

Direct Franchising as Business Model with Moderating Role of Managerial Skills and Education Level of Franchisee: Evidence from Franchisees of Karachi

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Abstract

Franchising is a model for conducting business since mid 1800's and now franchising is a prominent part of the economy and a central phenomenon in entrepreneurship. There is sufficient amount of literature available which exemplifies the reasons for operating through franchises rather than own outlets. But there is significant lacking of research which can describe factors responsible for franchisee's motivation or factors which encourage entrepreneur to prefer franchise over own business or job. In addition to this most of the prior research work is from Western countries and there is minimal amount of research literature available from South Asian Perspective. Thus the purpose of this research is to highlight the importance of various factors which foster an entrepreneur to operate as a franchisee in the context of Pakistan. Therefore this research is immensely important in understanding of factors fostering preference of franchisee. Moreover this research is also beneficial for enhancement of literature and research work related to the topic in the context of Pakistan, Asia and other developing countries of the world.

Keywords: Franchise, Business Model, Franchisee, Preference, Entrepreneurs, Developing Countries and Business Failure

Introduction

Rahatullah and Raeside (2008) define franchising as the association between the franchisor and franchisee by the virtue of which franchisor grants permission regarding use of franchisor's business model to franchisee. This is even treated as the technique of business which entails pre-established patterns to conduct business (Branford & Bruton, 2011). Therefore franchisees became able run replicas of franchisors business (Karachi Chamber of Commerce and Industry, 2016) as the model in one of the universally accepted ones and applicable to wide range of business sectors e.g. catering, real state, clothing, fashion etc. (Ramirez-Hurtado and Quattrociochi, 2009). Thus cloning of franchisors business model became possible in local settings (Hamid, Othman, Selamat & Mastor, 2003).

The model of franchising came into business since 1851 when Singer sewing machine adopted the model in United States of America followed by adoption of model by Coca-Cola in 1899 and after these oil refineries (Hackett, 1976) and auto manufacturers adopted this model in order to distribute effectively all over the world. In fact for the improvement of restaurant chains the idea was also adopted by Kentucky Fried Chicken (KFC) in 1930, Dunkin Donuts in 1950 and most popular in the category i.e. McDonalds in 1955 (Salar & Salar, 2013). As per Mitchell (2014) franchising are most acknowledged trend in entrepreneurship and also treated as enormous business opportunity for individuals (Ramirez-Hurtado & Quattrociochi, 2009). Thus became able to generate \$1 trillion sales which contributed up to 17% of US's Gross Domestic Product (Dant, Grunhagen & Windsperger, 2001)

Market scenario of Pakistan is a hybrid of local as well as International Franchise Chains, as up to 70 International franchises operating in Pakistan with almost equal numbers of local brands which franchised them. Moreover this entrepreneurial activity is also not limited to any sector or industry and spread over sectors like food, fashion, retail, education and health services etc. Furthermore there are several models of franchising through which franchising can be done in order to proper business activities more effectively and selection of any type is based upon nature of the franchise system, the location and the overall business acumen. (Karachi Chamber of Commerce and Industry, 2016)

Classification of Franchising Models: Karachi Chamber of Commerce and Industry (2016) provided four major types through which franchising can be done and these types are:

- a) Direct Franchising: Franchisor permits franchisee to open and operate franchise at any one

location.

- b)** Area Development Franchising: Franchisor permits franchisee to open and operate franchise in a broad geographic area.
- c)** Master Franchising: Similar to Area development Franchise and renowned for franchising on International level to expand business to those locations which are unfamiliar to franchisor.
- d)** Joint Venture Franchising: Franchisor also takes some financial stakes in the projects and these type of franchising are also popular for expanding business on International scale

Problem:

Acceptance of franchising as one of the most important contributor to economies could not foster its presence in research and organizational discussions (Bradach, 1997 & Coms et al, 2011) and with the passage of time business owners are getting more and more interested through expanding their business via franchising (Ramirez-Hurtado and Quattrociochi, 2009). Though according to the study of Ramirez-Hurtado and Quattrociochi, (2009) very few articles i.e. Knight (1984); Knight (1986); Peterson and Dant (1990); Tuunanen and Hyrsky (2001) and Withane (1991) researched on perceived advantages of franchising for attracting franchisees and Bennett et al (2010); Guilloux et al (2004); Kaufmann (1999) and Stanworth and Kaufmann (1996) explored the decision of franchisee before adopting franchising. Otherwise according to Ramirez-Hurtado and Quattrociochi, (2009), franchising has mostly studied from the prospects of franchisor rather than franchisee. This is even accepted by literature that rare research work is available from the franchisee's perspectives. (Combs et al., 2011; Grunhagen & Mittelstaedt, 2001; Hing, 1995 & Phan et al., 1996)

Though most of the studies conducted on the topic of "Franchising" are in Western Perspective (Chiou *et al.*, 2004), as Guilloux et al. (2004) in the context of France; Kaufmann and Stanworth (1995) with data from the US; Knight (1986) in the contexts of Canada and US; Mendelsohn, (1985) in the context of US; Peterson and Dant (1990) in the context of US; Stanworth (1985) in the context of US and Withane (1991) in the context of Canada, In fact the latest studies conducted in this domain Hizam-Hanafiah & Li (2014); Oni Sekwele Matiza and Pelsler (2014); Ramirez-Hurtado and Quattrociochi, (2009) and Salar and Salar (2014) all are conducted with Western domain. But majority of researchers focused on the scenario of United States (Cheng *et al.* 2007). On the other hand Ramirez-Hurtado and Quattrociochi, (2009) highlighted that countries are different with respect to culture as well as in availability of resources, infrastructure, history, tradition and politics as well as in economic and legal frameworks. Thus there is a significant need to analyze the factors behind the motivation of franchisee's operating in Pakistan, that why they became franchisee rather than owing their own business or job?

Theoretical Framework:

The initial review of franchise literature was provided by Elango and Fried (1997) the review was treated as severely important as that was focus on franchisees perspective. Research highlighted that researches which analyzed franchisees satisfaction include, Lewis and Lambert (1991); Hunt and Nevin (1974) and Schul et al (1995) but no one properly answered the question that why franchisees select franchise as the business model rather than setting of their own company? As according to Ramirez-Hurtado and Quattrociochi, (2009), research of Elango and Fried (1997) itself did not answer this particular question.

Hence we have used the research of research Ramirez-Hurtado and Quattrociochi, (2009) in order to develop theoretical framework, as the research used references of several other researchers conducted in this domain. The research indicated six variables which are mainly affecting the selection of franchise as a business model i.e. **a)** Proven Business Format **b)** Startup Support **c)** Established Name **d)** Training Provided **e)** Faster Development **f)** On-Going Support. Moreover review of research literature revealed that research of Ramirez-Hurtado and Quattrociochi, (2009) indicated education of franchisee is also an important tool selection of franchisee and franchisee with higher education level might be better options for franchisor. Thus we are taking education of franchisee as the moderating in this research. In addition to this research of Ramirez-Hurtado and Quattrociochi, (2009) also provided systematic review of variables used by prior researchers in their research which might be shown in Figure No. 01.

Author(s) and Year	Ramirez-Hurtado and Quattrociochi (2007)	Guiloux et al (2004)	Withane (1991)	Peterson and Dant (1990)	Knight (1986)	Stanworth (1985)	Hought (198)
Country	Spain	France	Canada	United States	United States		
Sr. No.	Variables	Variables	Variables	Variables	Variables	Variables	Variables
1	Proven Business Format	Advise & Assistance Before Training	Proven Business Format	Training Provided	Established Name	National Affiliation	Franchise Support
2	Startup Support	Name	Less Risky	Established Name	Satisfaction	Franchisor Support	Lacked Experience
3	Established Name	Possibility for Development	Goodwill	Greater Independence	Greater Independence	Better Investment	Established Name
4	Training Provided	Franchisor's Support	Startup Support	Better Investment	Faster Development		
5	Faster Development	Profitability	Ongoing Support	Lower Development Cost	Proven Formula		
6	Ongoing Support	Advertising	Quick Start		Better Investment		

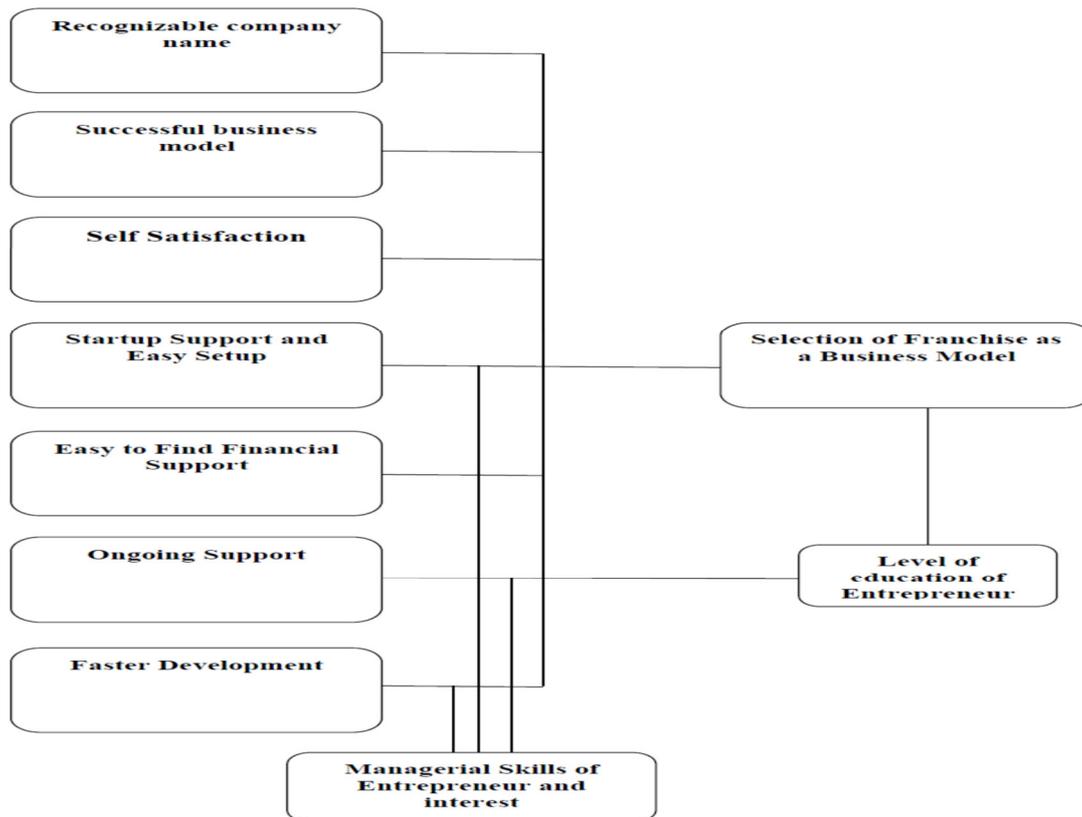
Figure No. 01: “An update of the Franchisee Motivations: A study in Spain” Ramirez-Hurtado and Quattrociochi, (2009)

Research of Salar and Salar (2014) was the one which uses SWOT analysis in order to predict various advantages of selecting franchise as the business model and indicated five advantages for preferring franchise namely *a)* Brand Recognition *b)* Lower Risk of Failure *c)* Easy Setup *d)* Ready Customer Portfolio and *e)* Easy to find Financial Support. Moreover Research also indicated some disadvantages, opportunities and threats but as these are not coherent with the topic off research therefore these are not included in the paper.

Other research of same year i.e. Oni Sekwele Matiza and Pelser (2014), conducted in South African scenario indicated four variables namely *a)* Prior Performance Record *b)* Recognizable *c)* Successful Business Model and *d)* Business Training and Management Support as those which foster entrepreneurs motivation to select franchise as the business model and also indicated that managerial skills of entrepreneur are also significantly important in managing of franchise business. Research by Oni Sekwele Khusto Tafadzwa and Pelser also indicated that variable namely, “Managerial Skills” is one which is associated with all the dimensions of franchising as a business i.e. its selection and success. Thus we are taking this as a “**Moderating Variable**”. Furthermore research also highlighted some variables which might hindered in selection of franchise as a business models by franchisee and these factors are, *a)* Franchisee fees *b)* Risk of unprofitability, *c)* Franchise agreement restrictions and *d)* No control over reputation, but these variables are out of the context as far as context of this study is concerned hence these are not considered.

Research of Hizam-Hanafiah and Li (2014) associated with franchisee satisfaction with goal attainment & also indicated some of the basic goals of franchisee, i.e. *a)* Independence *b)* More Money *c)* Self Satisfaction and *d)* Family matters but these variables are also not associated with the theme of this study thus not considering in the research model. In addition to all this research conducted by Hodge Oppewal and Terawatanavong (2014) on determinants of franchisee conversion was found to be focused on factors responsible for switching of franchisee from one company or brand to another & thus could not be associated with theme of this research. Though after considering model presented by Knight (1986) we concluded that “**Self Satisfaction**” is the variable of individual’s personality highlighted by two researches, hence the variable is included in the research model.

Research Model:



Delimitation and significance of the Study:

Literature highlighted that there is a immense growth in the preference of franchising (Ramirez-Hurtado and Quattrociochi, 2009; Dant, Grunhagen & Windsperger, 2001& Karachi Chamber of Commerce and Industry, 2016) but the rate of failure in this form of business is also very high (Stanworth et al., 2004) The reason behind all this is the difference in behavior as well performance level of different franchisees (Marnburg et al., 2004) Hence it is optimal to state that understanding of factors influencing franchisee’s performance will be significant in estimating the probability of survival of franchisee (Michael & Combs, 2008)

Thus the research under this domain is immensely beneficial for entrepreneurs to select the most appropriate franchisee for their business growth. Moreover research is equally beneficial for the entrepreneur to understand the reason behind the motivation of majority of franchisees operating in order grasp the potential benefits and risks associated with the business mode (Michael and Combs, 2008). In addition to all these benefits and reasons of preference scarcity of research on “Why individuals select franchising over independent entrepreneurship” (Michael and Combs, 2008) also foster need of research activities in this regard.

Thus it is optimal to state that research would be highly beneficial for other researchers as well and it is appropriate to state the research as “Pervasive Research” in the territories of Pakistan. Moreover in Pakistan there is almost no difference in number of International and local companies which are using franchising as their business strategy with most of the company’s having larger number of outlets in Karachi (Karachi Chamber of Commerce and Industry 2016). Thus in order to make this research significant in real sense researchers deem to focused extensively upon franchisee’s of local companies operating in Karachi.

Literature Review

Literature associated with franchising is a actually a hybrid of various fields e.g. entrepreneurship (Knight, 1984) and psychology (Felstead, 1991 & Mescon & Montanari, 1981) and thus enable to provide various reasons to select single-unit franchise as a business models by franchisee’s. (Grunhagen & Mittelstaedt, 2001) Though research claims that the reasons for selecting franchise by entrepreneur are not similar (Peterson & Dant, 1990) this postulate is even validate by the research of Ramirez-Hurtado and Quattrociochi (2009) which emphasized that there is a variation in preference of factors forcing entrepreneurs for selecting franchising as a business model. Though recent study by Oni Sekwele Khusto Tafadzwa and Pelsler (2014), quoted references of Beshel (2001); Boone and Kurtz (2010) and Holmes (2003) to pinpoint major reasons for the preference of franchise as a business model as *a)* Prior Performance Record *b)* Recognizable Company’s Name *c)* Successful Business

Model and *d*) Business Training and Management Program. Thus after understanding various reasons highlighted by research for the selection of franchise as a business model researchers are able to present the relevant literature in a sequential form.

Recognizable Company or Brand Name:

According to Stanworth (1945) the main motive for being a franchisee is “**National Affiliation**”. This is treated as equivalent to “**Established Name**”, by Peterson and Dant (1990) and thus all these in association with Knight (1986) treated “**Established Name**”, as the prime variable for the selection of franchise as a business model. Research of Withane (1991) also indicated that the company’s goodwill is one of the prime factors for fostering the preference level of franchisees. This will increase the probability of enhancement in the perceived quality by customers (Michael, 1996).

Kapferer (1998) also indicated that most of the franchisees treated corporate brand name as the tool to communicate their value. Linking the literature with recent findings the research of Salar and Salar (2014) pointed out that branding is treated as one of the powerful components in business which resulted in brand recognition in customer’s mind. This indicates that franchising as business model provide entrepreneurs advantage of brand recognition and leverage to use company’s goodwill since the start of their business (Oni, Sekwele, Khusto, Tafadzwa & Pelser 2014). Srivastava Fahey and Christensen (2001) is also a tool for franchisee’s in order to differentiate their product from the others in competition so to increase customer’s value. Moreover research also linked these benefits with the “**Comfort of Knowing**” means customers recognizes and admitted that they will have the same level of quality and services from these outlets (Salar & Salar, 2014). Hence it can be said that existence level of familiarity of customers with company’s offering as well as quality reduces the risk of business failure (Oni, Sekwele, Khusto, Tafadzwa & Pelser 2014). Thus it might became easier for franchisee to enhance customer relationships (Watson et al., 2005)

Proven Business Format:

Research of Cavaliere and Swerdlow (1988) indicated that “The franchisee gets its entire business format from its franchisor; this includes marketing strategy and plan, operating manuals and standards, quality control and continuing two-way communications” (p.11) Research compares the means of survival in franchised and non-franchised small scale firms and indicated that franchising has been selected by new inductees in order to minimize the impact of business risk. (Batres, 1998)

Research of Withane (1991) also highlighted that “**Proven Business Format**” is treated as one of the main reason for selection franchise as a business model by entrepreneurs. Research further explained that number of entrepreneurs opted for this type of business over their personal business in order to enjoy the ease from the use of proven business format. Latest research work of Oni Sekwele Khusto Tafadzwa and Pelser (2014) also indicated that use of franchising reduces the risk of business failure due to reliability of its format. Salar and Salar (2014) also treated “**Proven Business Format**” as one of the major strengths of franchising as conduction of business with minimal risk factor is treated as so promising by entrepreneurs.

Self Satisfaction

According to research of Oni Sekwele Khusto Tafadzwa and Pelser (2014) most of the entrepreneurs prefer franchising in order to build business on their own and to set their own destiny. The opportunity to become one's own boss is treated as one of the major motivation of entrepreneurs and the hands-on work experience as a type of entrepreneurial self-fulfillment (Hizam-Hanafiah & Li, 2014).

Prior study of Morrison (2000) also highlighted that another element of motivation is the provision of risk taking and being proactive in order to enhance business. Though franchisees are controlled by franchisors but there is an extent of entrepreneurship for them which enhance their level of motivation. However franchising is still capable of providing new comer a chance to compete with those franchisees having more experience and resources (Clarkinand Rosa, 2005). Though some of the studies for e.g. Knight (1984) indicated that franchisees falls behind in the level of independency in comparison to other entrepreneurs as they are bound to follow polices and code of conduct established by franchisors. Similarly

Initial Support and Ease of Setup:

According to literature in of franchising, franchisors are dependent upon performance of franchisees, thus franchisors have to provide their support and advise to franchisee’s in order to operate business effectively (Rubin, 1978). Through franchising entrepreneurs got the ease of business setup which overcomes the most impactful hindrance for market entry and this hindrance is removed by easy setup support by the franchisors (Salar & Salar, 2014). Research of Peterson and Dant (1990) indicated the provision of training and development from the franchisors is one of the major sources of inspiration for entrepreneurs of US.

Research of Oni et al (2014), also indicated that selection of franchise by entrepreneur is due to effective

training provided by franchisors. These training programs enhance capabilities of new franchisees so they can effectively start and run their franchise (Litz & Stewart, 2000 & Davidsson & Honig, 2003). In fact research treat initial support of the franchisors as the major resources for a franchisee, especially when the franchisee has little or no experience (Shih-Yi, 2014).

Easy to find Financial Support:

Clarke (1997) indicated that franchising is type of business model which is dependent upon development of effective relationships between parties, in fact also with third parties like financial institutions, franchising agencies and government agencies in order to avail loans as well as proper level of guidance.

Salar and Salar (2014) highlighted that because of lower chances of business failure entrepreneurs have the liberty of tracing easy financial support from banks and other financial institutions. Research further explains that banks prefer to support proven business models as compared to the new ones therefore the chance of financing are more as compared to sole-proprietorship business. Though work of Alpeza Erceg and Peterka (2015), highlighted that, in developing countries there is a significant lacking in level of support rendered to franchisees in the form of financing.

Ongoing Support:

Rubin (1978) indicated that in addition to the startup support franchisors also monitor various activities performed by franchisees in order to manage their reputation and also render support to franchisees in order to run business operations smoothly. Research work treated this availability of “**Ongoing Support**” in franchising as one of the major motive for perusal of franchising by entrepreneurs (Hought, 1986). Research findings of Withane, (1991) also highlighted that ongoing support from franchisors as the key factor for selection of franchise as a business model. Research of Oni et al (2014) revealed that due to availability of continuous training program there is a strong probability of renewal of franchising contract.

Moreover according latest study of Salar and Salar (2014) franchising provide advantage of advertising, networking, training, technical support etc which most of the times individuals can not afford thus treated as major advantage of franchising over other forms of business. Furthermore research of Oni et al (2014) also elaborated that franchisors will not able to perform effectively until or unless they have franchisors support in business operations. With respect to franchisee’s perception, findings of the research indicated that it is the believe of almost 45% respondents that franchisors are not providing same level of ongoing support which was intended or required in fact some of the franchisors are not interested in providing ongoing support to the franchisees. Research of Clarkina nd Rosa (2005) indicated that entrepreneurial activities are likely to be optimized by franchisee due to effective franchisor and franchisee relationship and these activities will affect the performance of franchise effectively.

Faster Development:

Research of Steffens Davidsson and Fitzsimmons (2009) highlighted that we can analyze “Growth” more easily and accurately in comparison to all the financial indicators. Thus while measuring performance then it is appropriate to treat this factor more important than financial measures. Though the study conducted by Wingrove and Urban (2016) on franchised fast food brands does not indicate significant impact of any brand factors on the growth of revenue.

Managerial Skills of Franchisees:

Research of Oni et al (2014) indicated that, franchisees must also possess managerial skills in order to operate franchise as these skills are required to manage all the issues associated with franchise operations. Research indicated that organizations require leaders who can forecast plan, implement and take corrective actions through the help of others (O’ Grady & Malloch, 2011). Research of Hussain Sultan and Ilyas (2012) elaborated the requirement of leadership in the scenario of entrepreneurship and indicated that entrepreneurs must use their leadership capabilities in a manner that will benefit society.

Discussing the impact of lack of managerial skills research of Peterson Kozmetsky and Rideway (1983) indicated that lack of managerial skills in entrepreneurs resulted in failure of small business. Linking the requirement of managerial skills with franchising Di-Pietro Severt Welsh and Raven (2007) highlighted that regardless of support from franchisor a franchisee must assume risk and show optimal degree of proactiveness so to make business successful. Alpeza Peric and Soltic (2012) highlighted creativity of entrepreneur as the most important trait and elaborated that the most important element in the success of franchisees is their ability to innovate to maximize market share and through bringing more customers to their stores. These findings are also supported by Noor and Sarker (2014) that efforts of franchisee can are directly associated with the super brand reputation in the market. Extending these illustrations research of Lim (2015) posit that that franchisee must have the ability to innovate in order to achieve success.

Level of Education of Franchisees:

Research postulated that franchisees with higher education background must be preferred by franchisors (Edens et al. 1976) Research of Bates (1995) argued that franchisees are found to be on lower side in terms of education when compared entrepreneurs who are running self owned business. Exploratory study Cecilia Ajith and Dianne (2011) conducted on Franchising Decisions indicated that more than 60 % of franchisee included in sample has at least bachelor's degree and 2.8% of respondents having professional degrees, Research also indicated that most of the franchisees believes that the venture with franchisor will provide them a competitive edge in comparison to the other organizations.

Research Design:

A research design is the specification of methods and procedures for acquiring the information needed.. Thus this research is also linked with the concept of "**Research Onion**" formulated by Saunders Lewis and Thornhill (2007) and according to that the research is based up on "**Epistemology**" as a research philosophy and uses "**Realism**" as a Philosophical Stance, in order to enhance knowledge generation through grasping related information from different sources.

Research of Naibor & Moronge (2018), also revealed that a descriptive survey design was appropriate since it enabled collection of data over a number of firms. Thus in association with Saunders et al. (2007), the method of compilation of this research is "**Descriptive**" in nature and research strategy indulge with this research is "**Experiment**" and as it is related with the collection of data from respondents at their convenience. Therefore it is "**Field Experiment**" and the study setting is "**Non-Contrived**" thus the interference level of researchers is "**Moderate in Nature**".

Sampling Design:

Ramirez-Hurtado and Quattrociochi, (2009) developed a questionnaire which was used to collect responses from 992 franchisees operating on the Spanish market. The franchisees were chosen from the Franchise Guide published on Tormo and Associates web site in 2007 and the data was collected through convenience sampling. Though selection of respondents was on the basis of franchisor chains catalogued as interesting and profitable. Other research of Weaven, Grace & Manning, (2009) Respondents were franchisees drawn from 83 different franchise groups, but in Pakistan the only thing which we knew about local franchising is the name of the group which uses franchising as a business model Thus there is a subsequent lacking of information like type of franchising, number of entrepreneurs indulged in this activity by each business etc.

Moreover some of the entrepreneurs also have the franchise of different companies (from different industries) therefore we cannot render the questionnaires to area development form of franchising (Weaven et al., 2009). Therefore after consulting work compiled by Karachi Chamber of Commerce and Industry (2016), it has been analyzed that in Karachi number of available outlets/ franchises (for local companies) are more than 200. Thus compilation of research is subjected to lot of difficulties as there is no information regarding the mix of outlets and franchises for these companies and also regarding the type of franchising these companies therefore meeting with original (legitimate) franchisees in the scenario of Pakistan (as they are well reputed businessman and involved in several other business activities) is much difficult. Hence in order to collect appropriate responses we visited several outlets ourselves and after rendering immense efforts towards data collection & compilation, we have collected the sample of 100 respondents. Thus it is appropriate to state the type of sampling we used is "**Probability Sampling**" and the method of sampling linked in this regard is "**Simple Random Sampling**".

Name of Business	Karachi	Lahore	Islamabad	Other Cities	Total
Clothing and Style					
Bareeze	5	20	3	37	65
Ideas	20	11	5	14	50
Origins	5	9	5	21	40
Alkaram	8	4	3	9	24
ChenOne	2	5	2	15	24
Ego	7	5	6	3	21
Mausummery	2	8	2	9	21
Crossroads	6	4	2	4	16
Cotton & Cotton	5	4	0	0	9
Ary Jewellers	4	1	0	1	6
Outfitter	3	2	1	1	7
FNK Asia	3	1	1	0	5
Sheep	3	1	0	0	4
Brands just Pret	2	0	0	0	2
Leather and Shoes					
Hub	8	4	3	1	16
Jafferjees	5	1	2	1	9
Bata Shoes	400+ stores all across Pakistan				
Servis Shoes	450+ Stores All across Pakistan				
Fitness and Hair					
Shapes	1	4	0	3	8
Bumble&Bumble	2	0	1	0	3
Hair Club	1	2	1	3	7
Food					
Pizza Point	10	0	0	0	10
Whoops	2	2	2	2	8
14th Street Pizza	5	0	1	1	7
Ginsoy	5	1	0	0	6
BBQ Tonight	2	2	1	1	6
Chacha jee	4	1	1	0	6
United King	6	0	0	0	6
Lal Qila	2	1	1	0	4
Bumzee's	2	0	0	0	2

Table No. 01 A From (“Franchising: A preferred mode of Business Expansion”, Chamber of Commerce and Industry, 2016)

Name of Business	Karachi	Lahore	Islamabad	Other Cities	Total
Chatkharay	2	0	0	0	2
Convenience Store					
Imtiaz Stores	4	0	0	1	5
Education					
The Educators	600+ Branches all across Pakistan				
Allied School	More than 600 Campuses all across Pakistan				
The Smart School	230 Branches all across Pakistan				
Roots School System	100 Branches all across Pakistan				
Air Foundation School System	71+ Campuses all across Pakistan				
Leads School System	41+ Campuses				
The Educators	40+ Branches all across Pakistan				
Cothm College	1	3	1	8	13
Leadership College	0	2	0	5	7
Courier Services					
TCS	All across Pakistan				
Call Courier	All across Pakistan				
Express Courier Link	All across Pakistan				

Source: KCCI Research; Francorp Pakistan

Table No. 01 B From (“Franchising: A preferred mode of Business Expansion”, Chamber of Commerce and Industry, 2016)

Questionnaire:

Questionnaire used in this research is based upon five points Likert Scale as this type of questionnaire was used by Hizam-Hanafiah and Li (2014) in their research on “Franchisee satisfaction of goal attainment: A discovery of hierarchy of entrepreneur goals” as the research was conducted in 2014 and this indicated that this type of scaling is appropriate for taking numeric data from entrepreneurs.

Moreover in order to make questionnaire concrete researchers include parameters from Ramirez-Hurtado and Quattrociochi, (2009) and Firdaus Mohammad Nagarajah and Voon (2008) so to make questionnaire more appropriate and applicable towards franchisee’s motivation as well as to factors responsible for the selection of franchise as a business model.

Statistical Testing and Evaluation:

Initially Task is to check the reliability of data in order to validate construct for detailed analysis and evaluation. Thus “**Reliability Analysis**” was conducted through Cranach’s Alpha for determining the consistency of data collected. Results of Reliability Analysis can be seen in Table No. 01

Variables	Reliability	Items
Selection of Franchise as a Business Model	0.811	5
Recognizable Company’s Name	0.788	5
Successful Business Model	0.890	5
Self Satisfaction	0.767	5
Startup Support	0.822	5
Easy to Find Financial Support	0.805	5
Ongoing Support	0.753	5
Faster Development	0.772	5
Managerial Skills ad Interest	0.789	5
Education Level of Entrepreneur	0.910	5

Table No. 01

In order to implement inferential statistics on research model researchers implemented Structural Equation

Modeling as the model was coupled with multiple moderators. Thus in order to process effectively researchers takes the advantage if AMOS rather than using Hayes Model for interpretation and model of Path Analysis can be seen in Figure No. 01

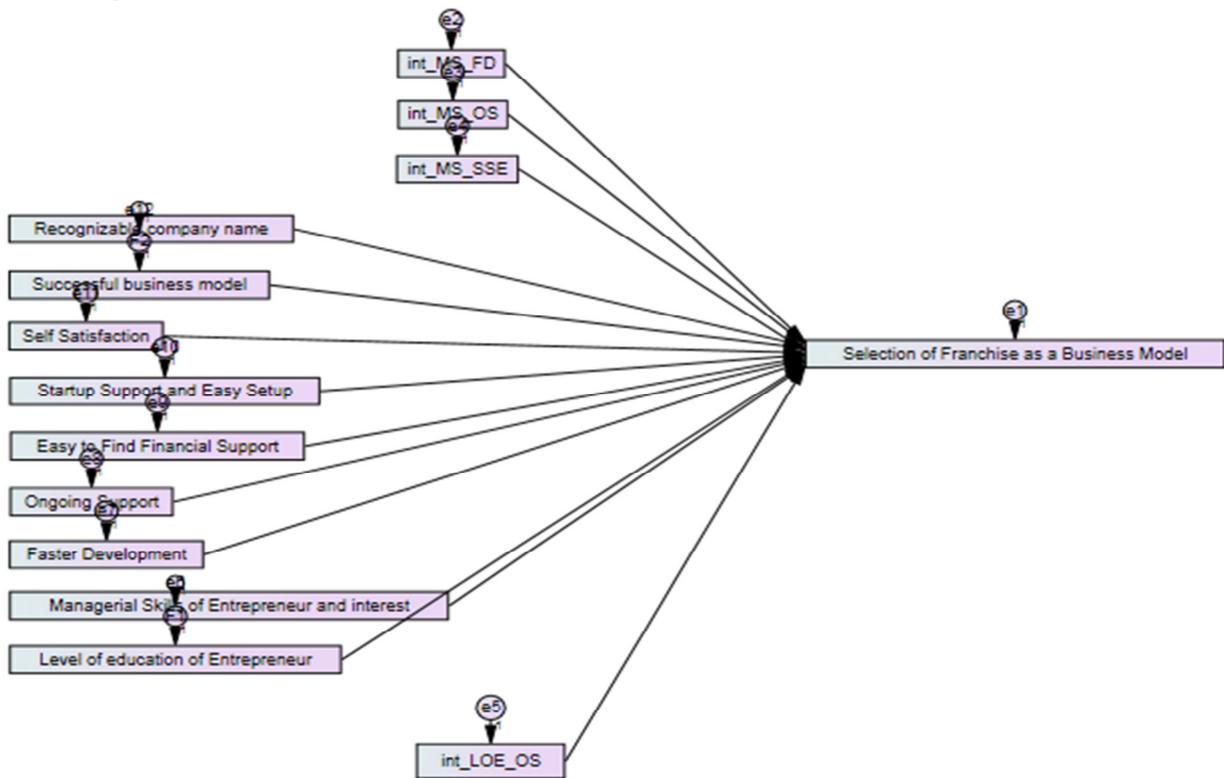


Figure No. 01

After drawing the figures we have evaluated our model through model fit values associated with SEM. See Table No. 02

Model Fit Summary

CMIN/DF	GFI	CFI	RMSEA
1.450	0.841	0.871	0.04

Table No. 02

Analysis: Table No. 02 highlighted that the value of CMIN/ DF (Relative Chi-Square) is found to be 1.450 which, is less than 2 & thus it is sufficient to believe that the model is sufficiently fit for the purpose of research. On the other hand the value of The Root Mean Square Error of Approximation (RMSEA) is 0.04 which also falls in the range of acceptable figure i.e. below than 0.05, thus sufficient to highlight the model fit. At last values of Goodness of Fit Index (GFI) and Comparative Fit Index (CFI) are 0.841 and 0.871 thus all these measures to check the model fit for Structural Equation Modeling (SEM) are highlighting satisfactory results for the fitness of model.

Moreover through second order CFA and Path Analysis we have the impact of different variables upon each other which is highlighted through the next table i.e. Table No. 03

		Estimate	S.E.	C.R.	P
Selection of Franchise as a Business Model	<--- Recognizable Company's Name	.153	.042	3.662	***
Selection of Franchise as a Business Model	<--- Successful Business Model	.094	.042	2.234	.025
Selection of Franchise as a Business Model	<--- Self Satisfaction	.012	.041	.289	.002
Selection of Franchise as a Business Model	<--- Startup Support and Easy Setup	.018	.041	.431	.666
Selection of Franchise as a Business Model	<--- Easy to Find Financial Support	.027	.041	.654	.513
Selection of Franchise as a Business Model	<--- Ongoing Support	.324	.045	7.218	***
Selection of Franchise as a Business Model	<--- Faster Development	.247	.039	6.411	***
Selection of Franchise as a Business Model	<--- Managerial Skills of Entrepreneur and interest	.192	.040	4.826	***
Selection of Franchise as a Business Model	<--- Level of Education of Entrepreneur	.393	.038	10.349	***
Selection of Franchise as a Business Model	<--- Int MS SSE	-.007	.008	-.839	.402
Selection of Franchise as a Business Model	<--- Int MS OS	.016	.008	1.999	.046
Selection of Franchise as a Business Model	<--- Int MS FD	-.038	.008	-5.069	***
Selection of Franchise as a Business Model	<--- Int LOE OS	-.071	.008	-9.400	***

Table No. 03

Analysis:

Table No. 03 indicated that there are two independent variables i.e. “**Startup Support**” and “**Easy to Find Financial Support**” are not creating positive impact on the motivation of franchisee to select franchise as the business model. Though all the remaining variables affecting the preference of entrepreneurs in a significant manner. Moreover the moderation of Managerial Skills (MS) in collaboration with Startup Support and Easy Setup (SSE) does not have significant impact on the preference of entrepreneurs.

But the moderation of Managerial Skills (MS) with Ongoing Support (OS) and Faster Development (FS) does have the significant impact on the selection of franchise as the business model. Similarly Level of Education of Entrepreneurs (LOE) in collaboration with Ongoing Support (OS) also affects the preference level of entrepreneurs positively.

Conclusion and Managerial Implications:

As highlighted by the Table No. 03 that “**Startup Support**” and “**Easy Financial Support**” are not affecting the preference of entrepreneurs thus these variables might be important for the selection of International Franchise i.e. “Off-Shore” company rather than local franchise. As in Pakistan banks and other financial institution are not inclined towards those franchises which are of local companies. Moreover “**Startup Support**” is also not treated as potent by entrepreneurs as local companies does not provide extensive initial support and the major purpose of entrepreneurs is to satisfy themselves through engaging them with a well known company.

Association of Managerial skills with startup support and easy setup is also not producing desirable (positive) impact on the selection of franchise as the business model as local companies in Pakistan use strict code of conduct and franchisee are not much free. Thus the inclination of franchisees selected are on negative side and hence it is optimal to state that research is producing somewhat different results from the research used to evaluate the preference and thinking of franchisees used to run International Franchises. Thus from this research it is almost clear that there is a distinctive line between the preference and motivation of franchisees of different countries as well as franchisees operating in local and international segments of franchising.

Area for Future Research:

Research has been conducted from local franchisees of Karachi city only and the other cities and provinces are not been taken into account. Thus the most common area for future research is inclusion of other provinces and cities in research. But as mentioned earlier that most of the companies has their most outlets in Karachi, therefore future research in the domain of other cities or provinces might not yield fruitful findings and significant results. Therefore in order to conduct pervasive research researchers might can the data of franchisees of local as well as International Companies operating in Karachi and Pakistan and show comparison between the motivations of franchisees.

Moreover research activities might further be enhanced by collecting and evaluating data on the basis of different types of franchises (i.e. **Direct Franchising, Area Development Franchising, Master Franchising & Joint Venture Franchise**) used by local as well as International companies in Pakistan.

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