

## THE INFLUENCE OF HUMAN CAPITAL FACTORS ON FRANCHISING

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### ABSTRACT

The influence of human capital on franchise business ownership is explored in this research. Franchising is a popular form of small business ownership. Russ (2015) describes human capital as the knowledge, experience and skills held by an individual, seen in terms of their value or expense to an organization. Previous research suggests one of the greatest challenges for franchise organizations is acquiring franchisees that are a good match for their system. Research on entrepreneurs not constrained to franchisees has found that they can be dissatisfied with owning and operating their own business, and further that human capital, such as education and experience, can affect satisfaction. These findings may provide insights for franchisors who seek good matches for their businesses. There is also evidence that individuals and institutions that finance start-ups evaluate human capital factors like education and experience when making financing decisions. However, the use of education and experience may not be equally helpful when looking at franchises versus other startups. This study applies a comparative research model to assess whether the practice of using education and ownership experience is appropriate for franchises. Findings reported here indicate that, in contrast to research findings on non-franchisee entrepreneurs, higher levels of education and experience were not correlated to higher satisfaction.

Keywords: Human Capital; Franchising; Small Business; Education; Prior Business Ownership.

### INTRODUCTION

According to the Small Business Administration (2016), there were 28.8 million small businesses in the United States in 2013. Overall, 2.9% of these firms are franchises. IHS Markit Economics (2017) estimates that franchise businesses accounted for around 3% of U.S. private GDP or a total of \$405 billion in 2016. In addition, it is likely that nominal GDP of the franchise sector will increase by 5.2% to \$426 billion in 2017. Despite being a key force behind the United States economy, franchising still faces challenges. Previous research on franchising suggests one of the greatest challenges for franchisors is acquiring franchise business owners that are a good match for their system (Goncalves & Duarte, 1994; Saraogi, 2009; Ramirez-Hurtado, Rondan-Cataluna, Guerrero-Casas & Berbel-Pineda, 2011, McDermott, Boyd & Weaver, 2015). Moreover, Morrison (1996) suggests amicable franchisor/franchisee relations appear to be a key element of the future success of a franchise. To explore this difficulty, previous studies on the topic of franchising have

Full Citation:

McDermott, M.J. and Boyd, T.C. (2017). The Influence of Human Capital Factors on Franchising. Small Business Institute ® Journal. 13(2), pp. 31-50

focused on relevant attributes of successful franchise business owners (Withane, 1991; Saraogi, 2009; McDermott, 2010; Ramirez-Hurtado, Rondan-Cataluna, Guerrero-Casas, & Berbel-Pineda, 2011). Interestingly, no studies have explored the impact of education and entrepreneurial experience on franchise business ownership satisfaction.

Russ (2015) defines human capital as the knowledge, experience and skills held by an individual, seen in terms of their value or expense to an organization. This study specifically explores the effect of education and prior entrepreneurial experience on franchise business ownership satisfaction. Franchising occurs when a company, called a franchisor, sells permission to market its branded goods and use its business methods (Chirco, Ireland & Simon, 2011). Previous research has explored the impact of human capital, such as the influence of education and experience on entrepreneurship (Vesper, 1980; Van de Ven, Hudson & Schroeder, 1984; Thompson, 1986; Stuart & Abetti, 1990; Jo & Lee, 1996; Dyke, Fisher & Reuber, 1992; Robinson & Sexton, 1994; Lee & Tsang, 2001; Robb & Wolken, 2002; Bradley & Roberts, 2004; Shane, 2008; Ferrante, 2009; Carree & Verheul, 2011), yet no studies have focused specifically on the franchise format of business ownership. Understanding whether findings for non-franchise owners extend to franchise owners can provide valuable insight to franchisors who seek the best “fit” between their business model and franchisees. Because a franchise model is different from other entrepreneurial ventures (Welsh, Desplaces & Davis, 2011), we attempt here to begin to identify differences between prior findings that can be applied to franchising and those that cannot.

In addition to the challenge of finding qualified franchisees, it is paramount that franchisors partner with entrepreneurs who will be satisfied owning and operating a franchise because successful franchising requires a long-term contractual relationship. Abraham (2012) suggests job satisfaction is a significant measuring tool as it produces outcomes such as higher engagement, lower turnover, enhanced productivity, more loyal customers, a higher level of motivation and more dedication to the job. Other studies have also found that job satisfaction leads to increased performance (Argyle, 1987; Judge, Thoresen, Bono & Patton, 2001; Ahmed & Ahmad, 2011). However, Carree and Verheul (2011) propose that for many entrepreneurs, the reality of business ownership fails to meet expectations leaving those individuals dissatisfied with their choice of entrepreneurship. If this finding also applies to franchisees, it may presage a greater challenge in finding and retaining satisfied franchisees. Moreover, influencing entrepreneurial satisfaction is the ability to make money; the typical take-home pay of the self-employed is lower than salaried employees (Hamilton, 2000; Shane, 2008). Further, failure rates for new businesses are approximately 55% within the first five years of business (Phillips & Kirchoff, 1998; Boone & Kurtz, 2007; Bureau of Labor Statistics & Business Employment Dynamics, 2012). According to The Small Business Administration (2016), there were 406,353 startups (firms less than one-year old) and 400,687 firm closures in 2013. Despite these common outcomes, hundreds of thousands of individuals each year still pursue their own business or franchise opportunity.

### **Grounds for the Study**

This study attempts to determine the impact of human capital on franchise ownership satisfaction. It specifically wanted to learn if franchise business owners with a higher

degree of education are significantly more satisfied with owning and operating a franchise compared to individuals with a lower level of education. This study also tests whether individuals with prior business ownership and industry experience are significantly more satisfied with franchise ownership compared to franchisees with no entrepreneurial and industry experience.

Previous research has explored the link between expectations and satisfaction. Oliver (1981) defines satisfaction as a psychological state resulting when the emotion surrounding disconfirmed expectations is tied with an individual’s prior feelings about the experience. Carree and Verheul (2011) propose entrepreneurs who have a greater concentration of human capital may have more accurate expectations of business ownership and as a result are more likely to be satisfied with the monetary or non-monetary benefits resulting from entrepreneurship. This study is significant because it links prior experience to more accurate expectations, which can be argued are better reflected by satisfaction, the difference between expectations and results (Parasuraman, Zeithaml & Berry, 1988).

### Conceptual Framework

The concepts of human capital and franchising are the theoretical underpinnings of this research. It specifically explores the effect of two widely recognized sources of human capital: education and prior entrepreneurial experience (Dyke, Fischer & Reuber, 1992; Robb and Wolken, 2002; Shane, 2008) on satisfaction with owning and running a franchise. As shown in Figure 1, there are multiple factors that can influence a franchisee’s success and satisfaction with a franchising arrangement. This research, as shown in Figure 1 focuses on the relationship between franchisee characteristics and franchisee satisfaction.

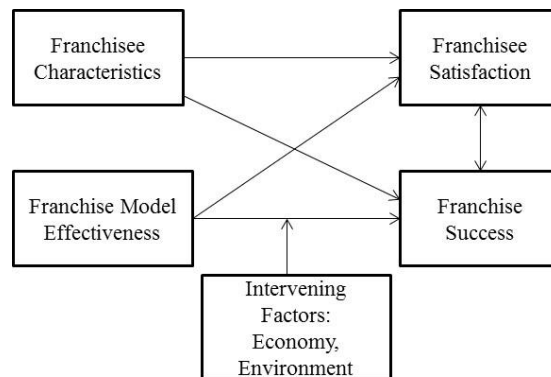


Figure 1: Conceptual Framework

The context of this research is based on education and experience providing a better opportunity of being an entrepreneur and more precisely, successful franchisee. Prior research suggests the human capital factors of entrepreneurial experience and education level may have a positive impact on an individual’s desire to be a profitable business owner.

While franchising offers several benefits to aspiring entrepreneurs such as a familiar brand, a strong business system and economies of scale, it is certainly not immune to business failure (Welsh, Desplaces & Davis, 2011). Research on non-franchise entrepreneurs provides some mixed evidence that individuals who have more human capital will be more successful entrepreneurs. One assumption behind this notion is that if aspiring entrepreneurs have more realistic expectations they will be more successful (Carree & Verbal, 2011). The extended logic based on Figure 1 is that if more realistic expectations lead to greater satisfaction, then we can expect that the antecedents of realistic expectations will help us identify more successful franchisees. This research looks at human capital and satisfaction because we believe that both are antecedents to success and through this research we may establish better understanding of the relationship human capital and satisfaction have to each other before exploring their effects on success.

## LITERATURE REVIEW

This literature review focuses on two core factors of human capital: education and experience. Dyke, Fischer and Reuber (1992), suggests there is support that individuals and institutions that finance new business ventures evaluate human capital factors like education and experience when making financing decisions. Interestingly enough, some studies that sought to find a direct relationship between human capital factors like education and past experience on entrepreneurial performance have found inconsistent results. This review first discusses scholarly research on the influence of education on entrepreneurship. Next, it examines pertinent studies on the impact of prior business ownership experience on entrepreneurial success. Lastly, it concludes with literature on causes and outcomes of entrepreneurial satisfaction and the motivation to become a franchise business owner.

### Education

Previous research has explored the effect of education level on entrepreneurship for non-franchise businesses. Despite some of the common beliefs that many entrepreneurs are high school and college dropouts, scholarly literature suggests the opposite. Some literature suggests a larger market of aspiring entrepreneurs can be identified in individuals with a higher level of education. One of the earliest studies suggested that entrepreneurs in its Canadian and U.S. samples had a greater degree of education compared to the overall populace (Thompson, 1986). Likewise, Robinson and Sexton's (1994) study on the effect of education and experience on successful self-employment discovered that entrepreneurs had more education than those in the salaried segments.

Shane's (2008) findings also suggest having a higher level of education, with the exception of a doctorate degree, increases the likelihood that a person will start his own business. Shane also proposes business majors are more likely to start their own company compared to graduates of other college degree programs. Other studies have also looked at the likelihood of becoming an entrepreneur based on level of education. The literature suggests that going to school actually increases the odds that an individual will become an entrepreneur. Robb and Wolken (2002) propose that better educated individuals are more likely to become entrepreneurs because they have greater access to external capital.

Some studies have focused on the relationship of an entrepreneur's level of education and business performance. There are conflicting findings on the performance outcomes of entrepreneurs with a higher level of education. Robinson and Sexton (1994) found a positive relationship between level of education and earnings from self-employment. Also, Robb and Wolken (2002) conclude that better educated entrepreneurs have lower business failure rates, greater sales, higher employment growth and more profitable ventures compared to entrepreneurs with a lower level of education. Shane's (2008) research shows that start-ups initiated by college graduates have 25% more revenue than start-ups initiated by high school dropouts. According to Shane, start-ups created by an individual with a graduate degree have 40% more revenue than start-ups founded by a college graduate.

There are also opposing results on the impact of higher education on entrepreneurship. For instance, Stuart and Abetti (1990) found that a higher education level was negatively correlated to entrepreneurial performance in technical organizations. This study, which conducted a survey of 151 entrepreneurs from Singapore, found that the education level of entrepreneurs was negatively related with revenue growth. Similarly, Dyke, Fisher and Reuber (1992) found a negative correlation between the level of education of the entrepreneur and business performance. Also, an analysis of 48 new start-up companies in Korea suggested education was the only variable positively related with profitability but not with growth (Jo & Lee, 1996). In a similar investigation, Lee and Tsang (2001) found that education has a negative correlation to venture growth, however the effect was nominal. Lee and Tsang propose the impact of education on venture growth may be a result of company size. Their findings did show that for bigger organizations, education has a small but positive influence on business enterprise growth because more knowledge is required to operate in larger firms, which can be activities like foreign investment and international trade, which requires strong written and verbal communication skills as well as a substantial amount of business acumen. Bigger organizations are also more likely to make use of information technology and e-commerce; education surely benefits in these areas. Education plays a less significant part in operating smaller companies. Lee and Tsang's study, which took place in Singapore, found individuals with more education enter the private sector or professional occupations while those with less formal education choose to start a business.

The evidence does not enable a conclusion about whether or not education benefits an entrepreneur, but findings suggest that education may be beneficial in certain situations, such as more multifaceted organizations. The next section will discuss the impact of experience on entrepreneurship.

### **Entrepreneurial Experience**

Researchers have also explored the impact of experience on entrepreneurship. Literature suggests an entrepreneur's experience can influence performance in a positive or negative manner. According to Lee and Tsang (2001), an entrepreneur's experience is comprised of three main parts: prior business ownership, industry experience and managerial experience. Stuart and Abetti (1990) measure previous business ownership as the number of preceding ventures and industry experience as the number of years in a particular trade.

Some studies have examined previous occupation and its relationship to entrepreneurship. Shane (2008) indicates that people who primarily work in jobs in the corporate world are more likely to start their own business than individuals who work in occupations that are found in government and education. Moreover, people who have more managerial experience are more likely to start their own businesses compared to individuals with no managerial experience. Shane also proposes certain occupations are likely to have a higher level of entrepreneurs. For example, approximately 81% of dentists are self-employed versus a 3.91% self-employment rate for legal assistants.

Many studies report a positive relationship between prior experience and entrepreneurship, particularly in the area of industry experience (Vesper, 1980; Van de Ven, Hudson, & Schroeder, 1984; Stuart & Abetti, 1990; Dyke, Fisher & Reuber, 1992; Jo & Lee, 1996; Shane, 2008). For example, Vesper (1980) and Van de Ven et al. (1984) found a positive relationship between industry experience and entrepreneurial performance. Similarly, Stuart and Abetti (1990) found a positive effect between managerial experience and entrepreneurship. In addition, Dyke et al. (1992) reported positive effects from both industry and managerial experience and venture creation. Shane (2008) suggests entrepreneurs with previous experience in starting a business develop faster, have higher incomes, grow faster and are less likely to fail than businesses founded by inexperienced entrepreneurs. However, research shows you don't need a great deal of prior experience to realize the benefits. Studies show what matters is the difference between having no experience and having some experience. Having started more than one company gives you no added benefit over that which comes from having started only one business previously.

Some studies have suggested there can be some negative aspects to having more experience. These negative facets could include ability to identify weaknesses to overconfidence. For example, Wright, Robbie and Ennew (1997) find that serial entrepreneurs are less able to identify their own shortcomings than first-time entrepreneurs. Moreover, Hayward, Shepherd and Griffin (2006) argue that experienced entrepreneurs might be overconfident when the type of business venture differs from that of former ventures.

The evidence does suggest there are certainly more benefits to having entrepreneurial experience versus having no entrepreneurial experience. The next section will address factors of entrepreneurial satisfaction.

### **Factors of Entrepreneurial Satisfaction**

Studies suggest there are various outcomes on the impact of entrepreneurial satisfaction. Ferrante (2009) describes satisfaction as a positive difference among expected and realized results. Scarpello and Campbell (1983) claim that total measures of satisfaction are not equal to the sum of the different parts. For instance, Morrison (1996) suggests job satisfaction has been shown to be related to various other non-work satisfactions such as life, family and self-satisfaction. Also, VandenHeuvel and Wood (1997) submit descriptive support that entrepreneurs are more satisfied than salary earners with life factors such as more independence.

Abraham (2012) suggests job satisfaction produces outcomes such as higher engagement, low turnover, enhanced productivity, more loyal customers, a higher level of motivation and more dedication to the job. While there has remained debate on the outcome job satisfaction has on performance, it would be practical to suggest the outcomes are generally positive (Morrison, 1996).

Studies suggest there are multiple arguments on the impact of human capital on entrepreneurial satisfaction. For instance, Carree and Verbal (2011) propose entrepreneurs who have a higher degree of human capital may have more accurate expectations of business ownership and as a result are more probably satisfied with financial performance or non-monetary utility resulting from entrepreneurship.

On the other hand, several studies have shown a higher education level negatively impacts entrepreneurial satisfaction (Clark and Oswald, 1996; VandenHeuvel & Wood, 1997; Bradley & Roberts, 2004; Carree & Verheul, 2011). Ferrante (2009) suggests one theory for this outcome is educated entrepreneurs are more likely to regret forgone opportunities. In addition, well-educated entrepreneurs might miscalculate their abilities to operate a business due to hubris, and become more dissatisfied owning and operating their own firm compared to entrepreneurs with lower levels of education and thus lower expectations. Since education is expensive and time consuming, Carree and Verheul (2011) also propose a higher level of education may have a negative, direct effect on satisfaction because of high opportunity costs for more educated entrepreneurs.

### **Franchise Motivational Factors**

Literature suggests the motives to start a business are likely to influence entrepreneurial satisfaction. Boone and Kurtz (2007) suggest one of the primary reasons individuals pursue a career in entrepreneurship is to improve the quality of their life. This could include examples like spending more time with family and leisure activities.

While no studies have specifically measured the influence of education and entrepreneurial experience on job satisfaction for franchisees, Kaufmann and Stanworth (1995) examined the motivation of individuals before they became franchisees. Kaufmann and Stanworth empirically investigated some explanations why individuals become franchise business owners as opposed to owning an independent operation or working for others. Their findings suggest prior work history is a good predictor of the surface advantages to buying a franchise. Additionally, the most critical advantages of franchise ownership are very different for entrepreneurs who have been self-employed than for those who have not. For example, the independence offered by owning a franchised business is most attractive to individuals who have worked on a salary basis. In contrast, individuals who have been previously self-employed appreciate the competitive advantages that franchises have over small independent businesses. For example, dissatisfied small business owners might find the economies of scale offered by bigger franchises appealing.

### **Hypotheses**

Studies suggest entrepreneurs who hold higher levels of human capital at the period of starting a business make more informed decisions, have greater access to external capital,

set more realistic expectations, have lower failure rates, develop the business faster, have more practical expectations of business ownership and produce greater revenue. Strong performance in any of these areas is likely to increase the satisfaction of the franchisee. It therefore follows that:

- H1: Franchisees with a higher level of education have a significantly higher degree of job satisfaction than franchisees with a lower level of education.
- H2: Franchisees with prior business ownership experience have a significantly higher degree of job satisfaction than franchisees with no prior business ownership experience.
- H3: Franchisees with industry experience have a significantly higher degree of job satisfaction than franchisees with no industry experience.
- H4: Franchisees with a higher level of education have a significantly higher degree of life satisfaction than franchisees with a lower level of education.
- H5: Franchisees with prior business ownership experience have a significantly higher degree of life satisfaction than franchisees with no prior business ownership experience.
- H6: Franchisees with industry experience have a significantly higher degree of life satisfaction than franchisees with no industry experience.

## **METHODOLOGY**

This portion consists of all parts of the research procedure in replicable detail. It starts with an explanation of the following: the research plan, the population and sampling process, access and consent communication, data gathering, instrumentation, the independent and dependent variables used in the study and procedures. A seven-step paradigm was applied to analyze the hypotheses.

### **Research Plan**

To investigate the hypotheses, a comparative research model was chosen to assess the differences in satisfaction in owning and operating a franchise between franchisees who have a higher level of education, prior business ownership experience and prior industry experience versus franchisees with a lower level of education, no prior business ownership experience and no industry experience. The dependent variables for this study were job satisfaction and life satisfaction. A survey measuring the variables was taken from 6/15/2013 to 7/15/2013. The survey was sent to respondents via mail using a two-step procedure. The first mailing was an overview to the research followed up seven days later with a survey packet that included survey instructions, the survey, a consent form to participate in the study and return addressed envelope with postage.



## **Population**

The population for this study is business owners performing under a franchise business organization. Further, the franchisee owned only one unit of the franchise and was located in the United States. To minimize variance created by context, the number of industries was limited to the following: Home Repair and Improvement Services, Business Services or Cleaning and Maintenance Services. Four franchise companies were randomly chosen from each of the three categories. For example, 19 franchisors were identified in the Home Repair and Improvement category, 25 franchise organizations in Business Services and 14 franchisors in the Cleaning and Maintenance category. After the brands were randomly chosen from the three groups, a compiled inventory of franchisees based on the population conditions was provided by Frandata, a market research firm that focuses on franchising.

## **Sampling Method**

The final sample was ascertained using a stratified random sampling procedure. A list of 1,280 names was randomly pulled from the entire list of names provided by Frandata using the Microsoft Excel random number generator. Every franchise business owner's name in the three categories, Home Repair and Improvement, Maintenance and Cleaning and Business Services was given a unique random number created from one to total N for each group. After that, Microsoft Excel arranged each name sequentially from one to total N for each category. Lastly, a random sampling procedure was applied to select from the randomized list to minimize order bias.

## **Instruments**

This research used a self-administered mailed survey with 25 items. Survey contents were taken from the Minnesota Satisfaction Questionnaire (1977) and Diener's (1984) Satisfaction with Life Scale. The Minnesota Satisfaction Questionnaire includes 20 items and uses a five-point Likert scale from not satisfied to extremely satisfied on a variety of elements pertaining to job satisfaction. Diener's Satisfaction with Life Scale is a five-item scale. Each item is scored from 1 to 7 so the possible range of scores is from 5 (low life satisfaction) to 35 (high life satisfaction). Both instruments were chosen for their alignment to the study constructs and high reliability.

## **Variables**

The three independent variables are education level, previous business ownership experience and industry experience. Education level was obtained by asking survey participants to circle the number of years of education they completed ranging from 5 years to 20 years. The number of years of education was grouped into four categories: Graduate/Professional School, which consists of 17 to 20 years of completed education, College, which included 13 to 16 years of completed education, High School, which consists of 9 to 12 years of completed education and Grade School which consists of 5 to 8 years of school. The independent variable, "Business Ownership Experience" was established by asking survey participants, "Before owning your present business, have you ever owned your own business?" The independent variable, "Industry Experience" was obtained by asking survey participants, "Before owning your present business, have you

ever worked in your current industry?” The two dependent variables included job satisfaction and life satisfaction. The next section will cover the results of the survey.

## RESULTS

This portion presents a breakdown of the findings from the mailed survey. It includes the demographic sample characteristics, descriptive statistics and the distribution curve of the dependent variables, reliability analysis and the results to the hypotheses using inferential statistics. All the data was analyzed using IBM SPSS, Version 24.

### Sample Characteristics

The original sample of 1,280 had a response rate of 19.6% yielding a sample size of 251. A general summary of sample characteristics is provided in Table 1. The franchisees randomly selected in this study came from organizations franchising over 25 years (M = 25.17, SD = 12.49, minimum-maximum 11-61, N = 12).

ITEM	CATEGORY	FREQUENCY	PERCENT
Education Level	Graduate/Professional	33	13
	College	169	67
	High School	49	20
	Elementary	0	0
Prior Industry Experience	No	195	78
	Yes	56	22
Prior Business Ownership	No	151	60
	Yes	100	40
Gender	Female	45	18
	Male	204	81
	No response	2	1
Age range of franchise business owner	61 and over	60	23
	51 to 60 years' old	93	37
	41 to 50 years' old	63	25
	31 to 40 years' old	20	8
	21 to 30 years' old	1	0
	No response	14	6
Franchise Category	Business Products and Svs.	103	41
	Maintenance & Cleaning Svs.	82	32
	Home Repair & Improvement	66	26

Table 1: Summary of Sample Characteristics

The next section presents the distribution, bell curve and Cronbach’s alpha of the two dependent variables.

*Distribution and Cronbach’s Alpha*

The descriptive statistics for the two dependent variables which include job satisfaction and life satisfaction indicated that kurtosis and skewness were between the ±1.00 levels, indicating a normal distribution bell curve for the two dependent variables. Cronbach’s alpha reported .89 on the Minnesota Satisfaction Questionnaire and .88 on the Diener’s Satisfaction with Life Scale.

*Results from tests of the Hypotheses*

Tests of the six hypotheses used a one-way between groups ANOVA and one-tailed, independent samples t-test with alpha originally set at .05. To reduce the risk of a Type 1 error, a one-way between groups ANOVA was used to compare the means for job satisfaction and life satisfaction for education level. ANOVA by its very nature reduces the risk of a Type 1 error.

Next, a one-tailed independent samples t-test was used to compare the means for job satisfaction and life satisfaction for Prior Business Ownership. Also, a one-tailed independent samples t-test was used to compare the means for job satisfaction and life satisfaction for Industry Experience. Since conducting four t-tests at the same time increases the risk of a Type I error, a Bonferroni adjustment was applied reducing the original alpha from .05 to .012 (.05/4). Table 2 shows the descriptive statistics for education level with job and life satisfaction as the independent variables.

SCALE	LEVEL OF EDUCATION	N	MEAN	STD. DEV.	STD. ERROR MEAN	LOWER BOUND	UPPER BOUND	MIN	MAX
JOB SATISFACTION	High School	33	73.64	11.409	1.986	69.59	77.68	47	94
	College	169	76.54	9.397	.723	75.12	77.97	48	98
	Graduate/ Professional School	49	74.31	10.894	1.556	71.18	77.44	46	98
	Total	251	75.73	10.010	.632	74.48	76.97	46	98
	High School	33	25.06	6.174	1.075	22.87	27.25	12	35
LIFE SATISFACTION	College	169	26.43	5.975	.460	25.52	27.34	9	35
	Graduate/ Professional School	49	25.90	5.906	.844	24.20	27.59	9	35
	Total	251	26.15	5.982	.378	25.40	25.89	9	35

Table 2: Descriptive Statistics for Educational Level - Dependent Variables: Job and Life Satisfaction

Table 3 shows the output for the one-way between groups ANOVA for the independent variable “Education Level” with job and life satisfaction as the dependent variables.

SCALE	ANOVA	SUM OF SQUARES	df	MEAN SQUARE	F	SIG.
JOB SATISFACTION	Between Groups	356.070	2	178.035	1.788	.169
	Within Groups	24,695.962	248	99.580		
	Total	25,052.032	250			
LIFE SATISFACTION	Between Groups	55.710	2	27.856	.777	.461
	Within Groups	8,891.836	248	35.854		
	Total	8,947.546	250			

Table 3: Education Level - Test of Between Subjects Effect: Dependent Variables: Job and Life Satisfaction

No statistical differences were found between the three levels of education for job and life satisfaction.

Table 4 shows the results for the one-tailed, independent samples t-test for franchisees that have previously owned their own business prior to buying their own franchise versus franchise business owners who have never owned their own business.

SCALE	HAVE YOU EVER OWNED YOUR OWN BUSINESS?	N	MEAN	STD. DEV.	STD. ERROR MEAN	t	SIG. ONE-TAILED	95% C.I. of the difference Lower/Upper	REJECT OR RETAIN NULL
Total Job Satisfaction	Yes	100	73.67	10.265	1.027	2.679	.004	-5.93 to -.90	Reject
	No	151	77.09	9.633	.784				
Total Life Satisfaction	Yes	100	25.43	6.409	.641	-1.55	.061	-2.71 to .32	Retain
	No	151	26.62	5.654	.460				

Table 4: Independent Samples: t-test - Business Ownership

A statistically significant difference was found for job satisfaction between franchisees who have not owned a business prior to buying a franchise versus franchisees who have owned a business prior to becoming franchisees. There were no statistically significant differences for life satisfaction between franchisees who have owned a business prior to becoming a franchisee versus franchisees who have never owned a business.

Table 5 shows the results for the one-tailed, independent samples t-test for franchisees that have previously worked in their current industry versus franchisees who have not worked in their current industry.

SCALE	HAVE YOU EVER WORKED IN YOUR INDUSTRY?	N	MEAN	STD. DEV.	STD. ERROR MEAN	t	SIG. ONE-TAILED	95% C.I. of the difference Lower/Upper	REJECT OR RETAIN NULL
Total Job Satisfaction	Yes	56	75.32	9.590	1.282	-.342	.366	-3.514 to 2.475	Retain
	No	195	75.84	10.149	.727				
Total Life Satisfaction	Yes	56	26.48	5.615	.750	.474	.318	-1.358 to 2.22	Retain
	No	195	26.05	6.094	.436				

Table 5: Independent Samples: t-test - Industry Experience

There were no statically significant differences found for job and life satisfaction between franchisees that have industry experience versus franchisees that do not have industry experience.

Because there was a significant difference in job satisfaction between franchisors that have previously owned a business versus franchisees who have never owned a business, an item analysis was explored to see where each group scored low and high on the 20 item Minnesota Satisfaction Questionnaire. Table 6 shows the results of the item analysis.

HAVE YOU EVER OWNED YOUR OWN BUSINESS?	Highest Item on the Job Satisfaction Scale	Lowest Item on the Job Satisfaction Scale
Yes (100)	Freedom to use my own judgment (4.43)	Competency of my franchisor (2.76)
No (151)	Being able to do things that don't go against my conscience (4.45) Freedom to use my own judgment (4.45)	Franchisor's policies (3.15)

MSQ Job Satisfaction Scale of 1 to 5: 1 lowest, 5 highest

Table 6: Satisfaction Scale of 1 (lowest) to 5 (highest)

## DISCUSSION

This study addresses two distinct problems pertaining to entrepreneurship. First, previous research on the topic of franchising suggests one of the greatest challenges for franchise organizations is acquiring franchise business owners that are a good match for their system. Finding an appropriate franchisee is paramount in order for a franchisor to be successful. In addition to the challenge of finding qualified franchisee candidates, some studies suggest that many new entrepreneurs are dissatisfied with owning and operating their own business. Franchising is just one of several popular alternatives to having a career in entrepreneurship.

All six hypotheses for this study suggested human capital factors like a higher education level and previous entrepreneurial experience would have a positive impact on the satisfaction level of owning and operating a franchise. Nevertheless, only one of the six hypotheses showed a significant difference in satisfaction. Franchisees who have not owned a business prior to purchasing a franchise had a significantly higher level of job satisfaction compared to franchisees who have owned a business prior to purchasing a franchise. We believe this finding is consistent with Kaufman and Stanworth's (1995) research which suggests the motivation for an individual buying a franchise is much different for someone who has never owned a business versus an individual who has previously owned a business. For instance, franchisees who have never previously owned a business like the independence offered through franchise ownership. In contrast, individuals who have been previously self-employed value the competitive advantages that franchises have over small independent businesses (Kaufmann & Stanworth, 1995).

Another discussion from this study is the significance of an aspiring entrepreneur's level of education when purchasing a franchise. While many studies have found a positive relationship between education and entrepreneurship, there were no significant differences found in satisfaction between franchisees that have a higher level of education versus franchisees with a lower level of education. We find this outcome consistent with Lee and Tsang's (2001) research suggesting the relationship between education level and venture success may be largely due to firm size. The part of entrepreneur's education level to venture growth for large organizations may be more substantial than it is for smaller businesses because larger organizations need more planning and knowledge. Lee and Tsang propose more knowledge is required to operate larger firms which can be benefited from proper education. Particularly, bigger companies participate in more activities which require strong leadership, superlative written and verbal communications skills as well as a substantial amount of business acumen. Education plays a less significant part in operating smaller companies. This study focused on franchisees that only owned one franchise unit which is typically viewed as a small business operation.

The last factor includes the discussion of industry experience. Stuart and Abetti (1990) describe industry experience as the number of years in a particular trade. According to Lee and Tsang (2001), industry experience is a main part of an entrepreneur's experience. Many studies report a positive relationship between prior experience and entrepreneurship, particularly in the area of industry experience (Vesper, 1980; Van de Ven, Hudson, & Schroeder, 1984; Stuart & Abetti, 1990; Dyke, Fisher, & Reuber, 1992; Jo & Lee, 1996; Shane, 2008). However, there were no significant differences in satisfaction found between franchisees that had previous industry experience and franchise business owners with no franchise experience. The next section will discuss the conclusions drawn from this study.

### **Limitations**

There are several limitations to this research. The first limitation would include non-response bias. For many mailed surveys, there is the risk that some types of respondents are probable to be overrepresented and others underrepresented in the sample received, creating biased results. Another limitation is that this survey only included three out of 80 industries that presently use franchising as a means of distribution restraining the generalizability of the findings. However, the three industries selected for the study were considered popular categories and somewhat representative of the franchise market in the United States. This study focused only on individuals who owned one single franchise unit also impacting the generalizability of the findings. Finally, there are intrinsic limitations in extracting causal deductions regarding the antecedents of satisfaction. Lastly, this study did not measure control variables such as the number of years in business and current sales performance of the franchise unit which could also have an impact on entrepreneurial satisfaction.

### **Suggestions for Practice**

There are a few recommendations for practice that could be concluded from this research. First, franchise organizations seeking new franchisees could find a strong pool of aspiring entrepreneurs with individuals who have never owned their own business. A key finding in this study suggests that in terms of job satisfaction, franchisees who have never owned

a business prior to buying a franchise most appreciate the ability to do things that don't go against their own conscience. There could be a supposition that some of these participants previously worked for larger size corporations and were very dissatisfied with this aspect of working for another organization. Therefore, a market of aspiring entrepreneurs may be found in the Corporate America segment. A popular description of franchising suggests it is a way of being in business for yourself but not by yourself, which might appeal to the Corporate America sector.

Next, there is a significant amount of research suggesting having a higher level of education and industry experience could be a benefit to entrepreneurship. However, based on the findings of this study, education and industry experience should not be core factors in deciding if a candidate is a strong fit for a franchise. This study suggests that having higher or lower levels of education and industry experience has no impact on the satisfaction level of an individual owning and operating a franchise.

Previous studies also suggest there is support that individuals and institutions that finance start-ups evaluate human capital factors like education and experience when making financing decisions. However, individuals or organizations that fund business ventures like single unit franchises should not assess human capital factors like education and industry experience. In addition, individuals who have not owned a business prior to buying a franchise should be seen as an asset and not a liability to funding.

This study also suggests that individuals who are interested in entrepreneurship as a career and have never owned their own business might want to consider franchising as an option. In contrast, industry experience or higher level of education could play more of a significant role in an independent or non-franchised operation. Because a system is in place, franchising allows an individual with no prior business ownership or experience the opportunity to be an entrepreneur because it can be taught and learned.

### **Future Studies**

There are several suggestions for future studies that can be drawn from this research. First, this study focused on individuals who owned one single unit of a franchise. However, there is a segment of franchisees that own several units of a specific franchise. These individuals are characterized as multi-unit franchises. One research question that results from this study is the following: Do human capital factors like education and experience become more significant as the franchise business grows? Previous research proposes the impact of education on venture growth may be an outcome of company size because more wisdom is essential to operate larger firms which can be increased from proper education and experience.

This study did not identify previous management experience which is considered a part of human capital and more specifically entrepreneurial experience. According to Lee and Tsang (2001), an entrepreneur's experience comprises of three main parts: prior business ownership, industry experience and managerial experience. It would be noteworthy to explore if there are significant differences in satisfaction between those franchisees that have managerial experience and those franchise owners that don't have managerial experience.

This study only included 3 out of 80 industries that presently use franchising as a means of distribution restraining the generalizability of the findings. It would be interesting to learn if the results of this study would be the same using three different common industries such as food, children's services and pet care.

### **Conclusions**

This research makes several contributions. First, although there is much research suggesting a positive relationship between human capital factors such as education and prior business experience on entrepreneurial satisfaction, this study showed no positive relationships between higher levels of human capital and franchisee satisfaction. Specifically, neither level of education or prior industry experience has an impact on satisfaction in owning and operating a franchise. Nevertheless, one finding in the study suggests having a lower level of human capital could be a benefit to owning and operating a franchise. Franchisees who have not owned a business prior to purchasing their franchise had a significantly higher level of job satisfaction compared to franchisees who have owned a business prior to purchasing a franchise. This may reflect the effects of self-efficacy or independence in experienced franchisees, something to consider for future research.



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