves, the need for formal processes to manage the supply chain emerges.

Supply chain management is regarded as the management of upstream and downstream relationships with suppliers, distributors and customers to achieve greater customer value at less cost (Christopher: 1997). Stevens (1989) identified four stages of the transformation process towards supply chain partnership: the baseline organisation; the functionally integrated organisation; the internally integrated company; and the externally integrated company. Advantages and benefits of strong partnerships include ongoing cost reductions; quality improvements; reduced design cycle times; increased operating flexibility; more value for customers; enhanced leverage with technology; and more powerful competitive strategies (Lewis: 1995). Quinn (1992) suggested foundations for successful alliances: jointly developed goals and plans; avoiding niche collisions; structuring the team; clear communication links; understanding cultures; and a structural learning process.

Traditional alliance relationships recommended in a study by Buono (1997) span across long-term and sustainable time frame; strategic outsourcing orientation; leader-team member inter-firm relationship; two-way information flow; consensus-oriented decision making; planning involving many managers, line and staff; ever-changing fluid service improvements; multi-disciplinary teamwork control; quality, price and timing as a primary objective; and mutually controlled profit orientation. Buono (1997) further stipulates that if alliances are to be successful, the relationship between network participants must be characterized and structured by trust, norms of reciprocity, investment in mutually beneficial goals and a sense of organisational interdependence.

Chaston (2000a), in an empirical study on relationship marketing and the orientation customers require of suppliers; suggests that service quality satisfaction will be highest where there is convergence between the relationship orientation required of a supplier and a customer's perception of the style exhibited by the supplier. He also suggests that in some service situations, namely those where the customers require a transactional orientation from suppliers, the supplier can expect to receive a lower service quality rating from customers who perceive the supplier is exhibiting a relationship oriented marketing style.

Usefulness of alliances is primarily seen as a method or enabler for growing and prospering. Mockler (2001) identifies key merits: enabler of expansion and providing access to new markets; add value to an organisation's service offering; expand distribution and provide access to materials; develop and improve operations, such as new technologies; provide additional financial resources; decrease risk; create new opportunities and reduce competition. It is apparent that many of these benefits are associated merits to the franchise system (Mendelsohn: 2003). Such alliances, in the form of licensing agreements, are identified as an equity relationship of inter-firm collaborative relationships (Mockler: 2001). Sydow (1998) regards franchise systems as strategic networks and alliances, and indicates that network organisations require very careful interpersonal relationship management, and that leadership by the central firm (franchisor) cannot be assumed to control network processes.

### **5.3.3 The referral and influence market domains**

Referral is used to describe communications (either positive or negative) between groups such as the service provider, independent experts, family and friends and the actual or potential consumer. The referral market domain consists of customer and non-customer referral sources (Peck *et al.*: 1999). Customer referrals consist of current or potential customers (such as word-of-mouth), while non-customer referral sources include networks, multipliers, connectors, third party introducers and agencies. The nature of the influence market domain usually has the most diverse range of constituent groups, consisting of shareholders, financial analysts, stockbrokers, and media and consumer/business groups.

The referral domain is expanded upon in Section 4.7.6.3, in the context of the service profit chain (Heskett *et al*: 1997) and Section 5.2.7 on the integration of service quality relationships. The link to loyalty and service quality has received much attention (Ennew *et al*: 2000). With regard to the influence market domain, marketing orientation and marketing culture (Tung-Zong & Su-Jane: 1998; Luk: 1997), together with internal marketing (Kang *et al*: 2002), play an integral part in portraying and influencing positiveness about the organisation. This is highlighted in the internal market domain.

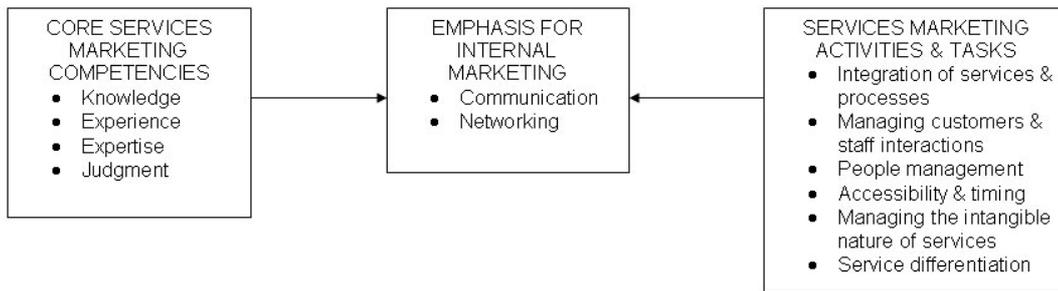
Retention, referrals and related sales are strategic initiatives of the service profit chain (Heskett *et al*: 1997), linking loyalty to long term profit and growth (Bowen & Chen: 2001). Similarly, the referral and influence market domains link relationship initiatives towards organisational performance objectives (Peck *et al*: 1999).

#### **5.3.4 The recruitment and internal market domains**

Recruitment markets represent potential employees who possess the necessary skills and attributes required to match the profile that the company wishes to portray to its customers (Peck *et al*: 1999). The recruitment market domain includes the high cost of recruitment (Nel *et al*: 2004); finding the best employees (Schermerhorn: 2002); selection techniques (Mendelsohn: 2003, franchise specific); training and development (Nieman: 1998, franchise specific); and recruitment monitoring and evaluation (Wright & Story: 1994).

Internal markets involve two key aspects; that of employees working together to achieve organisational objectives, and that of the internal customer, whereby employees are regarded as employee and customer (Peck *et al*: 1999). Judd (1987) categorizes different levels of employees within the organisation depending on the degree and type of contact they have with external customers: contactors; modifiers; influencers and isolateds. Varey (1995) attempts to present a model of internal marketing as a process or mechanism for integrated market-oriented management; which does not assume pre-existence of structures of organisation. This is represented in Figure 5.5 on the following page.

**FIGURE 5.5 Core competencies for internal services marketing**



Source: adapted from Vary (1995: 47)

Peck *et al* (1999) further identify a range of inter-related internal marketing activities towards implementing effective internal marketing:

- Organisational design conducive to internal marketing concepts and philosophies
- Regular staff surveys which assess the internal service culture
- Internal customer segmentation relating to level of customer contact (Judd: 1987)
- Personal development and training focused on core competencies for internal marketing (Nel *et al*: 2004)
- Empowerment and involvement enables employees, and improves service quality (Zeithaml & Bitner: 2003)
- Recognition and rewards based on employees' contribution to service excellence (Heskett *et al*: 1997)
- Internal communications provides a mechanism for cross-functional participation
- Performance measures towards achieving key success factors, such as the balanced scorecard (Kaplan: 2000)
- Building supportive working relationships for employees, enhancing internal quality of work-life (Lau: 2000).

Internal marketing is discussed in Section 5.2.7 (integration of service quality relationships), placing emphasis on the relationship marketing and service quality link. The service profit chain also recommends initiatives towards enhancing internal marketing relationships (Lau: 2000; Nel *et al*: 2003; Bassi & Vanburen: 1997; Vilares & Coelho: 2001). Kang *et al* (2002) identified an adapted SERVQUAL battery as

appropriate application to internal service quality relationships, identifying internal marketing as an important approach for fostering a service and customer-oriented culture in an organisation.

Due to the network nature of the franchise system (Mendelsohn: 2003), franchising and franchise relationships are an integral component of internal marketing (Bloom: 2003). Franchise system relationships are evaluated in section 3.3. Justin and Judd (2002, table 3.1) developed guidelines for optimal relationships in the franchise system, which mirror those recommendations of internal marketing by Peck *et al* (1999). Lewis and Lambert (2001) present a model of the interrelationship of channel member performance, dependence and satisfaction. The internal marketing constructs showed empirically that financial dependence influences the degree to which franchisees meet performance goals prescribed by the franchisor. In addition, it showed that performance leads to satisfaction with the franchisor's performance and yields positive consequences for the relationship.

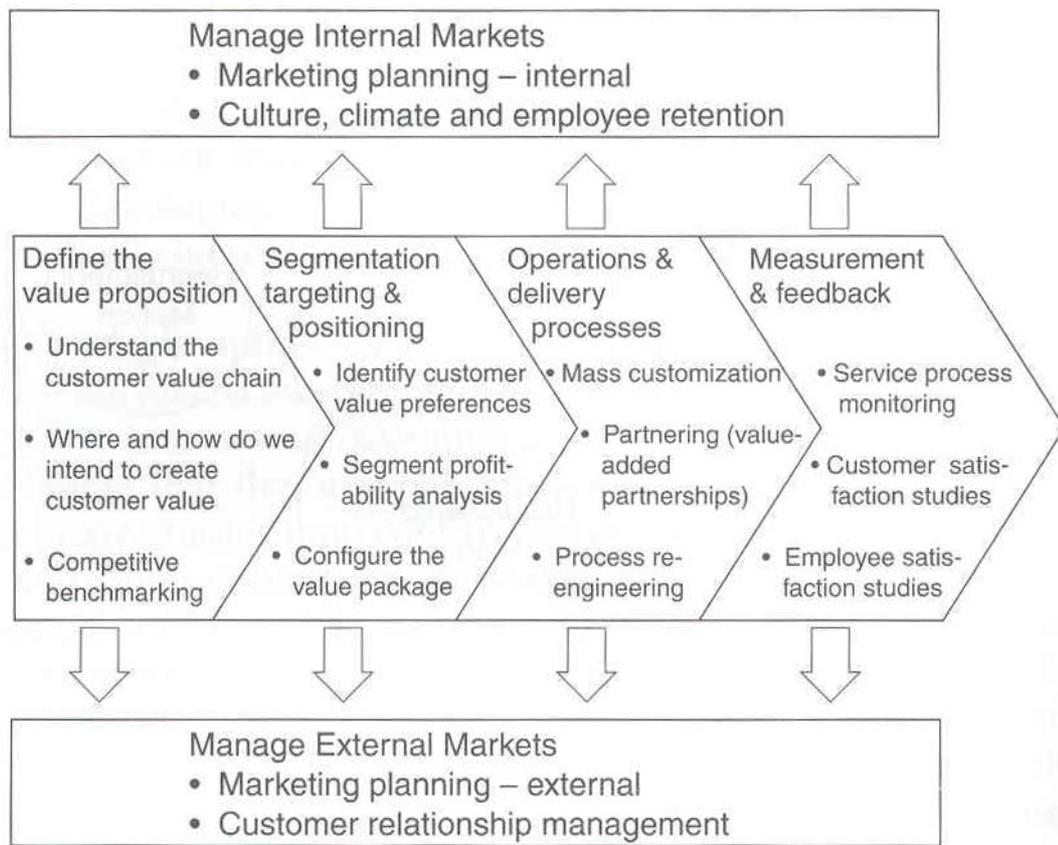
### **5.3.5 Creating and implementing relationship marketing strategies**

Towards the implementation of a relationship marketing plan (as opposed to transactional based), Peck *et al* (1999) draw on the strategies of operational excellence, service leadership and customer intimacy (Treacy & Wiersema: 1995). Peck *et al* (1999) developed the relationship management chain, highlighting the value proposition; identifying appropriate customer value segments; designing value delivery systems and managing and maintaining delivered satisfaction. Their adapted model is represented in Figure 5.6. Facilitating the model, Zineldin (1998) introduced concepts of cooperation and effectiveness towards an ecological collaborative relationship management perspective.

The relationship model (Peck *et al*: 1999) places emphasis on the six markets framework, which links elements of the service profit chain (Heskett *et al*: 1997); service quality (Zeithaml & Bitner: 2003); franchise relationships (Mendelsohn: 2003) and entrepreneurial orientation (Bolton & Thompson: 2003). Best practice and benchmarking initiatives will add value to the model, to be discussed in Section 5.4.

Figure 5.6 is represented on the following page.

**FIGURE 5.6 The relationship management chain**



Source: adapted from Peck *et al* (1997: 420)

#### 5.4 BENCHMARKING FOR BEST PRACTICES

Complementing the service vision further led to development of best practice initiatives, often initiated by innovative firms in competitive industries and environments. Such initiatives were regarded as pivotal in survival and achievement of competitive advantage (Porter: 1998). The Video Software Dealers Association of America (VSDA: 2001) identified best practice in the industry, as identified by Arthur Andersen Business Consultants. These were wide ranging, including understanding customers and markets; developing vision and strategy; refining store product offering; implementing the marketing plan; creating promotions and in-store merchandising; and clear in-store operations. Customer service findings included that the best customer service is one-to-one, strong relationships and loyalty are developed between staff and customers through consistency of management and staff, and personalising customer service.

Section 4.4.5 on encouraging internal best practice exchanges evaluates the discipline from the service profit chain (Heskett *et al*: 1997) point of view. Cognisance is taken of best practice initiatives in the franchise system (Mendelsohn: 2003), developing an entrepreneurial orientation to implementation (Bolton & Thompson: 2003). What follows is an overview of best practice and benchmarking in perspective.

The benchmarking exchange (TBE, 2004: 2) defines benchmarking as, “the process of identifying, understanding, and adapting outstanding practices from organisations anywhere in the world to help your organisation improve its performance. It is a highly respected practice in the business world. It is an activity that looks outward to find best practice and high performance and then measures actual business operations against those goals”. Customer service quality and satisfaction rates as the second most used discipline of benchmarking and business process best practice (TBE: 2004). A best practice is a generally accepted best way of doing something (Wilkins: 2003), examples being ISO and Six Sigma processes; both force adoption of applying best practices; neither is applied exactly the same across an industry or organisation. Macky and Johnson (2003) identify best practice benchmarking as reviewing what other successful organisations are doing and adapting it to one’s own situation.

Benchmarking is the practice of being humble enough to admit that someone else is better at something, and being wise enough to learn how to match them and even surpass them, implementing the new behaviour as a best practice (Andersen *et al*: 1999). They identify the core of implementation as being measurement of one’s own and the benchmarking partner’s performance level, both for comparison and registering improvements; comparison of performance levels, processes and practices; learning from the benchmarking partner to introduce improvements in the new applicable organisation; and improvement, which is the goal of any benchmarking study. In the Andersen *et al* (1999) empirical investigation, it was suggested that service providers often find it more important to find best practices than numerical performance data.

Jarrar and Zairi (2000) identify best practices as those that have been shown to produce superior results; selected by a systematic process; and judged as exemplary, good or successfully demonstrated. They portray the effective transfer of best practice, from searching, evaluating, validating, implementing (transferring and enabling), reviewing to routinizing. Transfer involves identifying and learning from best practices and applying

them in a new configuration or venue (O'Dell & Grayson: 1997). In their empirical study of internal transfer of best practice for performance excellence, Jarrar and Zairi (2000) indicate a wide spread of benchmarking applications across geographical and sectoral borders. It is the intention to adapt an international best practice study (customer satisfaction) into the context of a South African franchised home entertainment organisation.

Zairi (2000) empirically investigated the management of customer satisfaction from a best practice perspective; postulating that organisations need to see the process as a long-term pursuit of improvement, a culture change that can yield to competitive outcomes of the highest order. Achieving and maintaining an effective customer-focussed culture requires (Zairi: 2000):

- Getting closer to the customer, and having a feel for their future needs (Heskett: 2002)
- Promoting feedback on how well the organisation is performing from the customer's perspective (Parasuraman: 1998)
- Being aware of new introductions and innovations to satisfy future customer requirements (Ruyter & Bloemer: 1999)
- Identifying organisational strengths and weaknesses from a competitive perspective (Porter: 1998)
- Gauging employee performance and the most appropriate reward and recognition systems (Lau: 2000).

An audit tool, aimed at specifically measuring loyalty and retention, was developed by Blazey (1997). For instance, the tool analyzes the measurement aspects of customer satisfaction; the quality of information and data used; the external orientation aspects of focusing on customer satisfaction and the decision-making process itself. Zairi (2000) further provides thoughts on customer focus on a best practice perspective: having a clear service strategy which is deployed with vision, purpose and objectives; key drivers based on best practice, including market dynamics, competition and environmental factors; creating clear and open dialogue with customers; and monitoring customer satisfaction, loyalty, service quality and retention.

Service quality management has been considered a major driver in enhancing business performance (Zeithaml & Bitner: 2003). In service organisations, customer-perceived service quality is considered as one of the key determinants of business performance (Hung-Chan: 2002; Parasuraman: 1998; Teas: 1993; Palmer: 2001). Sureshchandar *et al* (2002) empirically investigated the relationship between management's perception of total quality service and customer perceptions of service quality from a best practice perspective. Their results were indicative of total quality service dimensions being good predictors of service quality. Furthermore, the soft issues of total quality services (such as human resources, customer focus, service culture, employee satisfaction, top management commitment, leadership, and social responsibility) seem to be more vital than do the hard issues in positively influencing customer-perceived service quality.

Within the best practice framework (TBE:2004) and Baldrige National Quality Program (NIST: 2004) identify generic best practice core values and concepts. These include visionary leadership; customer-driven excellence; organisational and personal learning; valuing employees and partners; agility; focus on the future; managing for innovation; management by fact; social responsibility; focus on results and creating value and a systems perspective. Many of these core values are represented in allied disciplines, such as entrepreneurial activity (visionary leadership and innovation); service quality and the service profit chain (customer-driven excellence, valuing employees and partners); franchising (systems perspective) and relationship management (social responsibility, organisational and personal learning). Home entertainment industry best practices are specifically identified.

#### **5.4.1 Home entertainment industry best practices**

The Video Software Association of America (VSDA) retained Arthur Andersen Business Consultants to identify the best practices among the top performing independent home entertainment retailers in a study conducted in 2000 (VSDA: 2001). The report is formatted with a table of contents so that retailers may locate specific information. On-site interviews were conducted with the owners/operators of the most profitable independent retailers across five geographically dispersed market areas (based on benchmarking results): upstate New York; southwest Florida; central Ohio; Kansas City, MO; and San Francisco, CA. The retailers represented a wide range of operations:

- Revenue: \$ 100,000 to \$ 1,200,000 per annum
- Competitive situation: no competition to ultra competitive
- Number of stores: one to multiple store locations
- VHS and DVD purchases: no revenue sharing to revenue sharing
- Location: small town to urban locations
- Product offerings: DVD, VHS, related consumables and services
- Adult entertainment: no adult to significant adult offerings.

The above dimensions are applicable to the current research project. The VSDA (2001) project is complemented with the findings of a customer satisfaction study conducted in a leading home entertainment retailer in South Africa (Maritz: 2002; 2003a; 2003b). VSDA (2001) identified seven core areas of best practice, with corresponding recommendations for implementation.

#### 5.4.1.1 Best practice one: Understanding markets and customers

*Finding 1: To understand changes in your business, continually evaluate your markets and customers.*

By continually evaluating your market and customers, you allow yourself to refine your product offerings and services to meet the changing needs of your customers, and assist you in more effectively marketing your existing customers and potential customers. The most profitable participants keep in touch by using the following methods: trade journals; customer research; survey cards; mystery shoppers; employee feedback sessions.

*Finding 2: Customers want a fun and convenient shopping experience.*

Customers now want and expect in-stock movies. They know that they can find the movie they want at other locations. They expect both new releases and library/catalog titles to be in-stock. Customers also want and expect personal customer service. They want to be greeted by staff and appreciated for their business. Knowledgeable sales staff makes a difference with the customers. Convenience in the customers' mind goes well beyond having a convenient location. It is defined in terms of in-stock movies; hours of operation; drop boxes and rental terms. To give customers a fun, convenient in-store experience,

consider your store's visual impact. Make sure it is clean with well-kept surroundings. Your product lines should be organized with a logical, easy-to-follow layout.

*Finding 3: Have rental terms that focus on customer expectations.*

Clearly define your rental terms and policies for customers and staff. Measure and understand changes in rental terms. The most profitable retailers have developed well thought-out strategies based on their customers' needs and based on their competition.

*Finding 4: Of the four home entertainment store selection drivers, price is ranked last.*

Measure and understand the impact of price changes. The most profitable retailers are not averse to price increases under the right circumstances.

*Finding 5: The most profitable home entertainment retailers in this study were price leaders in their markets.*

The most profitable retailers interviewed in this survey had well developed thought-out pricing strategies for all formats of merchandise based on competition and the economics of their marketplace.

#### 5.4.1.2 Best practice two: Develop vision and strategy

*Finding 1: The most profitable retailers have developed the vision and strategy for their businesses both on a short term and long term basis.*

This process defines the products and services that will be offered to customers and insures that they are in line with the business strategy. Each goes through a process, best characterized as a strengths, weaknesses, opportunities and threats analysis (SWOT), to evaluate the current and future state of the business.

*Finding 2: The most profitable retailers define a mission for their store.*

Missions include value, availability, selection, experience; dependent on specialization in a particular market.

#### 5.4.1.3 Best Practice three: Refine store product offerings

*Finding 1: Determine the products and offerings to deliver your mission.*

This finding is facilitated by adding products and services to support the mission; eliminating products and services that are adverse to the mission; remaining customer focussed and balancing short and long term profitability.

*Finding 2: Product and service offerings focus on customer satisfaction through meeting or exceeding expectation. Best stores changed product purchases over the past couple of years to meet copy depth expectations of consumers.*

The goals and current practices used by the most profitable participants to maximize their customer satisfaction are meeting consumer demand for rental product in week one (goal); and meeting total demand on a movie by week two or three (current practice). This may be achieved by revenue-sharing initiatives, or purchasing rates averaged at a minimum of thirty per cent of rental revenue. Interactive gaming practice is to carry the three dominant game platforms: Playstation, Nintendo 64 and X-Box.

#### 5.4.1.4 Best practice four: Implement marketing plan

*Finding 1: Strong focus on community involvement drives awareness and loyalty.*

Implementations include point of difference versus national chains, reinforcing activities in-store and focussing on different customer segments. Segments may include high schools and tertiary institutions (teens); boy scouts/girl scouts (families); performing arts (young adults/families) and chamber of commerce (business).

*Finding 2: Direct mail is a cost-effective tool used to drive frequency for two customer groups: active customers and inactive customers.*

The most effective offers have been determined and used to market to the appropriate customer groups. Both types, dedicated direct mail pieces as well as random are being used.

#### 5.4.1.5 Best practice five: Offer excellent customer service

*Finding 1: The best customer service is one-to-one*

Motivate staff to develop one-to-one relationships with your customers. Initiatives include greeting customers upon entering the store; greeting the regular customers by name; providing expert advice on movies; and reservations for best customers.

*Finding 2: Strong relationships and loyalty are developed between staff and customers through consistency of management and staff.*

Many of the most profitable retailers have employees with lengths of service ranging from two to ten years in the store. Many also have generational staffing.

#### 5.4.1.6 Best practice six: Create promotions and in-store merchandising

*Finding 1: The use of customer-driven merchandising bring ease of use and convenience to the rental experience.*

Initiatives include new releases on the outer wall sorted alphabetically; library/catalogue sorted alphabetically; DVD in a separate section sorted alphabetically; interactive games in a separate section sorted alphabetically; adult entertainment in a separate room, sorted by category and alphabetically within each category; and previously viewed titles sorted alphabetically.

*Finding 2: A range of in-store promotions programmes have helped maintain loyalty of consumers despite competitive store openings. These programmes help bring a point of differentiation to the in-store experience. Examples include free popcorn and 'happy-hour'.*

*Finding 3: A pleasing store is important to keeping your customers coming back.*

Have consistent appearance of merchandising materials to correspond with your store décor. This includes clear, singular messages per merchandising piece; update or change every six to eight weeks; and minimize clutter of the message. All category and pricing

signage is professionally produced and consistent throughout the store with no handwritten signs. The interior of the store should reflect the image that needs to be projected to your customer.

*Finding 4: The best stores regularly remodel/update stores to reinforce a strong and positive image to customers.*

Implementations include replacing carpets; painting; updating fixtures; exterior signage and category signage.

#### 5.4.1.7 Best practice seven: Have clear in-store operations

*Finding 1: Store operating procedures are clearly documented in an operations manual for consistency of execution by staff.*

Procedures include the store opening; cash management; customer service; cash wrap or check out; merchandising; loss prevention; setting the store-street date; and safety and security. Store hours of operations were found to have consistent opening times of 09h00 or 10h00. Closing times vary depending on community from 22h00 to midnight on Sunday through Thursday and 23h00 to midnight on Friday and Saturday.

*Finding 2: Staffing procedures and requirements vary by store depending on volume and location.*

*Finding 3: Store guidelines have an overall focus of serving the customer.*

Findings indicate that customers expect to wait in lines at major outlets, but not at home entertainment outlets. Home entertainment outlets are perceived to be havens of personalized, friendly service every time.

Most of the findings relate to operating processes that can be segmented into five key areas: understand markets and customers; develop vision and strategy; refine products and services; market and sell; and in-store operations. These five key best practice processes have been identified by Arthur Andersen under a process classification scheme, ten steps to success (VSDA: 2001). They are operational processes and focus on the 'front of the

house' that directly impacts the customer experience such as store offerings and customer service. These processes have direct bottom line impact. The report is concluded with a handy checklist of operational best practices for home entertainment retailers.

The practicality of these best practices aligns with literature on the service profit chain (develop vision and strategy); service quality (understanding markets and customers); relationship management (offer excellent customer service); benchmarking (have clear in-store operations); and franchising (clearly documented operations manual). Overall, service quality (Zeithaml & Bitner: 2003), relationship management (Peck *et al*: 1999) and best practice/benchmarking (TBE: 2004; VSDA: 2001) are consolidated to enhance customer satisfaction and loyalty.

## 5.5 CONCLUSION

Service quality is an attitude or global judgement about the superiority of a service, identifying dimensions of reliability, assurance, tangibles, empathy and responsiveness. The integrated gaps model of service quality is introduced, identifying five gaps; representing the organisation and the customer. The foundation of the model revolves around customer service expectations and perceptions of service quality. Implementing service quality is discussed from a generic marketing and services marketing perspective. Integration of service quality relationships places emphasis on market orientation, loyalty, customer satisfaction, marketing culture, previous experience, internal marketing and future consumer behaviour. Measurement scales of service quality evaluated include SERVQUAL, SERVPERF, EP/NQ, Qualitometro, critical factor approach, bank service quality, and the two-way model.

Relationship management primarily evaluated the six markets model; which includes customer, internal, referral, influence, recruitment and supplier/alliance markets. The six markets model identifies all facets of internal and external relationships that can contribute to an organisation's marketplace effectiveness. The purpose of evaluating relationship marketing is to analyse the effect of networks and relationships on customer satisfaction and loyalty. The relationship management chain is introduced as highlighting the value proposition; identifying appropriate customer value segments; designing value delivery systems and managing and maintaining delivered satisfaction.

Benchmarking is the process of identifying, understanding, and adapting outstanding practices from organisations anywhere in the world, to help an organisation improve its performance. Best practice and benchmarking are identified from the perspectives of customer satisfaction, service quality, business performance and values. The Video Software Association of America (VSDA: 2001) identified best practice in the home entertainment industry, as identified by Arthur Andersen Business consultants. Most of the findings relate to operating processes that can be segmented into five key areas: understanding markets and customers; developing vision and strategy; refining products and services; marketing and selling; and in-store operations.

The overall assessment of the chapter is the synergy between service quality, relationship management, best practice and entrepreneurial orientation, the service profit chain, and the franchise system.

In Chapter 6 research methodology and design is discussed. The study commences with an exploratory search of literature, followed by an empirical investigation to scientifically validate hypotheses. Methodology includes sampling techniques, instrument design and analysis of questionnaire design. Data collection and analysis techniques follow; inclusive of descriptive measures, frequencies, range, measures of association, graphical representations, significance tests, factor analysis and correlation.

## CHAPTER 6: RESEARCH METHODOLOGY

*“The creation of knowledge, regardless of the context, requires the collection and analysis of data. Quality knowledge will result only if the research process is systematic and follows the scientific method” (Borland, 2001: 5).*

### 6.1 INTRODUCTION

Research methodology is regarded as the sequence of stages underlying the design and implementation of a research project, including the establishment of the research purpose and objectives, information value estimation, research design and implementation (Aaker *et al.*: 2001). The term methodology is closely related to the term epistemology, which stems from the Greek word episteme; which is their term for knowledge and is the philosophy of how we come to know. Trochim (1997) identifies the intimate relationship between epistemology and methodology; the former involving the philosophy of how we come to know the world and the latter involving the practice. This chapter aims to provide insight into the practical methods employed in gathering information for the empirical section of this research project.

The research process is identified as a sequential process for conducting a research study. The research problem is developed into research questions, objectives and, ultimately, hypotheses. Hypotheses are, in turn, identified as primary and secondary hypotheses; evaluating entrepreneurial orientation in a franchise system and strategic service initiatives. Exploratory and conclusive research design is evaluated with applicability to the current research project, followed by methodology employed in this research project. Sources of data and data collection highlight a quantitative approach, identifying the survey method. The sampling frame includes a census approach, representative of the population. A questionnaire is developed using a combination of nominal, ordinal and interval scales; identifying permissible descriptive and inferential statistical analysis. Questionnaire questions, sections and links are discussed, followed by instrument editing, coding, reliability and validity.

Descriptive statistical techniques identify the application of univariate (single variable) measures of centre and spread and bivariate (two-variable) measures of association. Inferential statistics include relevance tests (hypotheses tests), identifying implementation

of the Kruskal-Wallis one-way analysis of variance (ANOVA). Cronbach's Alpha is introduced as a construct reliability measure, identifying overall inter-item correlation. Applicable software used for the collection and analysis of data include Surveypro and SPSS version 11.0. Synthesis and interpretation concludes the research methodology chapter.

## 6.2 THE RESEARCH PROCESS

Best and Kahn (1998: 18) define research as, "the systematic and objective analysis and recording of controlled observations that may lead to the development of generalizations, principles, or theories, resulting in prediction and possibly ultimate control of events". Page and Meyer (2003: 321) identify pure research as research conducted for the purpose of adding to the body of knowledge, and building theory. This is in contrast to applied research, which is research with a specific application in mind (Page & Meyer: 2003: 312).

Malhotra, Hall, Shaw and Oppenheim (2002: 32) define the research process as a sequential process which defines the tasks to be accomplished in conducting a research study. They identify six key steps in the process:

- Problem (or opportunity) definition, consisting of collecting background information; research problem formulation; and setting the decision criteria.
- Development of an approach to the problem, establishing theoretical foundations; developing conceptual and analytical models, setting the research questions; specifying appropriate hypotheses and specifying research objectives
- Research design formulation, involving type of research design (exploratory, descriptive or causal); establishing costs; definition of target population; sampling process and sample size; sources of data (secondary and primary); methods of data collection (qualitative and quantitative); questionnaire design and data analysis approach
- Field work or data collection, with objectives of minimising interviewing errors and maintaining field work quality
- Data preparation and analysis, which includes the checking editing, coding transcription and verification of data

- Report preparation and presentation, addressing the specific research question/s identified, together with interpretation of results.

Dillon, Madden and Firtle (1993: 24) define the research process as a sequence of stages that provide a general framework to follow when implementing a research study. Whilst similar to the definition of Malhotra *et al* (2002: 32) and that of Churchill (1996); they identify a process which differs only slightly from these authors. The Dillon *et al* (1993) research process is set out in seven stages:

- Formulate the problem
- Determine the research design
- Preparation of data, comprising determination of the source of data; determining the data collection format; designing of the sampling plan and designing the questionnaire
- Implementing the field work
- Processing the data, including editing and coding
- Tabulation and analysis of the data
- Preparation of the research report.

Page and Meyer (2003) in turn identify a five step sequence to the research process:

- Generating ideas
- Building a theoretical framework
- Research design, consisting of translation of research questions into research variables; appropriate sampling and data-collection methods; analysis methods; time frame; budget and writing the research proposal
- Management of the research process, with contributory factors of preparation; funding issues; ethical issues, data management and people management
- Evaluating and reporting results.

Despite similarities between the identified research processes (Page & Meyer: 2003; Malhotra *et al*: 2002 and Dillon *et al*: 1993), it is the decision of the researcher to combine the processes, and not follow the research process of any individual author/s. As such, a combination of the processes will be followed in this methodological paradigm.

Distinct characteristics will be identified from each, leading to an objective and systematic evaluation of the process, identifying the research strategy. In addition, the tailored design methodology identified by Dillman (2000) is primarily implemented as a mail and internet survey tool. This will facilitate the purpose of this research study, with the outcome categorised as a combination of scientifically adding to the body of knowledge whilst solving an immediate specific problem (Page & Meyer, 2003: 19).

### **6.3 PROBLEM FORMULATION**

Malhotra *et al* (2002) identify this stage as steps one and two, in their research process model. This consists of problem (or opportunity) definition and development of an approach to the research problem. Martins, Loubser and van Wyk (1996) see problem formulation as the most important step in the research project, whilst Trochim (1997) identifies it as one of the most difficult (and least discussed) steps. Malhotra *et al* (2002) are also of the opinion that inadequate problem definition is a leading cause in the failure of research projects.

The background discussion in Chapter 1 highlights the requirement of the conceptualisation of an entrepreneurial strategic vision in the franchised home entertainment system. Whilst the existing body of knowledge has influenced strategic service visions in many service related industries; entrepreneurship and the service profit chain, together with other strategic initiatives have received minimal formal research in the lucrative South African home entertainment industry. To date, no published entrepreneurial service vision within this industry is to be found in reviews, standing operating procedures, nor any literature search. This study will not only enhance understanding of the dynamics of the industry on the African continent, but also conceptualise an entrepreneurial service vision in the home entertainment industry. The contribution of such a strategic service vision will facilitate competitive advantage throughout the supply chain; involving distributors, retailers (primarily franchise based) and the interaction with customers.

Theoretically, the value the investigation provides will be in understanding that the home entertainment industry is worthy of developing a body of knowledge, to be shared by all industry participants. Similarly, linking entrepreneurship, franchising and strategic service in the form of a matrix may be of interest and application to other academic disciplines.

This will facilitate both researchers and students in related business management disciplines.

As a contribution to practice, the entrepreneurial service vision will enhance the longevity of the industry, together with sharing entrepreneurial service vision recommendations to all industry participants. As such, the general oligopolistic nature of major industry participants will be dissolved; making the industry more accessible, creating more employment, and increasing industry participants. Since the industry is a product of technology; the identification of entrepreneurial and relationship behaviour of franchisor/franchisees will highlight the re-defining of industry practices.

This study, the first of its kind in the home entertainment industry and in the specific organisation, will smooth the way for implementation of entrepreneurial franchise service initiatives in the organisation. It will also assist franchisees in their advancement in the organisation and could be used to complement other programmes within the home entertainment, entrepreneurial and franchised communities.

On a macro level, successful implementation of the matrix will enhance industry participation; together with entrepreneurial contributions towards the creation of wealth, economic growth and creation of employment in a dynamic, yet turbulent developing economy such as South Africa. As such, the study will enhance South African companies' competitive advantage in an international marketing environment. Limitations however rest upon the motivation and entrepreneurial orientation of implementation within a franchised environment, ultimately in the hands of the franchisee.

Problem formulation applicable to the current research project involves the research question, key terms (background), research objectives and development of hypotheses.

### **6.3.1 The applicable research question**

The purpose of the investigation is to determine the entrepreneurial orientation of participants in a franchised environment, coupled with the association of service vision factors. Once explored, the entrepreneurial orientation and service vision factors will be synergised to develop an entrepreneurial service vision within a franchised environment.

#### 6.3.1.1 Primary research question

To determine the entrepreneurial orientation within a franchised system.

Question 1: Does entrepreneurial orientation exist within a franchised system, and if so, to what extent?

#### 6.3.1.2 Secondary research questions

To determine the contribution of franchising as an entrepreneurial option towards creating and developing ventures.

Question 2: Does franchising lead to an entrepreneurial option for creating and developing ventures?

To determine the contribution of the service profit chain to service quality.

Question 3: Do service profit chain initiatives lead to service quality?

To determine the contribution of relationship marketing to service quality.

Question 4: Does relationship marketing lead to service quality?

To determine the contribution of best practice to service quality.

Question 5: Does best practice lead to service quality?

To determine service quality in a franchise system

Question 6: What is the level of service quality in a franchise system?

Entrepreneurial orientation is however also proposed from a multiple franchisee point of view; being franchisees that operate more than one franchised unit (multiple-outlet franchising).

### **6.3.2 Key terms of entrepreneurial orientation, franchising and strategic service vision**

Integrating entrepreneurial activity and strategic service within a franchised system may best be explained in the context of networks. The most widely held view of ‘network’ refers to an organized system of relationships, linking a defined set of persons, objects or events (Nelson: 1988; Szarka: 1990). This networking in small business serves to provide owner-managers with the necessary support, contacts, and credibility (Ostgard & Birley: 1996). Consequently, the owner-managers will benefit from obtaining necessary information and will learn more about their own competitive capabilities relative to their competition, thereby minimizing the harsh lessons the market place may present (Dilts: 2000). As such, networking is seen as a major tool for achieving desired business results, and as a key source of resources that are typically outside the reach of many entrepreneurs (Zhao & Aram: 1995). This network view correlates entrepreneurship and franchising, yet the study of entrepreneurial orientation amongst franchisees in the franchise system requires investigation. In this context, the study will include an entrepreneurial character theme analysis, based on twenty associated themes, developed by Thompson and Bolton (2003). In addition, franchising as an entrepreneurial option for creating and developing ventures will be evaluated within the defined franchise system.

Extensive literature in the areas of customer satisfaction and loyalty abound, yet few link the disciplines of service quality, the service profit chain, relationship management and best practice. The development of a service vision matrix (incorporating these disciplines) involves an investigation into the relationship and association between these constructs independently and as a stratified matrix. Such a study will include strategic service initiatives of service quality (Zeithaml & Bitner: 2003), the service profit chain (Heskett *et al*: 1997), the relationship marketing six markets framework (Peck *et al*: 1999), and best practice principles (VSDA: 2001).

An important aspect of the study will be synergising the overall entrepreneurial orientation of the franchised system within the framework of a strategic service vision.

### **6.3.3 Research objectives**

The research objectives are to investigate the current situation of entrepreneurial orientation in a franchise system, together with examining the contribution of a strategic service vision to service quality. The purpose is thus to identify entrepreneurial behaviour amongst franchisees, franchising as an entrepreneurial option; and to identify elements of service quality, service profit chain, relationship management and best practice; and, finally, to develop a matrix of an entrepreneurial service vision, to be initiated within the franchise system.

The first objective of investigating entrepreneurial orientation within the franchise system is based around the entrepreneurial character themes as depicted by Bolton and Thompson (2003: 62-80). The outcome of orientation will facilitate decision-making and implementation of the strategic service vision. Multiple-outlet entrepreneurial orientation is proposed.

The second objective, consisting of the four constructs (service profit chain; service quality, relationship management and best practice) associated with the vision; include investigation of issues relating to relationships within and between the constructs. An additional construct, the franchise paradox, measures the contribution of the franchise system as an entrepreneurial option for creating and developing ventures.

The final objective is the development of an entrepreneurial service vision, based upon the findings of the first two objectives. Such a matrix may be described as a full representation or description of the set of associations between these factors, including statements about the assumptions and interactions in the matrix (Page & Meyer, 2000: 7).

### **6.3.4 Hypotheses to be tested**

Hypothesis testing uses statistical techniques to support predictions arising from theory. This is done at a statistically significant level, in that hypotheses (predictions) are either accepted or rejected. Page and Meyer (2000: 23) define a hypothesis as “a testable speculative statement delineating the relations between all the elements of a theory”. The two hypotheses involved in hypothesis testing are the null and alternate hypothesis

(represented by H0 and H1 respectively). H1 represents the research hypothesis, whilst H0 assumes the research hypothesis is false (Page and Meyer, 2000: 166).

The hypotheses supplement the research questions and objectives:

#### 6.3.4.1 Primary hypothesis

The primary hypothesis postulates that there is evidence of entrepreneurial orientation in a franchise system.

H1: Entrepreneurial orientation exists in a franchise system.

H0: Entrepreneurial orientation does not exist in a franchised system.

A proposition is introduced with reference to multiple-outlet franchising.

P1: Entrepreneurial orientation exists in a multiple-outlet franchise system.

#### 6.3.4.2 Secondary hypotheses

The secondary hypotheses postulate that there is evidence of a positive association between:

- The franchise system is an entrepreneurial option towards creating and developing ventures
- The service profit chain and service quality
- Relationship marketing and service quality
- Best practice and service quality

H2: The franchise system is an entrepreneurial option towards creating and developing ventures.

H0: The franchise system is not an entrepreneurial option towards creating and developing ventures.

H3: Service profit chain initiatives are positively associated with service quality.

H0: Service profit chain initiatives are not positively associated with service quality.

- H4: Relationship marketing initiatives are positively associated with service quality.  
H0: Relationship marketing initiatives are not positively associated with service quality.
- H5: Best practice initiatives are positively associated with service quality.  
H0: Best practice initiatives are not positively associated with service quality.

Hypotheses testing will include non-parametric testing, indicative of the assumption that the dependent variable does not necessarily have a normal distribution (bell-shaped). Hypothesis tests produce P-values, measuring significance, whereby there is a chance that the null hypothesis is true (Malhotra *et al*: 2002). Hypothesis tests will include the Kruskal-Wallis one way ANOVA test , together with interaction tests for greater than one independent variables (Page & Meyer: 2003). Service quality, the dependent variable, will be measured using similar inferential statistics as the stated hypotheses.

#### **6.4 RESEARCH DESIGN**

Neuman (1997: 62) portrays a paradigm as a basic orientation to research and theory, distinguishing between quantitative and qualitative methodology. This is not to be confused with qualitative and quantitative analysis. The term research methodology refers to the procedure employed when research is undertaken and constitutes the blueprint for the gathering, measurement and analysis of data (Mouton: 2001). The research design is in turn a framework for conducting a research project (Malhotra *et al*: 2002). Churchill (1996) identifies it as the blueprint that is followed in the completion of a study. A research design lays the foundation and building blocks for conducting the research (Page & Meyer: 2003).

The study commences with an exploratory search of published data in the disciplines of entrepreneurship and franchising. Related literature is reviewed, with particular reference to entrepreneurial orientation and characteristics, linked to the franchise paradox. In addition, experts and well informed people with credentials in these arenas are canvassed for their opinions and thoughts relating to the research objectives. This not only includes academia, but also industry-knowledgeable individuals. Published data reviewed includes books and journals, in addition to international academic conference proceedings.

The literature review (secondary data) forms the foundation on which the research is built, and Neuman (1997) informs that it should integrate and analyse what is known in the specific area by synthesizing different prior studies. To combine a literature study of the service profit chain, service quality, relationship management and best practice; there is in the first place a theoretical perspective investigation into the process of a strategic service vision. Thereafter a theoretical disposition evolves incorporating these factors into a strategic vision.

Literature on the home entertainment market is scarce, and very little research has been conducted in this industry on the African content. Analysis however is to be conducted from the Video Software Association of America (VSDA), together with formal research in leading South African market participants. Customer satisfaction data is however available from one of the leading home entertainment retailers in the South African market (conducted previously by the researcher, as Managing Director of the second largest market participant).

An empirical investigation (primary data) follows hereon. Grounded on theoretical investigation, empirical research is conducted to scientifically validate hypotheses as depicted. Quantitative methodology shall be employed to test hypotheses, with measurement in terms of numerical, interval and ordinal data; being data that is in the form of numbers from precise measurement. Theory is causal and deductive, with analysis proceeding with tables and statistics; discussing how this relates to the hypotheses.

Research design is the general form or system according to which the study is executed, with surveys enabling the researcher to collect data in a standardized format from a census (Struwig & Stead: 2001). It is done in such a way that it is possible to make generalizations to the population. The survey will be implemented to collect data about a great number of similar cases, executed in a circumscribed area at a given time. The survey follows a deductive approach, whereby it commences with a theoretical or applied research problem and ends with empirical measurement and data analysis (Neuman, 1997: 109).

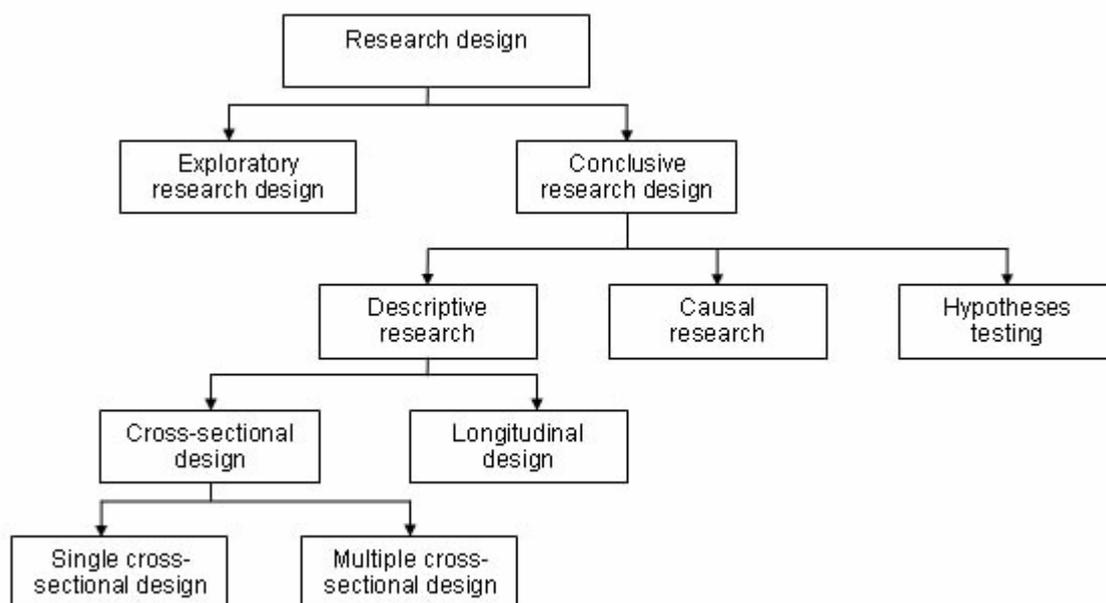
Whilst the identified authors vary on their inclusion of factors into this stage, a composite ideology from all three is proposed (Malhotra *et al*: 2002; Page & Meyer: 2003; Dillon *et*

*al.* 1993). What follows is intended to provide insight into the practical ways and methods that will be employed in gathering the information for the empirical part of this study. This commences with research and design, followed by the next chapter on data processing, analysis and proposed evaluation of results.

#### 6.4.1 Classification of research design

Research designs may be classified as either being exploratory or conclusive (Malhotra *et al.* 2002). Conclusive research design is further classified as descriptive and causal research. Page and Meyer (2003) advise that whether research is pure or applied, the purpose of the study can be descriptive, exploratory, comparative, or to test specific hypotheses (predictions) generated by theory. This study will incorporate a combination of the points of view of Malhotra *et al.* (2002) and that of Page and Meyer (2003). The combined classification (adapted from these sources) is depicted in Figure 6.1.

**FIGURE 6.1 A combined classification of research design**



Source: adapted from Malhotra *et al.* (2002: 33) and Page and Meyer (2003: 35)

Towards identifying the research classification appropriate to this study, a broad differential viewpoint is required. Exploratory research is used in cases when the problem must be defined more precisely, relevant courses of action must be clarified or additional insights must be gained before an approach can be developed. The primary objective of

exploratory research is to provide insights into and an understanding of the problem confronting the researcher and may consist of personal interviews with industry experts. The sample is small and non-representative, with primary data being qualitative in nature. Findings are regarded as tentative or as input to further research. Such research is then typically followed by further exploratory or conclusive research (Malhotra *et al*: 2002). Page and Meyer (2003) identify an exploratory study as looking for ideas, patterns or themes; an exploration of a phenomenon, event, issue or problem. Their approach is similar to that of Malhotra *et al* (2002), except that they place additional emphasis on secondary data.

Malhotra *et al* (2002) inform that the insights gained from exploratory research may be verified by conclusive research; due to the objective of conclusive research testing specific hypotheses and examining specific relationships. This identifies the more formal and structured approach; based on large representative samples, with data obtained subject to quantitative analysis. The findings of conclusive research are considered conclusive in nature and are used as input into managerial decision-making. Table 6.1 summarises the differences between exploratory and conclusive research.

**TABLE 6.1 Differences between exploratory and conclusive research**

Difference variable	Exploratory	Conclusive
Objective	To provide insights and understanding	To test specific hypotheses and examine relationships
Characteristics	Information needed is loosely defined Research process is flexible and unstructured Sample is small and non-representative Analysis of primary data is qualitative	Information needed is clearly defined Research process is formal and structured Sample is large and representative Data analysis is quantitative
Findings/results	Tentative	Conclusive
Outcome	Generally followed by further exploratory or conclusive research	Findings used as input into decision-making

Source: Malhotra *et al* (2002: 125)

Based on the previous discussion in this section it can be stated that this research project will be conclusive in nature; where the primary objective is to test hypotheses of entrepreneurial orientation and a strategic service vision (service profit chain, service quality, relationship marketing and industry best practice). This however does not negate the use of exploratory data, originally used in this study to develop hypotheses and develop questions (framework). Applicable research designs used in this study are discussed in greater depth.

#### 6.4.1.1 Exploratory research

Whilst only constituting a small part of the project, this approach was used on an exploratory level; due to the original lack of a clear idea to the problem. The objective of exploratory research is meaningful in any situation where the researcher does not have enough understanding of the research project (Malhotra *et al*: 2002). This process enabled the researcher, through exploration, to develop concepts more clearly, establish priorities, develop operational definitions, and improve the final research design. Formal protocols and procedures were not used, highlighting the flexibility and versatility of this approach (Churchill: 1996). Although the focus of investigation shifted constantly, the main topic themes remained constant. Methods of exploratory research used in this study included survey of experts (home entertainment and discipline specific); pilot surveys (franchisee and pre-test specific); and secondary data (entrepreneurial orientation, franchise paradox, service profit chain, relationship marketing and best practice specific).

The purpose of exploratory research was based on the findings of Churchill (1996): formulating a problem for more precise investigation; developing hypotheses as a result of the initial investigation; establishing priorities for further research; gathering information about the practical problems of carrying out research on particular issues; increasing the researcher's familiarity with the problem; clarifying concepts. Applicability to the current research project included a background study of the home entertainment industry (applying Porter's five forces model); customer satisfaction levels in the industry (Maritz: 2002); identifying the relevant franchise system; measurement instruments and designs for various constructs (Thompson: 2003; Zeithaml *et al*: 2003; Heskett *et al*: 1997; Peck *et al*: 1997; VSDA: 2001); developing hypotheses (based on exploratory research in the home entertainment industry); practical solution for carrying out research (such as identifying studies in related disciplines, an example being the self evaluation by management of service quality (Chang & Chen: 1998); and exploratory research conducted with home entertainment industry participants and academia regarding specific disciplines. The disciplined exploratory research included interaction with academia specialising in the discipline areas at international conferences and symposiums.

Cognisance is however taken of the exploratory, tentative and insightful nature of this research; which is followed by conclusive research (Page & Meyer: 2003).

#### 6.4.1.2 Conclusive research

As highlighted, this research project is primarily conclusive in nature; being more formal and structured. It is based on large, representative samples and the data obtained are subjected to quantitative analysis. The findings from this empirical research are considered to be conclusive in that they are used as input into managerial decision-making (Malhotra *et al*: 2002). Applicability to this study is the testing of hypotheses, followed by the development of a conceptual matrix, proposing an entrepreneurial service vision in the franchised home entertainment sector. Malhotra *et al* (2002) identify conclusive research as being either descriptive or causal; whereas Page *et al* (2003) also include alternatives of hypotheses testing and comparative research. Table 6.2 shows the difference between these research designs.

**TABLE 6.2 A comparison of basic research designs**

Comparison variable	Exploratory	Descriptive	Causal	Hypotheses	Comparative
Objective	Discovery of ideas and insights	Describe market characteristics or functions	Determine cause and effect relationships	Accept or reject pre-determined hypotheses	Comparison with what would be expected in theory
Characteristics	Flexible and versatile  Often the front end of total research design	Marked by prior formulation of specific hypotheses Preplanned and structured design	Manipulation of one or more independent variables Control of other mediating variables	Marked by prior formulation of specific hypotheses Preplanned and structured design	Experimental groups compared with control groups Preplanned and structured design
Methods	Expert surveys Pilot surveys Secondary data Qualitative research	Secondary data Surveys Panels Observations and other data	Experiments	Statistical techniques	Secondary data Surveys Panels Observations and other data

Source: adapted from Malhotra *et al* (2002) and Page and Meyer (2003)

The comparisons in Table 6.2 identify similarities among descriptive, hypotheses and comparative research in particular. To avoid semantics, the researcher will incorporate hypotheses and descriptive research into the descriptive research portfolio. The operational difference between causal and descriptive research is the manipulation of independent variables (in the former), lending itself to experimentation (Malhotra *et al*: 2002). Applicability to the current research project involves hypotheses testing, using

secondary data, survey approach and describing the relationships of constructs identified (section 6.3.1). What follows is justification of the descriptive approach for this study.

#### 6.4.1.3 Descriptive research

Often referred to as the phenomenological approach, a descriptive study sets out to describe a phenomenon or event as it exists, without manipulation or control of any elements involved in the phenomenon or event under study (Page & Meyer, 2003: 22). This type of research presents a picture of the specific details of a situation, creating a set of categories or classification types (Neuman, 1997: 19). Malhotra *et al* (2002) define descriptive research as a type of conclusive research which describes market characteristics or functions, following a pre-planned and structured approach. They reason that descriptive research is applicable as follows:

- To describe the characteristics of relevant groups; with applicability to the current research project describing the entrepreneurial orientation of franchisees (Thompson: 2003) and franchising as an entrepreneurial option
- To determine the perception of service characteristics; with applicability being perception of service quality (Zeithaml & Bitner: 2003); service profit chain (Heskett *et al*: 1997); relationship marketing (Peck *et al*: 1999) and best practice (VSDA: 2001)
- To determine the degree to which behaviour and marketing variables are associated; application being the association between variables of the constructs identified in this study
- To make specific predictions; with applicability to the current research project being the acceptance or rejection of hypotheses (section 6.3.4)
- To estimate the percentage of units in a specified population exhibiting a certain behaviour, with applicability being entrepreneurial orientation by character themes (Thompson: 2003) of franchisees within a defined franchise system.

Prior knowledge of the problem situation was obtained from exploratory research (Section 6.4.1.1). Descriptive research, in contrast to exploratory research, is marked by a clear statement of the problem (Section 6.3.1); specific hypotheses (Section 6.3.4) and detailed information needs (Malhotra *et al*: 2002). The survey method is identified as appropriate for descriptive design (Neuman: 1997), and will be used in the current

research project. Descriptive research using the methods in table 6.2 can further be classified into cross-sectional and longitudinal research (Figure 6.1). Cross-sectional research involves the collection of information from any given sample of population elements only once; whereas longitudinal design involves a fixed sample of population elements, which is measured repeatedly (Malhotra *et al.*: 2002). Cross sectional design is further differentiated into single and cross-sectional design. The former, as its singular connotation implies, refers to design in which one sample of respondents is drawn from the target population and information is obtained from the sample once. The latter involves two or more samples of respondents and information from each sample is obtained once only. Applicability to the current research project will involve single cross-sectional design, using a census approach. Although a census will be used (single cross-sectional), data is stratified by region (geographical and franchise location stratification).

This section highlighted stage 1 and 2 in the research process (Section 6.2) identified by Dillon *et al* (1993), namely, determining the research design. Section 6.5 will concentrate on stage 3 in the process, being sources of data; data collection; sampling plan and instrument design. These sections are incorporated under the heading methodology, where-after data processing and analysis will be discussed.

## **6.5 METHODOLOGY**

Dillon *et al* (1993) refer to this stage as preparation of data; comprising determination of the source of data, determining the data collection format, designing of the sampling plan and designing the questionnaire. This section however falls under research design and formulation (Malhotra *et al.*: 2002; Page & Meyer: 2003). Section 6.5 shall however follow the Dillon *et al* (1993) paradigm.

### **6.5.1 Sources of data**

Information sources available to the researcher can be classified as primary or secondary data (Dillon *et al.*: 1993: 78). Aaker, Kumar and Day (2001) postulate that these methods may be used either singly or in combination. They explain secondary data as being already available, being collected for some purpose other than solving the present problem; whilst primary data are collected especially to address a specific research

objective. Applicable to the current research project is the use of both secondary and primary data.

Malhotra *et al* (2002) compares primary and secondary data using four key categories, identified in Table 6.3.

**TABLE 6.3 A comparison of primary and secondary data**

Purpose/Process	Primary data	Secondary data
Collection purpose	For the problem on hand	For other problems
Collection process	Very involved	Rapid and easy
Collection cost	High	Relatively low
Collection time	Long	Short

Source: Malhotra, Hall, Shaw and Oppenheim (2002: 157)

#### 6.5.1.1 Secondary data

Page and Meyer (2003) place emphasis on secondary data in exploratory studies, whilst Hernon (2004) recommends secondary data as the commencement phase of exploratory data. Secondary data are collected for some purpose other than the problem at hand (Malhotra *et al*: 2002), consisting of either internal or external sources (Aaker *et al*: 2001). Internal sources are available within the organisation, such as customer database and feedback; sales and patronage results/outcomes and franchisee performance. External sources are those generated outside the organisation, such as published material (printed and electronic) and information made available by syndicated services (standardised sources of marketing data and the internet).

Uses of secondary data include providing input for exploratory data (Page & Meyer: 2003); a valuable source of new ideas that can be explored later through primary research (Aaker *et al*: 2001); being a prerequisite for primary data (Martins *et al*: 1996); complementing the primary data, other investigations in similar studies may be useful in planning the present one (Aaker *et al*: 2001); helps define the population and sample selection (Vaus: 1995); and as reference base against which to compare the validity or accuracy of primary data (Aaker *et al*: 2001). In agreement with Churchill (1996), Aaker *et al* (2001) identify the most significant benefits secondary data offer a researcher are savings in cost and time. Limitations relate to data that was collected for some other purpose, questioning validity to the current research project (Churchill: 1996); no control

over data collection; accuracy dilemma; possibly outdated; and not meeting data requirements and assumptions that have to be made (Aaker *et al*: 2001).

Criteria for evaluating secondary data involve routine evaluation, using specified criteria. Due to the large volume and multi-disciplinary approach of secondary data required for the current research project, the criteria as specified by Malhotra *et al* (2002) was evaluated. The criteria are depicted in Table 6.4.

Applicability to the current research project is the extensive literature study as part of the exploration stage of the study (identified in Chapters 2, 3, 4 and 5). Interestingly enough, even the research methodology chapter under review is part of the exploration stage.

**TABLE 6.4 Criteria for evaluating secondary data**

Criteria	Issues	Remarks
Specifications and methodology	Data collection method; response rate; quality of data; sampling technique; sample size; questionnaire design; field work; data analysis	Data should be reliable, valid and generalisable to the problem at hand
Error and accuracy	Examine errors in approach, research design, sampling, data collection, data analysis, reporting	Assess accuracy by comparing data from different sources
Currency	Time lag between collection and publication; frequency of updates	Census data are periodically updated by syndicated organisations
Objective	Why were the data collected?	The objective will determine the relevance of data
Nature	Definition of key variables; units of measurement; categories used; relationships examined	Reconfigure the data to increase their usefulness, if possible
Dependability	Expertise, credibility, reputation and trustworthiness of the source	Data should be obtained from an original rather than an acquired source

Source: Malhotra, Hall, Shaw and Oppenheim (2002: 159)

#### 6.5.1.2 Primary data

Page and Meyer (2003) refer to primary data as generating new data. Dillon *et al* (1993) view primary data as data collected from potential customers in cases where secondary and syndicated sources are not sufficient to solve the marketing research problem at hand. This view is however somewhat limited, as the research in the current project does not involve potential customers, but franchisees in the franchise system. As such, the definitions of Aaker *et al* (2001) and Malhotra *et al* (2002) bear relevant thought; identifying primary research as data collected to address a specific research objective. The researcher will thus implement this approach. The collection of primary data involves all

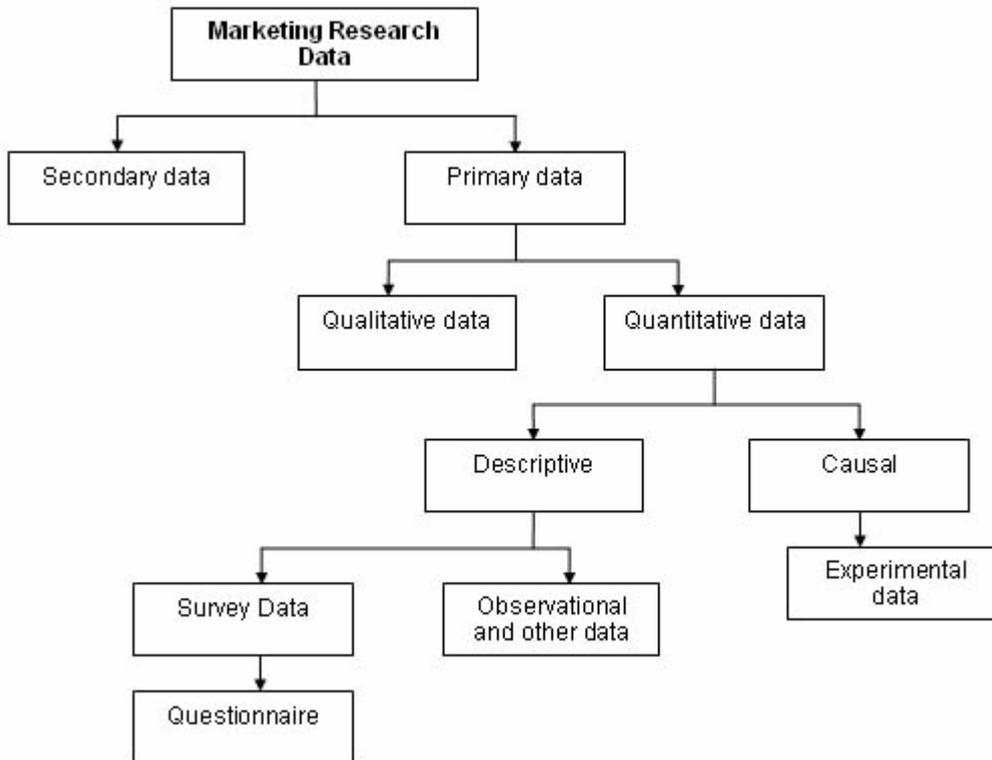
six steps of the research process as identified by Malhotra *et al* (2002), reflected in Section 6.2. Primary data forms an integral constituent of the balance of this chapter, identifying requirements of the current research project. The data collection format follows, identifying qualitative and quantitative methodology.

### **6.5.2 Data collection format**

Data collection methods include both secondary and primary data, and the emphasis on the balance of the chapter concerns primary data. Primary data collection methods are essentially divided into four main categories: verbal communication; written communication; observation and experimentation (Martins *et al*: 1996). Within these categories, quantitative and qualitative methodologies are identified (Malhotra *et al*: 2002; Page & Meyer: 2003). Qualitative research provides insights and understanding of the problem setting, whereas quantitative research seeks to quantify the data and apply some form of statistical analysis. The identification of primary data being qualitative or quantitative in nature is depicted in Figure 6.2 (represented on the following page). Malhotra *et al* (2002) inform that the distinction between qualitative and quantitative research closely parallels the distinction between exploratory and conclusive research (refer Table 6.1). The relationship between qualitative and quantitative research should not be considered in terms of a mutually exclusive dichotomy but rather as a continuum of complementary paradigms (Borland: 2001). This complementarity is a point of view shared by Page *et al* (2003), however, placing emphasis on the research objectives as a guiding formation.

Figure 6.2 is represented on the following page.

**FIGURE 6.2 A classification of market research data**



Source: Malhotra, Hall, Shaw and Oppenheim (2002: 191)

The applicability of the current research project is quantitative in nature, despite the advantages and merits of qualitative research being complementary. The two were synergized, evaluated and then determined to construct a niche setting with clear research objectives. Qualitative data was primarily used during the exploratory phase, followed by primary data to test hypotheses. Malhotra *et al* (2002) postulate variables against which qualitative and quantitative may be evaluated. These are depicted in Table 6.5 (represented on the following page), together with input from Borland’s (2001) study. Analyses again highlight the parallel between the distinction between exploratory and conclusive research. Applicability to the current research project is emphasized in the final outcome of both conclusive and quantitative research; that of recommending a final course of action. Applicability will be the acceptance or rejection of hypotheses, leading the development of an entrepreneurial strategic service vision. Quantitative data methodology used in this project will now be evaluated.

Table 6.5 is represented on the following page.

**TABLE 6.5 Qualitative versus quantitative research**

<b>Evaluation variable</b>	<b>Qualitative</b>	<b>Quantitative</b>
Objective	To gain a qualitative understanding of the underlying reasons and motivations; insight of phenomena through intensive collection of narrative data	To quantify the data and generalise the results from the sample to the population of interest; explain, predict or control phenomena through focused collection of numerical data
Sample	Small number of non-representative cases Purposive: intent to select small, not necessarily representative sample to acquire in-depth understanding	Large number of representative cases Random: intent to select large, representative sample to generalize results to a population
Data collection	Unstructured	Structured
Data analysis	Non-statistical; raw data are words Nonstandardized, narrative, ongoing Essentially ongoing, involves synthesis	Statistical; raw data are numbers Standardized, numerical, at the end Performed at end of study, involves statistics
Outcome	Develop an initial understanding Conclusions tentative, reviewed on an ongoing basis Generalizations speculative or nonexistent	Recommend a final course of action Conclusions and generalizations formulated at end of study Stated with predetermined degree of certainty

Source: adapted from Malhotra, Hall, Shaw and Oppenheim (2002: 192) and Borland (2001: 9)

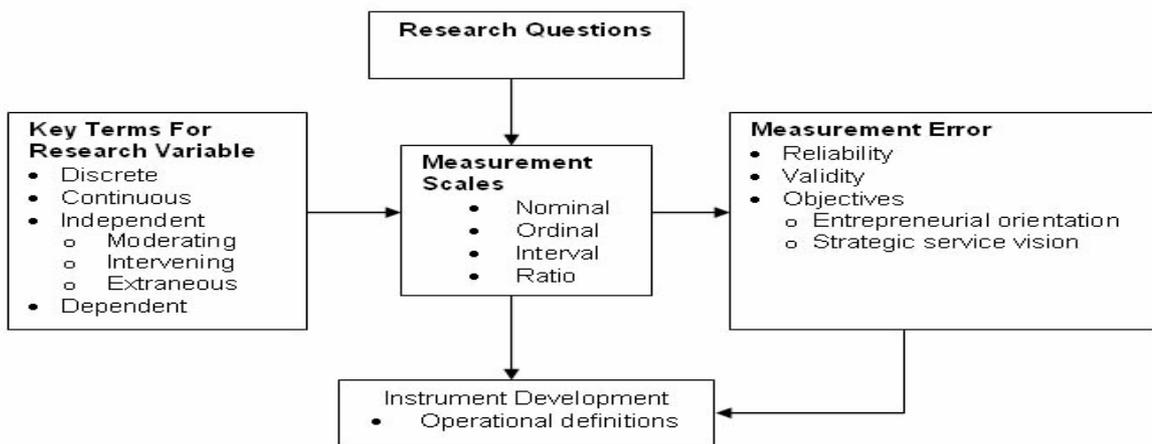
#### 6.5.2.1 Quantitative research

The objectives of the research, namely, the investigation of the current situation of entrepreneurial orientation in a franchise system, together with examining the contribution of a strategic service vision to customer satisfaction and loyalty; compels the researcher to make use of quantitative research to obtain and analyse the required information. A structured and quantitative approach is also required due to the empirical nature of the research project. The purpose of quantitative research is to describe, predict and control. In this type of research, specific variables are isolated through control of the environment (often through sampling techniques) to eliminate the effects of confounding variables and testing their relationship to various behaviours (Borland: 2001). Figure 6.2 depicts quantitative research as being either descriptive or causal. Descriptive research is designed to provide a summary of some aspects of the environment when the hypotheses are tentative and speculative in nature. Causal research has very specific hypotheses, designed to provide the ultimate level of understanding – a knowledge that one construct under certain conditions causes another construct to occur or change (Aaker *et al*: 2001). Application to this research project is that theory is causal and deductive, using survey and experimental data.

Page *et al* (2003) see experimental research as seeking to establish direct cause-effect relations between the variables examined in research, in terms of quantifying the direction and strength of the observed relations. Applicability to the current research project is the effect of variables such as retention, related sales, referrals and responsiveness (causal agents) on customer satisfaction and loyalty (effect). Survey research, on the other hand, usually entails the careful random selection of samples that enable results to be generalized to wider populations with a high degree of confidence (Gill & Johnson: 1991). The survey follows a deductive approach, beginning with a theoretical or applied research problem and ends with empirical measurement and data analysis (Neuman: 1997). Such descriptive research is also referred to as correlational research (Borland: 2001). Applicability to the current research project is the correlation between variables and constructs, such as the relationship between service profit chain initiatives and customer service and loyalty.

Borland (2001: 10) developed a conceptual model of quantitative research, adapted by the researcher for application to the current research project. The process commences with previously conducted secondary and exploratory research, through data collection and interpretation, identifying development of an entrepreneurial strategic service vision. This is represented in a new conceptual model in Figure 6.3.

**FIGURE 6.3 A conceptual model of quantitative research**



Source: adapted from Borland (2001: 5-13)

### 6.5.2.2 The survey method

The previous section on quantitative research identified the survey as the preferred format of data collection. The survey method of obtaining information is based on questioning of respondents. Respondents are asked a variety of questions regarding their behaviour, intentions, attitudes, awareness, motivations, demographics and lifestyle characteristics. Questions may be verbal, in writing or electronic. The questions are typically structured and in this type of research a formal questionnaire is used and questions are asked in a pre-arranged order (Malhotra *et al*: 2002). Janes (2001) believes that surveys can do a good job of describing a population, eliciting reliable answers to the same set of questions by all respondents.

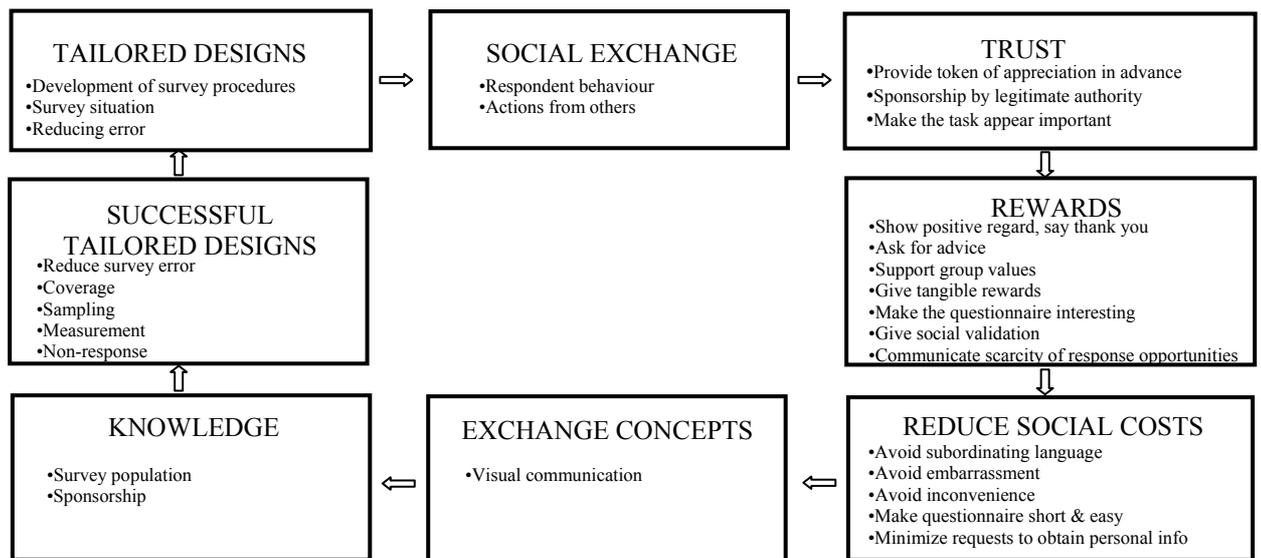
Malhotra *et al* (2002) classify survey methods by the nature of survey interaction; and mode of administration of the questionnaire. Nature of survey interaction identifies the manner in which the interviewee interacts during the survey; whilst mode of administration refers to the technology or approach used to conduct the survey. Classification by nature of survey interaction involves either of person-to-person; computer assisted or self-completion. Classification by mode of administration includes personal interviewing; telephone interviewing; electronic interviewing and mail interviewing. Aaker *et al* (2001) identify the choice of survey methods as being a factor of sampling plan to be employed; the type of population to survey; the response rates required and available resources. These factors are discussed in the next section, entitled sampling plan.

Applicability to the current research project was that of classification according to nature of survey interaction via electronic interviewing (web interviews) through self-completion. Self-completion via an electronic web-mail interview was found as appropriate in this franchise system. The email was however used as a secondary and auxiliary medium. Surveypro, an online software application, was used to present the questionnaire at <http://www.survey.unitec.ac.nz/mrvideo>.

Dillman (2000) argues that the use of a tailored design method (TDM) perspective accounts for higher response rates. An adaptation of Dillman's (2000: 27) model is represented in Figure 6.4 (represented on the following page); highlighting tailored design, social exchange and respondent behaviour, creating trust, influencing the

respondent's expectations for cost and reward, exchange concepts, resulting in a reduction of survey errors from coverage, sampling, measurement and nonresponse. The approaches identified by Malhotra *et al* (2002), Aaker *et al* (2001) and the tailored design method of Dillman (2000) were instrumental in the design of the survey applicable to the research project on hand. The instructions page particularly used a tailored design perspective, using guidelines such as sponsorship by a legitimate authority (University of Pretoria and Mr. VIDEO Franchise), making the task appear important (part of a Doctorate thesis), invoke other exchange relationships (contact details) and giving social validation (similarity within a successful group). Other concepts adapted from Dillman (2000) towards establishing trust and reducing social costs included showing positive regard, thanking respondents, supporting group (franchise) values, avoiding subordinating language, avoiding inconvenience, minimizing requests to obtain personal information and placing emphasis similar to that of other respondents.

**FIGURE 6.4 A schematic overview of the tailored survey design perspective**



Source: adapted from Dillman (2000: 27)

Potential sources of survey error are identified by Aaker *et al* (2001), and they identify seven steps toward reducing their impact on survey findings. What follows are the seven points, with applicability to the current research project identified alongside each point:

- Population has been defined correctly: Mr. VIDEO franchise system (franchisees) in South Africa
- Sample is representative of the population: census application, identified in the following section
- Respondents selected to be interviewed/researched are available and willing to cooperate: an initiative requested jointly by the Chairman of Mr. VIDEO and the Mr. VIDEO franchise council
- Respondents understand the questions: the questionnaire will be explained and discussed with all participants at Mr. VIDEO regional franchise meetings
- Respondents have the knowledge, opinions, attitudes, or facts required: all participants are active Mr. VIDEO franchisees
- Respondents are willing and able to respond: feedback of results and development of an entrepreneurial service vision, for application in the franchise system used as a motivator to elicit response
- Interviewer understands and records the responses correctly; self-administered questionnaires to avoid this bias.

Additional survey error factors include ambiguity of questions and inaccuracy in response (Hernon: 2004). These will be discussed in the section entitled instrument design. The questionnaire is a popular method of data collection in a structured direct survey; with most questions being fixed-response alternative questions that require the respondent to select from a predetermined set of responses (Fink: 1995c). In a survey the questionnaire is relatively simple to administer and the data obtained seen as reliable and valid because responses are limited to the alternatives stated (Page & Meyer: 2003). Applicability to the current research project is the use of a structured questionnaire distributed to franchisees in a franchise system. Details of the instrument design and sampling plan follow.

### **6.5.3 The sampling plan**

Aaker *et al* (2001) identify sampling as the process of surveying only a sample of the whole population to make inferences about the population. Samples can reflect the populations from which they are drawn with varying degrees of accuracy; and a sample accurately reflecting its population is referred to as being a representative sample (de Vaus: 1995). Sample characteristics, referred to as statistics, are then used to make inferences about the population parameters. The inferences that link sample

characteristics and population parameters are estimation procedures and tests of hypotheses (Malhotra *et al*: 2002). To achieve an overview and discipline topic related structure, the steps in sampling as identified by Martins *et al* (1996) include defining the population; identifying the sampling frame; selecting the sample method; determining the sample size and selecting the sampling elements. Saunders, Lewis and Thornhill (1997: 126) identify a similar overview, incorporating identifying a suitable sampling frame based on the research objectives; deciding on a suitable sample size; selecting the most appropriate sampling technique; and checking that the sample is representative of the population. Whilst not following this sequence, the researcher will elaborate on these sampling disciplines with applicability to the current research project.

Cognisance must however be taken that the current research project identifies entrepreneurial orientation and strategic service initiatives in a defined franchised system, with contradictory opinions regarding the population as a census or sampling determinant (Churchill: 1996). This will be evaluated in the following sections, however; highlighting the defined franchise system of one hundred and sixty four franchised outlets (cognisance of multiple unit franchisees).

#### 6.5.3.1 Defining the target population

Sampling refers to only selecting a part of the research population (Page & Meyer, 2000: 43); and since most concepts are not directly observable or testable in the field, these concepts need to be represented by indicators or measures. The target population is the collection of elements that possess the information sought by the researcher and about which inferences are to be made. Elements are in turn objects that possess the information sought by the researcher and about which inferences are to be made. A sampling unit is the basic unit that is available for selection during the research process (Malhotra *et al*: 2002). The sampling unit and elements are integral components of the target population. A similar point of view is postulated by Martins *et al* (1996: 251), defining the target population in terms of elements, sample units, time and size.

The current research project identifies the Mr. VIDEO franchise system within the home entertainment industry as sample unit and element. The time period is 2004 and 2005, with size indicative of franchise system participants in the home entertainment industry. Retailing in the industry is dominated by a few franchisors, operating on a national (and

rest of Africa) basis. The market leader, Mr. VIDEO, was founded ten years ago, and has experienced this domination for the past five years. Mr. VIDEO has a market share of approximately 18 per cent, and is the largest franchised home entertainment rental chain in Africa. This chain was identified as appropriate for this study, particularly as they are seen by industry participants as leaders in the industry.

#### 6.5.3.2 Determination of the sampling frame

Once the target population has been defined, the next step entails obtaining a frame of the population (Page *et al*: 2003). The sampling frame can be seen as a complete list of all the cases in the population from which the sample will be drawn (Saunders *et al*, 1997: 127). Martins *et al* (1996) identify the sampling frame as a record of all the sample units available for selection at a given stage of the sampling process. In this research project, the sampling frame will include all of the Mr. VIDEO franchised outlets (one hundred and sixty four stores, one hundred and ten franchisees). Annexure 2 depicts the outlets and distribution by region.

#### 6.5.3.3 Determination of sampling technique and sample size

Martins *et al* (1996: 253) divide sampling techniques into probability and non-probability sampling. De Vaus (1995), Page and Meyer (2003), Fink (1995), Aaker *et al* (2001), Saunders *et al* (1997) and Hernon (2004) also support this methodology. Malhotra *et al* (2002) however depict a broader nature to sampling technique; in that the researcher must decide whether to use a Bayesian or traditional sampling approach. In the Bayesian approach, the elements are selected sequentially; with explicit prior information about population parameters, as well as costs and probabilities associated with making wrong decisions. The approach is theoretically appealing, however practical application difficult due to the required information on costs and probabilities not being readily available. In traditional sampling approaches, the sample is selected before data collection begins. The traditional approach consists of sampling with replacement and sampling without replacement. The former is a sampling technique whereby an element can be included in the sample more than once; whereas the latter is a sampling technique in which an element cannot be included in the sample more than once. Malhotra *et al* (2002) do however believe that the most important choice of sampling technique is between probability and non-probability sampling, an important component of traditional sampling

methodology. Prior to evaluating probability choices, applicability to the current research project will follow the traditional approach; however, certain Bayesian factors, such as prior information about population parameters will be considered.

For non-probability samples there are no real controls on the sample selection process, samples may be unrepresentative of the population and the researcher will therefore be unable to generalize the results of the sample to the population of interest with any degree of confidence. (Page & Meyer: 2003). The opposite is true for probability samples. Aaker *et al* (2001) identify non-probability sampling as any sampling method where the probability of any population's element's inclusion is unknown, such as judgemental or convenience sampling. In contrast, they identify probability sampling as any sampling method where the probability of any population element's inclusion is known and is greater than zero. These two sampling techniques involve population sub-division into smaller sections (Saunders *et al*: 1997), whereas a census is a survey of the whole population (Page & Meyer: 2003).

Hair, Bush and Ortinau (2000: 343) advocate that if the population size is five hundred elements or fewer, a census should be conducted on the population elements rather than estimating the correct sample size. Malhotra *et al* (2002: 361) however do not stipulate the actual number of elements, but advise that in most cases, accuracy considerations would favour a sample over a census. The high cost of non-sampling error favour sampling (Fink: 1995c; de Vaus: 1995). Conditions favouring the sample include a small budget; short time constraints; small variance in characteristic; and low cost of sampling errors. Despite the varying opinions (Hair *et al*: 200; Malhotra *et al*: 2002), the scientific and empirical nature of the current research project requires vigorous application.

A census is a complete enumeration of the elements of a population, whilst a sample is a subgroup of the population selected for participation in the study. Advantages to using a census primarily revolve around the variance in the characteristic of interest being large; the high cost of sampling error; and ultimately a small sample. (Malhotra *et al*: 2002). Table 6.6 (overleaf) identifies conditions favouring the use of a sample or census. The best sample designs ensure that the sampled data represent the research population efficiently and reliably (Page & Meyer: 2003). A census is obtained by collecting information about each member of the group (de Vaus: 1995); applicable to all Mr. VIDEO franchisees in the current research project. Since the sample unit and sample

frame (Section 6.5.3.2) consist of all Mr. VIDEO franchisees, a census was done of the population elements and all one hundred and ten franchisees were included in this study.

**TABLE 6.6 Conditions favouring either census or sample**

Characteristic	Census	Sample
Budget	Large	Small
Time available	Long	Short
Population size	Small	Large
Variance in characteristic	Large	Small
Cost of sampling errors	High	Low
Cost of non-sampling errors	Low	High
Nature of measurement	Non-destructive	Destructive
Attention to individual cases	No	Yes

Source: adapted from Malhotra, Hall, Shaw and Oppenheim (2002: 361)

Non-response is forecast to be very low, as the researcher has already gained approval for the study from the Chairman and founder, Mr Peter Scott. This will further be presented as a strategic business initiative to all franchisees in due course. Confidence is required in the data, that is, the level of certainty that the characteristics of the data collected will represent the characteristics of the total population. The margin of error tolerated refers to the accuracy required for any estimates made from the response rate (Page & Meyer: 2003). This research project demands a ninety-five per cent level of certainty, with margin of error no larger than five per cent. As such, a response-rate of at least eighty six franchisees is required.

Whilst the study is within the franchised environment in the Mr. VIDEO network; it is the opinion of the researcher that the study cannot be extended to the entire franchised home entertainment industry, primarily due to confidential marketing strategies. Different franchised groups would not be willing to share their competitive strategies outside their own franchise grouping. This limits the study to a single franchised group, and in this case, the market leader (approximately three times larger than its closest competitor). Furthermore, the researcher was the managing director of the second largest franchised group in the industry, and participants may question ethical considerations. Ideally, the entire home entertainment market would have been the optimal population, opening avenues for further research.

Once the source and collection of data, combined with the sampling (census) plan, have been conducted, the instrument design follows. It is however apt to provide insight into

the selection of measurement scales prior to detailing instrument design. Section 6.5.4 will provide insight into application of measurement scales to the current research project.

#### **6.5.4 Measurement scales**

Page and Meyer (2003: 72) refer to measurement scales as, “a set of measures where some level of value or intensity or characteristic is conveyed by a position, usually a number, on the scale”. Sometimes referred to as levels of measurement; Janes (1999) highlights the importance of well-defined, competent measurement and correct interpretation of scales as key factors to descriptive statistics. Dillon *et al* (1993) describe measurement as a process of assigning numbers to objects to represent quantities of attributes; whilst Aaker *et al* (2001) describe measurement as the assignment of numbers by rules to objects in order to reflect quantities of properties. They further identify scaling as the process of creating a continuum on which objects are located according to the amount of the measured characteristic they possess. Towards identifying the appropriate scale for the current research project; basic characteristics, common examples, marketing examples and permissible statistics were evaluated. These are depicted in Table 6.7 on the following page.

Table 6.7 highlights four variable measurement scales, namely, nominal, ordinal, interval and ratio scales. In a nominal variable scale, numbers represent a particular characteristic, despite numbers not conveying any sense of order or value in the measurement (Page & Meyer: 2003). Nominal scales are, for example, used to categorize male and female responses to a survey by coding females ‘1’ and males ‘2’ in order to test whether gender has influenced responses (Fink: 1995c). The simplest forms of nominal scales are dichotomous scales, where there are only two options (Cooper & Schindler: 1998). Ordinal variable scales provide some order to the values of the variable being measured, providing more information than nominal scales (Page & Meyer: 2003). Whilst nominal scales do not have the property of order among them, ordinal scales have the property of order among scale points (Sudman & Blair: 1998: 448).

Table 6.7 is represented on the following page.

**TABLE 6.7 Primary scales of measurement**

Scale	Basic Characteristics	Common examples	Marketing examples	Permissible statistics	
				Descriptive	Inferential
Nominal	Numbers identify and classify objects	Medicare numbers, numbering of rugby players	Brand numbers, store types, gender classification	Per centages, mode, frequencies	Chi-square, binomial test, cross tabulation
Ordinal	Numbers indicate the relative positions of the objects but not the magnitude of differences between them	Quality rankings, rankings of teams in a tournament	Preference rankings, market position, social class	Per centile, median, frequencies	Rank order correlation, Friedman, Kruskal-Wallis ANOVA, cross tabulation
Interval	Differences between objects can be compared; zero point is arbitrary	Temperature (Celsius)	Attitudes, opinions, index numbers	Range, mean, median, standard deviation	Product-moment correlations, <i>t</i> tests, Pearson correlation coefficient, Kruskal-Wallis ANOVA, regression, factor analysis
Ratio	Zero point is fixed; ratios of scale values can be computed	Length, weight	Age, income, costs, sales, market share	Geometric mean, harmonic mean	Coefficient of variation

Source: Malhotra, Hall, Shaw and Oppenheim (2002: 293)

Interval variable scales measure variables whereby the measurement units are equidistant, but there is not necessarily a defining beginning point to the measure. There is no true zero point to embed numerical calculations (Page & Meyer: 2003). Whilst ordinal variable scales have only the property of order among scale points, interval scale variables have both property of order and equal distance among scale points (Sudman & Blair: 1998). Interval scales are appropriate for the measurement of discrete and continuous data (Fink: 1995c). Ratio scales are an advanced type of interval scale, whereby the spaces between measuring units are exactly the same, with the advantage of an absolute zero point (Page & Meyer: 2003). Ratio measurement scales provide an increasing depth of information about a variable, having order among scaling points, equal distances among all adjacent scale points, and an absolute zero (Sudman & Blair: 1998).

Final evaluation of variable measurement scales to use in the current research project required an overview of the types of scales and their properties (Aaker *et al*: 2001).

Applicable criteria and characteristic terminology include:

- Nominal scale; dichotomous (yes/no) scales, objects are either identical or different, typical classification (by sex, geographic area, social class) using percentages, mode or chi-square
- Ordinal scale; comparative, rank order, paired comparison, objects are greater or smaller, rankings (preference, class standing) using per centile, median, rank-order correlation, Friedman, ANOVA
- Interval scale; Likert, Thurstone, associative, semantic-differential, intervals between adjacent ranks are equal, index numbers, attitude measurement using mean, standard deviation, product moment correlations, t tests, ANOVA, regression and factor analysis
- Ratio scale; certain scales with special instructions, comparative and absolute magnitudes possible due to an absolute zero, using geometric and harmonic mean and coefficient of variation.

Applicability to the current research project involved a bi-variable measurement approach; that of nominal and interval measurement scales. Application is identified as follows:

- Nominal scales; appropriate when there are multiple options and only one sought. Objects are assigned to be mutually exclusive, labelled categories, but there are no necessary relationships among the categories. The only arithmetic operation that can be performed on such a scale is a count of each category (Aaker *et al*: 2001). Such scales produce nominal data, such as franchisee demographics. Nominal scales may also be referred to as the multiple choice, single response scale (Fink: 1995c). Application is the demographic and biographical information section of the questionnaire
- Interval scales; the numbers used to rank the objects also represent equal increments of the attribute being measured (Aaker *et al*: 2001). Malhotra *et al* (2002) confirm the numerically equal distances, representing equal values in the characteristic being measured. Application will be the use of interval scales for franchisee evaluation of strategic initiatives, including the service profit chain, service quality, relationship marketing and best practice. Interval scales are also applicable for the questionnaire sections on entrepreneurial orientation and franchise system. The measurement scale applicable for the collection of interval data will be the Likert scale (Aaker *et al*: 2001).

The Likert-style rating-style rating scale is used in this study on a conjoint rating and attitudinal scale (Fink: 1995a). The former asks respondents to rate or rank items, whilst the latter measures attitudes and perceptions. Likert scales, identifying a five-point scale, are often used to measure the same construct, across varying numbers of items (referred to as themes in this study). The Likert scale is preferred to nominal and ordinal scales as the latter scales limit the use of statistical techniques that may be used to analyse the data (Page *et al*, 2000: 125). This scale is the most frequently used variation of the summated rating scale, being statements that express either a favourable or unfavourable attitude toward the object of interest (Aaker *et al*: 2001). The respondent is asked to agree or disagree with each statement. Each response is given a numerical score to reflect its degree of conformity and totalled at the end. Malhotra *et al* (2002) identify advantages of using the Likert scale in that it is reasonably easy to construct and administer and respondents readily understand how to use the scale. The main disadvantage however is that it takes longer to complete than other rating scales. They further highlight the use of a consistent scoring procedure, so that a high (or low) score consistently reflects a favourable response.

The Likert scale also lends itself to potential sources of error (Churchill: 1996). Cooper and Schindler (1998: 190) identify three of the most common tendencies to cause errors:

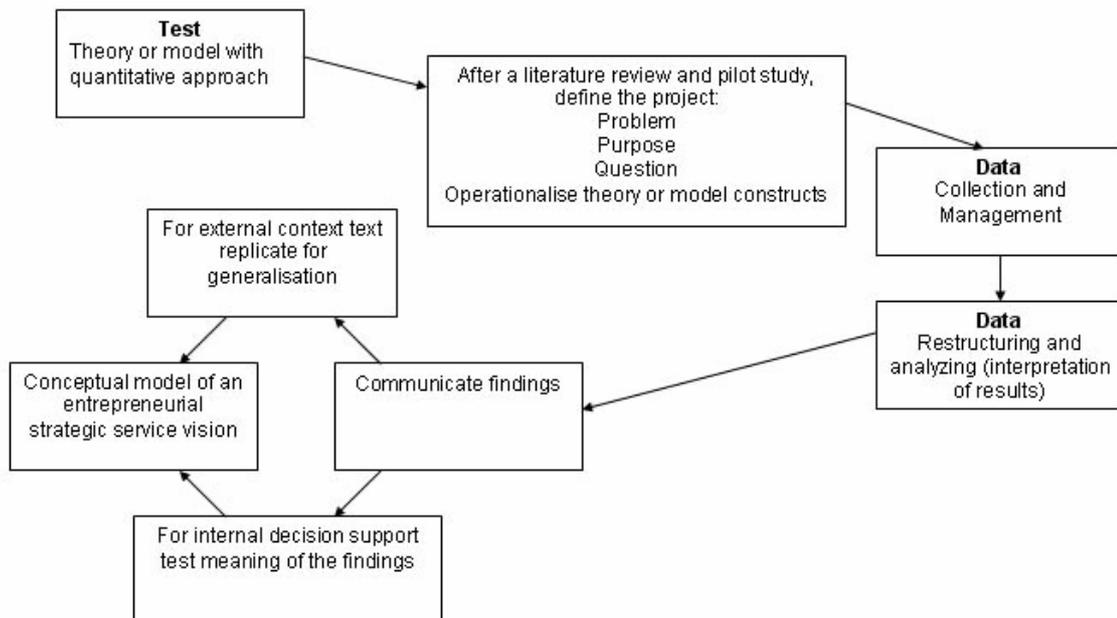
- The error of leniency; resulting in the respondent being an easy rater or hard rater
- Central tendency; whereby the respondent is reluctant to give extreme judgement
- Halo effect; when a respondent introduces systematic biases by carrying over a generalised impression of the subject from one rating to the other.

It is imperative to stress that no measures are perfect; however, measurement error in research is a critical issue and is an inescapable weakness that needs to be recognised and reduced as far as possible (Page & Meyer: 2003). Applicability to the current research project will be the use of a standard five-point Likert-scale, facilitating consistency and ease of completion. The applicable measurement scales have been identified, and what follows is a discussion on the instrument design.

### 6.5.5 Instrument design and testing

Section 6.3 highlights that the existing body of knowledge has limited exposure with regard to entrepreneurial orientation and strategic service in the home entertainment industry. In combination with the objectives of the current research project, the aim of the measurement instrument is to obtain meaningful data, from which inferences to the population may be made. Section 6.4 identifies the research design, noting the use of a questionnaire as a measuring instrument. This section details the use and applicability of the questionnaire to the current research project. The development of the questionnaire is linear to the research process in Sections 6.3, 6.4 and preceding section. This process is depicted in a conceptual model followed by the researcher, adapted from Page and Meyer (2003). Figure 6.5 diagrammatically represents the process referred to. The process commences with the research question (Section 6.3.1), and a unilateral process of key data terminology determinants (Sections 6.4 and 6.5). Measurement scales were evaluated in context (Section 6.5.4), leading to measurement error (reliability and validity), to be evaluated this section. Instrument development follows.

**FIGURE 6.5 The current research project approach to instrument development**



Source: adapted from Page and Meyer (2003: 95)

There are many different measuring instruments that can be utilized to quantify the variables and indicators being researched. Since this research is of a descriptive and exploratory nature, the questionnaire is deemed to be a feasible data collection alternative (Saunders: 1997). In descriptive research, questionnaires will assist to identify and describe the variability in different phenomena. Exploratory research however aims to examine and explain relationships between different variables. Due to a relatively small population, self-administered questionnaires shall be used. Self-administration has the advantages of foregoing interviewer bias, geographical dispersion, and due to expected response rates, the instrument is deemed to be effective (Neuman: 1997).

The questionnaire is a formalised set of questions for obtaining information from respondents (Malhotra *et al*: 2002), and may be identified by administration. Self-administered questionnaires are those completed by the respondent without assistance from the researcher; whilst interviewer-administered questionnaires have researcher interaction (Saunders *et al*: 1997). Attributes of the self-administered questionnaire include (Saunders *et al*: 1997):

- Suitable for population characteristics where target respondents can be selected with ease
- May be contaminated by consultation with others
- Response rate moderately high, with 30-50% being reasonable.
- Feasible length of questionnaire 8-10 A4 pages
- Question suitability favouring closed questions but not too complex, simple sequencing, of interest to the respondent
- The role of the interviewer/fieldworker is to enhance participation.

These attributes correspond to applicable requirements of the current research project, hence the use of self-administered, closed questions. Dillon *et al* (1993) relate obvious advantages of close-ended questions as being their ease of use in the field, their ability to reduce interviewer bias and their ability to reduce bias based on differences in how articulate respondents are. Neuman (1997) further adds that closed questions are easy to code and that less articulate respondents can easily answer the questionnaire. The disadvantages however include misinterpretation of questions that may go unnoticed, and that respondents with no opinion on a particular issue may still give an answer (Neuman: 1997). It is the researcher's opinion that despite the Likert scale shortcomings, these

disadvantages are negated by the careful design of interval scales. Saunders *et al* (1997) list questionnaire design issues, identified within this research project. The following were taken into account:

- Characteristics of respondents that the researcher wishes to collect
- Importance for the researcher to reach a particular respondent
- Importance of answers not being contaminated or distorted
- Sample size requirement (applicability to census)
- Types of questions to be answered to collect the appropriate data
- The number of questions to be asked.

The design of questions, structure of the questionnaire and rigor of pilot testing are determinants of the validity and reliability of collected data (Saunders *et al*: 1997). Reliability refers to the random error component of the questionnaire (Aaker *et al*: 2001), and total reliability is achieved when the instrument provides identical repeated measures relating to some constant factor (Page & Meyer: 2003). Validity is the ability of a questionnaire to measure what it purports to measure (Aaker *et al*: 2001). Reliability and validity are however detailed in the section on data analysis. Individual questions (current research project specific) were designed by adopting questions used in other questionnaires; adapting questions used in other questionnaires and developing discipline specific new questions. Principles of good question writing were evaluated from many researchers and authors, with an overview reflected by Neuman (1997). Main considerations included the avoidance of jargon, ambiguity, confusion, vagueness, emotional language, double-barrelled questions, leading questions, false premises, double negatives, future intentions, unbalanced or overlapping response categories and asking questions beyond the respondents' capabilities.

#### 6.5.5.1 Constructing the questionnaire

The questionnaire includes a two-tiered approach, divided into seven distinct sections. The first tier includes collection of data regarding franchisee classification, entrepreneurial orientation and franchising; whilst the second section tier deeming responsibility for collection of strategic service data (service quality, service profit chain, relationship management and best practice). The questionnaire can be observed on page 1 in Appendix 3. The sections are depicted as follows:

- Section A: Franchisee demographics and details, questions 1-8
- Section B: Entrepreneurial orientation, questions 9-28
- Section C: Franchise system, questions 29-38
- Section D: The service profit chain, questions 39-48
- Section E: Service quality, questions 49-58
- Section F: Relationship marketing, questions 59-68
- Section G: Best practice, questions 69-78.

Questions in Section A: Questions 1 to 8 are classification questions, formulated to distinguish demographic, geographic and franchise-system specific determinants (nominal data).

Questions in Section B: Bolton and Thompson (2003: 69) identified entrepreneurial character themes, constituting the facets of the entrepreneur. These consisted of focus, advantage, creativity, ego, team and social facets. Thompson (in Global Entrepreneurship Monitor, 2003: 34) further developed a twenty-question character theme matrix to measure entrepreneurial orientation. The empirical research, based on the character theme matrix, was published in the Global Entrepreneurship Monitor 2003 (GEM). A character theme is a personality attribute or characteristic that defines our normal, expected behaviour. Thompson's (2002) set of themes forms our inner psychological core and defines things we do most readily and instinctively. These themes were adapted for this study. The objective is to evaluate franchisees against these themes and associations, facilitating support of the hypothesis.

Twenty questions were included; each addressing an individual character theme- some related to those characteristics specifically associated with the entrepreneur and others to the inventor, the leader and someone we might call the non-entrepreneur. The questions describe behaviour that would typify the presence of a particular character theme. Respondents were requested to allocate a personal score (out of five) indicating the extent to which they believe it describes them. The relationship between themes should also be insightful, notwithstanding the anticipated variation between franchisor and franchisee associations. Entrepreneurial orientation was considered the dependent variable, with the themes considered independent variables (interval data).

Questions in Section C: The end result of the study is to develop a conceptual model of an entrepreneurial service vision in a franchised environment. Towards applicability of this objective, the franchisee is ultimately responsible for service implementation. This section will thus focus on the franchise paradox, identifying franchising as an entrepreneurial option towards creating and developing ventures. Mendelsohn (2003) identified various relationship and operational factors within the franchise system, coupled with entrepreneurial orientation within the system (Lindsay & McStay: 2004). Ten questions are set on a Likert scale, being part of five factors (entrepreneurship link to franchising, franchise rationale, franchise relationships franchise system cooperation and franchise leadership); representing interval data.

Questions in Section D: Heskett *et al* (1997) identify links in the service profit chain, many coinciding with the SERVQUAL (Ziethaml *et al*: 2003) perception items. A distinguishing characteristic of the service profit chain model is the relationship to profit, and implementation of strategic initiatives. This study focuses on the links in the service profit chain, together with strategic initiatives of retention, related-sales and referrals. These strategic initiatives are referred to as factors, with themes developing from each factor. Franchisees were requested to gauge their perceptions of each of these factors (with a total of 10 themes included) in a Likert scale, representative of interval data. Sections D to G evaluate the relationship with service quality (identified in Chapters 4 and 5; representing the dependent variable).

Questions in Section E: Ziethaml *et al* (2003: 136-137) identify twenty-one perception items (SERVQUAL) that are distributed throughout the five quality dimensions. The five quality dimensions, referred to as factors, include reliability, responsiveness, assurance, empathy and tangibles. Each factor identifies themes (10 in total), represented in a likert-style rating-style rating scale (Likert) response, representing interval data. One will represent 'strongly disagree', whilst at the other end, five will represent 'strongly agree'. An adaptation of the empirical study of Tung-Zong and Su-Jane (1998) using SERVPERF will be implemented; a management self-evaluation of service quality. In addition, the empirical study of Bloemer *et al* (1999) in the entertainment industry will also be adapted for implementation in this research project. This construct represents the dependent variable.

Questions in Section F: Peck *et al* (1999: 23) identified a six markets model in researching relationship management. Once again, many perception items mirror that of the SERVQUAL scale. Each market will be analysed as a factor, with identifiable themes under each. Factors include internal markets, referral markets, influence markets, recruitment markets, and supplier/alliance markets. Similarly, ten themes shall be presented in a Likert scale, identifying interval data.

Questions in section G: The Video Software Dealers Association of America (VSDA) 2001 commissioned Arthur Andersen Management consultants to conduct research into industry best practice. They identified seven core issues, to be identified as factors in this study. These factors include understanding markets and customers, developing vision and strategy, refining store product offerings, implementing the marketing plan, creating promotions and in-store merchandising, and clear in-store operations. The seven factors will be used to develop twenty themes to be represented in a Likert scale, representative of interval data.

Validity and reliability of collected data depend on issues of question design, question structure and rigour of pilot testing. Designing individual questions will require adaptation from other questionnaires or models (for example SERVQUAL/SERVPERF and entrepreneurial orientation), together with researcher development of personal questions. According to Neuman (1997), there is however always a possibility that certain questions could cause problems. This identifies the need for questionnaire testing to identify and eliminate such problems.

Pre-testing of the questionnaire requires that the instrument is tested on an appropriate group before the major study. A small sub-group (6-12 respondents) of the target population is appropriate for pre-testing (Page & Meyer: 2003). The researcher was however concerned that such pre-testing consisted of twelve per cent of the final population, enough to introduce a systematic bias into the responses of the final study (de Vaus: 1995). As such, another group with similar characteristics was used in the pilot study. Although the advice of pre-testing is not empirical, conventional wisdom is sound in facilitating corrective action and revision of adapted questions. Insights and ideas for refining the questionnaire resulted from thoroughness in this approach. Among the purpose of the pre-test were determining respondent interest, discovering whether the questions have meaning for the respondent, examining question continuity and flow,

experimenting with question sequencing patterns, collecting early warning data on item variability and evaluating length and timing of the instrument. An overall objective was to ensure accuracy (validity) and consistency (reliability). The questionnaire was adapted after the pilot phase, with the necessary corrections to enhance validity and reliability.

#### 6.5.5.2 The linkage between the questions, research objectives and hypotheses

The synergies of the various disciplines applicable to the current research project have been discussed and empirically tested throughout the literature review. Links have also been identified between the disciplines, which have been carried through to the questionnaire. Table 6.8 on the following page identifies these links, together with linkage to research objectives and hypotheses.

Figure 6.5 highlights the instrument development process as conceptualised by the researcher. Following on from instrument development; Malhotra *et al* (2002), Dillon *et al* (1993) and Page and Meyer (2003) identify the data analysis process as the penultimate phase in the research process. This involves statistics, being the science that deals with the collection, classification, and use of numerical facts or data, bearing on a subject or matter (Brien, Correll, Olsson, Hall & Sutton: 1995). Section 6.6 evaluates applicability of data analysis to the current research project.

## 6.6 DATA ANALYSIS

Simply defined, data analysis is a statistical procedure employed in coding, editing, analyzing and interpreting data (Aaker *et al*: 2001). Cooper and Emory (1995: 379) identify two steps in statistical analysis; the first is data preparation, which includes editing, coding and data entry; and the second step involves preliminary data analysis, breakdown, inspecting, and rearranging data to start the search for meaningful descriptions, patterns and relationships. Prior to statistical analysis, editing and coding of raw data is discussed.

Table 6.8 is represented on the following page.

**TABLE 6.8 The linkage between the sections, questions and hypotheses**

Sections and questions linked to hypotheses	Direct linkage	Indirect linkage
Demographic and biographic franchisee information	Section A	B-G
H1 Entrepreneurial orientation exists in a franchise system	Section B	A,C
H2 The franchise system is an entrepreneurial option towards creating and developing ventures	Section C	A,B,D,E,F,G
H3 Service profit chain initiatives are positively associated with service quality	Section D	A,B,C,E,F,G
Dependent variable: Service quality is positively associated with the service profit chain, relationship marketing and best practice	Section E	A,B,C,D,F,G
H4 Relationship management initiatives are positively associated with service quality	Section F	A,B,C,D,E,G
H5 Best practice initiatives are positively associated with service quality	Section G	A,B,C,D,E,F
Questions linked to factors and themes	Hypotheses/Questions	Questions
Entrepreneurial orientation	H1; 10-19	1, 11-28
Franchise paradox	H2; 29-32	10,11,13,61,62,65,66,77,78
Franchise relationships	H2; 33-36	14,61,66
Franchise leadership	H2; 37,38	19,61,62,65,66
Service profit chain links	H3; 39-43	33-36,65,66,74
Retention strategies	H3; 42,44,45,48	49-60,64,64,68,71
Referral strategies	H3; 47,48	63,64,69
Related sales strategies	H3; 46	71
Reliability	49,50	41,48,59,60
Assurance	53,54	42,59,60
Tangibles	57	59,60,75,76
Empathy	55,56,58	43,59,60
Responsiveness	51,52	44,59,60
Customer markets	H4; 59,60	39,40,44,45,48-59
Internal markets	H4; 61,62,66,65	11,14,33-36,41,43,74
Referral markets	H4; 63,64	47,48,69
Influence markets	H4; 63-66	42,44,45,48
Recruitment markets	H4; 67,68	61,62
Supplier and alliance markets	H4; 61,62	14
Understanding markets and customers	H5; 69	47,48,59,60
Developing strategy and vision	H5; 70,78	32,48,67
Refining offerings	H5; 71	46,60
Implementing the marketing plan	H5; 72-74	42,44,46,47,49-58
Promotions and in-store merchandising	H5; 75	46,57
Clear in-store operations	H5; 76,77	25,26,41

### 6.6.1 Editing and coding

Editing entails a thorough and critical review of a completed questionnaire in terms of compliance with the criteria for collecting meaningful data; to deal with questionnaires not duly completed (Martins *et al*, 1996: 295). Aaker *et al* (2001) introduce editing prior to data analysis, informing that data have to be checked for any error that might have come from the process of data entry. Once the data are error free, statistical adjustments to the data can be made. Whilst appropriate for a researcher to complete a missing answer

(de Vaus: 1995; Martins *et al*: 1996); it is the opinion of the researcher to defect from this practice as it could bias responses (Fink: 1995c). All completed questionnaires were vigorously checked for completeness and accuracy. The facilitation of reliability and validity will be discussed in the data analysis section.

Coding is the conversion of questionnaire responses into numeric form in order to allow quantitative analysis (Page & Meyer: 2003). Similarly, Aaker *et al* (2001) regards coding as the categorization and numbering of responses. Since coding refers to the process whereby codes are assigned to the answers of the respondents (Martins *et al*: 299); applicability to the current research project includes numerical values assigned during questionnaire design. A coding frame was developed, facilitating data capture.

Martins *et al* (1996) and Brien *et al* (1995) postulate that researchers often neglect to point out possible shortcomings and pitfalls in research results. Reliability and validity are a prerequisite for research data to be useful and it is therefore important to prove reliability and validity.

## **6.6.2 Reliability and Validity**

Reliability involves the quality of measurement and refers to the amount of agreement between independent attempts to measure the same theoretical concept (Martins *et al*: 1996; Brien: 1995). In agreement herewith, Page and Meyer (2003) regard reliability being achieved when the questionnaire provides identical repeated measures relating to some constant factor; relating to consistence of a method in its ability to yield reproducible results (Martins *et al*, 1996: 26). Techniques have been developed to establish the degree of reliability in a questionnaire, on the premise that no written instrument will have perfect reliability (Page & Meyer: 2003). Reliability techniques are identified by Page and Meyer (2003):

- Test-retest reliability: whereby the researcher tests the same group of people repeatedly, and compares the different sets of responses for the groups and individuals. Correlation between responses is an appropriate measure. Trochim (1997) recommends ways of implementation, consisting of measuring the instrument twice for multiple persons; computing correlations between the two

measures, assuming there is no change in the underlying trait between the first and second time

- Split-half reliability: refers to the testing of summed ordinal scales (indices). Index items are split, creating two separate sets of items, for the purpose of correlating one half with the other
- Inter-item reliability: where items in the questionnaire deemed to be measuring the same thing ought to be highly correlated to each other. Application to this research project is reliant on inter-item reliability, as many of the items have proposed synergies.

Bagozzi (1994: 18) distinguishes between two types of reliability, being internal and external consistency. Cooper and Emory (1995: 153) purport that reliability means many things to many people, but in most contexts, the notion of consistence emerges.

Validity is the ability of a measurement instrument to measure what it purports to measure (Brien *et al*: 1995), whilst Martins *et al* (1996: 26) relate validity specifically to measuring instruments. Bagozzi (1994) is of the opinion that a measure is valid to the extent that it measures what it is intended to measure. Trochim (1997) however notes that it is technically incorrect to prove validity. Validity is usually discussed in terms of internal and external validity (Page & Meyer: 2003: 86). Internal validity refers to the extent to which the measure can be said to reflect changes in response to manipulation of the independent variables. Manipulation refers to changing levels, values and hence influencing the outcome. In this instance, validity is the degree of accuracy with which the research has measured the cause-effect relationship (Page & Meyer: 2003). External validity refers to the extent to which the results are relevant to individuals and settings beyond the study conditions, accepting the assumption of generalisability.

Validity application to the current research project requires discussion (Page and Meyer, 2003: 86):

- Face validity: established by determining on face value whether the items are logically and conceptually accurate, usually with help of a panel of experts in the area. Application includes input from industry experts and relevant academic experts

- Content validity: where items are shown to represent fully the area under study with no omissions. Exploratory and secondary research facilitated in this regard
- Construct/congruent validity: relating to how well the variables were selected and defined with regard to the construct being measured. Best practice and prior empirical studies facilitated in this regard
- Criterion-related validity: where the measures taken by the instrument correlate highly with another instrument or measure of a construct. Similar studies (construct specific), adapted for this research project, facilitated criterion-related validity. Criterion-related validity is often referred to as predictive validity, due to their similarity.

Validity is summarized as the extent to which differences in response scale scores reflect true differences among objects on the characteristics being measured, rather than systematic or random errors (Malhotra *et al*: 2002). Regarding validity and reliability, Page and Meyer (2003: 87) believe a process of refinement is called for, whereby the relevance of the items can be determined, and the problematic or weak items discarded or replaced.

The following section evaluates basic data analysis and theoretical evaluation of results. Quantitative data analysis essentially involves the ascription of numbers to data; henceforth the connotation “exploring the numbers” (Page *et al*, 2000: 143). Similar to the data collection phase, a linear approach to methodology has been implemented. This may be summarized as follows: summarising the data, using graphs and descriptive measures for each variable, measures of spread (mean, median, mode, standard deviation), graphical representation (pie charts, bar graphs, histograms), bivariate analysis (relationships between variables), appropriate measures of association (correlation coefficients and cross-tabulations), and graphs (scattergraphs). In general the objective of descriptive measures is to summarise responses; the objective of graphs to display response distributions and relationships, and hypothesis tests to test whether sample results can be generalised to the population (Page *et al*, 2000: 144). Descriptive and inferential measures appropriate to the current research project are depicted in Table 6.7. Data analysis was evaluated using SPSS version 11.0 (Coakes & Steed: 2004).

### 6.6.3 Descriptive or summary measures

Descriptive measures are particularly for useful comparing the response pattern for different questions, as well as different groups (refer geographical stratification of Mr. VIDEO outlets). Descriptive statistics commences with the construction of a frequency distribution for each variable of interest. Univariate (single variable) measures of centre and spread and bivariate (two-variable) measures of association are calculated.

#### 6.6.3.1 Frequency distributions and modes (questionnaire section A)

Modes are useful measures of the centre for discrete data (nominal data), whereas frequency distributions are useful for multi-modal situations (Page *et al*, 2000: 149). The mode is a measure of central tendency given as the value that occurs the most in a census distribution (Malhotra *et al*, 2002: 473). Frequency distributions give an indication of data spread. The frequency distribution's objective is to obtain a count of the number of responses associated with different values of one variable and to express these counts in per centage terms (Malhotra *et al*, 2002: 468). Absolute (simple counts) or relative (per centage) terms are used to indicate how often the different values are encountered in the census. Cumulative frequencies result in adding of the frequencies associated with a particular value to the sum of the frequencies corresponding to all preceding values (Diamantopoulos & Schlegelmilch, 1997: 65). Frequency distribution will be used to describe the data in Sections A of the questionnaire as a measure of centre and spread. Similarly, modes will be used in this section as a measure of centre; with per centages used to depict distribution of responses.

#### 6.6.3.2 Means and medians (questionnaire section B-G)

The mean is referred to as the average, whilst the median refers to middle value after the scales have been sorted in order (ascending or descending). Histograms will be used to explain the skew distribution. Right-skew distributions have unusual high/top values, whilst left-skew distributions have low/bottom values. In situations of a normal distribution (bell shaped), the mean score gives a more reliable central indication than the median (Page and Meyer, 2000:149). Malhotra *et al* (2002: 473) identify the mean as the most appropriate measure of central tendency for interval data, applicable to

questionnaire Sections B-G (trimmed mean specifically). Due to right-skew proposition, the median will however also be considered.

#### 6.6.3.3 Measures of variability (questionnaire section B-G)

Measures of variability are a statistic that indicates the distribution's dispersion, calculated on interval data. Malhotra *et al* (2002: 474) identify measures such as range, interquartile range, variance or standard deviation and coefficient of variation. Applicability to the current research project will make use of standard deviations and kurtosis (questionnaire Sections B-G specific). The standard deviation measures the square root of the average deviation from the mean, whilst the standard error of the mean measures the standard deviations for the sample mean (Page *et al*, 2000: 151). The range is the difference between the minimum and maximum responses, whilst the interquartile range measures the range for the middle fifty-per cent of data (Malhotra *et al*: 2002). The greater the dispersion of scores, the greater the variance. Variances will also be calculated in the strategic service component, being the square of the standard deviation. Kurtosis is a measure of the peakedness or flatness of the curve designed by the frequency distribution. Applicability will involve analysis across all sections.

#### 6.6.3.4 Bivariate measures of association (questionnaire section A-G)

Sections 6.6.3.1 to 6.6.3.3 calculated univariate (single-variable) measures of centre and measures of spread, whereas this section identifies bivariate (two-variable) measures of association. Association measures are important to analyse association between two discrete variables (cross tabulation), and association between any two continuous variables (correlation coefficient). It is important that association is being measured and not causation. Cross tabulation is a statistical technique that describes two or more variables simultaneously and results in tables that reflect the joint distribution of two or more variables with a limited number of categories or distinct values (Malhotra *et al*, 2002: 477). Page and Meyer (2003) advise that cross-tabulation is an appropriate association measure for nominal and ordinal data. Applicability of cross-tabulation to the current research project will be throughout the questionnaire.

The measure of the relationship between two interval variables in a straight line is referred to as the Pearson correlation coefficient. This measure is however inappropriate

for non-linear relationships (Page & Meyer: 2003). When using ranks (instead of actual values), the Pearson correlation coefficient may be calculated as a measure of association (de Vaus: 1995). Positive results in Pearson and Pearson analysis depict some form of association, with a near zero value suggesting a relatively weak linear relationship. The sample correlation coefficient  $r$  is an estimate of the population correlation coefficient  $\rho$  (Aaker *et al*, 2001: 504). Applicability to the Pearson correlation coefficient (at 0.01 level) will be bivariate analysis in Sections B-G of the questionnaire.

#### 6.6.3.5 Graphical representations

Recommended graphs will consist of univariate (single variable distribution) and bivariate (relationship between two variables). In essence, graphical representation will facilitate a quick birds-eye view and overview of summary measures. Univariate distributions will primarily include pie charts (applicable to variables in section A of the questionnaire), bar charts (applicable to variables in Section B of the questionnaire), and histograms and box-plots for interval continuous variables (applicable to variables in Section B-G of the questionnaire). Bivariate associations will include two pie charts (section A), stacked or clustered bar charts (Section B), and box-plots and scatter plots for continuous and interval variables (Section B-G).

Interpretation and presentation of descriptive statistics will be presented in Chapter 7.

#### 6.6.4 Inferential statistics

Descriptive measures depicted in Section 6.6.3 are now combined to make inferences and associations about the census. Inferential measures appropriate to the current research project include significance tests (hypotheses testing), factor analysis and Cronbach's Alpha.

##### 6.6.4.1 Significance tests (hypotheses tests)

Only when a hypothesis test has given a statistically significant result can a conclusion extend beyond the immediate set of data to the research census (Page & Meyer: 2003). The hypotheses to be tested in this research project are depicted in Section 6.3.4. Hypothesis testing is the measurement of an unproven statement or proposition about a

factor or phenomenon that is of interest to the researcher (Malhotra *et al.*: 2002). Hypothesis tests are primarily differentiated into parametric and non-parametric tests (Page & Meyer: 2003). Parametric tests are prone to rigid assumptions; such as the independent variable being at least interval (continuous) and the dependent variable having a normal (bell-shaped) distribution with the same standard deviation for each population group. Non-parametric hypotheses tests make no assumption about the distribution of the dependent variable (Page and Meyer: 2003). Applicability to the current research project is the use of non-parametric tests. Non-parametric tests will include the Kruskal-Wallis test (identified later in this section).

Hypotheses tests produce P-values, being the probability of obtaining results no more supportive of  $H_0$  than those found in the sample, when the null hypothesis is true (Page & Meyer: 2003). A significant test result is produced if P is less than 5 per cent, that is, then it is most unlikely that the null hypothesis is true (at the 95 per cent confidence interval). The test statistic is however optimal at a one per cent cut off, but applicability of this research project will be a five per cent cut-off. P-values of greater than five per cent represent the null hypothesis as not being unlikely, therefore not rejecting the null hypothesis (referred to as a non-significant test result).

The Kruskal-Wallis one-way analysis of variance (ANOVA) will be used in comparing ordinal variables (H1) and interval variables (H1-H6). It is applied to a census of values for one independent discrete variable and one dependent continuous variable (Page & Meyer: 2003). The Kruskal-Wallis test is a non-parametric test used when the parametric assumptions are not valid. It is appropriate for data that are collected on an ordinal scale or for interval data that do not meet F-assumptions, that cannot be transformed, or that for some other reason prove to be unsuitable for a parametric test (Diamantopoulos & Schlegelmilch, 1997: 65). The K-W one-way ANOVA is based on an approximation of the chi-square distribution with  $k-1$  degrees of freedom, where  $k$  is the number of groups compared. In this test, all data are sorted in ascending order, with ranks assigned to each observation. A test statistic ( $H$ ) is defined in order to compare the ranks for the census. The interpretation will be presented in Chapter 7.

#### 6.6.4.2 Factor analysis

Hair *et al* (2000) introduce factor analysis as a generic name for a group of multivariate statistical methods whose primary purpose is to define the underlying structure of a set of variables and to reduce a set of variables, measures or items to a smaller set of common factors. Many authors agree that the process ultimately ends with a reduced number of packages of variables (Page & Meyer: 2003; de Vaus: 1995; Churchill: 1995). Since factors are being recognised in the second section of the questionnaire, exploratory factor analysis was necessary. Outputs of factor analysis include factor loadings, factor scores, factor communalities and variable communalities. Whilst initially proposing a factor analysis approach, exploratory research identified that variables being used as appropriate, which negated the use of factor analysis for this research project. It is deemed that descriptive and inferential statistics used in this research project are appropriate to evaluate current constructs, factors and variables; without reducing more variables. Cronbach's Alpha is one such measure, testing for internal consistency of identified factors (Page & Meyer: 2003).

#### 6.6.4.3 Cronbach's Alpha ( $\alpha$ )

The identified constructs (entrepreneurial orientation, franchise paradox, service profit chain, service quality, relationship management and best practice) were tested for reliability (internal consistency) using Cronbach's Alpha. Results of the Cronbach's Alpha are provided in the research findings in Chapter 7. This measure is defined as an overall measure of inter-item correlation (Page & Meyer, 2003: 198). Alpha values should ideally exceed 0, 80; however, a value of 0, 70 is satisfactory for exploratory research (Nunnally & Bernstein, 1994: 265). Reliability is estimated from the consistency of all items in the sum scales, and the reliability coefficient computed in this manner is also referred to as the internal-consistency reliability (Cooper & Emory, 1995: 155).

The proportion of true score variance that is captured by the items could be estimated by comparing the sum of items variances with the variance of the sum scale. The formula for calculating Cronbach's Alpha ( $\alpha$ ) is:

$$= (k/k-1) [1-\sum(s_i^2)s^2_{sum}]$$

Where  $S_i^2$  = the variance for the k individual items; and

$S^2_{sum}$  = the variance for the sum of all items

If there is no true score but only error in the items (esoteric and unique, uncorrelated across subjects) then the variance of the sum will be the same as the sum of variance of the individual items. Coefficient alpha will therefore be equal to zero. If all items are perfectly reliable and measure the same thing (true score), then coefficient alpha is equal to 1. Specifically,  $1-\sum(s_i^2)s^2_{sum}$  will become equal to  $(k-1)/k$ ; if multiplied by  $k/(k-1)$  1 is obtained (Cooper & Emory, 1995: 155).

Since the objective of this research project is to evaluate relationships between loyalty/satisfaction (dependent variable) and strategic service constructs (independent variables), correlation analysis will be used. This involves measuring the strength of the relationship between two or more variables (correlation coefficient). Since this research project is not predicting the dependent variable, regression analysis will not be implemented (Aaker *et al*, 2001: 525). Towards wrapping up the data analysis section, synthesis and interpretation requires mention. Synthesis is the synergy of all research efforts in the applicable research project; being an amalgam of previous research efforts, the current research and future research needs (Page & Meyer, 2003: 238). Applicability to the current research project will include exploratory and previous related studies, secondary and primary sources; and future research opportunities such as regression analysis and industry wide research projects.

## 6.7 CONCLUSION

This chapter provided a description of research methodology applicable to the current research project. This research study can be classified as conclusive, where the primary objective is to test hypotheses of entrepreneurial orientation in a franchised system; and a strategic service vision (service profit chain, service quality, relationship management and industry best practice). This however does not negate the use of exploratory research, originally used in this research study to develop hypotheses and questions. A quantitative methodology is implemented, adopting the survey method. The sampling frame consists of a census, with questionnaires distributed to all Mr. VIDEO franchisees. Measurement

scales in the questionnaire consist of nominal, ordinal and interval scales, identifying permissible descriptive and inferential statistics. The various questions and sections in the questionnaire were discussed, together with linkages.

The study tests hypotheses, making use of descriptive and inferential statistics. Research editing, coding, reliability and validity were discussed. Descriptive statistics identified univariate and bivariate measures of association. Inferential statistics identified significance tests (hypotheses tests), highlighting the use of a Kruskal-Wallis one-way analysis of variance (ANOVA). The Cronbach alpha has been introduced as a measure of internal consistency and overall measure of inter-item correlation. Applicable software used for data collection and analysis included Surveypro and SPSS version 11.0. Synthesis and interpretation concludes the theoretical component of research methodology.

The next chapter will provide a discussion on the research findings and interpretation of data analysis; together with the outcomes of the different hypotheses as formulated in the introductory chapter and substantiated in Chapter 6.

## CHAPTER 7: RESEARCH FINDINGS

### 7.1 INTRODUCTION

An empirical analysis of the data collected from the questionnaire is conducted in this chapter. Data was coded and captured from an online survey via Surveypro software; and configured into SPSS version 11.0. The aim of the analysis chapter is to empirically test hypotheses as stated in the previous chapter, together with evaluating associations between data sets.

Realisation, response and representation of results identify appropriateness for the current research project. Demographic and biographic information is relayed, facilitated by pie-charts and graphs for ease of differentiation. Descriptive statistics are computed to facilitate interpretation and analysis. Highlights include white male domination, with franchised outlets predominantly distributed in three regions. The average franchise tenure is three to five years, with single outlets dominating number of outlets.

Descriptive and inferential statistics are computed in SPSS version 11.0 to test the hypotheses and associations of the data set. Measures include the mean, standard error of the mean, standard deviation, kurtosis, Cronbach's Alpha, Pearson's correlation coefficient and the Kruskal-Wallis ANOVA test of significance. Cross-tabulations are used to facilitate interpretation and evaluation of data.

The primary hypothesis of entrepreneurial orientation in a franchised system is rejected; however, a proposal of entrepreneurial orientation in a multiple-outlet franchised system is accepted. A secondary hypothesis involving the franchise paradox; being an entrepreneurial option towards creating and developing ventures is accepted. Other secondary hypotheses involving the positive association between the service profit chain, relationship marketing, best practice and service quality are accepted.

The chapter concludes with key summary construct statistics, facilitating a bird's-eye view of the empirical results.

## 7.2 REALISATION, RESPONSE AND REPRESENTATION OF RESULTS

The survey as depicted in Section 6.5.2.2 was distributed by means of an online questionnaire during November and December 2004. Mr. VIDEO franchisees were requested to complete the online questionnaire, prompted by personal electronic communication from the franchisor (Chairman, Mr Peter Scott). In addition, franchise system operations staff encouraged franchisees to participate in the survey. The applied tailored design approach (Dillman: 2000) resulted in a favourable response rate from ninety-six franchisees, representing one-hundred and forty-one outlets. Due to response errors, three responses were eliminated. The final data representation consisted of ninety-three responses, indicative of an eighty-four per cent response rate. Due to the census nature of the research project on hand, a relatively high response rate was required. The targeted response rate of eighty-six franchisees was surpassed by approximately eleven per cent. The high response rate from the Western Cape region in particular is indicative of the efforts of participation by the head office in Bellville. A satisfactory representation across regions was elicited. Table 7.1 reflects the regional response rate. Cognizance is taken of marginal outlets and regions, particularly those regions with five or less franchisees. The acceptable response from such regions was sixty-five per cent, as long as the overall response of eighty-six franchisees was realised.

**TABLE 7.1 Regional response and realization rates**

Region/Province	Franchisees	Outlets	Average outlets per franchisee	Response counts	Response (%)
Western Cape	35	64	1.8	32	91.4
Gauteng	35	46	1.3	27	77.1
Eastern Cape	12	14	1.2	11	91.6
KwaZulu Natal	7	10	1.4	6	85.7
Limpopo	4	5	1.3	4	80.0
North West	5	7	1.4	4	80.6
Free State	5	8	1.6	4	80.0
Mpumalanga	4	4	1.0	3	75.0
Northern Cape	3	4	1.3	2	66.7
<b>Total</b>	<b>110</b>	<b>162</b>	<b>1.4</b>	<b>93</b>	<b>84.6</b>

The response and representation of the data was found to be appropriate for the research project at hand, and what follows is a descriptive and inferential statistical evaluation leading towards empirical analysis of the survey data and hypotheses. Each section from the questionnaire is separated for analytical evaluation, given the synergistic nature of the constructs.

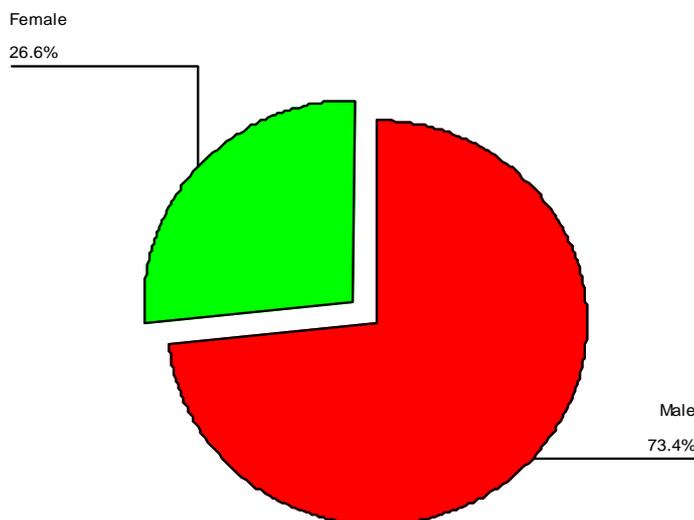
### 7.3 SECTION A: DEMOGRAPHIC AND BIOGRAPHIC INFORMATION

This section consists of the first eight questions (V1-V10) of the questionnaire, representing demographic and biographic information within the Mr. VIDEO franchise system. The analysis of research results will include an item by item analysis, predominantly consisting of descriptive and cross tabulated measures.

#### 7.3.1 Gender of franchisees

The franchise system is male dominant, with females only representing 26.6 per cent. This can be attributable to the male dominance within the franchisor management structure (eighty-four per cent of franchisor management being male). Notwithstanding the male/female entrepreneurial activity ratio (Bygrave *et al*: 2003) of 1.50 in GEM (2003); the Mr. VIDEO participation ratio is conclusively skewed toward male domination.

FIGURE 7.1 Gender of franchisees



Male gender dominance is emphasized in North West province (one-hundred per cent), followed by Eastern Cape with eighty-one per cent dominance. Females are however the prevalent gender in Mpumalanga and Northern Cape (at one hundred per cent), whilst also dominating in KwaZulu Natal (sixty-six per cent).

### 7.3.2 Race of franchisees

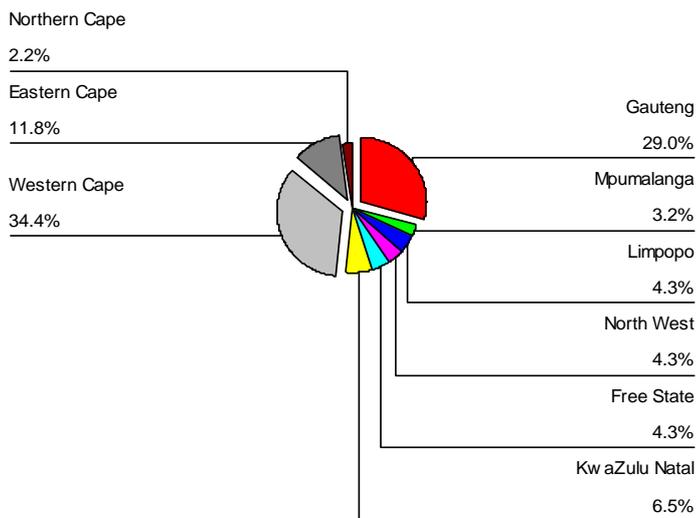
Ninety-eight per cent of respondents are white, which can be attributed to the fact that the organisation is not in the process of transformation. Once again, it is indicative of franchisor management being wholly white. Black and Coloured represent two per cent of respondents (one-a-piece); nowhere near representative of GEM (SA) 2003 participation rates (Orford *et al*: 2003).

### 7.3.3 Region/Province of franchised outlets

Table 7.1 represents respondents by region. The Western Cape dominates by region (34.4 per cent), which can be attributed to the location of Mr. VIDEO head office in Bellville. Gauteng follows at twenty-nine per cent, followed by Eastern Cape at close to twelve per cent contribution. The Eastern Cape skew can be attributable to the foundation of Mr. VIDEO to the region. The regional distribution of franchisees and outlets does not align with GEM (SA) 2003 participation rates (Orford *et al*: 2003). Table 7.1 indicates that Western Cape also dominates in multiple-outlet franchisees, being franchisees that own more than one franchised system outlet. This is an important classification, as much of the analysis to follow reflects on multiple-outlet franchisees. Whilst marginally contributing to national distribution, cognizance is however taken of high multiple-outlet franchisees in smaller regions as well. Cross tabulations regarding distribution of franchised outlets are evaluated across entrepreneurial orientation, franchise paradox and strategic service constructs in the sections to follow. Figure 7.2 reflects the seventy-five per cent distribution contribution of the three dominant regions.

Figure 7.2 is represented on the following page.

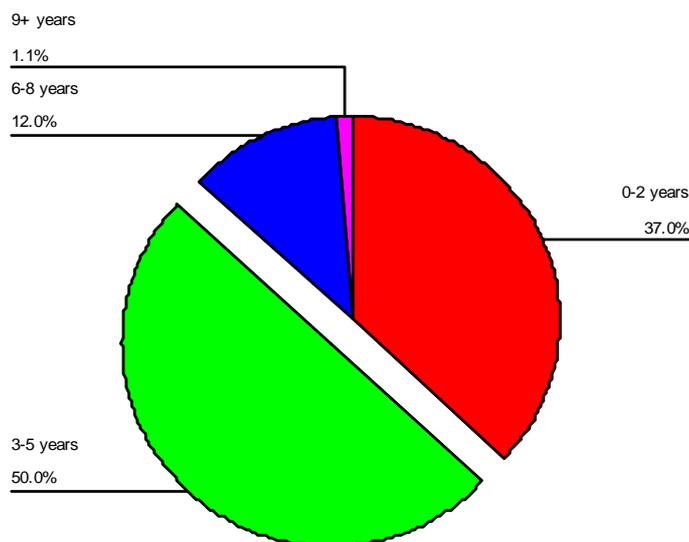
**FIGURE 7.2 Region/province of franchised outlets**



### 7.3.4 Period of participation in the franchise system

Sixty-three per cent of franchisees have participated in the Mr. VIDEO system in excess of three years. Figure 7.3 highlights the three to five year dominant response, followed by new entrants to the system. The new entrants are predominantly new ventures, with approximately six per cent accountable to the re-sale of existing outlets.

**FIGURE 7.3 Years as a franchisee in the Mr. VIDEO system**



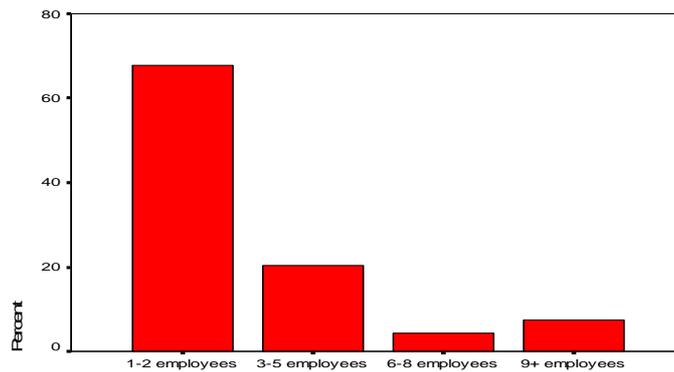
Cross tabulation of years in the system to number of outlets (multiple-outlet franchisees) indicates that of those franchisees in the system for two or fewer years, eighty-seven per cent only have one outlet. This can be attributed to new franchisees entering the system taking time before venturing into additional outlets. Franchisees in the system for three to five years account for doubling multiple-outlet distribution, representing twenty-eight per cent with multiple-outlets. Those franchisees in the six to eight year category represent sixty-four per cent of multiple-outlets; whilst those in the nine-plus category all own multiple-outlets. The three dominant regions (Western Cape, Gauteng and Eastern Cape), together with Northern Cape, are the only regions with franchisees in the system for longer than five years.

### **7.3.5 Employees in the franchised outlets**

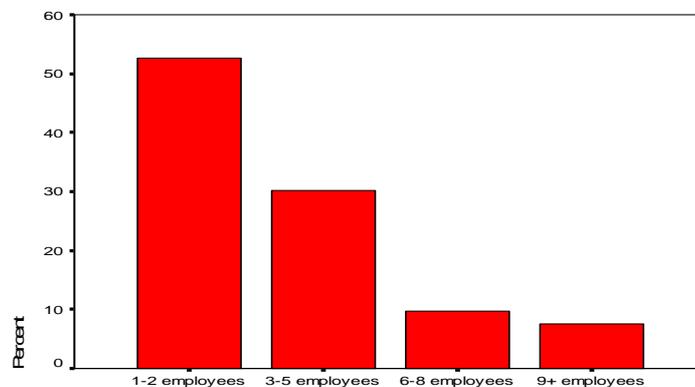
This section incorporates questions six and seven (V8 and V9) of the questionnaire; identifying the number of full and part time employees in the employ of franchisees. Sixty-eight per cent of franchisees employ two or fewer full time staff, with a mean score of 1.52 employees. The part-time employment contribution is similar to the full-time complement, in that franchisees employ similar numbers of full-time and part-time employees. This can be attributable to the staffing requirements for peak periods. Part-time employment is however marginally higher, with a mean score of 1.72. The standard deviation is correspondingly higher for part-time employment, indicative of the part-time employment requirements of multiple-outlets. The kurtosis, measuring the relative peakedness of the curve defined by the frequency distribution, is proportionally higher for full-time employees. This can be attributed to the full-time staffing skewness of dominant single outlet franchisees. Full-time and part-time participation rates are further influenced by family members active in the system. Those outlets with more than one family member in the system employ fewer full time staff. Figure 7.4 (represented on the following page) depicts the distribution of full-time employees (standard deviation = 0.892), whilst Figure 7.5 (also represented on the following page) depicts the distribution of part-time employees (standard deviation equals 0.925).

Figures 7.4 and 7.5 are represented on the following page.

**FIGURE 7.4 Full-time employees**



**FIGURE 7.5 Part-time employees**



Cross tabulating full-time employees with number of outlets is indicative of ninety-one per cent of franchisees with one outlet employing no more than two full-time employees. Seventy-nine per cent of franchisees with two outlets however employ no more than five employees; whilst seventy eight per cent of franchisees with three to five outlets employ no more than eight full-time employees. Those franchisees with six or more outlets all employ more than nine full-time employees.

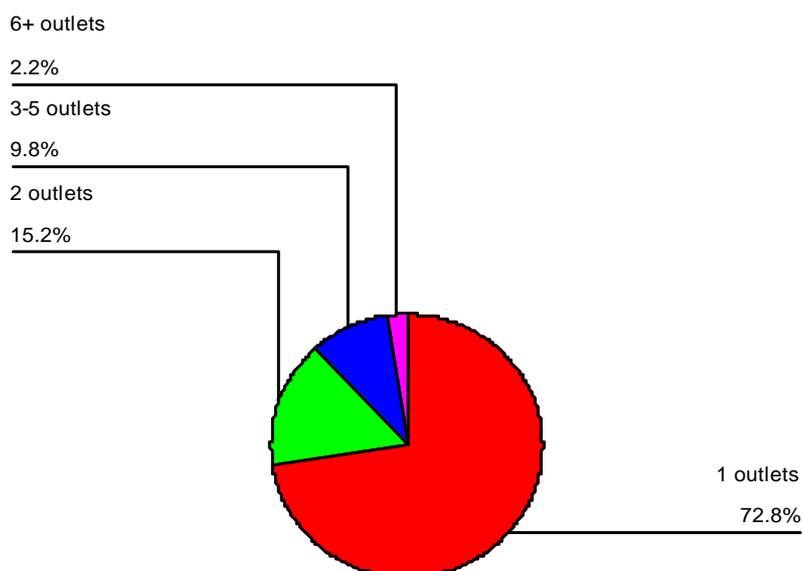
### **7.3.6 Number of franchised outlets per franchisee**

The mean score of 1.41 outlets per franchisee (standard deviation of 0.758) is further amplified by seventy three per cent of franchisees owning only one outlet. Fifteen per cent of franchisees own two outlets, ten per cent own three to five outlets, and only two per cent own six or more outlets. Average outlets per region are depicted in Table 7.1. Due to the single outlet domination, the kurtosis of the distribution is relatively peaked

and positively skewed. Cross tabulations with entrepreneurial orientation, franchise paradox and strategic service constructs are of paramount importance due to inferential analysis regarding multiple-outlet participation rates. Multiple-outlet franchisees are dominant in Western Cape and Free State, with only Western Cape and Gauteng each having a franchisee with six or more outlets. The Western Cape situation can be attributed to a family member participating as franchisee on behalf of the franchisor. The duration of participation in the franchise system is directly proportionate to the number of outlets, highlighted in Section 7.3.4.

Cross tabulation with distribution according to region/province further highlights multiple-outlet participation rates. The Western Cape region dominates the three to five store categories with a forty-five per cent contribution. The region also dominates the two store category (fifty per cent), followed by Gauteng (twenty-nine per cent). Single outlet domination is prolific in Eastern Cape (ninety-one per cent), followed by KwaZulu Natal (eighty-three per cent) and Gauteng (seventy-seven per cent). Excluding Northern Cape (two franchisees only), Western Cape has the highest regional contribution of multiple outlets (thirty-nine per cent), followed by Mpumulanga (thirty-three per cent). Figure 7.6 places emphasis on the domination of single outlets in the system.

**FIGURE 7.6 Outlet representations in the system**



### **7.3.7 Family members active in the franchised outlets**

Sixty-six per cent of franchisees are single family members involved in the franchise system. Thirty-four per cent have two or three family members active in their outlets, with no franchisees exceeding three family members in the system. Cross tabulation with number of outlets per franchisee is indicative of multiple family members accountable for multiple-outlet distribution. Only fifteen per cent of single family member franchisees have two or more outlets, whereas fifty per cent of franchisees with two or more family members operate multiple-outlet franchises. The remaining fifty per cent of family franchisees operate single outlets, most often resulting in employing fewer full-time staff. Exploratory operational research highlighted the requirement for introducing family members to multiple-outlets due to trust and confidentiality at outlet level. Franchisees of multiple-outlets attributed the lack of trustworthy staff as a main reason for not expanding their networks. The negative kurtosis is attributable to distribution of this variable being flatter than a normal distribution, with a mean score of 1.34.

Analysis on entrepreneurial orientation in a franchise system follows (Section B of the questionnaire). The section correlates Section 7.3 with many demographic and biographic details in the form of cross tabulations and inferential statistics.

## **7.4 SECTION B: ENTREPRENEURIAL ORIENTATION IN A FRANCHISE SYSTEM**

This section involves the analysis of data from Section B of the questionnaire; using descriptive and inferential statistics. The measurement instrument is an adaptation of the Thompson (2003) character theme matrix (reference to Table 2.12). The twenty character themes integrate the facets approach of entrepreneurial talent, temperament and technique (Bolton & Thompson: 2003). The entrepreneurial orientation is portrayed in Chapter 2; and the contextual link to franchising is discussed in Chapter 3. Cross tabulations with results from section A of the questionnaire are evaluated to identify the existence (or non-existence of entrepreneurial orientation). The analysis commences with the entrepreneurial orientation (EO) construct descriptives, followed by an analysis on an item (variable) by item basis.

The hypotheses to be tested include:

H1: Entrepreneurial orientation exists in a franchised system.

H0: Entrepreneurial orientation does not exist in a franchised system.

A proposition is introduced and tested:

P1: Entrepreneurial orientation exists in a multiple-outlet franchised system.

#### 7.4.1 Entrepreneurial score ratings

Item descriptive statistics are depicted in Table 7. 2. The score rating column indicates item mean scores, with 1 indicative of the highest mean response, and 20 indicative of the lowest score rating across the ninety-three respondent franchisees. Factor mean scores combine the responses amongst factors of inventor, inventor + entrepreneur, entrepreneur, entrepreneur + leader, leader, entrepreneur enabler, and non-entrepreneur. Factor ratings identify dominant entrepreneurial orientation factors in order (1 representing the highest). The left hand column (association) represents the twenty question matrix; represented as questions nine to twenty-eight (V13-V32) of the questionnaire. Highlighted variables include directly associated entrepreneurial orientations.

**TABLE 7.2 Entrepreneurial orientation scorecard**

Association	Character Theme	Score Rating	Item Mean	Standard Deviation	Factor Mean	Factor Rating
Inventor	Mastery	19	3.06	1.144	3.06	7
Inventor + Entrepreneur	Creativity	13	3.33	1.101	3.33	5
Entrepreneur	Opportunity taking	20	3.03	1.137	3.41	3
Entrepreneur	Urgency	12	3.34	1.141		
Entrepreneur	Performance orient	6	3.55	1.132		
Entrepreneur	Networking	7	3.53	0.977		
Entrepreneur + Leader	Focus	9	3.48	0.943	3.26	6
Entrepreneur + Leader	Time focus	16	3.14	0.884		
Entrepreneur + Leader	Ego	17	3.12	1.115		
Entrepreneur + Leader	Courage	15	3.17	0.991		
Entrepreneur + Leader	Team	10	3.40	0.872		
Leader	Strategic	4	3.59	0.725	3.53	2
Leader	Envisioning	3	3.62	0.624		
Leader	Empowering	14	3.22	0.952		
Leader	Influencing	2	3.68	1.144		
Entrepreneur enabler	Developer	11	3.37	0.870	3.37	4
Non-entrepreneur	Systematic	8	3.52	0.826	3.54	1
Non-entrepreneur	Disciplined	18	3.12	1.495		
Non-entrepreneur	Woo	5	3.56	0.890		
Non-entrepreneur	Relator	1	3.97	0.873		
<b>Construct descriptive</b>	<i>n=93</i>		<b>3.39</b>	<b>0.995</b>		

### 7.4.2 Reliability analysis – scale Cronbach’s Alpha

The Cronbach’s Alpha and item-scale correlation by variable is depicted for the construct in Table 7.3. This measurement represents inter-item reliability, as discussed in Section 6.6.4.3. Alpha values exceeding 0.70 are acceptable for the project on hand (Nunnally & Bernstein: 1994). Each item’s contribution to the alpha is shown by indicating what the alpha of the construct will be if that question is left out of the construct.

Many items are depicted in association with a theme, for example, entrepreneur + leader. The + represents in addition to or combination to, and is represented as + in the analyses.

**TABLE 7.3 Item analyses for entrepreneurial orientation character themes**

Question number	Association	Character Theme	Item-scale correlation	Alpha if item deleted
9	Inventor	Mastery	0.2648	0.7200
10	Inventor + Entrepreneur	Creativity	0.5105	0.6965
11	Entrepreneur	Opportunity taking	0.3384	0.7130
12	Entrepreneur	Urgency	0.3690	0.7101
13	Entrepreneur	Performance orient	0.4835	0.6985
14	Entrepreneur	Networking	0.5113	0.6989
15	Entrepreneur + Leader	Focus	0.5722	0.6942
16	Entrepreneur + Leader	Time focus	0.5001	0.7018
17	Entrepreneur + Leader	Ego	0.2927	0.7173
18	Entrepreneur + Leader	Courage	0.4442	0.7045
19	Entrepreneur + Leader	Team	0.3272	0.7149
20	Leader	Strategic	0.5369	0.7032
21	Leader	Envisioning	0.5729	0.7039
22	Leader	Empowering	0.1114	0.7312
23	Leader	Influencing	0.1733	0.7287
24	Entrepreneur enabler	Developer	0.1972	0.7245
25	Non-entrepreneur	Systematic	0.0842	0.7322
26	Non-entrepreneur	Disciplined	-0.3669	0.7921
27	Non-entrepreneur	Woo	0.1405	0.7288
28	Non-entrepreneur	Relator	0.4117	0.7082
<b>Reliability coefficients</b>		<b>20 items</b>		
<b>Cronbach’s Alpha for the construct = 0.7277</b>				

### 7.4.3 Item analysis

Item analysis will be conducted per item, commencing with associations per factor. The analysis depicts items per question, ranging from questions nine to twenty-eight of the questionnaire (V11-V30). A significant characteristic of the entrepreneurial orientation

construct is the overall flatness of the curve defined by the frequency of distribution (construct kurtosis of -0.339). This is applicable to all variables, with the exclusion of the non-entrepreneur variable of relator (q28). The significant characteristic of a distribution flatter than normal is attributable to multiple-outlet distribution; whereby single outlet franchisees have perceptions varying to that of multiple-outlet franchisees. This variance has a distinct significance on entrepreneurial orientation. Once all factors have been evaluated, the hypothesis will be tested using the non-parametric ANOVA Kruskal-Wallis test. This will be followed by a cross tabulation of entrepreneurial orientation by multiple-outlets and by region/province.

#### 7.4.3.1 Inventor

The associated character theme of mastery ranked second to last of all items in the analysis, with sixty-three per cent of respondents not agreeing with association of the inventor. The respondents identified the lack of “basking in expertise” that other don’t have. The relatively high standard deviation and variance (1.308) is confirmed in the response of thirteen per cent of franchisees strongly agreeing with the item. This will however be dealt with when dealing with multiple-outlet franchisees.

The inventor variable is significantly correlated (-0.647 at 0.01 level) to the non entrepreneur character theme of systematic, linking expertise, systems and procedures. Other significant correlations include opportunity taking (0.560 at 0.01 level) and envisioning (0.540 at 0.01 level).

As far as the inventor is evaluated as a factor, it ranks seventh (last) of all entrepreneurial associations. The factor ratings for the research project on hand are depicted in the last column of Table 7.2. Construct reliability is only marginally affected (Cronbach’s Alpha) if the item is deleted, indicative of appropriate inter-item reliability.

#### 7.4.3.2 Inventor + entrepreneur

The associated character theme of creativity ranked thirteenth of all items; with fifty three per cent of respondents not agreeing with the association of creativity. The respondents identified the lack of “constantly buzzing with ideas”. A mean score of 3.33 is mirrored by a relatively high standard deviation and variance (1.213); confirmed by forty-one per

cent of franchisees in agreement with the item. Negative skewness is elaborated against the distribution around the mean, despite twenty-seven per cent of respondents indicating a neutral (undecided) response. The creativity character theme is most often associated to innovativeness (Nieman *et al*: 2003), and the outcome of this item is in agreement with the empirical research of Lindsay and McStay (2004). Details of their findings are represented in Section 3.4.2.

Inventor is significantly correlated with inventor (0.658 at 0.01 level), a result of related concepts of mastery, and creativity. A significant correlation is also exhibited between inventor and entrepreneur association of opportunity taking (0.534 at 0.01 level). This is in agreement with the entrepreneurial characteristics of creativity and engaging in perceived opportunities (Nieman *et al*: 2003).

As far as the inventor + entrepreneur are evaluated as a factor, it ranks third last (fifth overall) of all entrepreneurial associations. Reference is made to the seventh column in Table 7.2. Construct reliability is only marginally affected (Cronbach's Alpha) if the item is deleted, indicative of appropriate inter-item reliability.

#### 7.4.3.3 Entrepreneur

The entrepreneur factor consists of items represented in questions eleven to fourteen (inclusive). These associations are directly related to entrepreneurial orientation, consisting of four character themes:

- Opportunity taking: ranking last in responses, and is linked to entrepreneurial uncertainty and risk. It involves engaging and taking on perceived opportunities. This item is not in agreement with a risk-taking orientation of franchisees (Lindsay & McStay: 2004). Franchisees in this system responded negatively to an uncertainty and risk-taking orientation, characterized by a mean score of 3.03. Sixty-three per cent of respondents were not in agreement with the opportunity taking variable. The variable is significantly associated to other entrepreneur character themes, including urgency (0.660 at 0.01 level) and performance orientation (0.583 at 0.01 level). The opportunity variable is also significantly correlated to the entrepreneur + leader variable of courage (0.583 at 0.01 level)

- Urgency: ranking twelfth out of the twenty items, with a mean score of 3.34. The response to the real drive to get things done now received a fifty-six per cent response rate not in favour of this variable. A neutral response of thirty-one per cent however renders the variable difficult to evaluate, characterized by a negative kurtosis. This in turn represents a distribution flatter than the normal distribution around the mean. Sixty-nine per cent of responses were actually not in disagreement (inclusive of neutral responses). Significant correlations include ego (0.619 at 0.01 level) and disciplined (-0.625 at 0.01 level)
- Performance orientation: ranking sixth, with a direct correlation to proactivity. Lindsay and McStay (2004) favourably evaluated a proactive orientation in franchisees, amplified in this research project. Performance orientation involves setting milestones and measuring progress; most often an integral part of the franchise agreement and operational procedures (Mendelsohn: 2003). A mean score of 3.55 is supported by a majority response agreeing to the variable. Seventy-seven per cent of respondents were either in agreement or neutral in their response. Similar to performance orientation, negative kurtosis in this variable is associated with a flat distribution around the agreement prompt. The variable is significantly correlated to networking (0.634 at 0.01 level) and focus (0.571 at 0.01 level)
- Networking: ranking seventh, just below performance orientation. This variable includes developing a set of valuable contacts, and received a sixty-three per cent favourable response. Only seventeen per cent of respondents disagreed with the variable. The scale 'agree' received a high response from fifty-two per cent of respondents. The relatively low standard deviation and variance (0.955), coupled with negative kurtosis is testament to this. Networking is significantly correlated to performance and focus variables (previously identified).

The entrepreneur factor ranks third (of seven factors), with a mean score of 3.41. Construct inter-item reliability is however marginally decreased should any of the items be deleted, highlighting appropriate reliability of each item. The Cronbach's Alpha is depicted in Table 7.13. An overriding characteristic of the first three factors (inventor, inventor + entrepreneur and entrepreneur) is their relatively large standard deviation. When compared to the other factors (mostly below 1.00), the three factors in question require investigation into the wide range of responses. This will be evaluated in the sections involving cross tabulations with multiple-outlets.

#### 7.4.3.4 Entrepreneur + leader

The entrepreneur + leader association includes the five variables represented in questions fifteen to nineteen of the questionnaire. These items include an entrepreneurial orientation, combined with leadership traits (Bolton & Thompson: 2003):

- Focus: ranking ninth of all variables, involves concentrating on the task in hand, staying on course. Eighty-five per cent of respondents were in agreement (or neutral), with only three per cent in strong disagreement. Negative kurtosis once again represents a relatively flat distribution around the ‘agree’ prompt (forty-seven per cent of respondents), together with standard deviation below 1.00. Focus and time focus are significantly correlated (0.554 at 0.01 level), aligning deadlines and activities
- Time focus: ranking sixteenth, related to setting, engaging and meeting deadlines. The item had a large neutral response of forty-four per cent, highlighted in the low standard deviation and flat distribution around this scale. Positive responses were however ten per cent greater than negative responses. Time focus is significantly correlated with envisioning (0.417 at 0.01 level), highlighting deadlines and communication linkages
- Ego: ranking one position lower than time focus, being fourth last of all twenty variables. The ego theme supports “wanting to make a recognized difference”. Favourable responses marginally exceeded unfavourable responses, with thirty per cent of respondents opting for the neutral scale. A standard deviation of 1.115 however enhances testament of thirteen per cent of responses in the strongly agree scale. Significant correlation includes courage (0.624 at 0.01 level), linking determination and making a recognized difference
- Courage: ranks fifteenth and represents “determination in the face of setbacks”. The majority of responses were neutral (thirty-five per cent), with similar distributions either way. A marginal negative skew is characterized by a relatively flat distribution (negative kurtosis). Courage is significantly correlated with performance (0.567 at 0.01 level), linking determination and setting milestones
- Team: ranking tenth, representing the final theme in the factor. The team theme centres on “getting the right people together”, associated with the employment of full and part-time employees. Negative kurtosis is justified due to a large response of forty per cent in the agreement scale. Together with neutral responses, these

two scales represent seventy-four per cent of total responses. This item was one of three receiving no strongly disagree responses. The variable is significantly correlated with the influencing variable (0.437 at 0.01 level), linking the human resource aspect of entrepreneurial orientation.

The entrepreneur + leader factor ranks second last (sixth) of all entrepreneurial orientation factors. It does not suggest a lack of entrepreneurship + leadership, but merely a ranking against the other factors. Standard deviation for the factor is lower than the previous three factors, justified by the predominant grouping of responses between one or two scales. As such, the relatively flat distribution is not characterized by high variances in the first three factors. Inter-item reliability is only marginally affected if any of the items are excluded from the analysis, adding to the justification of appropriate reliability as depicted by the Cronbach's Alpha in Table 7.3.

#### 7.4.3.5 Leader

The leader factor comprises four variables, represented in questions twenty to twenty-three of the questionnaire. These variables are most associated with corporate entrepreneurship (intrapreneurs) and traditional managers, discussed in Section 2.6.5. These range from strategic initiatives to operational planning:

- Strategic: ranking fourth, and representing “vision and seeing a clear route forward”. The variable is characterized by a response of forty-seven per cent of franchisees in the agreement scale, together with a thirty-nine per cent response in the neutral scale. The negative kurtosis amplifies the flat distribution around these two response scales. The variable is one of three with no strongly disagree responses, with only five per cent of respondents disagreeing. The strategic variable is significantly correlated with the envisioning variable (0.453 at 0.01 level), combining strategy into action
- Envisioning: ranking third highest, and in response to question twenty-one. The variable includes communicating a strategy to others, highlighting an orientation to achieving objectives in a strategic manner. This variable received the second highest response to a single scale (fifty-six per cent in agreement scale). Coupled with a thirty-six per cent neutral response, this variable correlates highly to the strategic variable. The two scales constitute ninety-three per cent of responses,

representative of negative kurtosis and a low standard deviation. The envisioning variable is also one of three with no strongly disagreeing respondents

- Empowering: ranking fourteenth, representing “responsibility and getting people to accept responsibility for things”. The distribution is relatively flat (negative kurtosis), characterized by ninety-two per cent of responses across the three middle scales. Empowering is significantly correlated to associated variables of influencing (0.562 at 0.01 level) and developer (0.573 at 0.01 level), all related to mobilizing people
- Influencing: ranking second highest of all variables, representing “the art of delegation, resource allocation and getting people to take things on”. The variable is characterized by a thirty per cent response rate in the strongly agree scale, with only twenty per cent of respondents in disagreement. The standard deviation is larger than the preceding variables, due to the range of responses between multiple-outlet franchisees. Nonetheless, a high mean score of 3.68 substantiates overall agreement with the variable. The variable is significantly associated to the non entrepreneur theme of woo (0.594 at 0.01 level), highlighting the involvement of others in ventures.

The leader factor is characterized by relatively low standard deviations (with the exception of influencing), together with negative kurtosis. Ranking second highest of all factors (factor mean of 3.53), franchising may be seen to be closely associated with intrapreneurship (Hisrich & Peters: 1998). Inter-item reliability is marginally affected if any of the items are deleted. Reliability coefficients are depicted in Table 7.3, with Cronbach’s Alpha readings in excess of the desired 0.7.

#### 7.4.3.6 Entrepreneur enabler

The entrepreneur enabler describes the notion of seeing and encouraging potential in others. The related character theme is developer. The variable is represented in question twenty-four of the questionnaire. Ranking eleventh of all variables (mean score of 3.37); the enabler is characterized by a high agreement response of forty-four per cent. Together with a neutral response of thirty-four per cent, these two scales constitute seventy-eight per cent of responses. The result is a negative kurtosis and low standard deviation. This variable correlates significantly (0.407 at the 0.01 level) with the team variable, highlighting the team and participative nature of the two variables. The two variables also

share similar means and standard deviations. Enabler is significantly correlated to woo, associating potential in others to gaining their approval. As a factor, entrepreneur enabler is ranked fourth of seven factors, marginally below the entrepreneur factor. As a reliability measure, Cronbach's Alpha is only marginally affected if the item is deleted, highlighting the appropriateness of inter-item reliability.

#### 7.4.3.7 Non-entrepreneur

The non-entrepreneur factor is a combination of four associations, represented by questions twenty-five to twenty-eight. The variables are associated by traditional non-entrepreneurial themes, not characteristic of the nature and behaviour of the entrepreneur (Section 2.6). Furthermore, the factor may be related to traditional management and leadership. Franchisees are evaluated against their responses to these themes:

- Systematic: ranking eighth out of the twenty items, related to question twenty-five. This variable evaluates the franchisee as enjoying detail, systems and procedures. Similar to the developer character theme (entrepreneur enabler), this variable has seventy-nine per cent of responses distributed around scales of agree and neutral. A low standard deviation results in negative kurtosis, with a mean score of 3.52
- Disciplined: ranking third last (eighteenth), clearly depicting the lack of enjoying structure and organisation. A distinguishing characteristic of this variable is that whilst twenty per cent of respondents strongly disagree with the question, twenty-four per cent strongly agree. Franchisee responses varied widely amongst the scales, resulting in the highest standard deviation of all variables. This is associated with multiple-outlet responses, to be addressed in the following cross tabulation section. "Disciplined" is significantly correlated to "woo" (0.486 at 0.01 level), linking approval within defined constraints
- Woo: ranking fifth of all variables, this item includes "winning others over and enjoying their approval". A modest fifty-six per cent of franchisees responded positively to the agree scale, with only one franchisee strongly disagreeing with the variable. A negative kurtosis is represented by a relatively flat distribution, centred around the agree scale. Fifteen per cent of respondents selected disagreement responses, which shall be evaluated in cross tabulation analysis

- Relator: ranking top of all the variables, weighted close to eight per cent above the second highest variable (leader associated with influencing). The character theme of relator is “preferring to work with trusted colleagues”, and is significantly correlated to woo (0.594 at the 0.01 level) and leader association of influencing (0.583 at the 0.01 level). Relator experiences the highest response rates in agree and strongly agree scales (sixty-three and twenty-two per cent respectively). Eight per cent of franchisees however responded unfavourably to the variable; which is attributable to multiple-outlet franchisees. The strength of the domination of this variable (mean score of 3.97) is emphasized by its seventeen per cent advantage relative to the construct mean (3.39). This variable is also the only item within the construct demonstrating a significant peakedness of distribution, with a kurtosis of 3.270.

The non entrepreneurial factor dominates factor standings (mean score of 3.54) by a mere quarter per cent over the leader factor. A high factor standard deviation (1.021) correlates closely to the variances of the entrepreneur factor. Since they are opposites and contrast in entrepreneurial orientation, cross tabulation is necessary to evaluate the variances. This will be dealt with in the following section. Inter-item reliability is actually marginally enhanced if the systematic, disciplined and woo variables are excluded. For the purpose of this study, it was however decided to retain the variables, as the desired Cronbach’s Alpha depicts a reliability coefficient in excess of the desired 0.7. Similarly, the relator variable attains an appropriate inter-item coefficient. Whilst every item should have a positive item total correlation with scale scores of at least 0.3, cognizance is taken of measurement being on opposite scales (entrepreneurial orientation versus non-entrepreneurial orientation). Another reason for the variance is that multiple-outlet distribution affects the scale.

#### **7.4.4 Entrepreneurial orientation significance**

Table 7.2 depicts the factor mean scores and factor rankings. Whilst factor means are all above three, no statistical significance exists between the factor associations. The non entrepreneur association dominates, followed by leader associations. Using factor mean scores, it may thus be inferred that a non entrepreneurial orientation exists within the franchise system (due to non entrepreneurial mean score domination). Although the entrepreneur factor association is positive (factor mean score of 3.26), the non

entrepreneur association is four per cent stronger (factor mean score of 3.54). Taking all respondents within the defined franchise system into account, it may be concluded that there is no statistically significant variation between entrepreneurial orientation factors, despite non entrepreneurial associations exhibiting more favourable responses.

The Kruskal-Wallis test is used to test the hypothesis of entrepreneurial orientation in a franchised system (H1). This non-parametric test produces P-values (Section 6.6.4.1) and measures significance of the statistical significance of entrepreneurial orientation. Whilst no significant statistical difference was found in the mean score ratings, the Kruskal-Wallis significance test measures the value of the significance. The test significance evaluates the chi-square, degrees of freedom and asymp. significance.

*Test statistic a.b*

	<b>Entrepreneurial Orientation</b>
Chi-Square	18.876
df	4
Asymp.Sig	0.01

- c. Kruskal-Wallis test
- d. Grouping variable: EO

Since the P-value of 0.01 is less than five per cent, the null hypothesis is likely, therefore rejecting the alternate hypothesis and accepting the null hypothesis.

It can therefore be concluded that we reject the alternate hypothesis (H1) and accept the null hypothesis: entrepreneurial orientation does not exist in a franchised system. The above conclusion is verified for the complete data set (ninety-three franchisee respondents), but cross tabulations are indicative of multiple-outlet franchisees being responsible for scale variations. Since single outlet franchisees dominate distribution of outlets (seventy-three per cent), responses are skewed towards single outlet franchisees. A comparative analysis will now be evaluated between single and multiple-outlet franchisees.

#### **7.4.5 Multiple-outlet distribution**

Responses from multiple-outlet franchisees differ significantly from single outlet franchisees. Such variations will be analysed from an entrepreneurial orientation point of view. The number of franchised outlets per franchisee in Section 7.3.6 bears significance.

Weighted analysis is however applicable since multiple-outlets represent only twenty-seven per cent of all franchisees in the franchise system. Concluding remarks will also be delivered with regard to entrepreneurial orientation by region.

#### 7.4.5.1 Multiple-outlet entrepreneurial score ratings

A two-fold analysis is depicted, using per centage of franchisees in agreement with each EO question (9-28), and mean scores associated with each variable. The per centage agreement analysis excludes neutral and disagree scales, whilst in agreement consists of agree and strongly agree. Table 7.4 depicts the associated character themes, together with per centage respondents in agreement with the applicable character theme. These are broken down into categories, as per question seven of the questionnaire. Highlighted cells depict dominant agreement responses. As only two franchisees are in the six plus outlet category, highlighted cells exclude this category. The three to five outlet category dominates entrepreneurial character themes (questions ten to nineteen), whilst the single outlet category dominates the non-entrepreneurial character themes (questions twenty-five to twenty-eight).

**TABLE 7.4 Character themes represented by franchisee agreement by number of outlets**

Association	Character Theme	Per centage of franchisees in agreement			
		1 Outlet	2 Outlets	3-5 Outlets	6+ Outlets
Inventor	Mastery	25.3	64.2	66.7	100
Inventor + Entrepreneur	Creativity	40.3	64.3	55.5	100
Entrepreneur	Opportunity taking	27.3	50.0	66.7	100
Entrepreneur	Urgency	32.8	42.8	77.8	100
Entrepreneur	Performance orient	47.8	78.6	77.8	100
Entrepreneur	Networking	55.4	78.5	77.8	100
Entrepreneur + Leader	Focus	51.5	61.5	66.6	100
Entrepreneur + Leader	Time focus	30.8	28.6	44.4	100
Entrepreneur + Leader	Ego	25.3	57.2	77.8	50.0
Entrepreneur + Leader	Courage	23.9	78.6	66.6	100
Entrepreneur + Leader	Team	56.7	28.6	33.3	50.0
Leader	Strategic	50.5	64.2	66.7	100
Leader	Envisioning	55.2	71.4	77.8	100
Leader	Empowering	47.8	42.9	11.1	0
Leader	Influencing	73.8	35.7	22.2	0
Entrepreneur Enabler	Developer	59.1	42.9	0	50.0
Non-entrepreneur	Systematic	58.2	57.2	22.2	50.0
Non-entrepreneur	Disciplined	57.6	35.7	22.2	0
Non-entrepreneur	Woo	75.8	42.9	22.2	0
Non-entrepreneur	Relator	89.6	85.7	44.4	100

The following step in the analysis combines the associations into their relevant factors (depicted in the left hand column of Table 7.4). The table again represents extrapolated per centages from cross tabulations by number of outlets. The factor associations are depicted in Table 7.5. With the exclusion of the six plus outlet category, the three to five outlet category dominates entrepreneurial associations. Conversely, the single outlets dominate the non-entrepreneurial associations. The dominations are once again highlighted.

**TABLE 7.5 Factor associations by number of stores**

Association	Mean	Sd	Per centage of franchisees in agreement			
			1 Outlet	2 Outlets	3-5 Outlets	6+ Outlets
Inventor	3.06	1,144	25.3	64.2	66.7	100
Inventor + Entrepreneur	3.33	1.101	40.3	64.3	55.5	100
Entrepreneur	3.41	1.096	40.8	62.5	75.0	100
Entrepreneur + Leader	3.26	0.961	37.6	50.9	57.7	80.0
Leader	3.53	0.861	56.8	53.6	44.5	50.0
Entrepreneur Enabler	3.37	0.870	59.1	42.9	0	50.0
Non-entrepreneur	3.54	1.021	70.3	55.4	27.8	37.5
Construct Descriptives	3.39	0.995				
N	93		68	14	9	2

Further analysis involves the weighted summation of entrepreneurial orientation associations only. These are the highlighted associations in the left hand column of Table 7.5. Table 7.6 depicts the weighted per centages of entrepreneurial orientation by number of outlets.

**TABLE 7.6 Entrepreneurial associations combined by number of outlets (per centage)**

Entrepreneur Factors Combined	3.3	1.053	39.6	59.2	62.7	93.3
N	93		68	14	9	2

Descriptive statistics portray that as the number of outlets increase, so too does the per centage of entrepreneurial orientation. Single outlets portray close to forty per cent entrepreneurial orientation, whereas six plus outlet franchisees portray a ninety-three per cent entrepreneurial orientation. If the multiple-outlets are combined, a weighted agreement response to entrepreneurial orientation character themes of sixty-three per cent prevails. Multiple-outlet franchisees thus have a fifty-nine per cent higher entrepreneurial orientation than single outlet franchisees.

A similar evaluation follows using descriptive statistics for each outlet category. Instead of using per centage of agreement responses, mean scores are evaluated across outlet categories. Table 7.7 depicts the mean scores per association by number of outlets. With the exclusion of the six plus category, the highest mean scores are highlighted. Similar to Table 7.4, the three to five outlet category dominates the entrepreneurial orientation associations; whereas single outlets dominate the non-entrepreneurial associations.

Combining the factor associations (left hand column in Table 7.7) facilitates analysis by entrepreneurial association. Each character theme is condensed into a related association factor, with cross tabulation extrapolations being depicted in Table 7.8 (represented on the following page). Dominant mean scores ratings are again highlighted, resulting in similar results from Table 7.5. The three to five outlet category dominates entrepreneurial orientation factor associations, whilst non-entrepreneurial associations are dominated by the single category outlets.

**TABLE 7.7 Mean scores per outlet distribution**

Association	Character Theme	Mean	Mean scores per outlet distribution			
			1 Outlet	2 Outlets	3-5 Outlets	6+ Outlets
Inventor	Mastery	3.06	2.82	3.50	3.67	5.00
Inventor + Entrep	Creativity	3.33	3.18	3.57	3.67	5.00
Entrepreneur	Opportunity	3.03	2.83	3.36	3.33	5.00
Entrepreneur	Urgency	3.34	3.15	3.36	4.22	5.00
Entrepreneur	Performance	3.55	3.36	3.71	4.22	5.00
Entrepreneur	Networking	3.53	3.38	3.79	3.78	4.50
Entrepreneur + Leader	Focus	3.48	3.41	3.46	3.67	4.50
Entrepreneur + Leader	Time focus	3.14	3.03	3.36	3.33	4.00
Entrepreneur + Leader	Ego	3.12	2.87	3.64	3.78	4.00
Entrepreneur + Leader	Courage	3.17	2.94	3.79	3.56	4.50
Entrepreneur + Leader	Team	3.40	3.54	3.07	3.11	3.50
Leader	Strategic	3.59	3.57	3.64	3.67	4.00
Leader	Envisioning	3.62	3.57	3.71	3.78	4.00
Leader	Empowering	3.22	3.33	3.14	2.78	2.00
Leader	Influencing	3.68	3.91	3.43	2.78	2.50
Entrepreneur Enabler	Developer	3.37	3.55	3.21	2.33	3.50
Non-entrepreneur	Systematic	3.52	3.63	3.57	2.89	3.00
Non-entrepreneur	Disciplined	3.12	3.39	2.79	2.11	1.50
Non-entrepreneur	Woo	3.56	3.74	3.21	2.89	2.50
Non-entrepreneur	Relator	3.97	4.09	3.64	3.44	4.00
N		93	68	14	9	2

Table 7.8 is represented on the following page.

**TABLE 7.8 Factor associations by number of outlets (mean scores)**

Association	Mean	Sd	Mean scores by number of outlets			
			1 Outlet	2 Outlets	3-5 Outlets	6+ Outlets
Inventor	3.06	1,144	2.82	3.50	3.67	5.00
Inventor + Entrepreneur	3.33	1.101	3.18	3.57	3.67	5.00
Entrepreneur	3.41	1.096	3.18	3.56	4.10	4.90
Entrepreneur + Leader	3.26	0.961	3.16	3.46	3.49	4.10
Leader	3.53	0.861	3.60	3.48	3.25	1.13
Entrepreneur Enabler	3.37	0.870	3.55	3.21	2.33	3.50
Non-entrepreneur	3.54	1.021	3.71	3.30	2.83	2.75
Construct Descriptives	3.39	0.995				

To facilitate entrepreneurial orientation analysis, multiple outlets mean scores are accordingly weighted to compare single and multiple-outlet franchisees. Entrepreneurial associations are depicted in Table 7.9.

**TABLE 7.9 Weighted entrepreneurial orientation mean scores**

Entrepreneur Factors Weighted Mean Scores	3.33	1.053	3.17	3.53	3.75	4.67
	<i>n=93</i>		<i>n=68</i>	<i>n=14</i>	<i>n=9</i>	<i>n=2</i>

Table 7.9 resembles Table 7.6; identifying both methods of evaluating entrepreneurial orientation as appropriate. Due to a weighted average for multiple-outlets being appropriate due to fewer outlets in the three plus categories, the entrepreneurial orientation of multiple-outlets is evaluated using a weighted mean score. A resultant weighted mean score of 3.70 is evidence of a significant number of multiple-outlets experiencing a seventeen per cent higher entrepreneurial orientation relative to single outlet franchisees.

Prior to using inferential statistics in the form of significance tests to evaluate entrepreneurial orientation in a multiple-outlet setting, an evaluation of entrepreneurial orientation by region is applicable.

#### 7.4.5.2 Multiple-outlet entrepreneurial ratings by region

The classifications depicted in Section 7.3.3 are appropriate for regional distribution of franchised outlets. What follows is an evaluation of entrepreneurial associations by region, similar to classifications used in Table 7.4. Per centage of agreement scales are

used per region, depicted in Table 7.10. Highlighted cells represent regional domination by character theme.

**TABLE 7.10 Entrepreneurial associations by character theme**

Association	Per centage of franchisees in agreement by region								
	GP	MP	LP	NW	FS	KZN	WC	EC	NC
Inventor	51.8	33.3	50.0	50.0	25.0	33.3	28.2	18.2	100
Inventor + Entrepreneur	62.9	33.3	75.0	50.0	50.0	16.7	43.7	36.4	0
Entrepreneur	46.1	0	50.0	25.0	25.0	33.4	34.4	36.4	50.0
Entrepreneur	44.4	33.3	50.0	50.0	25.0	33.4	40.6	36.4	50.0
Entrepreneur	66.6	33.3	75.0	50.0	50.0	33.4	56.2	63.7	50.0
Entrepreneur	74.1	66.7	50.0	75.0	50.0	66.7	67.7	20.0	100
Entrepreneur + Leader	56.0	66.6	75.0	50.0	50.0	83.4	56.3	45.5	50.0
Entrepreneur + Leader	38.5	33.3	50.0	25.0	0	50.0	32.3	27.3	50.0
Entrepreneur + Leader	37.0	33.3	50.0	50.0	25.0	33.3	43.8	18.2	50.0
Entrepreneur + Leader	40.7	33.3	50.0	25.0	25.0	50.0	37.5	36.4	50.0
Entrepreneur + Leader	44.4	33.3	75.0	50.0	0	50.0	46.9	72.7	50.0
Leader	59.2	66.6	50.0	25.0	50.0	66.7	46.9	72.7	100
Leader	70.4	66.7	75.0	50.0	25.0	66.7	59.4	45.5	50.0
Leader	40.7	33.3	50.0	25.0	75.0	16.7	43.8	54.6	0
Leader	55.5	66.7	50.0	25.0	75.0	66.6	60.0	80.0	50.0
Entrepreneur Enabler	40.7	66.7	33.3	50.0	75.0	16.7	56.3	63.6	0
Non-entrepreneur	51.8	66.7	50.0	50.0	50.0	56.7	56.3	43.5	50.0
Non-entrepreneur	29.6	66.6	50.0	50.0	50.0	66.7	58.1	54.6	50.0
Non-entrepreneur	59.3	66.6	50.0	50.0	75.0	50.0	68.8	80.0	50.0
Non-entrepreneur	85.2	100.0	50.0	75.0	75.0	66.6	90.6	100	50.0
N= 93	27	3	4	4	4	6	32	11	2

Character themes are further broken down into factor associations by region; represented in Table 7.11. Highlighted cells depict dominant regions by factor association. Cognisance is taken of those regions having only a few franchised outlets, which may substantially skew the results. Notwithstanding this, on a per region basis, the evaluation makes for interesting inferences, particularly to the franchisor.

**TABLE 7.11 Factor associations by region**

Association	Per centage of franchisees in agreement by region								
	GP	MP	LP	NW	FS	KZN	WC	EC	NC
Inventor	51.8	33.3	50.0	50.0	25.0	33.3	28.2	18.2	100
Inventor + Entrepreneur	62.9	33.3	75.0	50.0	50.0	16.7	43.7	36.4	0
Entrepreneur	57.8	33.3	56.3	50.0	37.5	41.7	49.7	39.1	62.5
Entrepreneur + Leader	43.3	40.0	60.0	40.0	20.0	53.3	43.4	40.0	50.0
Leader	56.5	58.3	56.3	31.3	56.3	54.2	52.5	63.2	50.0
Entrepreneur Enabler	40.7	66.7	33.3	50.0	75.0	16.7	56.3	63.6	0
Non-entrepreneur	49.9	75.0	50.0	56.3	56.3	60.0	68.5	69.5	50.0

The associations are then combined to evaluate overall entrepreneurial orientation by region. The associations are merely a descriptive analysis, however, weighted descriptives are analysed using weighted scores to make meaningful inferences. The descriptive factors are depicted in the first row of Table 7.12, whereas the weighted scores are depicted in the second row of Table 7.12.

**TABLE 7.12 Entrepreneurial associations combined**

EO descriptives	54.7	35.5	63.8	46.7	35.8	37.2	45.6	38.5	37.5
EO weighted scores	15.9	1.1	2.7	2.0	1.5	2.4	15.7	4.5	0.8

Although Limpopo Province franchisees have the highest per centage of entrepreneurial orientation agreement scale responses, they only represent 4.3% of all respondents. The weighted scores are more indicative for inferential analysis by region. The weighted scores identify Gauteng and Western Cape as the dominant entrepreneurial orientation regions, followed by Eastern Cape.

The final entrepreneurial orientation analysis section will evaluate inferential statistics by using significance tests to test the newly identified proposition: entrepreneurial orientation exists in a franchise environment. In addition, the Cronbach's Alpha will be evaluated for inter-item construct reliability.

#### 7.4.5.3 Entrepreneurial orientation significance in multiple-outlets

Inferential statistics are now implemented to evaluate the entrepreneurial orientation of multiple-outlet franchisees. The hypothesis of entrepreneurial orientation in the franchise system has been rejected (Section 7.4.4), but it is proposed that an entrepreneurial orientation exists in the multiple-outlet category of the franchise system. The multiple-outlet category excludes all single outlet franchisees. The multiple outlet system contains twenty-five franchisees; comprising sixty-three outlets (mean score of 2.52). Descriptive statistics of entrepreneurial associations by the segregated multiple-outlet categories are depicted in Table 7.4. The inferential analysis will comprise reliability tests (Cronbach's Alpha) and significance tests (Kruskal-Wallis).

These measures will evaluate the following proposition:

***Proposition 1: entrepreneurial orientation exists in a multiple-outlet franchised system***

The Cronbach's Alpha and item-scale correlation by variable is depicted in Table 7.13. The overall construct alpha for multiple-outlets is significantly higher than when single outlets were included in the analysis (refer to Table 7.3). Similarly, the inter-item alpha is significantly higher for multiple-outlets. The significant construct alpha of 0.8533, coupled with alphas exceeding 0.8295 if any item is deleted, is appropriate for the multiple-outlet significance.

**TABLE 7.13 Item analyses for entrepreneurial orientation character themes (multiple-outlets)**

Question number	Association	Character Theme	Item-scale correlation	Alpha if item deleted
9	Inventor	Mastery	0.6222	0.8388
10	Inventor + Entrepreneur	Creativity	0.7380	0.8358
11	Entrepreneur	Opportunity taking	0.3895	0.8490
12	Entrepreneur	Urgency	0.4568	0.8468
13	Entrepreneur	Performance orient	0.6704	0.8359
14	Entrepreneur	Networking	0.7045	0.8363
15	Entrepreneur + Leader	Focus	0.6637	0.8374
16	Entrepreneur + Leader	Time focus	0.8647	0.8295
17	Entrepreneur + Leader	Ego	0.3446	0.8544
18	Entrepreneur + Leader	Courage	0.4882	0.8449
19	Entrepreneur + Leader	Team	0.6632	0.8387
20	Leader	Strategic	0.7868	0.8358
21	Leader	Envisioning	0.7029	0.8413
22	Leader	Empowering	0.3852	0.8525
23	Leader	Influencing	0.4185	0.8476
24	Entrepreneur enabler	Developer	0.3725	0.8526
25	Non-entrepreneur	Systematic	0.3093	0.8630
26	Non-entrepreneur	Disciplined	0.3975	0.8894
27	Non-entrepreneur	Woo	0.3368	0.8541
28	Non-entrepreneur	Relator	0.6663	0.8361
<b>Reliability coefficients</b>		<b>20 items</b>		
<b>Cronbach's Alpha for the construct = 0.8533</b>				

The significance of the proposition may be tested using the ANOVA Kruskal-Wallis test. This test rejected entrepreneurial orientation in the total franchise system (Section 7.4.4), but the proposed proposition of entrepreneurial orientation excluding single franchised outlets is now being tested.

*Test statistic a.b*

	<b>Entrepreneurial Orientation in multiple-outlets</b>
Chi-Square	8.012
df	4
Asymp.Sig	0.191

c. Kruskal-Wallis test

d. Group variable EO

The P-value of 0.191 is greater than 0.05, therefore the proposition of entrepreneurial orientation in multiple-outlets is not unlikely, and the proposition (P1) is not rejected. It can therefore be concluded that a significant entrepreneurial orientation exists in a multiple-outlet franchise system. This investigation in no way negates entrepreneurial orientation in single outlet franchise systems, but places emphasis on significant entrepreneurial associations in multiple-outlet franchise systems. Significance is also placed on the kurtosis of the multiple-outlet distribution (0.191). Whilst relatively flat, it is not flatter than a normal distribution; as characterized by the complete data set.

In summary, the hypothesis of entrepreneurial orientation in a franchise system is rejected; whereas the proposition of entrepreneurial orientation in a multiple-outlet franchise system is accepted.

## **7.5 SECTION C: THE FRANCHISE PARADOX**

The previous section encapsulated an entrepreneurial orientation in a franchised environment. This section evaluates franchising as an entrepreneurial option towards creating and developing new ventures. The study commences with a background of the franchise paradox, evaluating franchisees in the system. It then continues with descriptive statistics of franchise paradox issues, association to entrepreneurial orientation, and finally inferential statistics toward testing the hypothesis:

H2: The franchise system is an entrepreneurial option towards creating and developing ventures.

H0: The franchise system is not an entrepreneurial option towards creating and developing ventures

Due to the variance in response regarding single and multiple-outlet franchisees, applicable franchise paradox data will be evaluated from a multiple-outlet perspective.

The franchise paradox section evaluates questions twenty-nine to thirty-eight of the questionnaire (V31-V40).

### 7.5.1 Franchise paradox descriptive and inferential analysis

Item descriptive statistics are depicted in Table 7.14. The left hand column identifies the franchise paradox link to the applicable association (entrepreneurship, performance, relationships and management). The descriptive statistics will be used for an analysis on a per item basis. Cross tabulations will be effected to evaluate franchise paradox associations against questionnaire Section A data (Section 7.3), and correlation analysis will be effected to evaluate associations between variables. The Pearson correlation significance coefficient for the construct is depicted on the following page in Table 7.15. Column and row numbers (9-38 identify questions correlated). Additional correlations include associations with entrepreneurial orientation, as identified in the previous Section (7.4). Kurtosis is introduced per variable, facilitating analysis regarding the peakedness or flatness of the sample data set.

**TABLE 7.14 Franchise paradox descriptive statistics**

Question	Association	Item Mean	Std error of mean	Standard deviation	Kurtosis
29	Entrepreneurship + Innovation	3.23	0.110	1.062	-1.050
30	Entrepreneurship + Creativity	2.85	0.113	1.097	-1.106
31	Entrepreneurship + Proactivity	2.97	0.103	0.994	-0.779
32	Entrepreneurship +Performance	3.22	0.105	1.018	-0.577
33	Relationships + Effort	4.08	0.074	0.711	9.820
34	Relationships + Trust	4.06	0.082	0.791	6.354
35	Relationships + Conflict	2.64	0.097	0.937	-0.361
36	Relationships + Contributions	2.56	0.086	0.837	-0.531
37	Entrepreneurship + Ventures	3.16	0.114	1.110	-0.832
38	Management + Objectives	3.31	0.108	1.048	-0.053
	<b>Construct descriptives n=93</b>	<b>3.21</b>	<b>0.099</b>	<b>0.963</b>	<b>1.041</b>

Construct descriptives are characterized by a mean score of 3.21, representing a favourable overall response to the construct questions. The standard deviation for the sample mean, referred to as the standard error of the mean, is relatively small for the n=93 response rate. Similarly, the construct standard deviation is relatively small for the n=93 response rate, an indication that the average deviation from the mean is relatively stable. There are however variances among variables, to be discussed in the following section on item analysis. The overall positive construct kurtosis is skewed by two variable variances

(questions 33 and 34). Eighty per cent of the variables are characteristic of a distribution flatter than normal distribution, whereas twenty per cent of the variables identify a peaked distribution.

**TABLE 7.15 Pearson correlation coefficients for the franchise paradox construct**

Q	9	10	11	12	13	14	29	30	31	32	33	34	35	36	37	38
9	1															
10	.658	1														
11	.472	.534	1													
12	.560	.509	.660	1												
13	.371	.585	.583	.493	1											
14	.394	.496	.444	.402	.634	1										
29	.376	.260	.255	.306	.297	.288	1									
30	.273	.335	.382	.221	.448	.377	.274	1								
31	.211	.375	.236	.201	.353	.236	.003	.620	1							
32	.283	.298	.266	.295	.312	.186	.119	.483	.574	1						
33	.273	.286	.201	.235	.326	.413	.267	.035	.035	.142	1					
34	.222	.225	.096	.167	.262	.351	.147	.024	.024	.144	.803	1				
35	.062	.117	.207	.076	.008	.011	.032	.289	.289	.469	.283	.231	1			
36	.232	.228	.084	.045	.099	.038	.078	.456	.347	.469	.089	.056	.551	1		
37	.348	.387	.301	.339	.288	.337	.132	.444	.446	.825	.164	.162	.531	.481	1	
38	.208	.218	.261	.163	.226	.124	.056	.480	.446	.711	.013	.081	.706	.535	.734	1

Correlation is significant at the 0.01 level for all values of 0.260 and above.

Correlation is significant at the 0.05 level for all values of 0.207 and above.

All values for Q 29 are negative.

Not all variables are intended to be analysed from a Pearson correlation point of view; all variables are merely listed for completion of the table purposes. Appropriate correlations will be discussed in the per item evaluations. Inter-item reliability is analysed by means of the Cronbach's Alpha, with values depicted in Table 7.16. The table includes the corrected item-total correlation, and alpha if the item is deleted. The Cronbach's Alpha reliability coefficient is appropriate for the project at hand (0.7748). Should any item be deleted, alpha is only marginally affected; confirming the decision to include all variables.

Table 7.16 is represented on the following page; and highlights the negative item-scale correlation for question twenty-nine, which shall be evaluated in the following section on item analysis. The item analysis will also include evaluation of cross-tabulations between the franchise paradox variables and demographic and biographical information as per section A of the questionnaire. Particular emphasis is placed on multiple-outlet franchisees. Table 7.17 depicts response rates from franchisees in agreement with each question (agree + strongly agree), represented as a per centage of responses to each question. Neutral and disagree scales are disregarded in the table. The table is further split into single and multiple-outlet responses.

**TABLE 7.16 Item reliability analyses for franchise paradox themes**

Question	Association	Item-scale correlation	Alpha if item deleted
29	Entrepreneurship + Innovation	-1.805	0.8350
30	Entrepreneurship + Creativity	0.5353	0.7422
31	Entrepreneurship + Proactivity	0.5617	0.7393
32	Entrepreneurship + Performance	0.7750	0.7073
33	Relationships + Effort	0.0899	0.7896
34	Relationships + Trust	0.1036	0.7907
35	Relationships + Conflict	0.5171	0.7460
36	Relationships + Contributions	0.5561	0.7432
37	Entrepreneurship + Ventures	0.7550	0.7066
38	Management + Objectives	0.7682	0.7069
<b>Reliability coefficients</b>		<b>10 items</b>	
<b>Cronbach's Alpha for the construct = 0.7748</b>			

It must be noted from Table 7.17 that question 29 was designed to elicit a response about innovation in the hands of the franchisor. Agreement responses are therefore indicative of franchisees favouring this association in the hand of the franchisor. In other words, sixty-per cent of multiple-outlets see innovation as their responsibility. Question thirty-five is characterized by a high neutral ranking of fifty per cent of all respondents.

**TABLE 7.17 Respondents in agreement with items**

Question	Association	Responses in agreement (%)		
		Total	Single outlets	Multiple-outlets
29	Entrepreneurship + Innovation	56.5	61.2	44.0
30	Entrepreneurship + Creativity	35.9	26.9	60.0
31	Entrepreneurship + Proactivity	33.2	28.4	52.0
32	Entrepreneurship + Performance	51.1	44.8	68.0
33	Relationships + Effort	94.5	98.5	84.0
34	Relationships + Trust	92.3	97.0	80.0
35	Relationships + Conflict	14.1	11.9	20.0
36	Relationships + Contributions	13.0	7.5	28.0
37	Entrepreneurship + Ventures	51.0	41.8	76.0
38	Management + Objectives	59.8	55.2	72.0
<b>N</b>		<b>932</b>	<b>68</b>	<b>25</b>

### 7.5.2 Item analysis

Item analysis will be conducted per item, representative of questions twenty-nine to thirty-eight of the questionnaire. This shall be analysed within the item associations depicted in Figures 7.14 to 7.17. Once all items have been evaluated, the hypothesis will be tested using the non-parametric ANOVA Kruskal-Wallis test. Correlation analysis for the remaining constructs is represented in Appendix 2.

#### 7.5.2.1 Entrepreneurship + innovation

The themes of innovation and creativity of this item closely associate with the mastery and creativity themes of entrepreneurial orientation (Table 7.2). It evaluates the franchisee as inventor + entrepreneur. The question involves franchisee perceptions regarding innovation and creativity in the hands of the franchisor. The majority of respondents are of the opinion that innovation and creativity are the responsibility of the franchisor (56.5%), with a mean score of 3.23 and standard deviation of 1.062. The relatively large standard deviation is due to the variation of response as a result of differences between single and multiple-outlets. Sixty-one per cent of single outlets are in agreement, whereas only forty-four per cent of multiple-outlet franchisees are in agreement. The single outlet mean score is 3.37 and the multiple-outlet mean is 2.96. The response requests perceptions about the franchisor, henceforth, negative correlations are recorded (other responses request franchisee perceptions). As such, -1 indicates a perfect straight-line relationship with negative slope across all variables (Table 7.15). The negative item-scale is depicted in Table 7.16, and should this variable be deleted, the alpha for the construct increases. Taking the nature of the variable into account, it was decided to retain the question as an appropriate alpha coefficient is still to be realised. The kurtosis is flatter than a normal distribution (-1.050), with ninety per cent of responses distributed across three scales.

The item is significantly correlated with the mastery character theme (question 9) at 0.01 level. Other significant correlations at 0.01 level include creativity (question 10), urgency (question 12), performance (question 13), and networking (question 14). These correlations significantly associate the item responses to the association of entrepreneurial orientation. Due to the negative correlation, it is appropriate to take cognizance of disagree scale responses, thus evaluating the franchisees' innovation responsibility. The item is also significantly correlated (0.01 level) with question 30 (entrepreneurship + creativity), placing emphasis on the significant association with entrepreneurial orientation.

It may thus be concluded that the total system does not perceive innovation and creativity as their responsibility; however, multiple-outlets differ totally with the overall response. Sixty per cent of multiple-outlets see innovation and creativity as their responsibility, whereas only thirty-nine per cent of single outlets see it as their responsibility.

### 7.5.2.2 Entrepreneurship + creativity

This item is representative of question thirty of the questionnaire, idea generation and creativity to the inventor + entrepreneur (Table 7.2). The overall mean rating of 2.85 is characterized by a relatively large standard deviation (1.097), representative of variance amongst respondents. The kurtosis is flatter than a normal distribution (-1.106), with responses spread across all five scales. Pearson correlations with the entrepreneurship orientation associations (Table 7.2) are significant. These are represented in Table 7.15. Of particular significance (at 0.01) are mastery (question 9), creativity (question 10), opportunity taking (question 11), performance (question 13) and networking (question 14). Correlations that are significant (0.01 level) within the construct include entrepreneurship + innovation (question 29), entrepreneurship + proactivity (question 31), entrepreneurship + performance, relationships + conflict + contributions (questions 35/36), entrepreneurship + ventures (question 37) and management + objectives (question 38).

Overall item-scale correlation of 0.5353 is depicted in Table 7.16. Should the item be deleted, it only marginally affects the Cronbach's Alpha for the construct, validating the reliability coefficient. Total construct agreement with the question represents thirty-six per cent of respondents (Table 7.17), with single outlets responding positively at twenty-seven per cent. Similar to the previous item, sixty per cent of multiple-outlets believe that creativity (idea generation) is a responsibility of the franchisee.

It may be concluded that the overall item does not significantly portray the franchisee as an idea generator. Multiple-outlet franchisees however significantly portray idea generation as a franchisee function.

### 7.5.2.3 Entrepreneurship + proactivity

The item representing question thirty-one includes entrepreneurial themes of opportunity taking and risk. Only thirty-three per cent of respondents are in agreement with the variable, represented by a mean score of 2.97 (Table 7.14). The distribution is flatter than a normal distribution (Kurtosis of -0.779) with ninety per cent of responses across three scales (standard deviation of 0.994). Significant correlations associated with entrepreneurial orientation (at 0.01 level) include creativity (question 10) and

performance (question 13). Within the construct, significant correlations (at 0.01 level) include entrepreneurship + performance (question 32), relationships + conflict = contribution (questions 35/6), entrepreneurship plus ventures (question 37) and management and objectives (question 38).

Item-scale correlation of 0.5617 is appropriate for the study, with the overall construct alpha being marginally affected should the item be deleted. Entrepreneurship + proactivity is thus appropriately included (Table 7.16). Only thirty-three per cent of franchisees responded positively to the item, represented by twenty-eight per cent of single outlets agreeing (mean score 2.85). Fifty-two per cent of multiple-outlets however responded positively (mean score 3.29).

It is concluded that entrepreneurship + proactivity is not significantly enhanced in the franchise system. Multiple-outlets do however perceive the item as significant.

#### 7.5.2.4 Entrepreneurship + performance

Question thirty-two links the entrepreneurial orientation theme of performance orientation (question 13). It relates to setting milestones and measuring progress, with a link to the stimulation of incremental wealth. Thirty-five per cent of franchisees responded positively to the variable, with thirty-two per cent being neutral in their response. The mean of 3.22 is characterized by a relatively large standard deviation (1.018) and distribution flatter than a normal curve (Kurtosis of -0.577). Ninety per cent of responses are distributed across three scales. Significant correlations (at 0.01 level) are achieved across all entrepreneurial orientation variables (questions 9 to 13). Inter-construct significance is achieved across entrepreneurship + creativity + proactivity (questions 30 and 31), relationships + conflict + contributions (questions 35 and 36), entrepreneurship + ventures (question 37) and management and objectives (question 38).

Item-scale correlation of 0.7750 is the highest of all construct items. Whilst the construct alpha is affected by approximately ten per cent if the item is deleted, the item has been included as the appropriate Cronbach's Alpha is still achieved (in excess of 0.7). Fifty-one per cent of franchisees responded positively to the item, whereas only forty-five per cent of those with one outlet responded positively. Sixty-eight per cent of multiple-outlet franchisees however responded positively to the variable.

It is concluded that entrepreneurship and performance is enhanced within the franchise system, albeit not significantly in a single outlet environment. Multiple-outlets however significantly associate performance and the stimulation of incremental wealth within the system.

The data in this section is in agreement with the hypothesis of entrepreneurial orientation in the previous section. The franchise paradox links to entrepreneurship conclude that a significant entrepreneurial orientation is not identified in the franchise system, although it is significant in a multiple-outlet franchise system. It must again be emphasized that this does not negate entrepreneurial orientation, but that the orientation is not significant.

#### 7.5.2.5 Relationships and the franchise paradox

Questions thirty-three to thirty-six involve various aspects of relationships with regard to the franchise paradox. Mendelsohn (2003) emphasizes that the franchise relationship is not self sustaining; and these items measure franchisee responses in this regard. These items link to the relationship marketing construct (questions 59-68). Each question is represented as an item:

- Relationships and effort: This question relates to the conscious effort of franchisee and franchisor. An overall positive response was realized (mean score of 4.08), with a small standard deviation (0.711). The result is a peaked distribution (kurtosis of 9.820), represented by seventy-five per cent of responses in a single scale (agree). The item is significantly correlated to the relationships + trust variable (0.803 at 0.01 level) as well as the relationships + conflict variable (0.283 at 0.01 level). Significant correlations (0.01 level) with the relationship marketing construct (section F of the questionnaire) revolve around customer markets (questions 59 and 60), internal markets (question 61 and 65), referral markets (question 63 and 64), and recruitment markets (question 68). These relationships not only cover franchise relationships, but relationships with all stakeholders. The Cronbach's Alpha (Table 7.16) is marginally affected if the item is deleted, and inter-item reliability is appropriate if the item is not deleted
- Relationships and trust: This item (question 34) has a distribution very similar to that of the previous item. A mean score of 4.06 is characterized by a relatively small standard deviation (0.791) and peaked distribution (kurtosis of 6.354).

Ninety-two per cent of responses are distributed across two scales (agree and strongly agree). This item represents the highest strongly agree response rate in the entire questionnaire (twenty-three per cent). This is evidence of the strong necessity for trust in the franchise system. The item does not measure trust in the system, but the perception of the importance of trust in the system. Inter construct significant association is that of relationships and effort (previous item). Significant correlations (0.01 level) with the relationship marketing construct include customer markets (question 59), internal markets (question 61), referral markets (questions 63 and 64), and influence markets (questions 65 and 66). The Cronbach's Alpha is marginally affected if the item is deleted (Table 7.16), thus it is appropriate to retain the item

- Relationships and conflict: This item evaluates the handling of conflicts in the defined franchise system (question 35 of the questionnaire). The item has a distinguishingly high proportion of neutral responses (fifty-per cent of respondents), which is perhaps indicative of being unsure of the conflict handling process. One can assume that those who have not encountered conflict, may well have responded in this scale. A mean score of 2.64 is realised, evidence of overall discontent with the handling of conflict in the system. The distribution is marginally flatter than a normal distribution (kurtosis of -0.361), with responses in all scales. Correlation is significant (0.01 level) across all relationship items, as well as management + objectives (question 38). Significant correlations with the relationship construct include internal markets (question 62), influence markets (question 66) and recruitment markets (questions 67 and 68). If the item is deleted, the Cronbach's Alpha is reduced, thus regarding the inclusion as appropriate
- Relationships and contributions: This item measures the encouragement of franchisee suggestions in the franchise system. The distribution is characterized by seventy-seven per cent of franchisees responding on two scales (disagree and neutral). Only thirteen per cent of franchisees agreed to the item. The result is a low mean score of 2.56, and relatively flat distribution (kurtosis of -0.361). The item is significantly correlated (0.01 level) with the previous item and management + objectives (question 38). Significant correlations (0.01 level) with the relationship marketing construct include customer markets (question 60), internal markets (question 62), referral markets (question 63), influence markets (question 66) and recruitment markets (questions 67 and 68). The alpha is

marginally affected if the item is deleted, and inclusion is regarded as appropriate (Cronbach's Alpha above 0.7).

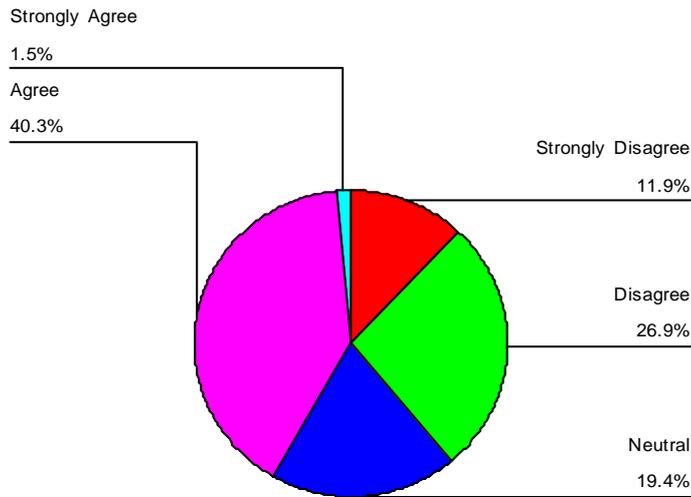
The franchise paradox and relationship associations depict two major areas of concern within the franchise system. These centre around the handling of conflict (question 35) and the perceived lack of contributions and suggestions within the system (question 36). The associations do however exhibit significant correlations with the various markets included in the relationship marketing construct.

#### 7.5.2.6 Entrepreneurship + ventures

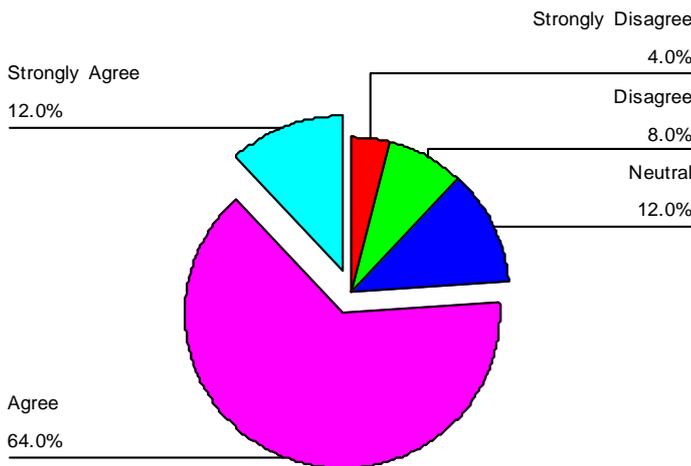
Bygrave (1997) informs that franchising is seen as an entrepreneurial option to creating and developing ventures. In question thirty-seven, franchisees respond on their perception of the notion. Fifty-one per cent of franchisees responded positively (excluding a seventeen per cent neutral response), resulting in a mean of 3.16. A varied response across all scales is represented by a relatively high standard deviation (1.110), together with relatively flat distribution (kurtosis of  $-0.832$ ). The distribution is attributable to the number of franchised outlets per franchisee. Forty-two per cent of single outlet franchisees responded positively to the item (mean score of 2.93), whereas seventy-six per cent of multiple-outlet franchisees responded positively to the item (mean score of 3.72). The distribution is represented in Figures 7.7 and 7.8, representing the responses of single outlets versus multiple-outlets to the entrepreneurship + ventures variable. The two figures are represented on the following page.

Significant correlations (0.01 level) are across all entrepreneurial orientation associations (questions 9-14) and entrepreneurship associations within the franchise paradox construct (questions 30-32). A high significance is associated with management and objectives (question 38), encapsulating business objectives with growth and developing new ventures. The item-scale correlation of 0.7550 appropriately results in a marginal affect on the Cronbach's Alpha if the item is deleted (Table 7.16). It is thus appropriate to include the item in the construct.

**FIGURE 7.7 Franchising as an entrepreneurial option (single outlet responses)**



**FIGURE 7.8 Franchising as an entrepreneurial option (multiple-outlet responses)**



An interesting response from the KwaZulu Natal (KZN) region in particular skews the distribution. Fifty per cent of KZN respondents disagree with the item (17% neutral). This may be attributed to no regional office representation of the franchisor, together with KZN franchisees rating high with dissatisfaction regarding the handling of conflict (83 % disapproval). It may be concluded that franchising is an entrepreneurial option towards creating and developing ventures. This statement is however more significant in a multiple-outlet franchise environment.

#### 7.5.2.7 Management + objectives

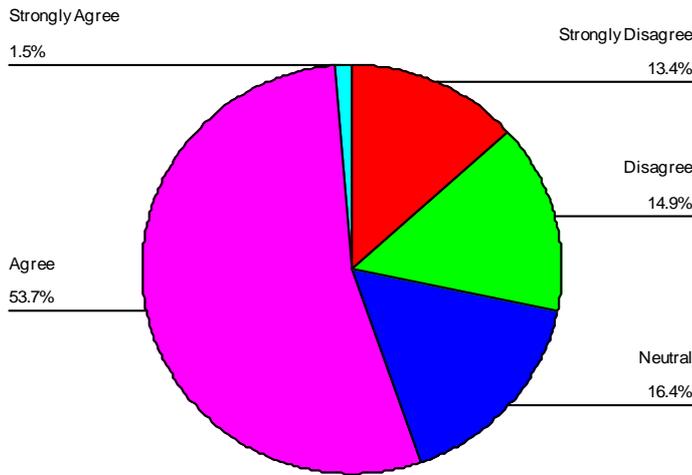
The item represents the final question (38) of the franchise paradox construct. It is an overall measure of the franchise system meeting the business objectives of the franchisee. Sixty per cent of respondents identified satisfaction with the item (17% neutral), with twenty-three per cent registering dissatisfaction with the system. The overall response reflects a mean score of 3.31, with a relatively high standard deviation of 1.048. The kurtosis represents a relatively flat distribution (-0.053). The variation results from multiple-outlet franchisees. Fifty-five per cent of single outlet franchisees are satisfied with their objectives being met (mean score of 3.15); whilst seventy-two per cent of multiple-outlet franchisees are satisfied (mean score of 3.68). This is represented diagrammatically in Figure 7.9 and Figure 7.10 on the following page.

The item is significantly correlated (0.01 level) with the entrepreneurial items within the construct (questions 30-32). Table 7.16 identifies an item-scale correlation of 0.7682; together with appropriate alpha should the item be deleted. Inclusion of the item is thus appropriate. A regional cross-tabulation identifies the KZN region as being responsible for the regional skew of the item (67% dissatisfaction response). This may once again be attributed to lack of a franchise regional office, as highlighted in the previous section..

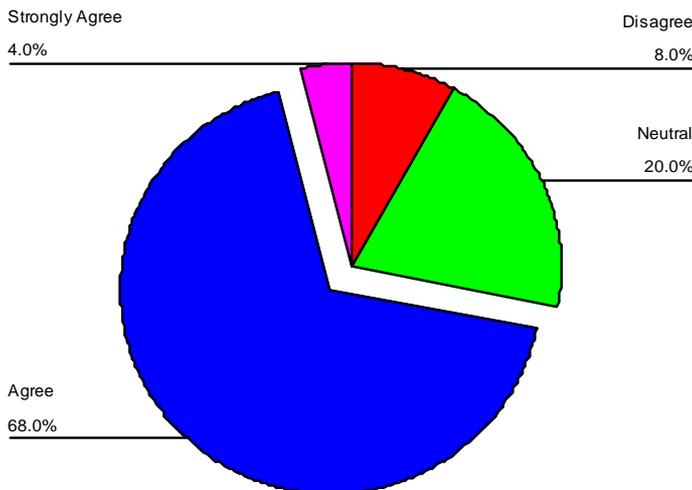
It may be concluded that overall the franchise system meets the business needs of the franchise system. This is however more significant in multiple-outlet franchisees; correlating multiple-outlets with the creation and development of new ventures.

Figure 7.9 and Figure 7.10 are represented on the following page.

**FIGURE 7.9 Single outlet satisfaction responses**



**FIGURE 7.10 Multiple-outlet satisfaction responses**



### 7.5.3 Franchising and venture creation significance

In Sections 7.5.1 and 7.5.2 the franchise paradox construct was analysed using descriptive and inferential statistics. Items were analysed, evaluating their associations with inter-construct items, together with associations with other constructs. The opportunity now avails itself to empirically analyse the franchise paradox in light of an association to the creation and development of ventures. The applicable alternate and null hypotheses are represented as:

H2: The franchise system is an entrepreneurial option towards creating and developing ventures.

H0: The franchise system is not an entrepreneurial option towards creating and developing ventures.

Applicability to H2 is the use of the non-parametric ANOVA Kruskal-Wallis significance test, as identified in Section 6.6.4.1.

*Test statistic a.b*

	<b>Franchising as an option to venture creation and development</b>
Chi-Square	8.430
df	4
Asymp.Sig	0.771

- c. Kruskal-Wallis test
- d. Group variable Franchise Paradox

Presentation of the P-value of 0.771 (greater than 0.05) represents the alternate hypothesis as not being unlikely, therefore not rejecting the alternate hypothesis. We therefore accept the hypothesis that the franchise system is an entrepreneurial option towards creating and developing ventures. Furthermore, a significant association was found between the creation and development of ventures and multiple-outlet franchisees.

Section 7.4 empirically tested entrepreneurial orientation in a franchised system, and Section 7.5 empirically tested the franchise system as an entrepreneurial option towards creating and developing ventures. The following sections empirically analyse the development of an entrepreneurial service vision in a franchised environment.

## **7.6 SECTION D: THE SERVICE PROFIT CHAIN**

Sections 7.6 onward evaluate the service vision constructs of the study. These include the service profit chain, service quality, relationship marketing and best practice. Hypotheses testing will investigate the association of the service profit chain, relationship marketing and best practice to the dependent variable of service quality. Each construct will consist of descriptive and inferential analysis for evaluating associations and testing hypotheses.

The service profit chain (SPC) is represented in section D of the questionnaire (questions 39-48). Associated themes within the construct include SPC links, retention, related sales and referrals. The objective of the study is to evaluate the association of SPC to service quality (SQ). The hypothesis postulates that:

H3: Service profit chain initiatives are positively associated with service quality

H0: Service profit chain initiatives are not positively associated with service quality.

The format of the investigation will follow a descriptive and inferential analysis, by item analysis and ANOVA Kruskal-Wallis hypothesis test of significance.

### 7.6.1 Service profit chain descriptive and inferential statistics

Item descriptive statistics are depicted in Table 7.18. The left hand column identifies the service profit chain associations of SPC links, retention, related sales and referrals. The descriptive and inferential statistics are used for an analysis on a per item basis. Correlation analysis will be carried out to evaluate associations within the construct, together with associations of service quality. The Pearson correlation significance coefficient for the construct and SQ construct is depicted in Appendix 2.

**TABLE 7.18 Service profit chain descriptive statistics**

Question	Association	Item Mean	Std error of mean	Standard deviation	Kurtosis
39	SPC links (satisfaction 1)	3.75	0.086	0.820	1.460
40	SPC links (satisfaction 2)	3.99	0.070	0.652	5.842
41	SPC links (best practice)	2.49	0.094	0.904	-0.320
42	Retention (feedback)	2.20	0.078	0.745	-0.551
43	SPC links (QWL)	3.67	0.074	0.713	3.234
44	Retention (relationships 1)	3.95	0.061	0.581	10.212
45	Retention (relationships 2)	3.90	0.078	0.739	5.109
46	Related sales	3.68	0.078	0.754	3.584
47	Referrals (WOM)	3.62	0.083	0.796	1.541
48	Retention (lifetime value)	2.61	0.095	0.913	0.776
	<b>Construct descriptives</b> <i>n=93</i>	<b>3.38</b>	<b>0.080</b>	<b>0.762</b>	<b>3.0887</b>

Construct descriptives are characterized by a mean score of 3.38; representing a favourable response to the construct questions. The standard deviation for the sample mean, referred to as the standard error of the mean, is relatively small for the  $n = 93$

response rate; an indication that the average deviation from the mean is relatively stable. Standard deviations are relatively low (all variables below 1.0), indicative of the majority of responses distributed closely around the mean score. Kurtosis is indicative of a fairly normal distribution, with the exception of variable forty-four. Excluding variable forty-four would result in a construct kurtosis of 2.30, being more representative of the data set. Seventy per cent of the variables are characteristic of a peaked distribution, whilst twenty per cent have a distribution marginally flatter than a normal distribution.

Not all variables are intended to be analysed from a Pearson correlation point of view; all variables are merely listed for completion of the table purposes. Appropriate correlations will be discussed in the per item evaluations. Inter-item reliability is analysed by means of the Cronbach's Alpha, with values depicted in Table 7.19. The table includes the corrected item-total correlation, and alpha if the item is deleted. The Cronbach's Alpha reliability coefficient is appropriate for the project at hand (0.7748). Should any item be deleted, alpha is only marginally affected; confirming the decision to include all variables.

**TABLE 7.19 Item reliability analyses for service profit chain themes**

Question	Association	Item-scale correlation	Alpha if item deleted
39	SPC links (satisfaction 1)	0.6755	0.8025
40	SPC links (satisfaction 2)	0.6104	0.8132
41	SPC links (best practice)	0.3750	0.8369
42	Retention (feedback)	0.2935	0.8397
43	SPC links (QWL)	0.5690	0.8145
44	Retention (relationships 1)	0.6097	0.8140
45	Retention (relationships 2)	0.6328	0.8094
46	Related sales	0.4248	0.8284
47	Referrals (WOM)	0.5045	0.8204
48	Retention (lifetime value)	0.6831	0.8003
Reliability coefficients		<i>10 items</i>	
<b>Cronbach's Alpha for the construct = 0.8335</b>			

Table 7.19 identifies an appropriate construct Cronbach's Alpha of 0.8335 (above desired 0.7). The distribution is also characterised by appropriate reliability should any item be deleted. Item-scale correlations are also all appropriate (above 0.3). The result is therefore the inclusion of all service profit chain items.

## 7.6.2 Item analysis

Item analysis will be conducted per item, representative of questions thirty-nine to forty eight of the questionnaire. This shall be analysed within the item associations depicted in Tables 7.18 and 7.19, together with correlations in Appendix 2. Once all items have been evaluated, the hypothesis will be tested using the non-parametric ANOVA Kruskal-Wallis test.

### 7.6.2.1 SPC links (satisfaction 1 and 2)

Questions thirty-nine and forty refer to the SPC association of satisfaction. The two items have similar descriptives, with the former representing customer satisfaction, and the latter representing employee satisfaction. Correlated item-total correlation for each variable is high (both in excess of 0.61); with coefficient alpha being reduced if any of the items are deleted. The two items are significantly correlated (0.784 at 0.01 level). The associated mean of the two variables is 3.87.

- SPC links (satisfaction 1): Sixty-six per cent of respondents are in agreement with the variable (29% neutral response), representative of a mean score of 3.75. A relatively flat distribution with moderate standard deviation (96% of responses within 3 scales) is realised. Inter-construct significant correlations (0.01 level) include QWL (Q43), relationships 1 and 2 (Q44 and 45), WOM (Q47) and lifetime value (Q48). The most significant of the inter-construct correlations is that with the other satisfaction variable (Q39). The satisfaction 1 variable also has the second highest item-total correlation in the construct (0.6755). Significant correlations in the service quality construct (0.01 level) include all variables in the construct (Q 49-58); with an average correlation of 0.542 at 0.01 level. Significant correlations in the relationship marketing construct include customer markets 1 (Q59), internal markets 1 and 3 (Q61 and 65), and referral markets 1 and 2 (Q63 and 64). Significant correlations with the best practice construct include all variables with the exception of questions 69, 70, 73 and 77
- SPC links (satisfaction 2): Eighty-nine per cent of respondents are in agreement with the link between employee and customer satisfaction. A high mean score of 3.99 is realised, with a small standard deviation, attributable to eighty-nine per cent of responses within two scales. This in turn results in a peaked distribution

(Kurtosis of 5.842). Inter-construct correlations parallel those of the satisfaction 1 variable, correlating significantly with the same variables. Significant correlations (0.01 level) with the service quality construct also include all variables; with an average correlation of 0.535 at 0.01 level. Significant correlations across the relationship management construct include all variables with the exception of questions 62, 67 and 68. Significant correlations across the best practice construct include refining offerings (q71), implementing the marketing plan 1 and 3 (q72 and 74), promotion and in-store merchandising (q75) and clear in-store operations (76).

The two satisfaction variables correlate significantly to the service quality variables, which is indicative of a positive association. The other variables of the SPC are now evaluated to establish inter-construct associations; together with appropriate associations with other construct variables.

#### 7.6.2.2 SPC links (best practice)

Question forty-one of the questionnaire measures the perception of franchisees with regard to the encouragement of best practice exchanges. Fifty-six per cent of franchisees responded negatively to this variable (29% neutral). The result is a relatively low mean score of 2.49, and correspondingly high standard deviation. The curve is marginally flatter than a normal distribution (-0.320). Inter-construct significant correlations (0.01 level) are limited to feedback (q42) and lifetime value (q48). Significant correlations with the SQ construct include responsiveness 1 (q51) and tangibles (q57). Relationship marketing construct significant correlations include customer markets (q59), internal markets 1 and 2 (q 61 and 62), referral markets 1 (q63) and recruitment markets (q68). Best practice construct correlations include all but three variables (q71, 72 and 75).

#### 7.6.2.3 Retention (feedback)

The feedback variable is one of four related retention variables within the construct. The variable evaluates effective customer feedback as a retention initiative. It has the lowest mean score response in the construct (2.20), with seventy-four per cent of franchisees responding negatively to the question (q42). Only seven per cent of respondents are in agreement with the system having optimal customer feedback channels (20% neutral

response). Eighty-one per cent of responses are across two scales, representative of a relatively small standard deviation. The item-scale correlation is only just appropriate for construct reliability (0.2935), with an appropriate alpha coefficient should the item be included. Significant inter-construct correlation (0.01 level) is only apparent with the retention association of lifetime value (q48). The variable does not significantly correlate with the SQ construct, with the exception of reliability 2 (q50). Relationship marketing variables significantly associated include internal markets 2 (q62) and recruitment markets 2 (q68). Best practice construct variables significantly correlated with the feedback variable include understanding customer markets (q69), developing strategy and vision 1(q70), implementing the marketing plan (q73), clear in-store operations 1 and 2 (q76 and 77) and developing strategy and vision 2 (q78).

#### 7.6.2.4 SPC links (quality of work life-QWL)

Sixty-eight per cent of franchisees are in agreement with the positive effect of quality of work life on employee loyalty. Twenty-seven per cent of respondents however were neutral in response. A high mean score of 3.67 is characterised by a peaked distribution with relatively small standard deviation. Inter-construct significant correlations (0.01 level) include all variables with the exception of the feedback variable (q42). The QWL variable has a high item-total correlation of 0.6328. Significant correlations (0.01 level) in the SQ construct are across all variables, with the most significant being responsiveness 2 (q52). This association correlates QWL with employees providing prompt response. The significant correlations within the relationship marketing construct include customer markets 1 (q59), internal markets 2 (q62), referral markets 1 and 2 (q63 and 64) and internal markets 3 (q65). Best practice significant correlations are found in refining offerings (q71), implementing the marketing plan 1 and 3 (q72 and 74), promotions and in-store merchandising (q75) and clear in-store operations (q76). The above associations all include a link between employees and QWL.

#### 7.6.2.5 Retention (relationships 1 and 2)

These two closely associated variables are represented in questions forty-four and forty-five of the questionnaire (respectively). The questions directly relate to relationships and retention of existing customers. The two variables have item-total correlations within the top quarter in the construct, well above the appropriate level (0.6097 and 0.6328

respectively). Next to the satisfaction 1 and 2 correlation, the relationship variables portray the second most significant correlation (0.715 at 0.01 level). Should either of the variables be deleted from the construct, the total Cronbach's Alpha will be reduced, hence the appropriateness of including the two variables. The two variables have a high mean score between 3.90 and 3.95; and correspondingly low standard deviations. Agreement responses are in excess of seventy-six per cent of franchisees, representative of peaked distributions (kurtosis of 10.21 and 5.109 respectively). Relationships 1 in particular, has an exceptionally peaked distribution, with eighty-five per cent of responses in one scale (agree). The two variables are significantly correlated (0.01 level) within the construct to all variables excluding best practice (q41), feedback (q42) and lifetime value (q58). Both variables are significantly correlated to all variables within the service quality construct. Significant correlations in the relationship construct are shared between internal markets 1(q61), referral markets 2(q64) and internal markets 3 (q65). This association is attributable to strong links between retention, referrals and internal marketing initiatives. The two variables share an abundance of significant correlations with the best practice construct; refining offerings (q71), implementing the marketing plan 1 and 3 (q72 and 74), promotions and in-store merchandising (q75) and clear in-store operations 1 (q76). These associations are attributable to the as mentioned in the literature link of customer relationships and best practice initiatives.

#### 7.6.2.6 Related sales

Question forty-six of the questionnaire incorporates the broadened service offerings within the franchise system. Sixty-seven per cent of franchisees are in agreement with the variable, with a resulting mean score of 3.68. The distribution is relatively peaked (kurtosis of 3.584) around the agree and neutral scales. An appropriate reliability Cronbach's Alpha is still maintained if the item is included in the construct. Inter-construct significant correlation is around satisfaction 1 (q39), QWL (q43), relationships 1 and 2 (q44 and 45), and WOM (q47). The referrals link is thus associated to SRC links and retention. Service quality construct correlations of significance (0.01) include reliability 1 (q49), assurance 1 and 2 (q53 and 54), and empathy 2 and 3 (q56 and 58). These associations are attributable to related sales offering the customer a wider range of services, highlighting the caring and sharing initiative. Relationship marketing construct correlations are significant in customer markets (q59), exhibiting related sales as a means of competitive advantage. The correlation is significantly demonstrated to the best

practice construct in understanding customers and markets (q69), developing strategy and vision 1 (q70), refining offerings (q71) and influencing the marketing plan 1 and 3 (q72 and q74).

#### 7.6.2.7 Referrals (word of mouth-WOM)

Word of mouth communication is emphasized in question forty-seven of the questionnaire. The variable received a sixty-four per cent positive response, with a mean score of 3.62. The distribution is marginally peaked (kurtosis of 1.541) around the agree and neutral scales, also indicative of a relatively small standard deviation. Cronbach's Alpha is appropriate if the variable is not deleted. Inter-construct correlations are significant (0.01 level) across all variables with the exception of best practice (q42) and feedback (q42). Service quality correlations include significance across all variables. Relationship marketing construct correlation is significant through all variables, with the exception of internal markets 2 (q62) and recruitment markets 2 (q68). This highlights the retention association with the various relationship markets. Best practice construct correlations are significant in refining offerings (q71), implementing the marketing plan 1 and 3 (q72 and 74), promotions and in-store merchandising (q75) and clear in-store operations 1 (q76).

#### 7.6.2.8 Retention (lifetime value)

The final construct question seeks perceptions of the measurement of lifetime customers. This variable raised a large neutral response (thirty-five per cent). It appears that franchisees are uncertain how to measure the value of loyal customers. Forty-eight per cent of franchisees responded in disagreement, resulting in a mean score of 2.61. This represents a relatively flat distribution (kurtosis of 0.776), albeit only marginally positively skewed. The variable however elicits the highest item-total correlation within the construct (0.6831). The deletion of the variable decreases the reliability coefficient, hence the appropriateness of retaining the variable in the construct. Significant correlation (0.01 level) within the construct is experienced across all but two variables (q44 and 46). Service quality significant correlations are experienced through all variables, demonstrating the association between service quality factors and customer loyalty. Relationship marketing construct correlation is significant across all but two variables

(q66 and 67). The best practice significant correlation to the lifetime value variable is evidence of all but two variables not being significant (q72 and q75).

The incident rate of substantial significant correlation to the service quality construct has been evaluated on an item to item basis. An additional item-total statistic was evaluated, comprising all variables within the service profit chain and service quality constructs (q39-q58). The reliability coefficient of all variables (N = 20) resulted in an overall alpha of 0.9367, representative of appropriately high reliability. The only variable raising concern is question forty-two (feedback), however, the item-total correlation of 0.2595 is deemed appropriate as it has only a marginal effect on the overall Cronbach’s Alpha.

### 7.6.3 Service profit chain significance

In Sections 7.6.1 and 7.6.2 the service profit chain construct was analysed using descriptive and inferential statistics. Items were analysed, evaluating their associations with inter-construct items, together with associations with other constructs. The opportunity now avails to empirically analyse the service profit chain in light of an association to service quality. The applicable null and alternate hypotheses are represented as:

H3: Service profit chain initiatives are positively associated with service quality.

H0: Service profit chain initiatives are not positively associated with service quality.

Applicability to H3 is the use of the non-parametric ANOVA Kruskal-Wallis significance test, as identified in section 6.6.4.1.

*Test statistic a.b*

	<b>Service Profit Chain Initiatives</b>
Chi-Square	2.044
df	3
Asymp.Sig	0.563

- a. Kruskal-Wallis test
- b. Group variable SQ

Presentation of the P-value of 0.563 (greater than 0.05) represents the alternate hypothesis as being likely, therefore rejecting the null hypothesis. We therefore accept the hypothesis that service profit chain initiatives are positively associated with service quality.

Section 7.4 empirically tested entrepreneurial orientation in a franchised system, and Section 7.5 empirically tested the franchise system as an entrepreneurial option towards creating and developing ventures. Section 7.6 empirically tested the positive association between the service profit chain and service quality. The following section empirically analyses the association of relationship marketing to service quality.

## **7.7 SECTION F: RELATIONSHIP MARKETING**

Relationship marketing (RM) is represented in section F of the questionnaire (questions 59-68). Associated themes within the construct include customer markets, internal markets, referral markets and recruitment markets. The objective of the study is to evaluate the association of RM to service quality (SQ). The hypothesis postulates that:

H4: Relationship marketing initiatives are positively associated with service quality

H0: Relationship marketing initiatives are not positively associated with service quality.

The format of the investigation will follow a descriptive and inferential analysis, by item analysis and ANOVA Kruskal-Wallis hypothesis test of significance.

### **7.7.1 Relationship marketing descriptive and inferential statistics**

Item descriptive statistics are depicted in Table 7.20 on the following page. The left hand column identifies the relationship marketing associations of customer markets, internal markets, referral markets and recruitment markets. The descriptive and inferential statistics are used for an analysis on a per item basis. Correlation analysis will be used to evaluate associations within the construct, together with associations of service quality. The Pearson correlation significance coefficient for the construct and SQ construct is depicted in Appendix 2.

Construct descriptives are characterized by a mean score of 3.17, representing a neutral response to the construct questions. Thirty-eight per cent of total construct responses were

in the neutral scale, indicative of relationship marketing apathy within the franchise system. The standard deviation for the sample mean, referred to as the standard error of the mean, is relatively small for the  $n = 93$  response rate; an indication that the average deviation from the mean is relatively stable. Standard deviations are relatively low (all variables below 1.0), indicative of the majority of responses distributed closely around the mean score.

**TABLE 7.20 Relationship marketing descriptive statistics**

Question	Association	Item Mean	Std error of mean	Standard deviation	Kurtosis
59	Customer markets 1	3.32	0.070	0.678	1.492
60	Customer markets 2	3.41	0.067	0.647	0.308
61	Internal markets 1	3.11	0.094	0.902	-0.585
62	Internal markets 2	2.32	0.090	0.864	-0.081
63	Referral markets 1	3.40	0.077	0.731	0.704
64	Referral markets 2	3.97	0.068	0.654	9.682
65	Internal markets 3	3.67	0.073	0.697	1.841
66	Internal markets 4	3.66	0.083	0.801	2.752
67	Recruitment markets 1	2.82	0.067	0.642	0.956
68	Recruitment markets 2	2.03	0.091	0.878	2.983
	<b>Construct descriptives <math>n=93</math></b>	<b>3.17</b>	<b>0.071</b>	<b>0.749</b>	<b>2.005</b>

Kurtosis is indicative of a fairly normal distribution, with the exception of variable sixty-four. Excluding variable sixty-four would result in a construct kurtosis of 1.152, being more representative of the data set. Seventy per cent of the variables are characteristic of a peaked distribution, whilst twenty per cent have a distribution marginally flatter than a normal distribution.

Not all variables are intended to be analysed from a Pearson correlation point of view; all variables are merely listed for completion of the table purposes. Appropriate correlations will be discussed in the per item evaluations. Inter-item reliability is analysed by means of the Cronbach's Alpha, with values depicted in Table 7.21 (represented on the following page). The table includes the corrected item-total correlation, and alpha if the item is deleted. The Cronbach's Alpha reliability coefficient is appropriate for the project at hand (0.7937). Should any item be deleted, alpha is only marginally affected; confirming the decision to include all variables.

Table 7.21 identifies an appropriate construct Cronbach's Alpha of 0.7937 (above desired 0.7). The distribution is also characterised by appropriate reliability should any item be

deleted. Item-scale correlations are also appropriate (above 0.3); with the exception of question sixty-eight (0.1727). This will however be evaluated in the next section on item analysis.

**TABLE 7.21 Item reliability analyses for relationship marketing themes**

Question	Association	Item-scale correlation	Alpha if item deleted
59	Customer markets 1	0.4843	0.7741
60	Customer markets 2	0.5353	0.7693
61	Internal markets 1	0.5306	0.7677
62	Internal markets 2	0.4965	0.7722
63	Referral markets 1	0.6343	0.7559
64	Referral markets 2	0.4864	0.7741
65	Internal markets 3	0.6278	0.7576
66	Internal markets 4	0.4415	0.7790
67	Recruitment markets 1	0.3430	0.7888
68	Recruitment markets 2	0.1727	0.8145
Reliability coefficients		<i>10 items</i>	
<b>Cronbach's Alpha for the construct = 0.7937</b>			

### 7.7.2 Item analysis

Item analysis will be conducted per item, representative of questions fifty-nine to sixty-eight of the questionnaire. This shall be analysed within the item associations depicted in Tables 7.20 and 7.21, together with correlations in Appendix 2. The significant correlations will include association with service quality and best practice constructs only, as service profit chain correlations have already been identified. Once all items have been evaluated, the hypothesis will be tested using the non-parametric ANOVA Kruskal-Wallis test.

#### 7.7.2.1 Customer markets 1 and 2

The two customer market variables have very similar descriptive statistics, with customer markets having a slightly more peaked distribution (kurtosis of 1.492). Question fifty-nine involves customer interaction and responsiveness; whereas question sixty involves a relationship focus. Both distributions are characterised by a high neutral scale (above 60%), together with positive responses of thirty per cent. Ninety-one per cent of responses were within these two scales, representative of a relatively low standard deviation. The two variables are significantly correlated at 0.01 level (0.464). Item-total

correlations are 0.4843 and 0.535 respectively. Significant correlations within the relationship construct include internal markets 1 and 3 (q61 and 65), and referral markets 1 and 2 (q63 and 64). The two customer markets variables are significantly correlated with all the variables in the service quality construct. Best practice construct correlations include significant associations with all variables, with the exception of implementing the marketing plan 1 and 2 (q72 and 73) and developing strategy and vision (q78).

#### 7.7.2.2 Internal markets 1 and 2

These two variables are represented in questions sixty-one and sixty-two. Whilst sharing similar standard deviations (0.902 and 0.864) and similar flat distributions (-0.585 and 0.081), their means differ somewhat (3.11 and 2.32 respectively). Both have neutral responses of thirty-eight per cent, but internal markets 1 has a predominant agree scale (31% of respondents), while internal markets 2 has a predominant disagree scale of thirty-eight per cent. Whilst agreeing on suppliers adding value, an issue of integrity is raised. This is attributable to the evidence of strong conviction to trust in the franchise system, identified in Section 7.5.2.5. Significant correlations differ for the two variables within the construct. Whilst both have item-total correlations around 0.50, they do not significantly correlate to all variables. Joint significant correlations (0.01 level) include customer markets 2 (q60), referral markets 1 (q63) and internal markets 3 (q65). Internal markets 1 correlate significantly to customer markets 1 (q59) and internal markets 2 (q62). Internal markets significantly correlate to internal markets 4 (q66) and recruitment markets 2 (q68). Correlations of significance for internal markets 1 to service quality include all SQ variables. Significance for internal markets 2 consist of reliability 2 (q50), responsiveness 1 (q51), empathy 1 (q55), tangibles 2 (q57) and empathy 3 (q58). Best practice variables shared by both internal markets include clear in-store operations 1 and 2 (q76 and 77), developing strategy and vision 1 and 2 (q70 and 78). Internal markets 1 has significant correlations with developing strategy and vision 1 (q70), implementing the marketing plans 3 (q75), and promotions and in-store merchandising (q76). Internal markets 2 has significant correlation with implementing the marketing plan 2 (q73).

#### 7.7.2.3 Referral markets 1 and 2

Questions sixty-three and sixty-four incorporate the two referral markets variables. Both variables are favourably reviewed by respondents, with referral markets 2 experiencing

the highest mean score in the construct (3.97). Despite similar standard deviations, referral markets 2 has a distinctively peaked distribution (kurtosis of 9.682). This is due to eighty-two per cent of franchisees responding positively to the variable (within one scale). Item-total correlations are also appropriate for the two variables (well above the 0.3 required statistic). The two variables are significantly correlated to each other (0.471 at 0.01 level), and share correlations with all relationship construct variables with the exception of questions sixty-two, sixty-seven and sixty-eight. Both variables share significant correlations with all variables within the service quality construct. The two variables are significantly correlated with the best practice construct via the variables of refining offerings (q71), implementing the marketing plan 1 and 3 (q72 and 74), promotions and in-store merchandising (q75), and clear in-store operations 1 (q76). Referral markets 1 has further significant correlations with regard to clear in-store operations 2 (q77) and developing strategy and vision 2 (q78).

#### 7.7.2.4 Internal markets 3 and 4

These two variables complement the other two internal markets variables in section 7.7.2.2. Questions sixty-five and sixty-six incorporate a spectrum of QWL and internal relationships. The two variables are exceptionally closely related, sharing mean scores within 0.01 of each other. They also share similar standard deviations and relatively peaked distributions. Both variables have responses of over sixty per cent in the agree scale, together with neutral responses of twenty per cent and over. Their item-total correlations are also appropriate for the study (0.6278 and 0.4415 respectively). Deleting the items only marginally affects the coefficient alpha, hence the inclusion of the two variables. The two internal markets variables are also significantly correlated (0.481 at 0.01 level). They are also significantly correlated to the two previous internal markets variables (q 62 and 63). Internal markets 3 is significantly correlated with all relationship marketing variables, with the exception of recruitment markets 2 (q68). Internal markets 4 is also correlated to the variables within the relationship marketing construct, with the exception of questions fifty-nine, sixty, sixty-one and sixty-eight. The two variables are significantly correlated to all the variables of the service quality construct; with the exception of internal markets 3 not sharing significance with forty-nine and fifty-one. Best practice construct correlation significance is shared with refining offerings (q72), influencing the marketing plan 3 (q74), promotion and in-store merchandising (q75) and clear in-store operations 1 (q76).

#### 7.7.2.5 Recruitment markets 1 and 2

The two recruitment market variables both received responses well below the construct mean. Recruitment markets 2 achieved the lowest mean score (2.03) in the construct. This variable is also characterised with a relatively peaked distribution, with eighty-three per cent of franchisees disagreeing on the measurement of satisfaction levels. Recruitment markets 1 is in turn characterised by sixty-six per cent of franchisees responding in the neutral scale. Either respondents do not have associations with other industry participants, or are not sure of their involvement. This apathy has however been highlighted throughout the analysis.

Whilst recruitment markets 1 has an appropriate item-total correlation; recruitment markets 2 has an item-total correlation (0.1727) below the required statistical level of 0.3. It has however been decided to retain the variable, as it only marginally affects the Cronbach's Alpha if deleted. Inclusion is also vital due to the importance of corrective action required, to be dealt with in the recommendations section. Recruitment markets 1 is significantly correlated to all variables in the relationship marketing construct, with the exception of questions fifty-nine, sixty and sixty-one. Recruitment markets 2 only shares significance with internal markets 2 (q62). Recruitment markets 1 correlates significantly to the service quality construct via responsiveness 2 (q52), empathy 1 and 3 (q55 and 58). The only correlation recruitment markets 1 has with the service quality construct is via responsiveness 1 (q51), however at the 0.05 significance level. A best practice construct significant correlation is evident in understanding customers and markets (q69) and developing strategy and vision (q70). Additional significance relating to the best practice construct is evident in recruitment markets 2 via implementing the marketing plan 2 (q73), promotions and in-store merchandising (q75), clear in-store operations 2 (q77) and developing strategy and vision (q78).

The incident rate of substantial significant correlation to the service quality construct has been evaluated on an item to item basis. An additional item-total statistic was evaluated, comprising all variables within the relationship marketing and service quality constructs (q49-68). The reliability coefficient of all variables (N = 20) resulted in an overall alpha of 0.9294, representative of appropriately high reliability. The only variable raising concern is question sixty-eight (recruitment markets 2), however, the item-total correlation below 0.3 is deemed appropriate as it has only a marginal effect on the overall

Cronbach's Alpha (0.9388 if deleted). In addition, the negative response from the variable highlights the necessity for corrective action. The hypothesis of the relationship marketing and service quality association will now be tested.

### 7.7.3 Relationship marketing significance

In Sections 7.7.1 and 7.7.2 the relationship marketing construct was analysed using descriptive and inferential statistics. Items were analysed, evaluating their associations with inter-construct items, together with associations with other constructs. The opportunity now avails to empirically analyse relationship marketing in light of an association to service quality. The applicable null and alternate hypotheses are represented as:

H4: Relationship marketing initiatives are positively associated with service quality.

H0: Relationship marketing initiatives are not positively associated with service quality.

Applicability to H4 is the use of the non-parametric ANOVA Kruskal-Wallis significance test, as identified in Section 6.6.4.1.

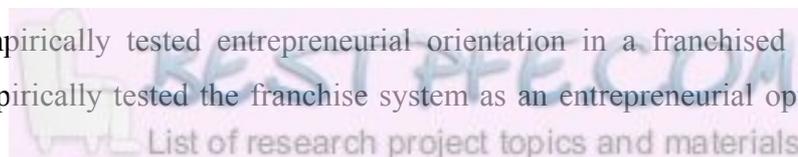
*Test statistic a.b*

	<b>Relationship marketing Initiatives</b>
Chi-Square	7.381
df	4
Asymp.Sig	0.117

- c. Kruskal-Wallis test
- d. Group variable SQ

Presentation of the P-value of 0.117 (greater than 0.05) represents the null hypothesis as being unlikely, therefore rejecting the null hypothesis. We therefore accept the alternate hypothesis that relationship marketing initiatives are positively associated with service quality.

Section 7.4 empirically tested entrepreneurial orientation in a franchised system, and Section 7.5 empirically tested the franchise system as an entrepreneurial option towards



creating and developing ventures. Section 7.6 empirically tested the positive association between the service profit chain and service quality. Section 7.7 empirically tested the positive association between relationship marketing and service quality. The following section empirically analyses the association of best practice to service quality.

## **7.8 SECTION G: INDUSTRY BEST PRACTICE**

Industry best practice (BP) is represented in section G of the questionnaire (questions 69-78). Associated themes within the construct include understanding customer markets, developing strategy and vision 1 and 2, refining offerings, influencing the marketing plan 1 and 2 and 3, promotion and in-store merchandising, and clear in-store operations 1 and 2. The objective of the study is to evaluate the association of BP to service quality (SQ). The hypothesis postulates that:

H4: Best practice initiatives are positively associated with service quality

H0: Best practice initiatives are not positively associated with service quality.

The format of the investigation will follow a descriptive and inferential analysis, by item analysis and ANOVA Kruskal-Wallis hypothesis test of significance.

### **7.8.1 Best practice descriptive and inferential statistics**

Item descriptive statistics are depicted overleaf in Table 7.22. The left hand column identifies the best practice associations of understanding customer markets, developing strategy and vision 1 and 2, refining offerings, influencing the marketing plan 1 and 2 and 3, promotion and in-store merchandising, and clear in-store operations 1 and 2. The descriptive and inferential statistics are used for an analysis on a per item basis. Correlation analysis will be used to evaluate associations within the construct, together with associations of service quality. The Pearson correlation significance coefficient for the construct and SQ construct is depicted in Appendix 2.

Construct descriptives are characterized by a mean score of 3.31; representing an overall positive response to the construct questions. Forty-one per cent of construct responses were in the agree scale, indicative of the relative peakedness of the construct distribution (kurtosis of 2.123). The standard deviation for the sample mean, referred to as the

standard error of the mean, is relatively small for the  $n = 93$  response rate; an indication that the average deviation from the mean is relatively stable. Standard deviations are relatively low (all variables below 1.0), indicative of the majority of responses distributed closely around the mean score. Kurtosis is indicative of a relatively peaked distribution; with variable seventy-five indicative of substantial peakedness. Excluding variable seventy-five would result in a construct kurtosis of 1.503, being more representative of the data set. Sixty per cent of the variables are characteristic of a peaked distribution, whilst twenty per cent have a distribution marginally flatter than a normal distribution.

**TABLE 7.22 Best practice descriptive statistics**

Question	Association	Item Mean	Std error of mean	Standard deviation	Kurtosis
69	Understanding customers and markets	3.04	.092	0.779	0.044
70	Developing strategy and vision 1	2.86	0.103	0.944	-0.578
71	Refining offerings	3.73	0.064	0.668	2.614
72	Implementing the marketing plan 1	4.15	0.075	0.779	2.891
73	Implementing the marketing plan 2	2.36	0.070	0.933	0.391
74	Implementing the marketing plan 3	3.83	0.097	0.673	3.729
75	Promotion and in-store merchandising	4.15	0.081	0.722	7.704
76	Clear in-store operations 1	3.80	0.070	0.616	4.483
77	Clear in-store operations 2	2.85	0.098	0.988	-0.388
78	Developing strategy and vision 2	2.31	0.081	0.884	0.336
	<b>Construct descriptives <math>n=93</math></b>	<b>3.31</b>	<b>0.083</b>	<b>0.799</b>	<b>2.123</b>

Not all variables are intended to be analysed from a Pearson correlation point of view; all variables are merely listed for completion of the table purposes. Appropriate correlations will be discussed in the per item evaluations. Inter-item reliability is analysed by means of the Cronbach's Alpha, with values depicted in Table 7.23. The table includes the corrected item-total correlation, and alpha if the item is deleted. The Cronbach's Alpha reliability coefficient is appropriate for the project at hand (0.7893). Should any item be deleted, alpha is only marginally affected; confirming the decision to include all variables. Table 7.23 is represented on the following page.

Table 7.23 identifies an appropriate construct Cronbach's Alpha of 0.7893 (above desired 0.7). The distribution is also characterised by appropriate reliability should any item be deleted. Item-scale correlations are also appropriate (above 0.3); an average item-scale

correlation in excess of 0.48 is indicative of the strength of significant association within the construct.

**TABLE 7.23 Item reliability analyses for best practice themes**

Question	Association	Item-scale correlation	Alpha if item deleted
69	Understanding customers and markets	0.6039	0.7602
70	Developing strategy and vision 1	0.6179	0.7460
71	Refining offerings	0.5381	0.7599
72	Implementing the marketing plan 1	0.3170	0.8149
73	Implementing the marketing plan 2	0.3806	0.7756
74	Implementing the marketing plan 3	0.3698	0.7740
75	Promotion and in-store merchandising	0.4868	0.7856
76	Clear in-store operations 1	0.5141	0.7547
77	Clear in-store operations 2	0.4985	0.7589
78	Developing strategy and vision 2	0.4655	0.7707
Reliability coefficients		<i>10 items</i>	
<b>Cronbach's Alpha for the construct = 0.7893</b>			

## 7.8.2 Item analysis

Item analysis will be conducted per item, representative of questions sixty-nine to seventy-eight of the questionnaire. This will be analysed within the item associations depicted in Tables 7.22 and 7.23, together with correlations in Appendix 2. The significant correlations will include association with the service quality construct only, as service profit chain and relationship marketing correlations have already been identified. Once all items have been evaluated, the hypothesis will be tested using the non-parametric ANOVA Kruskal-Wallis test.

### 7.8.2.1 Understanding customer markets

This best practice initiative (question sixty-nine) involves analysis of the business environment, and franchisees had a neutral response (fifty-three per cent). This may be attributed to uncertainty on how to evaluate the environment, coupled with franchise expectations. The relatively low standard deviation (0.779) is characterised by a similar distribution around the mean (standard error of the mean is 0.092). A normal distribution produced, with a kurtosis of 0.044. Inter-construct significant correlations (0.01 level) include all variables with the exception of questions seventy-two, seventy-four and seventy-five. Item-total correlation is significant at 0.5493. As with all the variables in the

construct, the Cronbach's Alpha coefficient is appropriate should the item be included. Service quality construct significant associations at 0.01 level include tangibles (q57). Significant correlations at 0.05 level include reliability 2 (q50) and responsiveness (q51).

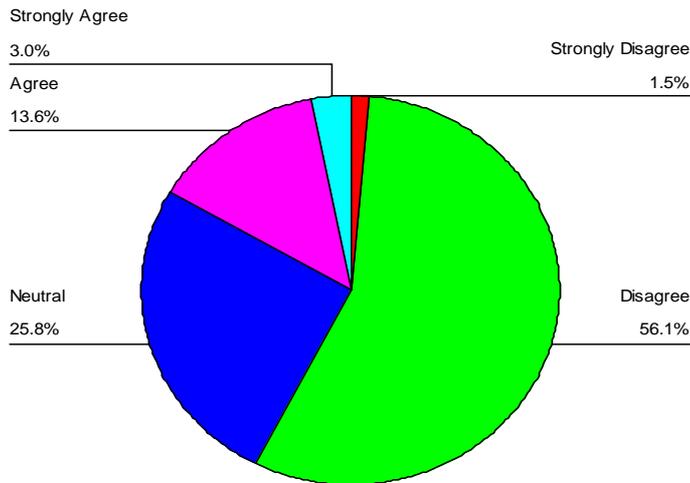
#### 7.8.2.2 Developing strategy and vision 1 and 2

The two best practice strategy variables are represented in questions seventy and seventy-eight of the questionnaire. They are characterised by mean scores below the construct average (2.86 and 2.31 respectively). The former has a distribution flatter than normal, whereas the latter portrays a relatively normal distribution. They are also characterised by similar standard deviations (0.944 and 0.884 respectively). Cross tabulation with the number of outlets (q7) to the outlet implementing a strategy in the long term (q70) produces an interesting finding. Whilst fifty-eight per cent of single outlet franchisees were in disagreement with the variable, only thirteen per cent of multiple-outlet franchisees were in disagreement. This distinction may be associated to the entrepreneurial orientation of multiple-outlet franchisees. The variance between the number of franchised outlets is represented in Figures 7.11 and Figure 7.12 on the following page.

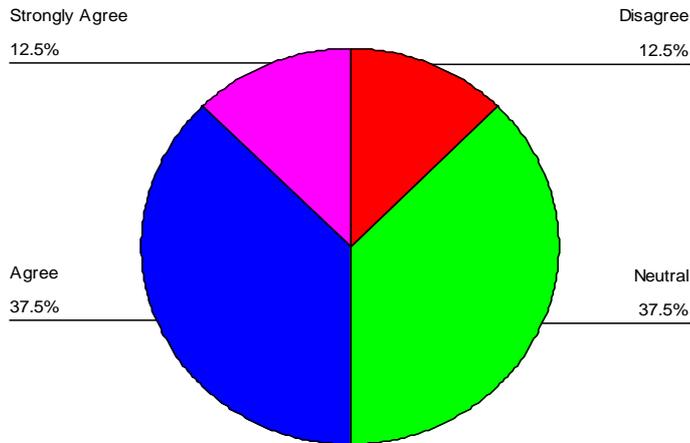
Significant inter-construct correlations (0.01 level) for the two variables include understanding customers and markets (q69), implementing the marketing plan 2 (q73), clear in-store operations 1 and 2 (q76 and 77). Significant correlations with the service quality construct variables include responsiveness 1 (q51) and tangibles (q57). Developing strategy and vision is also significantly correlated to empathy 1 and 2 (q55 and 56). The two variables have a significant correlation of 0.514.

Figures 7.11 and Figure 7.12 are represented on the following page.

**FIGURE 7.11 Single outlet strategy responses**



**FIGURE 7.12 Multiple-outlet strategy responses**



### 7.8.2.3 Implementing the marketing plans 1 and 2 and 3

Due to the nature of these three marketing plan variables, responses differed somewhat. Each variable will be analysed separately:

- Implementing the marketing plan 1: related to question seventy-two, this variable shares the highest mean score in the construct. The distribution is peaked (2.891) around the agree scale, representing fifty-six per cent of responses. Inter-construct

significant correlation (0.01 level) includes refining offerings (q71), implementing the marketing plans 3 (q74), promotion and in-store merchandising (q75) and clear in-store operations 1 (q76). Service quality significant correlation includes all but one (responsiveness 1) variable

- Implementing the marketing plan 2: characterised by seventy per cent of respondents disagreeing using direct mail (mean score of 2.36). The negative response is due to the franchisor believing that localized marketing is the responsibility of the franchisee. A moderate standard deviation (0.933) is characterised by a relatively flat distribution (kurtosis of 0.391). Inter construct significant correlation includes understanding customers and markets (q69), developing strategy and vision 1 and 2 (q70 and 78) and clear in-store operations 1 and 2 (q76 and 77). Service quality correlations are not significant at 0.01 level
- Implementing the marketing plan 3: represented in question seventy four of the questionnaire. Seventy-one per cent of respondents are in agreement with the relationships between employees and customers, represented by a mean score of 3.83. The low standard deviation (0.673) accounts for a peaked distribution (kurtosis of 3.729). This variable is significantly correlated with all but one of the relationship marketing constructs variables. The variable is correlated significantly within the construct, with relevance to questions seventy-one, seventy-two, seventy-six, seventy-seven and seventy-eight. Implementing the marketing plan 3 is significantly correlated to all variables within the service quality construct.

#### 7.8.2.4 Promotion and in-store merchandising

Question seventy-five received a positive response regarding the tangibles component of the outlet. A mean score of 4.15 is represented by ninety-six per cent of respondents in agreement. The high positive response is reason for the exceptionally peaked distribution (7.704). Inter-construct significant associations include questions seventy-one, seventy-two, seventy-four and seventy-six. Service quality variables are correlated significantly across the construct.

#### 7.8.2.5 Clear in-store operations 1 and 2

These two variables (questions 76 and 77) received varying responses, due to the diversified nature of in-store activity:

- Clear in-store operations 1: the image portrayed to customers received a positive response, with a mean score of 3.80. Seventy-seven per cent of respondents are in agreement, characterised by a small standard deviation and peaked distribution (kurtosis of 4.483). This variable is significantly correlated (0.01 level) to all variables within the construct. Significant correlations are also realized across all variables of the service quality construct.
- Clear in-store operations 2: the operations manual received a forty-two per cent negative response, coupled with a thirty-three per cent neutral response. With only twenty-five per cent of franchisees in favour of the operations manual, it is assumed that the manual is inappropriate for use. The distribution has a moderate standard deviation, with corresponding distribution marginally flatter than normal. Inter-construct significant correlation is evident across all variables, with the exception of question seventy-two and seventy-five. Service quality significant correlations are seen across all variables, with the exception of empathy 1 and 2 (q55 and 56) and reliability 1 (q49).

The incident rate of substantial significant correlation to the service quality construct has been evaluated from an item to item basis. An additional item-total statistic was evaluated, comprising all variables within the best practice and service quality constructs (q49-68). The reliability coefficient of all variables ( $N = 20$ ) resulted in an overall alpha of 0.9113, representative of appropriately high reliability. The only variable raising concern is question seventy-three (implementing the marketing plan 2); however, the item-total correlation below 0.3 is deemed appropriate as it has only a marginal affect on the overall Cronbach's Alpha (0.9151 if deleted). In addition, the negative response from the variable highlights the necessity for corrective action. The hypothesis of the best practice and service quality association will now be tested.

### **7.8.3 Best practice significance**

In Sections 7.8.1 and 7.8.2 the relationship marketing construct was analysed using descriptive and inferential statistics. Items were analysed, evaluating their associations with inter-construct items, together with associations with other constructs. The opportunity now avails to empirically analyse best practice in light of an association to service quality. The applicable alternate and null hypotheses are represented as:

H5: Best practice initiatives are positively associated with service quality.

H0: Best practice initiatives are not positively associated with service quality.

Applicable to H5 is the use of the non-parametric ANOVA Kruskal-Wallis significance test, as identified in section 6.6.4.1.

*Test statistic a.b*

	<b>Best Practice Initiatives</b>
Chi-Square	4.998
df	3
Asymp.Sig	0.172

- c. Kruskal-Wallis test
- d. Group variable SQ

Presentation of the P-value of 0.172 (greater than 0.05) represents the null hypothesis as not being likely, therefore rejecting the null hypothesis. We therefore accept the hypothesis that best practice initiatives are positively associated with service quality.

Section 7.4 empirically tested entrepreneurial orientation in a franchised system, and Section 7.5 empirically tested the franchise system as an entrepreneurial option towards creating and developing ventures. Section 7.6 empirically tested the positive association between the service profit chain and service quality. Section 7.7 empirically tested the positive association between relationship marketing and service quality. Section 7.8 empirically tested the positive association between best practice and service quality. The following section empirically analyses the inter-construct association of variables within the service quality construct (dependent variable).

## **7.9 SECTION E: SERVICE QUALITY**

Service quality (SQ) is represented in section E of the questionnaire (questions 49-58). Associated themes within the construct include reliability 1 and 2, responsiveness 1 and 2, assurance 1 and 2, empathy 1, 2 and 3 and tangibles. The objective of the study is to evaluate the association of variables within the service quality construct. Since only inter-item evaluation is being analysed, hypothesis testing will not be appropriate for this construct.

The format of the investigation will follow a descriptive and inferential analysis, by item analysis, and associations within the service quality construct. Service quality variables represent the dependent variables appropriate to the study.

### 7.9.1 Service quality descriptive and inferential statistics

Item descriptive statistics are depicted in Table 7.24. The left hand column identifies the service quality associations of reliability 1 and 2, responsiveness 1 and 2, assurance 1 and 2, empathy 1, 2 and 3 and tangibles. The descriptive and inferential statistics are used for an analysis on a per item basis. Correlation analysis will be used to evaluate associations within the construct. The Pearson correlation significance coefficient for the construct is depicted in Appendix 2.

**TABLE 7.24 Service quality descriptive statistics**

Question	Association	Item Mean	Std error of mean	Standard deviation	Kurtosis
49	Reliability 1	3.65	0.066	0.637	2.894
50	Reliability 2	3.51	0.072	0.676	-0.160
51	Responsiveness 1	3.49	0.069	0.656	1.355
52	Responsiveness 2	3.89	0.057	0.544	12.377
53	Assurance 1	3.89	0.062	0.598	7.947
54	Assurance 2	3.81	0.066	0.631	5.763
55	Empathy 1	3.98	0.073	0.699	7.188
56	Empathy 2	3.97	0.057	0.544	11.252
57	Tangibles	3.80	0.069	0.669	3.105
58	Empathy 3	4.01	0.073	0.699	3.815
	<b>Construct descriptives</b> <i>n=93</i>	<b>3.80</b>	<b>0.066</b>	<b>0.635</b>	<b>5.570</b>

Construct descriptives are characterized by a mean score of 3.81, representing an overall positive response to the construct questions. Seventy per cent of construct responses were in the agree scale, indicative of the extreme peakedness of the construct distribution (kurtosis of 5.570). The standard deviation for the sample mean, referred to as the standard error of the mean, is relatively small for the  $n = 93$  response rate; an indication that the average deviation from the mean is relatively stable. Standard deviations are relatively low (all variables below 0.7); indicative of the majority of responses distributed closely around the mean score. Kurtosis is indicative of an extreme peaked distribution; with only one variable experiencing a flat distribution. Another characteristic is that only four per cent of franchisees responded negatively to the construct.

Not all variables are intended to be analysed from a Pearson correlation point of view; all variables are merely listed for completion of the table purposes. Appropriate correlations will be discussed in the per item evaluations. Inter-item reliability is analysed by means of the Cronbach's Alpha, with values depicted in Table 7.25. The table includes the corrected item-total correlation, and alpha if the item is deleted. The Cronbach's Alpha reliability coefficient is appropriate for the project at hand (0.9344). Should any item be deleted, alpha is only marginally affected; confirming the decision to include all variables.

**TABLE 7.25 Item reliability analyses for service quality**

Question	Association	Item-scale correlation	Alpha if item deleted
49	Reliability 1	0.6802	0.9305
50	Reliability 2	0.5808	0.9357
51	Responsiveness 1	0.5965	0.9347
52	Responsiveness 2	0.8463	0.9233
53	Assurance 1	0.8623	0.9217
54	Assurance 2	0.8745	0.9207
55	Empathy 1	0.8181	0.9235
56	Empathy 2	0.7848	0.9263
57	Tangibles	0.6947	0.9300
58	Empathy 3	0.7165	0.9291
Reliability coefficients		<i>10 items</i>	
<b>Cronbach's Alpha for the construct = 0.9344</b>			

Table 7.25 identifies an appropriate construct Cronbach's Alpha of 0.7893 (above desired 0.7). The distribution is also characterised by appropriate reliability should any item be deleted. Item-scale correlations are also appropriate (above 0.3); an average item-scale correlation in excess of 0.747 is indicative of the strength of significant associations within the construct.

### 7.9.2 Item analysis

Item analysis will be conducted per item, representative of questions forty-nine to fifty-eight of the questionnaire. This will be analysed within the item associations depicted in Tables 7.24 and 7.25, together with correlations in Appendix 2. The significant correlations will include association within the service quality construct only, as service profit chain, relationship marketing and best practice correlations have already been

identified. Emphasis is placed on significant correlation (0.01 level) between all the variables in the service quality construct.

#### 7.9.2.1 Reliability 1 and 2

The two reliability variables share similar characteristics, except for the peakedness of their distributions. Delivering on customer promises is represented in reliability 1 (q49). Sixty-nine per cent of franchisees responded positively to the variable, with a twenty-seven per cent neutral response. The result is a peaked distribution around the agree scale (kurtosis of 2.894). Performing adequately is represented in reliability 2 (q50). Forty-seven per cent of franchisees responded positively in the agree scale, with a similar proportion in the neutral scale. This again highlights the apathy regarding responsibility at outlet level. This variable is the only variable that has a relatively flat distribution (kurtosis of -0.160). A significant correlation (0.01 level) of 0.408 is exhibited between these two variables.

#### 7.9.2.2 Responsiveness 1 and 2

Prompt service and willingness to help customers are represented in questions fifty-one and fifty-two. Whilst both variables experience similar standard deviations, they differ remarkably in distribution. Responsiveness 1 (q51) is characterised by a high neutral response (fifty-per cent), attributable to the lack of measurement of customer satisfaction at outlet level. Ninety-four per cent of franchisees responded over two scales, indicative of a fairly peaked distribution (kurtosis of 1.355). Responsiveness 2 (q52) is characterised by eighty-eight per cent of franchisees responding in the agreement scale; hence an exceptionally high kurtosis of 12.377. A significant correlation (0.01 level) of 0.494 is exhibited between the variables.

#### 7.9.2.3 Assurance 1 and 2

The two assurance variables produce similar descriptives in all regards, together with minimal deviation from overall construct descriptives. Distributions are characterised by peaked positive distributions, with small standard deviations. The franchisees rate response to integrity of service highly, as opposed to overall integrity within the franchise system. The franchise paradox variable on trust (q34) received similar responses, with a

significant correlation (0.01 level) of 0.738 to the assurance variables. The two variables are represented in questions fifty-three and fifty-four. The conviction to trust is enhanced by minimal neutral responses. Both variables experience over eighty per cent of franchisees responding positively to the questions, with means of 3.89 and 3.81 respectively. Significant correlation between the two variables is 0.819.

#### 7.9.2.4 Empathy 1 and 2

The two empathy variables revolve around having the customer's best interest at heart; represented by questions fifty-five and fifty-six. Both have mean scores above the construct descriptives (3.98 and 3.97), together with peaked distributions. Empathy 2, in particular, has an extremely peaked distribution (11.252). This is the result of eighty-three per cent of responses in the agree scale. The significant correlation (0.01 level) between the two variables is 0.667).

#### 7.9.2.5 Tangibles

The tangibles variable involves the outlet's physical facilities and closely resembles the construct descriptives. The variable is represented in question fifty-seven, and also has a relatively peaked distribution (kurtosis of 3.105). It has an appropriate item-total correlation of 0.6947.

#### 7.9.2.6 Empathy 3

Whilst associated with the other two empathy variables, the variable revolves around customer needs. Eighty-six per cent of franchisees responded positively to the variable; represented in the peaked distribution (kurtosis of 3.815). Empathy 3 has the highest item mean score in the construct (4.01). Item-total correlation is significant at 0.7165.

Service quality variables have been evaluated as an appropriate measure of the service quality construct; exhibiting significant item-total correlation and reliability coefficients (in excess of 0.93). The variables are thus appropriate to test the associations to the service profit chain, relationship marketing and best practice constructs.

In an attempt to justify the acceptance/decline of the stated hypothesis, the next section summarises key descriptive and inferential statistics of the constructs.

## 7.10 KEY CONSTRUCT SUMMARY STATISTICS

The summarized descriptive and inferential statistics of the identified constructs are tabulated in Table 7.26. This will provide a snapshot of the relative associations between the constructs.

**TABLE 7.26 Construct summary statistics**

Construct	Mean	Standard deviation	Kurtosis	Crobach's Alpha	Kruskal-Wallis	Hypothesis
Entrepreneurial orientation	3.39	0.995	-0.339	0.7277	0.013	rejected
Entrepreneurial orientation (multiple-outlet proposal)	3.70	0.917	1.076	0.8533	0.191	proposal accepted
Franchise paradox	3.21	0.963	1.041	0.7748	0.771	accepted
Service profit chain	3.38	0.762	3.088	0.8335	0.563	accepted
Relationship marketing	3.17	0.749	2.005	0.7937	0.117	accepted
Best practice	3.31	0.799	2.123	0.7893	0.172	accepted
Service quality	3.80	0.635	5.570	0.9344	0.771	not applicable
Overall study <i>n=93</i>	3.42	0.83	2.129	0.8152	0.371	not applicable

All hypotheses as stated have been accepted, with the exception of an entrepreneurial orientation in a franchised home entertainment system. The proposal of an entrepreneurial orientation in a multiple-outlet franchise system has however been accepted.

## 7.11 CONCLUSION

An empirical study of an entrepreneurial orientation in a franchised environment; coupled with service vision initiatives has been conducted in the research findings chapter. A satisfactory response rate of eighty-five per cent has been achieved from the defined franchise system, representative of applicable regions. Demographic and biographic information was portrayed, including details on gender, race, period of participation, employees in the system, franchised outlets per franchisee and family members active in the system.

Descriptive and inferential statistics tested hypotheses and associations through six constructs. Constructs consisted of entrepreneurial orientation, franchise paradox, service profit chain, relationship marketing, best practice and service quality.

The primary hypothesis of an entrepreneurial orientation existing in a franchise system has been rejected, and a proposal of entrepreneurial orientation in a multiple-outlet franchise system has been accepted.

H1: Entrepreneurial orientation exists in a franchised system (rejected).

P1: Entrepreneurial orientation exists in a multiple-outlet franchised system (accepted).

The secondary hypotheses involving the franchise paradox, service profit chain, relationship marketing and best practice were empirically tested and accepted.

H2: The franchise system is an entrepreneurial option towards creating and developing ventures (accepted).

H3: Service profit chain initiatives are positively associated with service quality (accepted).

H4: Relationship marketing initiatives are positively associated with service quality (accepted).

H5: Best practice initiatives are positively associated with service quality (accepted).

Service quality is identified as the dependent variable, and was appropriately tested for reliability.

The next and final chapter will discuss recommendations and conclusions based on the research results. Significant associations and differences amongst respondents, constructs, factors and variables are identified in the development of a conceptual matrix of an entrepreneurial service vision in a franchised home entertainment environment. Final comments will include recommendations regarding the implementation of the matrix.

## **CHAPTER 8: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **8.1 INTRODUCTION**

Conclusions and implications are depicted from a theoretical and empirical perspective. From a theoretical perspective, the constructs of entrepreneurial orientation, the franchise paradox, the service profit chain, relationship marketing, best practice and service quality are summarized from the literature reviews in Chapters two to five. Emphasis is placed on the link between entrepreneurship and franchising, together with linking service vision constructs of the service profit chain, relationship marketing, best practice and service quality. Conclusions and implications of the empirical research include the same constructs, in addition to realization, response and representation of results. Demographic and biographic research results are summarized, highlighting the lack of diversity within the defined system. Emphasis is also placed on the multiple-outlet findings within the constructs, particularly regarding entrepreneurial orientation.

Questions and findings are linked to the research objectives, and results of hypotheses are summarized. The proposal of the existence of an entrepreneurial orientation in multiple-outlets is introduced. Recommendations are provided from a construct viewpoint, together with recommendations from a demographic and biographic viewpoint. Also included are creation and developmental initiatives. Highlights of the findings include the possibility of enhancing diversity within the system, increasing multiple-outlet participation rates and implementation of an entrepreneurial service vision. Limitations of the study are again provided from a theoretical and empirical viewpoint; including limited availability of literature and the study being confined to the defined franchise system. Recommendations for future national and international research are motivated by the backdrop of increasing participants in the industry. Related entrepreneurial and franchising studies are also purposed.

The chapter concludes with a wrap-up comment regarding the applicability and contribution of the research project. This highlights the overall value of the research project to society, business and the home entertainment industry.

## 8.2 A REVIEW OF THE LITERATURE RESEARCH

The literature reviews conducted in Chapters 2 to 5 develop a framework for the empirical investigation section of the research project. The objective is to appropriately link, integrate and synergise the theory, research and implementation in a methodological continuum. Conclusions are depicted as major findings and implications for each theoretical chapter. Chapters two and three discuss an entrepreneurial orientation in a franchised environment. Chapters four and five discuss strategic service initiatives, consisting of the service profit chain, service quality, relationship marketing and industry best practice.

Chapter 2 provides a broad spectrum of existing literature on entrepreneurship, culminating in empirical studies on entrepreneurial orientation. The literature commences with the nature and development of entrepreneurship, including entrepreneurial participation rates. The review is supported by data from The Global Entrepreneurship Monitor (GEM), identifying assessment of national entrepreneurial activity. Various definitions of the entrepreneur are evaluated, followed by the nature, characteristics and behaviour of the entrepreneur. Comparisons of entrepreneurs, intrapreneurs and traditional managers are highlighted. The talent, temperament and technique of the entrepreneur are introduced; with linkage to Gallup's life themes. Finally, character themes to evaluate entrepreneurial orientation (Thompson: 2002) are discussed with relevance to empirical evidence.

The character theme analysis (Thompson: 2002) identifies twenty entrepreneurial character themes, with seven entrepreneurial associations. The associations include inventor, inventor + entrepreneur, entrepreneur, entrepreneur + leader, leader, entrepreneur enabler and non-entrepreneur. An adaptation of this empirical research is implemented as an entrepreneurial orientation measurement tool in this study. The objective is to evaluate entrepreneurial orientation within a defined franchise system.

Franchising is introduced as an entrepreneurial option towards creating and developing ventures. The nature and development of franchising is examined, together with the franchising link to entrepreneurship. Franchise rationale is developed from existing literature, depicting operational constructs within a franchise system. Rationale includes, but is not limited to, constructs of real estate development, training, continuing support,

performance standards, research and development, marketing, operations manual, specialist support, territorial rights and terms of agreement. Franchise system relationships are evaluated within the context of trends, cooperation, leadership, effort, conflict, disputes, quality control, foundation, associations, networks and franchise system merits.

The franchising chapter culminates with a literature review of an entrepreneurial orientation in a franchise system, followed by an empirical review of proactivity, innovation and risk-taking in a franchise environment. The study is further developed with an overview of theory, linking entrepreneurship with franchising. The objective of this study is to evaluate the franchise system as an entrepreneurial option for creating and developing ventures.

The fourth chapter identifies the service profit chain (Heskett *et al.*: 1997) as a strategic service vision, identifying customer satisfaction and loyalty to long term organisational profitability and growth. The literature review commences with an overview of profit and growth related to the components of the service profit chain. Capitalising on the service profit chain identifies links in the chain, namely the profit and growth link to customer loyalty, loyalty link to customer satisfaction, satisfaction link to service value, value link to employee productivity, productivity link to loyalty, loyalty link to employee satisfaction, and satisfaction link to internal quality of work life. Service profit chain implications are highlighted, lending management theories from many related disciplines. The management of customer satisfaction is reviewed, together with methods used to track customer satisfaction. The customer value equation is introduced, placing emphasis on requirements to add value. Customer loyalty receives emphasis from a determinants point of view, together with loyalty enhancing measures. The lifetime value of customers is analysed, identifying strategic initiatives of retention, related sales and referrals.

The final section incorporates the enhancement of service profit chain initiatives, identifying eight strategies which facilitate service profit chain implementation. The literature review provides a theoretical disposition of the link between the service profit chain and service quality. One of the objectives of this research study has been to evaluate the association between the service profit chain and service quality.

Chapter five delineated the disciplines of service quality, relationship marketing and best practice as three separate constructs. Service quality is most often conceptualised as the comparison of service expectations with actual performance perceptions. The various definitions of service quality were evaluated against the backdrop of the dimensionality of service quality, together with the integrated gaps model as identified by Zeithaml and Bitner (2003). Various service quality initiatives were assessed, highlighting service quality relationships. Of particular application relevance, was the evaluation of service quality measurement. SERVQUAL and SERVPERF were two measurement instruments identified as being optimal for the study on hand. The objective of this study was to evaluate service quality levels within the defined franchise system.

A literature review was conducted on relationship marketing, with particular emphasis on the revised version of the six markets model (Peck *et al*: 1999). The six markets reviewed included customer, internal, referral, influence, recruitment and supplier/alliance markets. Each market domain was evaluated, with links to related literature from various sources in the discipline. Best practice initiatives included a review from generic literature, with particular emphasis on best practice in the home entertainment industry in the United States of America. The Video Software Association of America (VSDA: 2001) identified best practice in the industry, as identified by Arthur Andersen Business Consultants. These initiatives were wide ranging, including understanding customers and markets, developing vision and strategy, refining store product offering, implementing the marketing plan, creating promotions and in-store merchandising, and clear in-store operations. The objective was to evaluate the relationship marketing and best practice association to service quality.

The strategic service constructs identified in this research study included the service profit chain, service quality, relationship marketing and best practice. Service quality represented the dependent variable, whereas the other three identified constructs represented the independent variable/s. The literature was reviewed from a holistic point of view, and synergised within the research constructs. The research design implemented key concepts as identified in the review.

### **8.3 CONCLUSIONS AND IMPLICATIONS OF THE EMPIRICAL RESEARCH**

Chapter six provided an overview of the research methodology applicable to this research project; whereas Chapter seven provided an empirical analysis of the data obtained. The first section explained the demographic and biographic profile of the franchisee respondents (section A of the questionnaire). The next section evaluates the entrepreneurial orientation of franchisees, followed by an empirical investigation in the franchise paradox (sections B and C in the questionnaire, respectively). The following section tested hypotheses and evaluated relationships between the service profit chain, relationship marketing and best practice (independent variables) and service quality (dependent variable). These constructs were identified in sections D, E, F and G of the questionnaire. Constructs, factors and variables were evaluated using the descriptive and inferential statistical techniques identified in chapter six. Computer aided software used in this research study included SPSS version 11.0 and Surveypro. Conclusions have been depicted as section summaries and implications in the following sections.

#### **8.3.1 Realisation, response and representation of results**

The use of a Surveypro electronic media questionnaire was facilitated by instruction from the franchise system management to duly complete the questionnaire. A satisfactory representation across regions was elicited; with the overall response rate achieved eleven per cent over the targeted response rate. The response and representation of the data was found to be appropriate for the research project at hand.

#### **8.3.2 Section A: Demographic and biographic information**

Eight demographic and biographic variables were evaluated in Section A. Highlights included:

- White male domination of franchisees within the defined franchise system. Females represent only twenty-six per cent of franchisees; whilst franchisees of colour only represent two per cent of franchisees. The defined franchise system is in a position of vulnerability regarding legal aspects of transformation in South Africa

- The Western Cape, Gauteng and Eastern Cape dominate franchise system distribution; being accountable for seventy-five per cent of outlets.
- The majority of franchisees have been in the defined system in excess of three years, and new entrants are predominantly new ventures, as opposed to the sale of existing outlets
- Part-time and full-time employee contributions are similar. Those outlets employing more than one family member employ less full-time staff. Franchisees with one outlet employ no more than two full-time employees; whilst multiple-outlet franchisees employ no more than nine employees
- Seventy-three per cent of franchisees own only one outlet. Multiple-outlet franchisees dominate in Western Cape and Free State. Western Cape and Gauteng are the only regions with six or more outlets belonging to a single franchisee
- Sixty-three per cent of franchisees are solo family members involved in the franchise system.

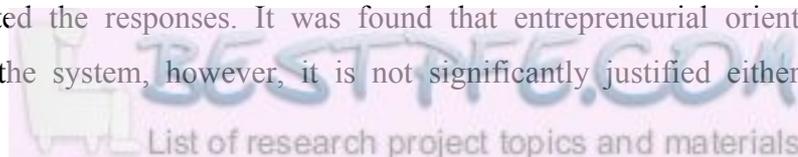
An overall highlight regarding demographic and biographic responses was the variance between single and multiple-outlet franchisees. These variances are acknowledged in the following section.

### **8.3.3 Section B: Entrepreneurial orientation**

The measurement instrument used to evaluate entrepreneurial orientation in the defined franchise system was an adaptation of the Thompson (2002) character theme framework. The objective was to evaluate entrepreneurial orientation in a franchised environment. The study involved a two-tiered approach, from an overall and multiple-outlet perspective. The defined franchise system was characterised by a predominantly single outlet distribution of franchisees. This had a distinct implication on the entrepreneurial orientation of the system, with each tier identifying different character themes.

#### **8.3.3.1 Overall system entrepreneurial orientation**

The non-entrepreneurial association factor, closely followed by the leader association factor, dominated the responses. It was found that entrepreneurial orientation is not denied within the system, however, it is not significantly justified either. Highlights included:



- The non-entrepreneurial character theme of “relator” dominates score ratings. The implication is that franchisees prefer to work with trusted colleagues, most often associated to networks and relationships
- The leader character theme of “influencing” is next, placing emphasis on providing resources and getting people to take things on. This is followed by the character themes of envisioning and strategy, also from the leader association
- The entrepreneur character theme of “opportunity taking” ranks as the least desirable of all themes, implying that franchisees are not prone to engaging and taking on perceived opportunities. The inventor character theme of “mastery” ranks second to last, implying that franchisees do not bask in expertise others don’t have
- Seven of the entrepreneurial orientation themes do not feature in the top ten themes favoured by respondents. These include creativity, opportunity taking, urgency, time focus, ego and courage
- The only character themes of entrepreneurial orientation featuring in the top ten of responses include “performance orientation”, “networking” and “focus”. None are however in the top ten preferences.

The dominant non-entrepreneur association, coupled with leader association may be related to themes within the intrapreneur focus. As franchising involves a network system, it closely resembles a corporate identification, with linkage to entrepreneurship (franchisees as distribution outlet owners). Whilst factor means are all above three, no statistical significance exists between the factor associations. The non-entrepreneur association dominates, followed by leader associations. Using factor mean scores, it may thus be inferred that a non-entrepreneurial orientation exists within the franchise system (due to non entrepreneurial mean score domination). Although the entrepreneur factor association is positive (factor mean score of 3.26), the non entrepreneur association is four per cent stronger (factor mean score of 3.54). Taking all respondents within the defined franchise system into account, it may be concluded that there is no statistical significant variation between entrepreneurial orientation factors, despite non entrepreneurial associations exhibiting more favourable responses.

### 8.3.3.2 Multiple-outlet entrepreneurial orientation

The responses from multiple-outlet franchisees differed significantly from single outlet franchisees. The same measuring instrument is analysed, using cross tabulation to identify variances. Highlights included:

- Entrepreneurial character themes of “urgency” and “performance” dominate character theme ratings for multiple-outlets
- Non-entrepreneurial character theme of “relator” dominates character theme ratings for single outlets
- The non-entrepreneurial character theme of relator is significant in multiple-outlet responses. This is attributable to the functionality of the franchise system, and interaction with trusted colleagues. Trust and relationships are further highlighted in subsequent sections
- The entrepreneur association is the strongest of the associations for multiple-outlets
- The non-entrepreneur association is the dominant association for single outlets
- The greater the number of multiple-outlets per franchisee, the greater the entrepreneurial association
- Weighted regional contributions identify Gauteng and Western Cape as dominant regions.

It can therefore be concluded that a significant entrepreneurial orientation exists in a multiple-outlet franchise system. This investigation in no way negates entrepreneurial orientation in single outlet franchise systems, but places emphasis on significant entrepreneurial associations in a multiple-outlet franchise system.

### 8.3.4 Section C: The franchise paradox

This section evaluated franchising as an entrepreneurial option for creating and developing new ventures. The study commenced with a background of the franchise paradox, evaluating franchisees in the system and finally the paradox link to franchising. Highlights included:

- Relationships + effort ranked the highest of all franchise paradox associations; closely associated to relationships + trust. The implication is the importance of franchise relationships not being self-sustaining
- Entrepreneurship associations rated relatively poorly compared to other variables. Multiple-outlet responses however favoured entrepreneurial associations
- The majority of franchisees rejected entrepreneurial associations of creativity and productivity in the system. Multiple-outlets however favoured these associations
- Eighty-seven per cent of franchisees believe conflict handling and franchisee contributions are not optimal in the system
- The majority of franchisees believe the system meets with their business objectives
- The majority of franchisees believe that the defined franchise system is an entrepreneurial option for creating and developing ventures, particularly so in the case of multiple-outlet franchisees.

It can, therefore, be concluded that the franchise system is seen as an entrepreneurial option for creating and developing ventures. This association is however most significant in a multiple-outlet environment.

### **8.3.5 Section D: The service profit chain**

The service profit chain (SPC) was represented in section D of the questionnaire (questions 39-48). Associated themes within the construct included SPC links, retention, related sales and referrals. The objective of the study was to evaluate the association of SPC to service quality (SQ). Highlights included:

- SPC links and satisfaction is the dominant association, implying significant correlation between employee and customer satisfaction
- Retention and relationships are the next most dominant association, implying significant correlation between retaining customers and internal marketing
- Retention and lifetime value of customers are not adequately measured in the franchise system, implying neglect to loyal customers
- SPC links and best practice initiatives are not adequately communicated in the system, an implication of poor performance management on behalf of the franchisor

- Retention and feedback is depicted as inadequate in the system; implying the lack of optimal customer feedback channels.

Despite a few associations being inadequate within the defined franchise system, service profit chain initiatives were positively associated with service quality.

### **8.3.6 Section F: Relationship marketing**

Relationship marketing (RM) was represented in section F of the questionnaire. Associated themes within the construct included customer markets, internal markets, referral markets and recruitment markets. The objective of the study was to evaluate the association of RM to service quality (SQ). Highlights included:

- Referral markets dominate response ratings. The implication is the associated positive link to word-of-mouth, lifetime value and loyal customers
- Internal markets rated high in the relationship associations, implying the relative importance of quality of worklife and relationships between franchisee and franchisor
- Recruitment markets dominate dissatisfaction in the system, implying discontent with optimal association and industry alliances. Furthermore, franchisees identify the measurement of franchisee satisfaction levels as dismal
- Internal markets rated poorly in the supply chain, with franchisees doubting the integrity of major suppliers

In conclusion, relationship marketing initiatives were positively associated with service quality.

### **8.3.7 Section G: Industry best practice**

Industry best practice (BP) was represented in section G of the questionnaire. Associated themes within the construct included understanding customer markets, developing strategy and vision 1 and 2, refining offerings, influencing the marketing plan 1 and 2 and 3, promotion and in-store merchandising, and clear in-store operations 1 and 2. The objective of the study was to evaluate the association of BP to service quality (SQ). Highlights include:

- Promotion and in-store merchandising dominate the best practice associations, implying the importance of physical evidence tangibles in the service offering
- Implementing the marketing plan with regard to community involvement also dominates best practice associations; indicative of the link between localized marketing and awareness and loyalty
- Clear in-store operations regarding operating procedures are regarded as poorly documented by the majority of franchisees; as is the use of direct mail
- Best practice initiatives are not adequately communicated within the defined franchise system, implying discontent with overall communication within the system
- Developing strategy and vision is regarded as undeveloped, particularly regarding single outlet franchisees. Implications include lack of long-term business planning, vision and direction.

In conclusion, best practice initiatives were positively related to service quality.

### **8.3.8 Section E: Service quality**

Service quality (SQ) was represented in section E of the questionnaire. Associated themes within the construct included reliability 1 and 2, responsiveness 1 and 2, assurance 1 and 2, empathy 1, 2 and 3 and tangibles. The objective of the study was to evaluate the association of variables within the service quality construct. Highlights included:

- High responses across all themes, with the highest being empathy. The implication is that of employees meeting the needs and wants of the consumer
- Exceptionally high correlation between all variables within the construct
- Only four per cent of franchisees responded negatively to the entire construct.

In conclusion, service quality variables were evaluated as an appropriate measure of the service quality construct; exhibiting significant item-total correlation and reliability coefficients. The variables were thus considered appropriate to test the associations to the service profit chain, relationship marketing and best practice constructs.

## 8.4 THE RESEARCH HYPOTHESES REVISITED

The purpose of the investigation was to determine the entrepreneurial orientation of participants in a franchised environment, coupled with the association of service vision factors. Once explored, the entrepreneurial orientation and service vision factors will be synergised to develop an entrepreneurial service vision within a franchised environment. Research questions included:

- Question 1: Does entrepreneurial orientation exist within a franchised system, and if so, to what extent?
- Question 2: Does franchising lead to an entrepreneurial option for creating and developing ventures?
- Question 3: Do service profit chain initiatives lead to service quality?
- Question 4: Does relationship marketing lead to service quality?
- Question 5: Does best practice lead to service quality?
- Question 6: What is the level of service quality in a franchise system?

Entrepreneurial orientation was however also investigated from a multiple franchisee point of view; that is, franchisees that operate more than one franchised unit (multiple-outlet franchising).

The hypotheses supplemented the research questions and objectives:

The primary hypothesis postulates that there was evidence of entrepreneurial orientation in a franchise system.

H1: Entrepreneurial orientation exists in a franchise system.

H0: Entrepreneurial orientation does not exist in a franchised system.

It was concluded that the alternate hypothesis (H1) is rejected and the null hypothesis (H0) accepted; that entrepreneurial orientation does not exist in a franchised system.

A proposition was introduced with reference to multiple-outlet franchising.

P1: Entrepreneurial orientation exists in a multiple-outlet franchised system.

It can be concluded that the proposition of entrepreneurial orientation in multiple-outlets is not unlikely, and the proposition (P1) is not rejected. It can therefore be concluded that a significant entrepreneurial orientation exists in a multiple-outlet franchise system.

The secondary hypotheses postulated that there is evidence of a positive association between:

- The franchise system is an entrepreneurial option towards creating and developing ventures
- The service profit chain and service quality
- Relationship marketing and service quality
- Best practice and service quality.

H2: The franchise system is an entrepreneurial option for creating and developing ventures.

H0: The franchise system is not an entrepreneurial option towards creating and developing ventures.

In conclusion, the hypothesis that the franchise system is an entrepreneurial option for creating and developing ventures was accepted. Furthermore, a significant association was found between the creation and development of ventures and multiple-outlet franchisees.

H3: Service profit chain initiatives are positively associated with service quality.

H0: Service profit chain initiatives are not positively associated with service quality.

It was concluded that the null hypothesis is unlikely, therefore rejecting the null hypothesis. We accept the hypothesis that service profit chain initiatives are positively associated with service quality.

H4: Relationship marketing initiatives are positively associated with service quality.

H0: Relationship marketing initiatives are not positively associated with service quality.

We conclude the null hypothesis as not being likely, therefore rejecting the null hypothesis. We accept the hypothesis that relationship marketing initiatives are positively associated with service quality.

H5: Best practice initiatives are positively associated with service quality.

H0: Best practice initiatives are not positively associated with service quality.

Inferential statistics represent the null hypothesis as not being likely, therefore rejecting the null hypothesis. We therefore accept the hypothesis that best practice initiatives are positively associated with service quality.

The literature review highlighted many synergies, which were explored in the empirical stage of the study. These points of view were supported, with the exception of entrepreneurial orientation in the franchise system. Data analysis however highlighted an entrepreneurial orientation in sub-section of franchisees. It must however be highlighted that this study does not examine personality characteristics of franchisees, which may in itself lend toward an entrepreneurial orientation.

All hypotheses as stated have been accepted, with the exception of an entrepreneurial orientation in a franchised home entertainment system. The proposal of an entrepreneurial orientation in a multiple-outlet franchise system has however been accepted. Construct summary statistics are depicted in Table 7.26; highlighting an overview of associations between the constructs.

## **8.5 RECOMMENDATIONS**

The culmination of the chapter revolves around recommendations regarding the implementation of the conceptual entrepreneurial service vision matrix. The primary objective of the research project was to identify entrepreneurship and entrepreneurial orientation within a defined franchise system; with synergistic links to a strategic service vision. The strategic service vision in turn includes service quality, the service profit chain, relationship management and best practice initiatives. Upon identification of the links and relationships amongst constructs, factors and variables; the opportunity exists to develop a matrix to facilitate service-oriented decision-making within the franchise system.

The final objective and outcome is the development of an entrepreneurial service vision, based upon the findings of entrepreneurial orientation and the franchise paradox. Such a matrix may be described as a full representation or description of the set of associations between these factors, including statements about the assumptions and interactions in the matrix (Page & Meyer, 2000: 7). The imperative is to link the theory, empirical investigation, industry know how and expertise within the industry. Recommendations are provided by section as in the previous section, and then integrated to synergise the entrepreneurial orientation of a strategic service vision in a franchised home entertainment environment.

### **8.5.1 Section A: Demographic and biographic recommendations**

Whilst this section provided background information regarding franchisees in the system, the data analysis identified various opportunity areas. Recommendations include:

- Not only a recommendation, but an immediate proactive initiative is required to adhere to diversity and transformation within a new South Africa. This includes not only franchisees entering the defined system, but employment equity and Affirmative Action within the franchisor. Recommendations include the development of markets to cater for franchisees of the previously disadvantaged, together with enhancement of developing female participation in the franchise system
- Development of the home entertainment market in areas not dominated by the franchise system; areas such as Soweto, Soshenguvi, Alexandria, Cape Flats, to name but a few. This will not only facilitate growth, but develop the emerging black market. Whilst only a suggestion, the possibility exists to acquire or joint venture initiatives developed by Ster Kinekor Home Entertainment in this regard. Such development will also allow expansion, therefore not depending on three regions for over seventy-per cent of revenue
- Retain current franchisees, as it is seen that longer tenured franchisees are accountable for development of multiple-outlets. Specific initiatives and recommendations will be discussed in the following sections
- Attempt to introduce additional family members into the system, reducing overheads of employing additional staff. Introducing additional family members

also enhance development of multiple-outlets, facilitating trust and integrity to expand

- Encourage existing franchisees to develop new outlets. There are currently no franchisor incentives for franchisees to expand. Such initiatives may include relaxing the development costs, or a marginal reduction in franchise fees for multiple-outlets. Possible benefits to the franchisor and franchisee are huge, including reduction of training time, industry know how, induction and competitive activity.

The franchise system has an immediate priority of social responsibility in the form of actively promoting and enhancing diversity. This will facilitate family member involvement, multiple-outlet development and prosperity within the franchise system.

### **8.5.2 Section B: Entrepreneurial orientation recommendations**

The detailed item analysis in Section 7.4 depicts that entrepreneurial orientation is not significant within the defined franchise system, despite a significant entrepreneurial orientation in multiple-outlet franchisees. An overall objective would be to enhance entrepreneurial orientation within the entire system; due to the associated benefits of this orientation (Section 2.6.6.3: What entrepreneurs do: the action factors). Benefits will include associated roles; such as entrepreneurs making a difference, being creative and innovative, being good networkers, managing risk, exploiting opportunities, to name but a few. Developing entrepreneurial orientation within the system will also facilitate the objective to develop more multiple-outlet franchisees. Recommendations to enhance entrepreneurial orientation include:

- Mobilising the action factors: entrenching entrepreneurial action factors into franchisees. This will include training and advising franchisees of associated action factors, and the related benefits. Benefits will include: entrepreneurs able to timeously locate required resources via networking capabilities (Larson & Rogers: 1986); entrepreneurs making it their business to exploit all resources available (Lindsay & McStay: 2004); and the entrepreneur is the person who exploits the opportunity and turns it into reality (Kets de Vries: 1997)
- Communicating the nature, characteristics and behaviour of the entrepreneur to franchisees (Section 2.6). Once again, highlighting benefits of entrepreneurial

orientation. Specific characteristics include intuition (Section 2.6.1); behavioural traits (Section 2.6.2); creativity and innovation (Section 2.6.3); the entrepreneurial personality (Section 2.6.4); entrepreneurial synthesis (Section 2.6.6) and entrepreneurial talent, temperament and technique (Section 2.6.7)

- Identify franchisees against traditional and entrepreneurial management approaches (Table 2.3); placing emphasis on the benefits of entrepreneurial orientation per management practice
- Identify associations and themes within the character theme framework (Thompson: 2002) which align to the franchise system growth strategies and vision. Themes in this study include creativity, opportunity taking, urgency, time focus, ego and courage
- The themes and findings in Section 8.3.3.2 (Multiple-outlet entrepreneurial orientation) are to be conveyed and taught to franchisees, in the form of learning organisations
- Align the franchisee towards entrepreneurship orientation from an intrapreneurship point of view. This may consist of a phasing approach, as many franchisees already share many intrapreneurial character traits (Table 2.2).

The overall objective is to increase the distribution of multiple-outlet franchisees; and by developing an entrepreneurial orientation amongst franchisees, this objective will be self-sustaining. It is proposed entrepreneurial orientation development be in the form of regional training sessions, conducted by professional facilitators.

### **8.5.3 Section C: The franchise paradox recommendations**

The empirical results in Section 7.5 identify franchising as an entrepreneurial option for creating and developing ventures. This facilitates the objective of enhancing entrepreneurial orientation within the system (previous section). Section C however also incorporates the franchise paradox, and the relationships and operational mechanisms of the system. Towards the objective of system growth (creating and developing new outlets), the following franchise paradox recommendations are put forward:

- Recommendations in Section 8.5.3 are emphasised towards enhancing entrepreneurial associations within the franchise paradox (Section 3.4)
- Develop an open communication and conflict-handling procedure (Section 3.3.8)

- Enhance integrity, trust and interdependence within the system, particularly from the franchisor's implementation point of view
- Continually develop internal marketing and communication channels within the system, as franchise relationships are not self sustaining
- Implement a recommendations and suggestions medium within the system, whereby franchisees may electronically interact with the franchisor and other franchisees (Section 3.3). Develop guidelines for optimal franchise relationships (Table 3.1)
- Formalise a franchise advisory council, whereby nominated franchisees represent fellow franchisees regarding important franchise issues (Section 3.3.11)
- Communicate success stories within the system; particularly the value of incremental wealth of multiple-outlet franchisees.

The overall franchise paradox objectives are two-fold; that is, enhancing entrepreneurial orientation, and enhancing relationships within the system. The former is incorporated into Section 8.5.2 objectives, and the latter are depicted above. A proposal is that the franchise system develops an intranet to facilitate the sustaining of relationships within the system.

#### **8.5.4 Section D: The service profit chain recommendations**

Significant positive associations between service profit chain initiatives of retention, related sales and referrals are experienced relative to customer satisfaction and service quality (Section 7.6). Service profit chain recommendations include:

- Developing and implementing a SPC programme across retention, related sales and referrals within the system
- Implement measurement of loyalty within the system; particularly regarding the lifetime value of customers (Section 4.7.6)
- Develop customer feedback and complaint systems (listening posts), such as introducing a franchise toll-free number (Section 4.5.1)
- Communicate the value of SPC enhancement, and the links to profit and growth (Section 4.4)
- Entrench customer value to all employees in the system, identifying the value mix (Section 4.6 and Figure 4.3)

- Enhance SPC initiatives, such as spending time with customers, putting employees first, investing in customers and communication the message within the franchise system.

The overall objective of the SPC is to link initiatives of retention, referrals and related sales with the other links within the chain. These include satisfaction, loyalty, value and long-term growth.

### **8.5.5 Section F: Relationship marketing recommendations**

Relationship marketing initiatives are positively associated with service quality (Section 7.7). To facilitate a strategic service vision, the following relationship marketing initiatives are recommended:

- Integrate and implement a relationship marketing programme, consisting of customer markets, internal markets, referral markets, influence markets, supplier and alliance markets and recruitment markets
- Evaluate and identify areas of discontent within the supply chain. Particular emphasis to be placed on areas of trust and reciprocity between franchisees and major suppliers. Thereafter develop a relationship management chain (Figure 5.6)
- Develop core competencies for internal services marketing (Figure 5.5), including the measurement of franchisee satisfaction levels
- Develop alliances with strategic intent; such as alliance with a major take-out fast food chain such as Nando's and supply alliance with international content providers.

The research project has identified particular opportunities of internal marketing, particularly regarding relationships between franchisor and franchisee. The development of a relationship management chain, together with development of a core competencies matrix; will facilitate all themes across the relationship management construct.

### **8.5.6 Section G: Industry best practice recommendations**

It has been shown that industry best practice initiatives enhance service quality (Section 7.8). Taking a lead from the studies of the Video Software Dealers Association of

America (VSDA), and in conjunction with empirical findings of this research report, recommendations include:

- Develop and implement a best practice and benchmarking guideline for franchisees (Section 5.4.1). Themes are to include understanding markets and customers, developing vision and strategy, refining outlet offerings, implementing the marketing plan, excellent customer service, creating promotions and in-store merchandising, and clear in-store operations. These guidelines will not take the place of an operations manual, but are intended to supplement it
- Update the franchise operations manual, with the appropriate training in communication and of new initiatives
- Facilitate training and development regarding business planning at franchisee level
- Link best practice communication and interaction with SPC and relationship marketing initiatives (such as intranet and internal marketing core competencies matrix).

Best practice initiatives are integrally linked to the relationship marketing, service profit chain and service quality constructs. Overall, a guideline of best practices, communicated formally to franchisees; will go a long way toward enhancing both customer and franchisee satisfaction.

### **8.5.7 Section E: Service quality recommendations**

Although service quality is regarded as the dependent variable; themes of tangibles, reliability, assurance, empathy and responsiveness further enhance strategic service initiatives. Most of these themes correlate to the other service vision constructs, so implementation of recommendations in one construct will ultimately have a positive association to the service quality construct. Service quality recommendations however include:

- Communicating technical and functional quality consumer perceptions to franchisees (Figure 5.1)
- Instilling service quality dimensions as ongoing improvement measures within the system (Section 5.2.2)

- Setting service standards and integration of service quality relationships (Sections 5.2.6 and 5.2.7). This includes developing a system model of market orientation (Figure 5.3)
- Identifying a service quality and internal marketing link (Section 5.2.7.6)
- Measuring service quality within the system. An integration of SERVQUAL and SERVPERF is proposed (Section 5.2.8).

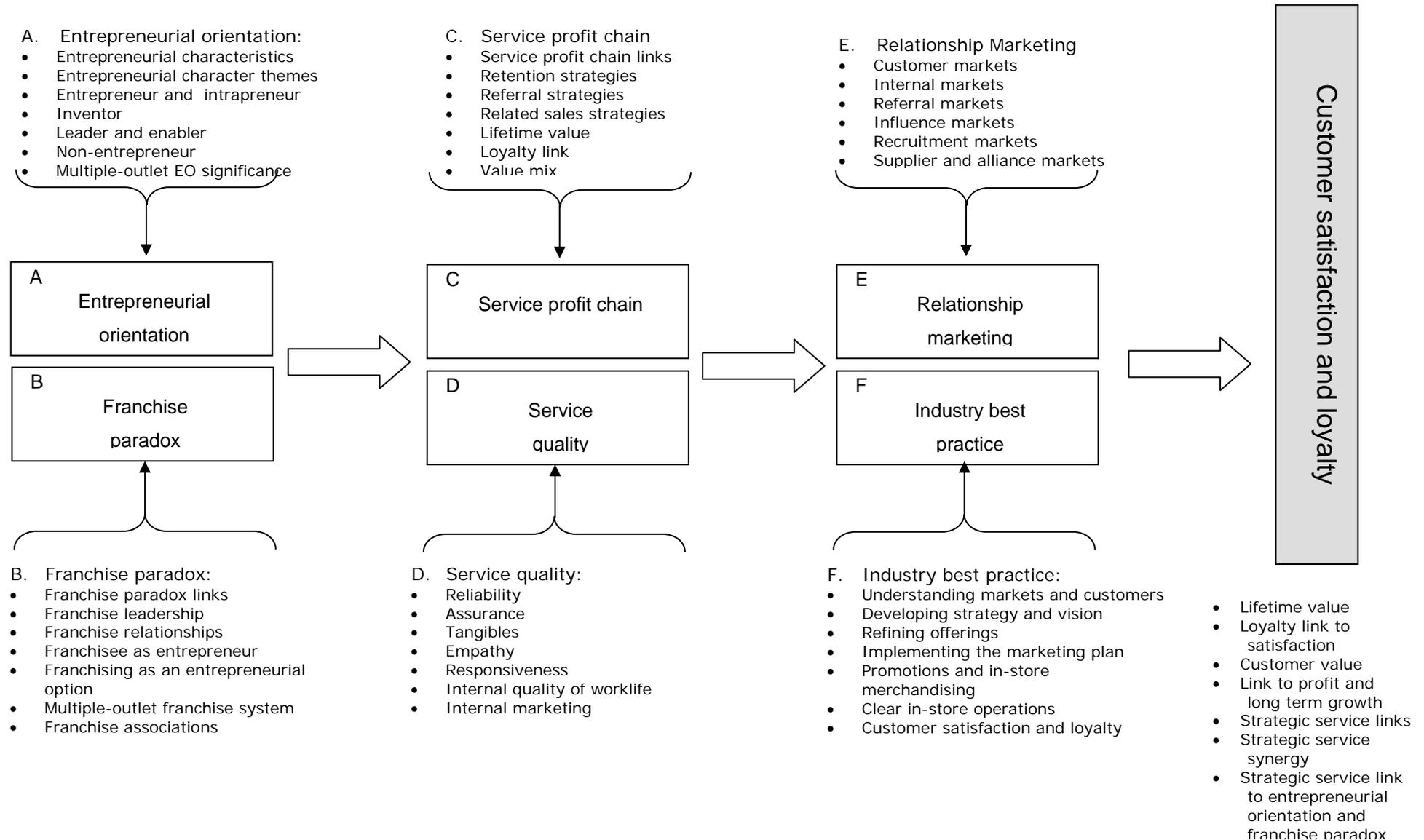
The overall service quality objective with regard to recommendations is the ultimate link to service loyalty (Table 5.1); notwithstanding the importance of a customer centric approach.

### **8.5.8 Development and recommendation of an entrepreneurial service vision**

The constructs of entrepreneurial orientation, franchise paradox, service profit chain, relationship marketing, best practice and service quality are now combined towards the development of a conceptual entrepreneurial service vision matrix. The matrix is a full representation of the set of associations between these constructs; linking the theory, empirical research and recommendations. Figure 8.1 represents the conceptual matrix.

Figure 8.1 is represented on the following page.

**FIGURE 8.1 A conceptual matrix of an entrepreneurial service vision in the franchised home entertainment system**



## **8.6 LIMITATIONS OF THE STUDY**

Limitations are based on the theoretical and empirical aspects of the study. The study has met with the research objectives; despite constraints surrounding the research methodology and availability of information. The two avenues are elaborated upon in the next two sections.

### **8.6.1 Limitations based on the literature review**

The primary limitation based on the theory revolves around specific information and data availability on the home entertainment industry. Generic literature and material were analysed towards evaluating entrepreneurial orientation, the franchise paradox and service vision constructs. Limited data is however available on best practice and service quality on an international basis. Whilst the existing body of knowledge has influenced strategic service visions in many service related industries; entrepreneurship and the service profit chain, together with other strategic initiatives, have received minimal formal research in the lucrative South African home entertainment industry. To date, no published entrepreneurial service vision within this industry is to be found in reviews, standing operating procedures, nor any literature search.

The secondary limitation on theory is the limited existence of literature and material on entrepreneurial orientation, particularly with regard to franchising. Furthermore, the scarcity of literature on franchising in the home entertainment industry leads to generalisations from other closely related industries.

### **8.6.2 Limitations based on the empirical research phase of the study**

Linked to limitations based on theory, the research phase also highlighted generalisations due to certain limitations. Primary research limitations revolve around the population of the data set, consisting of a study within a defined franchise system. Whilst the study is within the franchised environment within the Mr. VIDEO network; it is the opinion of the researcher that the study cannot be extended to the entire franchised home entertainment industry, primarily due to confidential marketing strategies. Different franchised groups would not be willing to share their competitive strategies outside their own franchise grouping. This limited this study to a single franchised group, and in this case, the market

leader (approximately three times larger than its closest competitor). Furthermore, the researcher was the managing director of the second largest franchised group in the industry, and participants may question ethical considerations.

Secondary limitations included the measuring instrument; with reference to service vision data collection from the franchisees perceptions, as opposed to the consumer. Self-evaluation by franchisees was however deemed appropriate from an empirical point of view (Chang & Chen: 1998). Representation limitations are a result of a lack of diversity within the defined system. Distribution limitations are due to different numbers of franchisees per region, with the required assumptions and weightings applied.

Limitations of the applicable research project recommendations rested upon the motivation and entrepreneurial orientation of implementation within a franchised environment, which is ultimately in the hands of the franchisee. The franchisor, however, has to be seen as the change-catalyst towards strategic implementation.

## **8.7 RECOMMENDATIONS FOR FUTURE RESEARCH**

Future research opportunities primarily revolve around the identified limitations discussed in the previous section. The sample size of the data sets needs to be increased. This may be implemented by a number of alternatives. Firstly, similar studies should be conducted within other home entertainment franchise systems in the South African market. Secondly, similar studies should be conducted within other industry franchise systems in the South African market. Thirdly, similar studies should be conducted within other franchise systems on an international basis.

It is further proposed that the international link should be explored between Australia, New Zealand and South Africa (due to the residential status of the author):

- Additional in-depth empirical research on multiple-outlet franchising and the link to entrepreneurial orientation across industries and cultures
- Research on an action learning approach to entrepreneurial training and development in a franchise system
- Entrepreneurial orientation of franchise systems based upon the entrepreneurial orientation of the franchisor and/or founder

- Follow-up research on the effectiveness of implementation of the proposed entrepreneurial service vision matrix
- A similar study, comparing service vision initiative perceptions, but from the point of view of the customer (as opposed to franchisee).

Future research recommendations are facilitated by the researcher's motivation to publish journal articles in the area of entrepreneurship and strategic marketing. Concluding wrap-up remarks provide final input regarding the importance of the research project.

## **8.8 WRAP-UP CONCLUDING REMARKS**

Theoretically, the value the investigation provides will be in understanding that the home entertainment industry is worthy of developing a body of knowledge, to be shared by all industry participants. Similarly, linking entrepreneurship, franchising and strategic service in the form of a matrix may be of interest and application to other academic disciplines. This will facilitate both researchers and students in related business management disciplines.

As a contribution to practice, the entrepreneurial service vision will enhance the longevity of the industry, together with sharing entrepreneurial service vision recommendations to all industry participants. As such, the general oligopolistic nature of major industry participants will be dissolved; making the industry more accessible, creating more employment, and increasing industry participants. Since the industry is a product of technology, the identification of entrepreneurial behaviour of franchisor/franchisees will highlight the re-defining of industry practices.

This study, the first of its kind in the home entertainment industry and in the specific organisation, will smooth the way for implementation of entrepreneurial franchise service initiatives in the organisation. It will also assist franchisees in their advancement in the organisation and could be used to complement other programmes within the home entertainment, entrepreneurial and franchised communities.

On a macro level, successful implementation of the matrix will enhance industry participation; together with entrepreneurial contributions towards the creation of wealth, economic growth and creation of employment in a dynamic, yet turbulent developing

economy such as South Africa. As such, the study will enhance South African companies' competitive advantage in an international marketing environment.

## 8.9 CONCLUSION

The final chapter provides a summary of the theoretical and empirical aspects of the research project. Conclusions and implications are evaluated across literature review constructs of entrepreneurial orientation, the franchise paradox, the service profit chain, relationship marketing, best practice and service quality. This is facilitated by a similar evaluation of the empirical research phase, with the inclusion of demographic and biographic information of the defined franchise system. Highlights of the research results include acceptance of all hypotheses with the exception of entrepreneurial orientation in a franchise system. Entrepreneurial orientation, however, exists in a multiple-outlet franchise system.

Questions and findings are linked to the research objectives, once again summarising the hypotheses tests. The entrepreneurial orientation proposal of multiple-outlet franchisees is accepted as statistically significant. Recommendations based upon empirical evidence are provided by construct, including demographic and biographic data. Highlights include creation and developmental activities; that of increasing multiple-outlet distribution, and that of implementing an entrepreneurial service vision.

Limitations of the study are explained from a theoretical and empirical point of view, and include limited availability of literature on the applicable topics and disciplines, coupled with a study in the defined system. Recommendations for future research are motivated, with particular reference to increasing the study across other industries and cultures.

The following sections consist of the bibliography and the appendices.

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## APPENDIX 1: MR. VIDEO FRANCHISED OUTLETS

Region/Province	Owner	Region/Province	Owner
<b>Western Cape</b>			
Athlone	M. Mukudden	Rondebosch	P. Grater
Atlantis	A. Moorhouse	Rylands	M. Mukudden
Belhar*	M. Japhta	Saldanha	F and A. Truter
Bellville 1*	E. Scott	Somerset-West*	K. Joubert
Bellville 2*	E. Scott	Stellenbosch*	K. Joubert
Bothasig*	E. Scott	Strand*	J. Retief
Bishop Lavis*	M. Japhta	Strandfontein*	J. Retief
Brackenfell	A. Grobler	Table View*	E. Scott
Bredarsdorp*	H. van Deventer	Tokai	O. Lawson
Brooklyn	W. Peterson	Vredendal	P. Marais
Cape Gate*	E. Scott	Vredenburg	E. Joubert
Caledon	M. van Rooyen	Vrijzee*	E. Scott
Ceres	L. Joubert	Wellington	P. Beukes
Claremont*	G. Scarles	Woodstock*	D. Bosch
Cravenby*	M. Japhta	Worcester*	D. Bosch
Delft*	M. Japhta		
Durbanville*	J. Wheeler/ G. Fischer	<b>Northern Cape</b>	
EersteRivier	D. Sullivan	Beaconsfield*	V and R. Mckaizer
Elsiesrivier*	E. Scott	Kimberley*	V and R. Mckaizer
Fishhoek	D. Swart	Springbok	W. de Villiers
Flamingo Vlei	G and C. Blackbeard	Upington	K. Loubser
Gardens*	J. Wheeler/ G. Fischer		
Goodwood*	E. Scott	<b>Eastern Cape</b>	
Gordons Bay*	J. Retief	East London	M. Marais
Grabouw	S. Bosch	George*	A. Esterhuizen
Grassy Park*	E. Kotze	George East*	A. Esterhuizen
Helderview*	K. Joubert	Jeffreys Bay	J. van der Linde
Hermanus	J. Visser	Linton Grange	P. Wessels
Hout Bay	L. Kuhlmann/ P. Grater	Lorraine	L and I. Olivier
Kraaifontein 1*	E. Scott	Mossel Bay	T. Vermaas
Kraaifontein 2*	E. Scott	Oudtshoorn	N and L. Breytenbach
Kuilsrivier 1*	E. Scott	Port Elizabeth	R. Clark/ N. Hughes
Kuilsrivier 2*	E. Scott	Uitenhage	C. Lotriet
Lansdowne	I. Safodien	Umtata	B. Mhlungu
Lentegeur*	R. Kloppers/ D. Botha	Umtata 2	E. Mngxali
Malmesbury	J. Slabber	Grahamstown*	R. Mckaiser
Milnerton	V. Esterhuizen	Riversdal	A. Esterhuizen
Modderdam	D. Botha		
Ottery	C. Correia		
Observatory	G and B. Gerber	<b>Namibia</b>	
Paarl*	E. Scott	Windhoek	E. Brand
Panorama*	E. Scott		
Parklands	V. Esterhuizen	<b>Botswana</b>	
Parow*	E. Scott	Francistown	M. Matjola
Plumstead*	G. Scarles		
Ravensmead*	M. Japhta		
Retreat*	E. Kotze		
Rocklands*	D. Botha/ R. Kloppers		
Robertson*	H. van Deventer	<b>* multiple unit franchisee</b>	



## APPENDIX 2: PEARSON'S CORRELATION COEFFICIENTS FOR SERVICE VISION CONSTRUCTS AND VARIABLES

**TABLE A1: Service profit chain and service quality correlation coefficient analysis**

Q	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58
39	1																			
40	.784	1																		
41	.214	.163	1																	
42	-.016	-.054	.616	1																
43	.688	.609	.102	-.090	1															
44	.505	.562	-.032	.020	.488	1														
45	.612	.655	-.004	.032	.609	.715	1													
46	.256	.176	-.050	.091	.289	.583	.343	1												
47	.352	.340	.038	.105	.413	.454	.434	.456	1											
48	.497	.351	.540	.432	.371	.195	.314	.227	.470	1										
49	.504	.511	.127	.063	.521	.543	.553	.318	.393	.280	1									
50	.398	.380	.233	.298	.431	.319	.499	.037	.412	.465	.408	1								
51	.520	.433	.325	.204	.451	.333	.295	.174	.351	.466	.497	.445	1							
52	.554	.663	.067	-.012	.588	.677	.595	.260	.639	.329	.620	.488	.494	1						
53	.568	.628	.140	-.037	.583	.580	.578	.360	.578	.400	.618	.488	.475	.770	1					
54	.420	.518	.192	.050	.539	.575	.455	.264	.610	.411	.642	.494	.530	.842	.819	1				
55	.572	.704	.122	-.005	.519	.568	.610	.195	.502	.309	.533	.478	.510	.779	.809	.786	1			
56	.450	.474	.167	-.044	.514	.586	.443	.347	.530	.388	.542	.320	.539	.768	.695	.787	.667	1		
57	.472	.487	.439	.213	.386	.421	.413	.170	.427	.613	.421	.515	.461	.509	.624	.595	.555	.553	1	
58	.462	.540	.077	-.051	.533	.512	.508	.336	.518	.398	.524	.475	.339	.635	.704	.627	.591	.547	.633	1

Correlation is significant at 0.01 level for all values of 0.260 and above.

Correlation is significant at 0.05 level for all values of 0.207 and above.

**TABLE A2: Relationship marketing and service quality correlation coefficient analysis**

Q	59	60	61	62	63	64	65	66	67	68	49	50	51	52	53	54	55	56	57	58	
<b>59</b>	1																				
<b>60</b>	.464	1																			
<b>61</b>	.440	.371	1																		
<b>62</b>	.178	.314	.377	1																	
<b>63</b>	.391	.382	.423	.339	1																
<b>64</b>	.542	.317	.474	.077	.471	1															
<b>65</b>	.429	.423	.453	.260	.501	.631	1														
<b>66</b>	.167	.190	.142	.270	.413	.316	.481	1													
<b>67</b>	.012	.260	.109	.323	.278	.116	.231	.278	1												
<b>68</b>	.092	.053	.092	.505	.186	-.228	-.049	.093	.242	1											
<b>49</b>	.315	.325	.380	.173	.351	.504	.554	.220	.190	.001	1										
<b>50</b>	.389	.304	.393	.300	.381	.571	.496	.324	.120	.028	.408	1									
<b>51</b>	.499	.344	.366	.397	.366	.375	.57	.175	.208	.258	.497	.445	1								
<b>52</b>	.423	.316	.425	.119	.503	.732	.688	.566	.318	-.130	.620	.488	.494	1							
<b>53</b>	.515	.340	.424	.194	.480	.690	.648	.421	.231	-.076	.618	.488	.475	.770	1						
<b>54</b>	.473	.381	.400	.196	.503	.574	.671	.544	.247	-.045	.642	.494	.530	.842	.819	1					
<b>55</b>	.435	.387	.412	.217	.544	.700	.670	.500	.313	-.106	.533	.478	.510	.779	.809	.786	1				
<b>56</b>	.504	.350	.300	.022	.314	.553	.494	.401	.202	-.066	.542	.320	.539	.768	.695	.787	.667	1			
<b>57</b>	.459	.421	.397	.416	.331	.560	.441	.314	.216	.234	.421	.515	.461	.509	.624	.595	.555	.553	1		
<b>58</b>	.336	.471	.412	.284	.350	.622	.568	.298	.271	-.071	.524	.475	.339	.635	.704	.627	.591	.547	.633	1	

Correlation is significant at 0.01 level for all values of 0.260 and above.

Correlation is significant at 0.05 level for all values of 0.207 and above.

**TABLE A3: Best practice and service quality correlation coefficient analysis**

Q	69	70	71	72	73	74	75	76	77	78	49	50	51	52	53	54	55	56	57	58	
<b>69</b>	1																				
<b>70</b>	.707	1																			
<b>71</b>	.340	.358	1																		
<b>72</b>	-.100	-.002	.296	1																	
<b>73</b>	.400	.448	.211	-.166	1																
<b>74</b>	.119	.203	.491	.363	.119	1															
<b>75</b>	.066	.080	.610	.442	.016	.505	1														
<b>76</b>	.460	.392	.482	.288	.256	.474	.437	1													
<b>77</b>	.361	.422	.280	-.097	.472	.289	.108	.472	1												
<b>78</b>	.312	.486	.162	-.163	.392	.093	-.040	.332	.576	1											
<b>49</b>	.097	.173	.382	.389	.005	.382	.473	.412	.124	.053	1										
<b>50</b>	.227	.081	.355	.306	.166	.296	.515	.531	.295	.203	.408	1									
<b>51</b>	.237	.306	.407	.154	.128	.352	.350	.572	.443	.430	.497	.445	1								
<b>52</b>	-.012	.079	.615	.607	-.051	.608	.711	.535	.152	.047	.620	.488	.494	1							
<b>53</b>	.080	.185	.578	.525	-.047	.577	.642	.506	.156	.105	.618	.488	.475	.770	1						
<b>54</b>	.044	.107	.549	.528	.020	.599	.619	.540	.262	.132	.642	.494	.530	.842	.819	1					
<b>55</b>	.042	.165	.604	.554	-.107	.485	.617	.530	.172	.172	.533	.478	.510	.779	.809	.786	1				
<b>56</b>	.029	.142	.485	.582	-.020	.555	.542	.473	.196	.067	.542	.320	.539	.768	.695	.787	.667	1			
<b>57</b>	.330	.335	.522	.289	.242	.406	.560	.655	.430	.385	.421	.515	.461	.509	.624	.595	.555	.553	1		
<b>58</b>	.179	.217	.514	.456	.169	.515	.665	.513	.238	.118	.524	.475	.339	.635	.704	.627	.591	.547	.663	1	

Correlation is significant at 0.01 level for all values of 0.260 and above.

Correlation is significant at 0.05 level for all values of 0.207 and above.



## ENTREPRENEURIAL SERVICE VISION IN A FRANCHISED HOME ENTERTAINMENT ENVIRONMENT

The purpose of this project is to research the Mr. VIDEO franchise system. The University of Pretoria (department of Business Management), on behalf of Mr. VIDEO has commissioned the research. The project is part of a study towards a Doctorate of Commerce in the franchised home entertainment industry.

### INSTRUCTIONS FOR COMPLETING THE QUESTIONNAIRE

1. The questionnaire has been divided into seven sections (A-G) for logical analysis and you are requested to please complete ALL sections.
2. Instructions for completing the questionnaire are provided at the beginning of each section.
3. First impressions usually provide the best answers; please do not linger over a question. Your input is essential and of great value to this research process and it should take about 20 minutes to complete the questionnaire. There are no wrong answers.
4. To respect confidentiality and anonymity, you are not required to state your name on the questionnaire. Once the questionnaire has been processed, the integrated results will be made available to the franchise system.
5. The right-hand side column of the questionnaire is for office use only.
6. Please complete the questionnaire as frankly as possible and answer all the questions. The completed questionnaire may be returned online at <http://www.survey.unitec.ac.nz/mrvideo>; or by return email to [amaritz@unitec.ac.nz](mailto:amaritz@unitec.ac.nz).
7. Should you have any queries, please direct these to Alex Maritz at [amaritz@unitec.ac.nz](mailto:amaritz@unitec.ac.nz), alternatively Professor Gideon Nieman at [ghnieman@hakuna.up.ac.za](mailto:ghnieman@hakuna.up.ac.za); tel (012) 420-3400.

**Thank you for your cooperation**

AM/MrVideo/PS/UP/GN1.05

**UNIVERSITY OF PRETORIA (department of Business Management) RESEARCH QUESTIONNAIRE**

**SECTION A: Demographic and biographical information**

Please answer the questions below by encircling the appropriate code.

**1. Gender of Franchisee**

Male	1
Female	2

V1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1-3
V2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4

**2. Race of Franchisee**

White	1
Black	2
Asian	3
Coloured	4

V3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5
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**3. Region/Province of Franchised Outlets**

Gauteng	1
Mpumalanga	2
Limpopo	3
North West	4
Free State	5
KwaZulu Natal	6
Western Cape	7
Eastern Cape	8
Northern Cape	9

V4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6
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**4. Years as a Franchisee in the Mr. VIDEO franchise system**

0-2 years	1
3-5 years	2
6-8 years	3
9+ years	4

V6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8
----	--------------------------	--------------------------	--------------------------	---

**5. Number of full time employees in your outlet/s as at November 2004**

1-2 employees	1
3-5 employees	2
6-8 employees	3
9+ employees	4

V7		9
----	--	---

**6. Number of part time employees in your outlet/s as at November 2005**

1-2 employees	1
3-5 employees	2
6-8 employees	3
9+ employees	4

V8		10
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**7. Number of Mr. VIDEO outlets of which you are the Franchisee**

1 outlet	1
2 outlets	2
3-5 outlets	3
6+ outlets	4

V9		11
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**8. Family members (including yourself) active in your franchised outlet/s**

1	1
2-3	2
4 +	3

V10		12
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**SECTION B: Entrepreneurial orientation**

Please indicate your agreement/disagreement with the following statements reflecting your personal viewpoint.

Statements	Strongly disagree 1	Disagree 2	Un-decided 3	Agree 4	Strongly agree 5			
9. I enjoy having the expertise to be able do things others cannot do						V11		13
10. My mind is always full of ideas and I enjoy doing unusual things						V12		14
11. I thrive on uncertainty and take on opportunities to achieve my goals						V13		15
12. I am naturally impatient and often think I am not doing as much as I should						V14		16
13. I set personal targets for myself all the time and check on my progress						V15		17
14. I appreciate you have to influence people and situations to make things happen and I am good at it						V16		18
15. I generally know what's important and so I limit my options and stick with these priority tasks						V17		19
16. When faced with a deadline I find it easy to concentrate my time and effort and meet it						V18		20
17. It matters to me whether I achieve more in life and business than my parents and my close friends						V19		21
18. My motto is 'when the going gets tough, the tough get going' - because setbacks give me stimulation						V20		22
19. I am naturally gregarious, quickly relating to other people, and thinking of things we could work on together						V21		23
20. I pride myself with being able to envision a clear route forward, taking necessary action to achieve that vision						V22		24
21. When I have what I think is a good idea I find I can sell it to other people						V23		25
22. I can trust people to take responsibility for things and I am happy to delegate this responsibility to them						V24		26
23. At heart I am a people person and I enjoy helping others achieve their goals and targets						V25		27
24. When I am part of a team, I play a chairing, co-ordinating role and bring out the best in others						V26		28
25. People would describe me as systematic and organized for I have a keen eye for detail						V27		29
26. I prefer structure and routine and am uncomfortable with constant change and uncertainty						V28		30
27. I get an extra kick at work when other people visibly approve of the way I do things						V29		31
28. I enjoy working closely with people I trust and know well						V30		32

**SECTION C: The franchise system**

Please indicate your agreement/disagreement with the following statements reflecting your personal viewpoint.

Statements	Strongly disagree 1	Disagree 2	Un-decided 3	Agree 4	Strongly Agree 5
29. In the Mr. VIDEO franchise system, innovation and creativity is solely the responsibility of the franchisor					
30. Franchisees are seen as idea generators in the Mr. VIDEO franchise system					
31. Proactivity and risk taking of franchisees is enhanced in the Mr. VIDEO franchise system					
32. Incremental wealth is stimulated at franchisee level within the Mr. VIDEO franchise system					
33. Good franchise relationships require a conscious effort from franchisee and franchisor					
34. Trust and respect in the Mr. VIDEO franchise system is essential towards fostering a good relationship					
35. Areas of disputes and conflicts are adequately handled within the Mr. VIDEO franchise system					
36. Franchisee contributions and suggestions are encouraged by the franchisor					
37. The Mr. VIDEO franchise system is an entrepreneurial option towards creating and developing new ventures					
38. Overall, the Mr. VIDEO franchise meets my business objectives and expectations					

V31		33
V32		34
V33		35
V34		36
V35		37
V36		38
V37		39
V38		40
V39		41
V40		42

Any other comments you would like to make regarding the Mr. VIDEO franchise system?


V41			43-44
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**SECTION D: The service profit chain**

Please indicate your agreement/disagreement with the following statements reflecting your personal viewpoint.

Statements	Strongly disagree 1	Disagree 2	Un-decided 3	Agree 4	Strongly Agree 5
39. Customer satisfaction leads to long term profitability of your franchised outlet/s					
40. Employee satisfaction leads to customer satisfaction					
41. The Mr. VIDEO franchise system encourages franchisee best practice exchanges and interaction					
42. The Mr. VIDEO franchise system has optimal customer feedback, complaint and suggestion systems					
43. Empowering employees and enhancing quality of worklife lead to employee loyalty					
44. My outlet/s maintain active relationships with current customers					
45. My outlet/s concentrate on retaining existing customers					
46. My customers are encouraged to purchase related services, such as confectionary and video accessories					
47. My outlet/s implement strategies to encourage referral and word of mouth communication					
48. My outlet/s measure the lifetime value of customers (loyal customers that return time after time)					

V42		45
V43		46
V44		47
V45		48
V46		49
V47		50
V48		51
V49		52
V50		53
V51		54

Any other comments you would like to make regarding the service profit chain?


V52			55-56
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**SECTION E: Service quality**

Please indicate your agreement/disagreement with the following statements reflecting your personal viewpoint.

Statements	Strongly disagree 1	Disagree 2	Un-decided 3	Agree 4	Strongly Agree 5
49. My outlet/s delivers on customer promises					
50. My outlet/s performs the service right the first time					
51. Employees of my outlet/s are always willing to help customers					
52. Employees of my outlet/s provide prompt service					
53. Customers feel safe in their transactions with my outlet/s					
54. The behaviour of employees in my outlet/s instils confidence in customers					
55. My outlet/s has the customers best interest at heart					
56. My outlet/s has employees who give customers individual attention					
57. My outlet/s physical facilities are visually appealing					
58. It is realistic to expect my outlet's employees to know what the needs of the customer are					

V53		57
V54		58
V55		59
V56		60
V57		61
V58		62
V59		63
V60		64
V61		65
V62		66

Any other comments you would like to make regarding service quality?


V63			67-68
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**SECTION F: Relationship marketing**

Please indicate your agreement/disagreement with the following statements reflecting your personal viewpoint.

Statements	Strongly disagree 1	Disagree 2	Un-decided 3	Agree 4	Strongly Agree 5
59. My outlet achieves competitive advantage against opposition home entertainment outlets through improved customer interaction and responsiveness					
60. My outlet/s is prone to relationship focus as opposed to transaction focus					
61. Superior supplier relationships add value to my outlet's service offering					
62. The supply chain relationships between the Mr. VIDEO system and the major suppliers are built on trust and reciprocity					
63. Marketing orientation and marketing culture of my outlet/s influence positiveness about the organisation (Mr. VIDEO franchise system)					
64. Retaining existing customers leads to customer loyalty and lifetime customers					
65. Internal marketing initiatives such as enhancing internal quality of work-life are encouraged by my outlet/s					
66. Franchise system relationships between franchisee and franchisor are an integral component of Mr. VIDEO internal marketing and communication					
67. My outlet/s have optimal associations and alliances with other industry participants					
68. Mr. VIDEO Franchise measure franchisee satisfaction levels					

V64		69
V65		70
V66		71
V67		72
V68		73
V69		74
V70		75
V71		76
V72		77
V73		78

Any other comments you would like to make regarding relationship marketing?


V74			79-80
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**SECTION G: Industry best practice**

Please indicate your agreement/disagreement with the following statements reflecting your personal viewpoint.

Statements	Strongly disagree 1	Disagree 2	Un-decided 3	Agree 4	Strongly Agree 5
69. My outlet/s continually evaluate it's markets and customers					
70. My outlet/s has a developed vision and strategy in the long term					
71. My outlet/s focus product and service offerings on customer satisfaction through meeting or exceeding expectations					
72. My outlet/s believes that strong focus on community involvement drives awareness and loyalty					
73. Direct mail is used as a cost effective tool used to drive frequency of active and inactive customers					
74. Strong relationships and loyalty are developed between employees and customers of my outlet/s through consistency of management and staff					
75. A pleasing outlet is important to keeping your customers coming back					
76. I regularly remodel and update my outlet/s to reinforce a strong and positive image to customers					
77. My outlet/s operating procedures are clearly documented for consistency of execution from staff in an operations manual					
78. Mr. VIDEO franchise encourage the communication of best practice initiatives within the franchise system					

V75		81
V76		82
V77		83
V78		84
V79		85
V80		86
V81		87
V82		88
V83		89
V84		90

Any other comments that you would like to make regarding home entertainment industry best practice?


V85		91-92
V86		93-94

**THANK YOU FOR YOUR COOPERATION**