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GET A CLUE: HOW ENTREPRENEURS CAN MANAGE THE SERVICE EXPERIENCE TO DIFFERENTIATE THEMSELVES & PROVIDE VALUE PROPOSITIONS THAT MAXIMIZE CUSTOMER SATISFACTION

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ABSTRACT

Customers see and process more information than entrepreneurs may realize when purchasing products and even more so when purchasing services. This article contends that Customer Service Management should be included in the business plan for every entrepreneur's venture, and it should also be considered for small business growth. Customer Experience Management is defined by three clues: 1) Functional - concern over the technical quality of the service, for example does the food itself taste good in your restaurant. It involves the reliability and quality of the product itself; 2) Mechanic – involves the non-human elements in the service environment consisting of design and ambient factors such as lighting or noise. The physical environment can powerfully influence people's cognition, emotions and behavior; and 3) Humanic - employee behaviors during a transaction are also powerful in contributing to a customer's perceptions of service quality such as being attentive, helpful, and polite. The functional clues can be addressed in the product or service plan of the business plan. The mechanic clues can be addressed in the operations plan. And the humanic clues can be addressed in the management plan. Examples of how this is done is provided in the literature, but more even more so in a case study we used to illustrate how a small entrepreneurial company has used all three functional clues to maximize customer satisfaction leading the firm to growth opportunities.

INTRODUCTION

Entrepreneurs operating service-based businesses must offer exceptional customer service as "the" key factor for success, which can be a unique and more challenging charge than entrepreneurs who strictly operate a commodity or goods-based business; this is primarily due to the fundamental difference in what they are offering the customer. Service providers must always be on their toes, primarily because services are performances rather than objects, which means that the customer has nothing to hold and examine or try before purchase, and oftentimes owns no real tangible asset after purchase. As a result, services are more difficult for customers to evaluate. Because of this lack of tangibility, customers form their service evaluations on the things that they can perceive through their five senses, such as the comfort of furnishings, diplomas and décor of a lawyer's office, the appearance and behavior of the office receptionist, or the aroma in a spa.

In using the traditional business plan model, entrepreneurs really only address functional clues, which are the rational value propositions of the product or service they are providing. They do not adequately nor specifically address the mechanic or humanic clues or emotional components of Customer Experience Management. The focus is primarily on the functional aspects of the experience, such as the reliability and quality of the product itself. At no point in the traditional business plan is there a specific section to describe how they will establish that emotional connection with potential customers. According to Berry, Wall and Carbone (2006), great organizations go beyond the functional aspects of the business to establish emotional connections with their customers. This allows them to go beyond the commodity of the service offering, thus increasing customer commitment to the business. Wall and Envick (2008) suggest that Customer Experience Management, with its three clues of service, should be incorporated into the business plan development process as a first step. In this paper we look at a real business to examine their Customer Experience Management techniques to and explore how they utilize these clues in their operations. Then, we contend that each of the three clues should be included in the business plan to illustrate their value by service entrepreneurs to so they can increase customer satisfaction and differentiate themselves in the marketplace. Through our case study, we illustrate how each clue is executed to promote customer satisfaction.

THE THREE CLUES OF EXPERIENCE MANAGEMENT

In interacting with organizations, customers see and process more information than service entrepreneurs may realize. In choosing and using services, customers frequently behave like detectives as they search for information and organize their perceptions into a set of feelings about the service. Anything the customer perceives through the five senses is a clue (Berry, Wall and Carbone, 2006). For example, everything on a restaurant table potentially communicates to customers, including the table covering used, if any; the use of paper or cloth napkins and their texture; the cleanliness of the table, and of course, the presentation and taste of the meal.

Berry, Carbone and Haeckel (2002) discuss three categories of clues present in the service experience: functional clues, mechanic clues and humanic clues. Functional clues concern the technical quality of the service, For example, the taste and freshness of a shrimp scampi restaurant meal is a functional clue. Mechanic clues are non-human elements in the service environment consisting of design and ambient factors. Mechanic clues include the service provider’s equipment and the service facility’s layout, lighting and color. For example, the hair stylists’ stations or the shampoo area, as well as ambience and décor serve as mechanic clues in a hair salon. Humanic clues consist of the behavior of service employees, including body language, tone of voice, and level of enthusiasm. For example, the warm, friendly smile and sincere greeting of a receptionist illustrate humanic clues.

Functional Clues

Functional clues are the basis for service success – the core of the business offering that meets the customer’s need or want. Few restaurateurs would argue that quality, wholesome food served at an appropriate temperature is a must for a positive dining experience. Customer Experience Management suggests that functional clues primarily influence customers’ cognitive perceptions of service quality (Berry, Wall and Carbone 2006). However, while functional clues (technical competence) are the foundation of the service experience, by themselves they are not enough to differentiate a firm that hopes to build its brand and provide value propositions that promote their reputation for great service. For example, a rude, bored, or unavailable server can effectively ruin a customer’s restaurant experience even if the meal was prepared properly. This is consistent with the findings of Parsa, et. al. (2005), who found that while food quality was critical to restaurant success, alone it did not guarantee success. A great service experience that truly differentiates the service components relies on mechanic and humanic clues as well. While entrepreneurs may address functional clues in the ‘Service Plan’ section of a business plan, they also need to incorporate mechanic clues in the ‘Operations Plan’ and humanic clues in the ‘Management Plan’.

Mechanic Clues

Throughout the service experience, customers are affected by a variety of mechanic clues. Literature in environmental psychology and marketing form the theoretical basis in this area of inquiry. Environmental psychology draws from the stimulus-organism-response (SOR) paradigm in psychology and generally finds that the physical environment can powerfully influence people’s cognition, emotions and behavior. People rely on the environment for meaning about their world and for behavioral guidance. In addition, the environment can influence feelings, which may encourage people to remain in it or to leave it (Mehrabian and Russell, 1974; Russell and Pratt, 1980; Spangenberg, Crowley and Henderson, 1996).

Research in marketing draws from theories in environmental psychology to examine the impact of the environment on customer affect, attitudes, service evaluation, behavior and sales. In the context of retailing, Kotler (1973) defines atmospherics as the conscious design of space to create certain effects in buyers that enhance purchase likelihood. He states that atmosphere can affect purchase behavior in three ways. As an attention-creating medium, the atmosphere can make a retail facility distinctive through design, color, motion or sound. Consider the interior of the Hard Rock Café restaurant, for example. In this restaurant, customers are surrounded by authentic rock and roll memorabilia such as a guitar signed by John Lennon or a leather jacket worn by Elvis Presley hung on the walls. These mechanic clues help to differentiate the Hard Rock brand. As a message-creating medium, the atmosphere provides discriminative stimuli to buyers that enable them to recognize store differences as a basis for choice. For example, soft lighting, snowy white linen tablecloths and the crystal chandeliers of a gourmet restaurant communicates to customers the type of food and level of service that make up a fine dining experience. Finally, as an affect-creating medium, atmospheric elements such as color, smell, sound and texture evoke visceral reactions that influence purchase probability. At Walt Disney World in Orlando, for example, the smell of chocolate chip cookies baking is piped from the underground to the park’s main street inside the front gate to greet guests, create warm feelings, and encourage them to enter and enjoy the park.

Research in services marketing has shown that in inseparable services, such as in restaurants and hotels, where both the customer and service provider must be present, the physical environment where the service is performed influences customer perception of service quality (Ha, Jooyeon and SooCheong Jang 2012; Baker, Grewel and Parasuraman, 1994). For example, Bitner (1990) found that travel agency customers were less likely to attribute service failures to the companies when employees had clean, organized desks. The mechanic clues in the service environment also assist customers in understanding and interpreting the service (Carbone and Haeckel, 1994). Consider the interior of a fast-food restaurant, for example. The service counters where customers line up to place orders communicate the self-serve nature of the experience.

In a study of the influence of environment on quality inferences and store image, Baker, Grewal and Parasuraman (1994) found that ambient elements of the store environment provide information that consumers use to infer quality. Studies of the relative importance of intrinsic and extrinsic factors have shown that extrinsic factors become more important to consumers in judging quality when intrinsic factors are not available or when evaluation of intrinsic factors is difficult (Hartline and Jones, 1996; Zeithaml, 1988). Mechanic clues influence customers' service perceptions because these clues are part of the experience. Uncomfortable seats in a theater, offensive signs in a retail store (e.g., "break it and you've bought it") and tables too close together in a restaurant directly detract from customers' service experiences. In addition to their impact on customers during the service experience, mechanic clues also have the unique ability to influence customers before they experience either functional or humanic clues. For example, while waiting for a financial advisor, the client begins to form an evaluation of the legal service based on the physical characteristics of the waiting area.

Customer perceptions of service quality are subjective evaluations of a service experience, and customer expectations are the standards against which such service experiences are compared (Zeithaml, Berry and Parasuraman, 1993). Bitner (1990) proposes that the "servicescape" can influence customers through its effects not only on perceived performance but also on prior expectations. Thus, an important function of mechanic clues is their influence on customer expectations. Along with price, tangibles or mechanic clues have been found to function as implicit service promises. Implicit service promises lead to inferences about what the service should be like (Zeithaml, Berry and Parasuraman, 1993). Research indicates that customers often use price and tangibles as surrogates of quality (Zeithaml, 1988). For example, a customer would expect a higher level of personal service at a luxurious, expensive hotel than at a budget hotel with minimal facilities. This is consistent with Sharma and Stafford (2000), who suggest that environment-based perceptions of a retail store can influence customer beliefs about the people who work there and that nicer environments are generally associated with more credible service providers. Thus, a primary function of mechanic clues is to not only 'set the stage,' for the experience, but enhance quality perceptions during it. A strong mechanic clue plan should be incorporated into the 'Operations Plan' section of the business plan, such as a blueprint for a gym or a flowchart for a spa.

Humanic Clues

In addition to mechanic clues, employee behaviors during a service also provide powerful clues contributing to cutomers' perceptions of service quality (Berry and Bendapudi, 2003; Bitner, Booms and Mohr, 1994; Bitner, Booms and Tetreault, 1990; Zeithaml, Parasuraman and Berry, 1985). Like mechanic clues, humanic clues also primarily influence quality perceptions (Berry, Wall and Carbone 2006). Berry and Lampo (2004) found that labor-intensive service brands can be only as strong as the people performing the service because customers' actual service experiences are most influential in establishing brand meaning. A service provider's pacing in the service process and caring attention to customers' readiness for the next step are likely to strongly influence perceptions of service quality. Thus, while mechanic clues can 'set the stage,' influencing customer expectations for performance and adding value to the service, humanic clues play a prominent role in 'delivering the promise' through the service provider's performance. Humanic clues should be included in an entrepreneur's business plan in the 'Management Plan' section (Wall and Envick 2008), with specific areas addressing hiring (e.g., the type of person delivering the service should have great interpersonal skills as well as an interest or passion for serving other people), training, and rewards system to instill and reward the behaviors the business requires.

Managing the Clues

While managing all three clues is critical for service success, research shows some subtle nuances that entrepreneurs should keep in mind. First of all, since mechanic clues can be experienced prior to functional or humanic clues, entrepreneurs can use them to attract new customers, and manage expectations to generate repeat business, which is the biggest factor in small business growth. Second, as important as are the roles mechanic clues can play in influencing customers' expectations and perceptions of service quality, humanic clues typically have even stronger effects for labor-intensive services in which customers and service providers interact extensively. In a study of the sources of services' brand strength, Berry and Lampo (2004) found that employee behavior was, by far, the most influential factor in shaping customers' perceptions of their high- and low-preference brands. This finding was supported by Zhang, Zhang and Law (2014), who found that humanic attributes were more important than mechanic attributes in influencing customer satisfaction with the service. The more important, personal and enduring the customer-service provider interaction, the more pronounced this effect is likely to be.

Finally, while mechanic and humanic clues have different roles, they ultimately work together in their influence on customer perceptions of service quality. Wall and Berry (2007) studied the combined effects of mechanic and humanic clues in a casual dining restaurant, and found that while mechanic clues indeed influence expectations of restaurant customers, humanic clues dominate mechanic clues in influencing service quality perceptions. Not only that, they also found that a restaurant with positive mechanic clues and negative humanic clues had lower service quality ratings than a restaurant with negative mechanic clues and positive humanic clues. Thus a firm that promises one level of service via its mechanic clues is in danger of deepening customer disappointment if its humanic clues do not live up to the implied promise (Wall and Berry (2007).

Engineering Customer Experience Management suggests that functional, mechanic and humanic clues be managed in a consistent way to enhance the customer's service experience (Haeckel, Carbone and Berry, 2003; Berry and Bendapudi, 2003; Carbone and Haeckel, 1994). A comfortable, beautifully decorated salon that delivers excellent service by courteous, well-dressed employees is likely to receive higher service quality ratings from customers than a salon that is strong in one but not both of these clue categories. If inconsistency occurs, however, it is best to be strong in humanic clues. Functional, mechanic, and humanic clues all tell customers a story of the service; consistent stories are better than inconsistent ones. Clue consistency is reinforcing; clue inconsistency undermines the intended service story.

Our case study analysis of an entrepreneur's use of functional, mechanic, and humanic clues in their business is provided below to illustrate how all the clues work together to promote Customer Experience Management, leading to customer satisfaction and differentiation in the marketplace.

CASE IN POINT – ZEDRIC'S ~ FIT WITH FLAVOR

Programs in entrepreneurial studies that have emerged over the last two decades are arguably the most potent economic force the world has ever experienced, Kuratko (2005) contends, as he further provides statistics regarding the growth-rates in the number of programs. While only a handful of entrepreneurship courses existed at universities in the 1970s, well over 2,200 courses in 1,600 schools offered courses and majors in 2005. And that number has likely grown since Kuratko's study. Kurtko'a challenge in this paper was for entrepreneurship educators to provide "*complete academic legitimacy*" in the field of study.

The study of entrepreneurship is now a part of the mainstream. The pedagogy is changing based on the broadening of entrepreneurship education by creating more interdisciplinary programs for non-business students, such as in the arts, engineering, and sciences. Kuratko (2005) further states that new and innovative approaches to teaching entrepreneurship must be developed. On a side-note, we began our E-scholar Program in the fall of 2004, open to all majors across campus and consisting of a significant number of out-of-class activities.

Evaluation of program effectiveness is not new. Deniston, Rosenstock, & Getting (1968) discuss this in the public health field, purporting that any program should have an overall objective with an end-result in mind, along with a combination of program activities that can be considered "sub-objectives." There must be several sub-objectives combined with resources to support the performance of those activities. Even in mentoring programs for students, there must be perceived program effectiveness through a variety of activities and commitments (Allen, Eby, & Lentz, 2006). In their article on student learning outside of the classroom, Kuh, Lund, and Ramin-Gyurnek (1994) state that students should learn and develop in a holistic, integrated way as they engage in both academic and non-academic activities inside and outside of the classroom. A few outcomes they mention include self-confidence, practical competence, and interpersonal competence.

Katz (2003) discusses the presence of entrepreneurship courses in AACSB (The Association to Advance Collegiate Schools of Business) schools. As these numbers grow, and entrepreneurship is seen as more mainstream, entrepreneurship programs must meet AACSB standards by demonstrating the academic legitimacy through the achievement of learning goal outcomes. The main objective of this paper is to demonstrate the success of the outcomes of the E-scholar Program's learning goals, not only as they relate to the program itself, but in support the mission of our Business School, where the program is housed.

AACSB Accreditation Standards state that, "Learning goals say how the program demonstrates the mission, translating a more general statement of the mission into the educational accomplishments of graduates." (www.aacsb.edu/accredication/business/standards/aol/learning_goals.asp, accessed May 2013). It further states that, "Students and recent graduates of degree programs can provide their insights into the strengths and weaknesses of the educational experience provided by the programs." Since AACSB uses learning goals to translate the mission of a school to the educational accomplishments of graduates, we felt the best way to ascertain the learning goals for the E-Scholar Program was to survey all those who have completed the program. The focus of the survey was primarily aimed at our School's learning goals, but we also added a few questions regarding their general career and educational achievements. AACSB states that, “Student learning is the central activity of higher education,” further stating that, “learning expectations derive from a balance of internal and external contributions to the definition of educational goals” (www.aacsb.edu/accredication/business/standards/aol/learning_goals.asp, accessed May 2013). Therefore, we felt that these external contributions would serve as a good catalyst to help us improve the program.

DISCUSSION AND CONCLUSIONS

In this paper we discussed research in Customer Experience Management, with its three clues of service, and how they can be applied by entrepreneurs in service-oriented businesses to increase customer satisfaction and differentiate them in the marketplace to create a competitive advantage. The clues are functional, mechanic, and humanic. We also discussed the specific roles and relative importance of the clues in the service experience. Functional clues are the basis for the service, but alone, they are not sufficient for success. Entrepreneurs must also manage mechanic and humanic clues. Customers look for tangible things, beyond what you are selling tap into their emotions and help them inform their expectations and quality impressions of a service.

In labor-intensive, interactive services, negative humanic clues cannot overcome positive mechanic clues, but positive humanic clues can – to a degree – overcome negative mechanic clues. However, mechanic clues were also found to be associated with customer expectations, so they are still important. At the end of the day, consistency in managing all three clues is key. This provides entrepreneurs with important guidance in managing the quality perceptions of their customers’ service experience to differentiate their business, and enhance customer loyalty.

Our case study illustrated how all three clues are incorporated into Zedric’s, not only to provide delicious food, but also by consciously managing mechanic and humanic clues to tell their brand story and help them stand out in a very competitive market. This has led them to success at their first location and their ability to open a second location. All entrepreneurs can incorporate these clues into their business plans by specifically addressing each one:

Funtional: Service or Product Plan
Mechanic: Operations Plan
Humanic: Management Plan

The three clues are synergistic in nature to the point that it might be difficult to distinguish one from the other, which is all right. You might discuss something specific in both the functional and mechanic areas for example. All entrepreneurs should implement Customer Experience Management into their plans, even those who are already in operation to promote growth. Implementing all three clues is a great growth strategy for small business that needs to boost revenues, and nascent entrepreneurs should always include them in their business plans.

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FRANCHISE BUSINESS OWNERSHIP: A COMPARATIVE STUDY ON THE IMPLICATIONS OF MILITARY EXPERIENCE ON FRANCHISEE SUCCESS AND SATISFACTION

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ABSTRACT

It is established that one of the biggest troubles facing franchisors is finding capable franchisees. Scholars have written and argued about the challenges of franchisee selection and recruitment. Interestingly, many franchisee qualities sought by franchisors are found in military veterans. This study sought to discover if military-veterans' level of overall satisfaction in owning and operating a franchise was significantly higher than those franchise business owners who have not served in the military. Measuring satisfaction is essential as it offers many positive returns for an organization. A survey instrument was selected to measure the differences in satisfaction between franchise business owners who have served in the military versus franchise business owners who have not served in the military. The survey used 4 different types of satisfaction as a gauge in determining if there were significant differences between the two groups. They included life, career, job, and total overall satisfaction. The survey sample included single unit franchise business owners from three industry segments. A total of 1,280 surveys were mailed and 251 surveys were completed. There were no significant differences identified in life, career, and overall satisfaction. However, several statistical tests indicated franchisees who served in the military had a significantly higher level of job satisfaction compared to franchisees who have not served in the military. The results of this study suggest that ex-military could make good candidates to franchises with well established systems set in place that allows them to utilize their skills and abilities.

INTRODUCTION

This study concentrates on a distinct problem pertaining to franchising. First, it is averred one of the biggest dilemmas confronting franchisors is finding qualified franchisees for their franchise system. Scholars have argued and written about the challenges of franchisee recruitment and selection. Moreover, franchising has become an accepted means of business development and distribution in the United States and through many parts of the world. At first glance, it might seem like franchising provides instantaneous success. However, a review of the literature suggests that even with the popularity and growth of franchising, choosing capable franchisees continues to be franchisor's most difficult challenge (Wattel, 1969; Goncalves &

Duarte, 1994; Saraogi, 2009; Ramirez-Hurtado, Rondan-Cataluna, Guerrero-Casas, & Berbel-Pineda, 2011). These studies imply the difficulty of selecting capable franchisees has existed for over 40 years. Some researchers have attempted to understand this challenge by studying traits of successful franchisees (Wattel, 1969; Withane, 1991; Ramirez-Hurtado et al., 2011). Interestingly, many franchisee traits sought by franchisors are found in military veterans. They include discipline, risk taking, appreciation for national affiliation, openness to training, ability to follow a system, loyalty to organization, ability to follow a routine, and desire for support (McDermott, 2010).

Problem Background

Franchisees are portrayed as a crucial factor in thriving franchise organizations (Michael & Combs, 2008). Pursuing this further, Ramirez-Hurtado et al., (2011) propose the correct choice of a potential franchisee can produce positive outcomes for the franchisor. Consequently, a poor selection in a potential franchisee can produce continuous problems for the franchise organization such as legal issues or hurting the brand. For instance, Altinay and Okumus (2010) suggest poor franchise recruitment can lead to lack of commitment and de-motivation on the part of the franchisee.

Certainly, an initial literature review shows many military veterans steering toward a career in entrepreneurship. For example, a study by the Small Business Administration (SBA) conducted by Hope, Oh, and Mackin (2011) indicated veterans in the private sector are at least 45 percent more likely than individuals with no active-duty military experience to be self-employed. Meanwhile, there may be several influences for many military veterans steering towards a career in entrepreneurship. The first factor pertains to a high-unemployment rate. For example, Brands (2012) posits soldiers returning from America’s latest wars faced an uncertain future. The unemployment rate in 2011 among the 2.2 million men and women who served during the past decade in Afghanistan and Iraq averaged 12.1 percent, higher than the national rate of 8.9 percent. Finally, for younger veterans between the ages of 18 and 24, important years for entering the labor force, the unemployment rate reached a frightening 30.2 percent compared to a national average of 16.3 percent.

In addition to a high unemployment rate, many individuals that have served in the military as a career are also competing in the labor pool. For example, age is the basis of civilian retirement whereas length of service is the foundation of retirement in the armed forces. Individuals that served in the military are free to retire after 20 years of service. The typical officer departs from the military at age 45 (Spiegel & Shultz, 2003). Because career military veterans start their second profession at what some may consider an older age, members from the armed forces may find it challenging acquiring employment therefore turning to a career in entrepreneurship. Hope et al. (2011) point out one possible consideration for military-veterans turning to entrepreneurship might have to do with pensions. For instance, self-employed military retirees have a higher average income from pensions compared to those individuals who have not served in the military. Vigoda-Gadot et al., (2010), suggest early military retirement and consequently starting a new career is commonplace. Hence, it pertains to the wider global labor market where a military career tends to end earlier enabling the opportunity for a new occupation.

Rationale For The Study

This study sought to discover if military-veterans' level of overall satisfaction in owning and operating a franchise is significantly higher than those franchise business owners who have not served in the military. Ahmed (2011) proposes measuring satisfaction is essential as it offers many positive returns for an organization. From a conceptual point of view, empirical studies investigating a higher level of job satisfaction has significant implications for important organizational outcomes such as a high level of employee engagement (Ahmed & Ahmad, 2011; Abraham, 2012), improved employee effectiveness (Robbins, Millett, Cacioppe & Waters-Marsh, 1998; Abraham, 2012), enhanced productivity (Bateman & Organ, 1983; Schneider, 1987; Harter, Schmidt & Hayes, 2002; Gallup, 2005; Ahmed & Ahmad, 2011; Abraham, 2012), and low employee turnover (Smith, 1992; Robbins, Millett, Cacioppe & Waters-Marsh; Ahmed & Ahmad, 2011; Abraham, 2012; Carlson, 2014). Other outcomes resulting from a higher level of overall satisfaction include more satisfied customers (Dubrin, 2001; Gallup, 2005; Abraham, 2012), increased performance (Schneider, 1987; Argyle, 1989; Judge, Thoresen, Bono & Patton, 2001; Ahmed & Ahmad, 2011), and a higher level of motivation and dedication (Harter, Schmidt & Hayes, 2002; Gallup, 2005; Abraham, 2012). While there has been discussion on the level of impact satisfaction has on the suggested outcomes, it would be reasonable to imply the benefits of satisfaction are mostly positive and not negative outcomes.

From a practical perspective, Morrison (1996) indicates amicable franchisor/franchisee relations appear to be a key determinant of the future success of a franchise. It is anticipated that franchisees relative job satisfaction plays an essential role in maintaining this relationship. The next section will address the conceptual framework for the study.

Conceptual Framework

The concept of franchising and the military are the theoretical foundations of the study. The conceptual framework of this study suggests a proposed relationship between franchising and the military. The framework of this study is based on military providing a readiness to be an entrepreneur and more specifically a franchise business owner. While successful franchising is dependent on finding individuals to follow their system, the military breed's young men and women to appreciate, follow, and execute a system. Therefore, those individuals with a military background may make strong candidates for franchising because they know how to follow and implement a system. This proposed relationship may provide a solution to a consistent problem for franchisors: finding capable franchisees.

Statement of Potential Significance

There are several potential benefits to the study. First, the study may prove significant to the franchising and military community. Unquestionably, franchising is a central part in today's economy. For example, Welsh, Desplaces, and Davis (2011) suggest franchising is a major economic source of power. The International Franchise Association suggests 1 of every 12 retail businesses is a franchise; direct contributions to the U.S. economy include almost $881 billion in output, over 11 million jobs, almost $279 billion in payroll, and over 900,000 establishments. Total contributions to the U.S. economy attributable from franchised businesses are over $660 billion in payroll, almost 20 million jobs, and approximately $2.31 trillion in output.

Finally, this study could provide potential benefits to the military community. Brands (2011) shows the unemployment rate is high for many military that have come home from the recent war in the Mideast. Consequently, prior research shows many military steering towards a career in entrepreneurship. Hope et al., (2011) suggest veterans are more likely to start their own business.

LITERATURE REVIEW

This literature review addresses two main research streams: franchising and military-veterans. It begins by introducing scholarly research on franchising. Next, it discusses relevant studies on the influence military experience has on entrepreneurship as a second career, focuses on parallel studies on franchisee satisfaction and lastly, identifies needs for more research.

Traits and Characteristics of Successful Franchisees

The literature on franchising suggests franchisees that do well and thrive possess certain qualities and traits (Wattel, 1969; Withane, 1991; Michael & Combs, 2008; Saraogi, 2009; & Ramirez-Hurtado et al., 2011). One of the earliest findings on the traits of successful franchisees can be found in Wattel's (1969) qualitative study investigating the abilities and personality traits sought by franchisors in the franchisee selection process. Wattel points out successful franchisees should have extremely cooperative traits, as well as the aptitude and motivation to keep to the policies, choices, and every day practices formed by others. The franchisee's life is based more on following routine than frequent decision-making. Finally, these findings propose that individuals who enjoy following rules and a schedule might be good candidates for franchising. Although based on anecdotal evidence, Wattle's findings support the notion that discipline and adherence to rules are conducive to franchisee success.

Studies also identify the ability to tolerate risk as a key characteristic of successful franchisees. For instance, Withane (1991) presents an examination of franchisee's thoughts, views, and explanations for becoming franchisees. Withane notes franchisees identify risk taking to be a key reason for their success. While the franchisee environment is perceived to have greater stability than that of an independent business, Withane points out that they still must be able to tolerate risk. Withane also found franchise business owners describe themselves as highly self-reliant and prefer to operate a well-known established system rather than an independent business.

Saraogi (2009) suggests discipline for a structured life, commitment to the franchise, inner spark for goals, and trust in the franchisor as key traits of successful franchisees. Like

Withane (1991), Saraogi agrees a tolerance for risk is a key characteristic of successful franchising. Saraogi identified these traits and characteristics by exploring the standards used by franchise organizations in the selection of prospective franchisees. Like Wattel (1969), Saraogi believes franchisors ought to be able to identify and select franchisees, which behave more cooperatively and act in a less opportunistic manner. Saraogi points out franchisors should use careful franchisee selection standards as a strategy. Lastly, the findings allude that franchisors should recognize this at the beginning stage and remove prospective franchisees with undesired manners.

Not only does the literature agree on some of the commonalities of successful franchisees like cooperation, ability to tolerate risk, and discipline, some studies expand by ranking the importance of each trait. For instance, Ramirez-Hurtado, Rondan-Cataluna, Guerrero-Casas, and Berbel-Pineda (2011), identified franchisors felt the most important attribute of franchisees is loyalty followed by management capability at 16.4%, and willingness to work hard at 14.2%. Additionally, Ramirez-Hurtado et al. (2011) offer several recommendations to franchisors based on the findings. First, because loyalty is not easily recognized, franchisors might want to consider offering a psychological test that permits the detection on the degree of fidelity of a potential franchisee to franchisor. In addition, management ability is another trait that might be identified from psychological tests. Therefore, franchisors might want to consider working with a company specialized in person recruiting to help them identify franchisees that possess these qualities. The next section will review literature on military career and entrepreneurship.

Military Career and Entrepreneurship

This section will address several studies relating to military careers and entrepreneurship. It will mostly focus on the relationship of military to entrepreneurship and career transitions from the military to civilian life. The review of literature shows many military veterans steering towards a career in entrepreneurship.

Entrepreneurship and Military

Some studies have focused specifically on military selecting entrepreneurship as a career (Avrahami & Lerner, 2003; Hope et al., 2011). Avrahami and Lerner’s (2003) study focuses on entrepreneurship as a career alternative for military-veterans. The authors suggest this analysis is amongst the first to study the effect of military service patterns on the selection of entrepreneurship as a career path. The study examines whether military service in a combat unit or a leadership position is associated with entrepreneurial activities in the ensuing civilian career. Additionally, the study addresses the link between certain types of past-military service experiences and pursing an entrepreneurial civilian career, a question that is rarely examined systematically. Their argument is that military service may lead to the choice of entrepreneurship as a career because the armed forces breed’s young men and women in skills such as leadership, training, the ability to overcome obstacles, and teamwork. Avrahami and Lerner note military service in combat units is positively related to pursuing a career in entrepreneurship. Also, risk-taking propensity, the area of undergraduate education, and combat service were the three variables in the logistic regression most distinguishing entrepreneurs from non-entrepreneurs.

In this situation, Avrahami and Lerner (2003) provide several recommendations from this study. First, the prominence in entrepreneurial training continues to be mostly on learning new skills, information, and awareness. Additionally, the study points to the significance of obtaining social skills as an essential part of training for entrepreneurship. The author's findings imply that replicating the team spirit and solidity that portray the military and combat may be useful in promoting entrepreneurship. This may even become significant for universities that offer entrepreneurship as a field of study. Applying an atmosphere of solidarity, mutual support, overcoming obstacles, and leadership, can be thought of as a transferable competencies from the combat unit to the civilian context.

Some studies on military and entrepreneurship have focused specifically on factors that affect entrepreneurship among veterans. For example, Hope et al. (2011) study asks the research question, are military veterans more likely to become entrepreneurs compared to those individuals who have not served in the military. This study was developed under an agreement with the Small Business Administration and reviewed by representatives at the Office of Advocacy.

In this study, Hope et al. (2011) note military veterans have a higher rate of self-employment compared to non-military veterans. First, in the private sector workforce, veterans are at least 45 percent more likely than individuals with no active-duty military experience to be self-employed. Veterans with four or fewer years of service were the most likely to be self-employed. Next, career military retirees have higher rates of self-employment compared to the general population, but they are also predominantly older, male, married, and have at least a high school education. Lastly, the cohort of veterans who served in the Vietnam War, Korean War, or World War II era were more likely to be self-employed relative to veterans serving since the more recent conflicts. The next section will focus on studies pertaining to franchise satisfaction.

Franchisee Satisfaction Studies

The review of literature identified several parallel studies to identify key factors on what would cause a franchisee to be satisfied or dissatisfied with their current situation. Some of the areas identified include profit and assistance from the franchisor (Walker, 1971; Gallup, 1992; Morrison, 1996). From a historical perspective, Walker's (1971) study was one of the first to examine franchisees comparative overall satisfaction with their situation. Walker points out the bulk of franchise business owners reported general satisfaction with their franchises. In making a distinction between comparatively satisfied franchisees from dissatisfied franchisees, the more satisfied franchise business owners had the following traits: First, they perceived the franchisor as fair and their franchise as successful. Second, franchise owners were working fewer hours and making more money than they had anticipated. Third, franchise owners who were satisfied implied a positive outlook to both the different controls in their franchise contract and the income/inputs ratio linked with their business. Lastly, the majority of common sources of dissatisfaction were lack of franchisor support, poor financial returns, and unfulfilled expectations.

Some studies in the literature agree with Walker's findings. In a similar study on franchisee satisfaction, Gallup (1992) found that more than 70 percent of the franchise business owners felt that their franchise had either met or exceeded their expectations with regard to their personal and overall satisfaction. Like Walker's (1971) research, Gallup's study also agrees poor financial returns and franchise support were areas that were less able to meet or exceed franchisees expectations. Consequently, Morrison (1996) proposes critics have questioned the validity of the Gallup study for the reason that while franchisee satisfaction appeared optimistic, 25% of the franchisees that implied they were satisfied also suggested they would not make the investment again.

Not all of the literature agrees that the majority of franchise business owners are generally satisfied. Some studies identified in the literature go a bit deeper than simply measuring job satisfaction. For instance, Morrison's (1996) study researched the results of a five-factor model based on franchisees subjective well being, personality, and several characteristics on franchisee job satisfaction. The motivation for this study was a need for more up to date research on franchisee job satisfaction. Furthermore, Morrison's study explored how personality dimensions and three job characteristic features control job satisfaction. The elements of personality included openness to experience, extraversion, conscientiousness, neuroticism, and agreeableness. Lastly, the sixth personality construct included was subjective well-being. Subjective well-being directs individuals to assess their lives in positive terms.

In this study, Morrison's (1996) findings disagree with Walker and Gallup's study and points out that half of the franchise business owners could be classified as having a fairly low level of job satisfaction. Also, a big proportion of franchisees were not achieving anticipated results from their situation as a franchise business owner. Some of the areas of franchisee dissatisfaction identified were amount of income, advertising assistance, and continued support. Multiple regression analysis also showed that subjective well-being and extraversion had a considerable influence on franchisee job satisfaction. Lastly, there was a positive correlation between subjective well being and job satisfaction.

Needs for Additional Research

The review of literature identified needs for more research. Previous franchise-based research predominantly focused on what factors, traits, characteristics, and motivation are critical to successful franchising (Wattel, 1969; Withane, 1991; Kaufmann & Stanworth, 1995; Michael & Combs, 2008; Saraogi, 2009; & Ramirez-Hurtado et al., 2011; Welsh et al., 2011). Nevertheless, no studies have focused specifically on who might be the best candidate for successful franchise business ownership. In addition, previous studies suggest that military service in combat units is positively related to choosing a career in entrepreneurship (Avrahami & Lerner, 2003; Hope et al., 2011). Yet, the literature does not suggest what type of entrepreneurial opportunity might be a best fit for military-veterans. Lastly, the review of literature also identifies a need for more recent research on franchise satisfaction. For instance, several studies have specifically focused on franchisee satisfaction (Walker, 1971; Gallup, 1992; and Morrison, 1996). Much of the current literature discusses the growth that has taken place in franchising over the last decade. For example, franchise business owners today have more competition and may be dealing with issues like market saturation. There is evidence of this occurrence by the many U.S. franchisors pursuing international markets. Preble and Hoffman (2006) suggest franchising had been doing so well in a number of industries that market saturation has progressively more become the norm in countries like the United States. These transitions may have an impact of franchisee satisfaction. In the next section, the design, procedures, and analysis plan for carrying out the purpose of the study are presented.

METHODOLOGY

This section includes all aspects of the research methodology in replicable detail. It begins with the hypotheses, a description of the research design, the population and sampling procedures, access and permission information, data collection, instrumentation, and procedures.

A seven step hypotheses testing model was used to test the hypotheses. The hypotheses of this study were based on the idea that franchise-business owners who have served in the military have a significantly higher level of overall satisfaction than nonmilitary veteran franchise business owners. This notion is based on the literature review suggesting many traits sought by franchisors are found in military veterans. As a result, the hypotheses were the following:

H1 *Franchise business owners who have served in the military have a significantly higher level of total overall satisfaction in owning and operating a franchise than franchise business owners who have not served in the military.*

Total overall satisfaction is the sum of total life satisfaction, total career satisfaction, and total job satisfaction. Therefore, the sub-hypotheses were the following:

H2 *Franchise business owners who have served in the military are significantly more satisfied with the quality of their life than franchise business owners who have not served in the military.*

H_3 *Franchise business owners who have served in the military are significantly more satisfied with their career than franchise business owners who have not served in the military.*

H_4 *Franchise business owners who have served in the military are significantly more satisfied with their jobs than franchise business owners who have not served in the military.*

The next section will discuss the research design for this study.

Research Design

To explore the hypotheses, a comparative study design was selected to evaluate the difference between franchise business owners who have served in the military versus those franchise business owners who have not served in the military. This comparative study sought to discover if military-veterans' level of satisfaction in running a franchise is significantly higher than franchise business owners with no military background. Therefore, the unit of analysis for this study was the franchise business owner. The main independent variable in this comparative study was non-military veteran franchise business owners or military-veteran franchise business owners. The dependent variable was level of satisfaction.

A survey instrument was selected to measure the differences in satisfaction between franchise business owners who have served in the military versus franchise business owners who have not served in the military. The survey for this study used several types of satisfaction as a gauge in determining a franchise business owner's level of satisfaction in owning and operating a franchise.

The research design was similar to Morrison's (1996) study of franchise business owners. For instance, Morrison mailed 1,596 questionnaires and was able to receive 307 questionnaires. This represented a usable response rate of 23 percent. This study also used a mailed survey.

Population

In this study, there are several specifications for the sample population. First, the population for this study is defined as all franchisees operating under a business format franchise arrangement. Second, their franchise unit was located in the United States. Third, the individual owned a single unit franchise. Fourth, the franchise operated in one of the following three categories: business aides and services, maintenance and cleaning services, and home repair and improvement services. Lastly, the population of franchisees came from franchise brands that actively participate in a military discount program. To be sure, the last specification increases the likelihood of having military-veteran franchisees in the sample.

Four franchise brands were randomly selected from each category. For example, the Business and Services category identified 25 franchise brands, Maintenance and Cleaning category 14 franchise brands, and Home Repair and Improvement 19 franchise brands that participate in the VetFran program. Once the brands were randomly selected from the three categories, a compiled list of franchise business owners based on the population specifications was supplied by Frandata. According to Wirtz (2007), Frandata is a market research organization that specializes in franchising. VetFran is a voluntary endeavor of the International Franchise Association member-companies that is intended to promote franchise ownership by offering financial incentives to honorably discharged veterans (International Franchise Association, 2012). Approximately 400 U.S. franchisors in 75 industries participate in the VetFran program. The three categories were selected because they are some of the most common industries from franchisors who provide significant discounts to military veterans. They are also lower cost industries compared to others like the food category, which can have start up costs over $500,000.

Sampling Method

A stratified random sampling technique was used to identify the final sample. First, Microsoft Excel provides a unique random number generator. Each franchisee name in the three categories was provided a unique random number generated from one to total N for each category. Next, Microsoft Excel sorted each name chronologically from one to total N for each category. Finally, an nth name random sampling technique was used for each of the three categories. Using these two, random sampling techniques reduce sample order bias and each member in the population had an equal chance of being selected. A total of 1,280 names were randomly drawn from the total list of names supplied by Frandata.

Instruments

This study used a self-administered questionnaire with 30 items. The researcher designed the instrument using three well established instruments that measure job satisfaction, career satisfaction, and life satisfaction. A mailed survey was used to collect data. The several scales selected for this survey include the Minnesota Satisfaction Questionnaire (1977), Diener's (1984) Satisfaction With Life Scale (SWLS), and Greenhaus's (1990) Career Satisfaction Scale (CSS). Total overall satisfaction is the sum of total life satisfaction, total career satisfaction, and total job satisfaction. These scales were selected because they answer the hypotheses, show a high level of reliability, and were used in similar studies pertaining to franchising or the military. Permission was granted to use all three scales.

Variables

In this study, there are several independent variables. However, the main independent variable to test the hypotheses is "previous military experience." This is simply identified by asking early on in the survey, "Have you ever served in the military?" Other independent variables consist of past business experience, education, industry experience, franchise category, and gender. The four dependent variables for this study include job satisfaction, career satisfaction, life satisfaction, and total overall satisfaction. The next section will address how the data was processed and analyzed for each research question.

Procedures

This survey was administered in the summer of 2013 by the mail using a two-step process. First, respondents received a precontact letter in the mail. One week later, respondents received a survey packet in the mail. This packet contained a consent form, survey directions, the survey, and return addressed envelope with postage. This two-step procedure was selected because Morrison's (1996) study on franchise business owners had a successful response rate of 23% using a two-step technique.

FINDINGS

This section provides an analysis of the results from the mailed survey. It includes the survey response rate, the reliability of the survey using Chronbach's alpha, the demographic sample characteristics, descriptive statistics and the distribution curve of the dependent variables, the results to the hypotheses using inferential statistics, additional statistical calculations on demographic variables using comparisons, as well as a MANOVA and two-way ANOVA analyses. All the data was analyzed using SPSS, Version 18.

Table 1 shows Chronbach's alpha for Diener's (1984) Satisfaction with Life Scale, Greenhaus's (1990) Career Satisfaction Scale, Minnesota Job Satisfaction Scale (1977) on job satisfaction, and Total Overall Satisfaction Scale.

Table 1
Chronbach's Alpha

SCALE	VALID CASES	CHRONBACH'S ALPHA	ITEMS
Satisfaction with Life Scale	251	.885	5
Career Satisfaction Scale	251	.885	5
Job Satisfaction Scale	251	.893	20
Total Overall Satisfaction	251	.921	30

The next section addresses the characteristics of the sample that completed the study.

Sample Characteristics

A general summary of sample characteristics is provided in Table 2. 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).

Table 2
Summary of Sample Characteristics

ITEM	CATEGORY	FREQUENCY	PERCENT
Gender	Male	204	81
	Female	45	17
	No response	2	1
Age range of franchise business owner	18 to 30 years old	1	0
	31 to 40 years old	20	8
	41 to 50 years old	63	25
	51 to 60 years old	93	37
	61 and over	60	23
	No response	14	6
Franchise Category	Maintenance & Cleaning Svs.	82	32
	Home Repair & Improvement	66	26
	Business Products and Svs.	103	41
Prior Industry Experience	Yes	56	22
	No	195	78
Prior Business Ownership	Yes	100	40
	No	151	60
Have you ever served in the military?	Yes	78	31
	No	166	66
	No Response	7	3

The next section presents the distribution and bell curve of the four dependent variables.

Distribution

Table 3 displays the descriptive statistics for the four dependent variables which include life satisfaction, career satisfaction, job satisfaction, and total overall satisfaction.

It shows that kurtosis and skewness were excellent, between the ±1.00 levels, indicating a normal distribution bell curve for all four dependent variables.

Table 3 Descriptive Statistics				
	TOTAL LIFE SATISFACTION	TOTAL CAREER SATISFACTION	TOTAL JOB SATISFACTION	TOTAL OVERALL SATISFACTION
N Valid	251	251	251	251
Missing	0	0	0	0
Mean	26.15	18.33	75.73	120.21
Std. Error of Mean	.38	.29	.63	1.07
Median	28.00	20.00	76.00	121.00
Mode	30	20	77	115[a]
Std. Deviation	5.98	4.64	10.01	17.03
Variance	35.79	21.53	100.21	289.97
Skewness	-.81	-.74	-.28	-.31
Std. Error of Skewness	.15	.15	.15	.15
Kurtosis	.06	-.09	.19	-.16
St. Error of Kurtosis	.31	.31	.31	.31
Range	26	20	52	91
Minimum	9	5	46	67
Maximum	35	25	98	158
Sum	6,563	4,602	19,007	30,172
a. Multiple modes exist. The smallest value is shown				

Results of the Hypotheses

The hypotheses for the four research questions in the previous section were tested using a one-tailed, independent samples t-test with alpha set at .05. Table 4 displays the results of the one-tailed, independent samples t-test for franchisees that have served in the military and franchisees who have not served in the military using the dependent variables life satisfaction, career satisfaction, job satisfaction, and total overall satisfaction.

Table 4 Independent Samples t-test Military								
SCALE	HAVE YOU EVER SERVED IN THE MILITARY?	N	MEAN	STD. DEVIATION	STD. ERROR MEAN	t	SIG. ONE-TAILED	REJECT OR RETAIN NULL
Total Life Satisfaction	Yes	78	26.35	5.84	.66	.12	.45	Retain
	No	166	26.25	6.10	.47			
Total Career Satisfaction	Yes	78	18.56	4.74	.54	.43	.33	Retain
	No	166	18.29	4.68	.36			
Total Job Satisfaction	Yes	78	77.74	9.55	1.08	2.00	.02	Reject
	No	166	75	10.18	.79			
Total Overall Satisfaction	Yes	78	123	15.81	1.79	1.33	.09	Retain
	No	166	119	17.64	1.37			

MANOVA

Additional analyses were further explored using MANOVA. Table 5 and Table 6 show the output for MANOVA using Military Service as the independent variable and the four different measurements of satisfaction as the dependent variables. Table 5 shows the output for the multivariate using Wilks' Lambda. The null hypothesis is retained.
The output of MANOVA also generates a test of between-subjects effects which can be seen in Table 6. A significant difference was found between military service and job satisfaction.

Table 5
Multivariate Tests[b]

EFFECT	VALUE	F	HYPOTHESIS df	ERROR df	SIG.
MilExp Wilks' Lambda	.980	1.608[a]	3.00	240.00	.188

a. Exact Statistic
b. Design: Intercept + MilExp

The output of MANOVA also generates a test of between-subjects effects which can be seen in Table 6. A significant difference was found between military service and job satisfaction.

Table 6
Tests of Between-Subjects Effects

	DEPENDENT VARIABLE	TYPE III SUM OF SQUARES	df	MEAN SQUARE	F	SIG.	RETAIN OR REJECT NULL
MilExp	Total Life Satisfaction Scale	.52	1	.52	.01	.905	Retain
	Total Career Satisfaction	4.01	1	4.01	.18	.670	Retain
	Total Job Satisfaction	399.44	1	399.44	4.00	.047	Reject
	Total Satisfaction	515.80	1	515.80	1.77	.185	Retain

a. R Squared = .000 (Adjusted R Squared = -.004)
b. R Squared = .001 (Adjusted R Squared = -.003)
c. R Squared = .016 (Adjusted R Squared = -.012)
d. R Squared = .007 (Adjusted R Squared = -.003)

To better understand the differences, other analyses were explored on the independent variable military service and the dependent variable job satisfaction.

Two-Way Between Groups ANOVA

The primary purpose of a two-way between groups ANOVA is to recognize if there is an interaction between the two independent variables on the dependent variable. Several two-way between groups ANOVAs were conducted to understand whether there an interaction between military service and several demographic variables using job satisfaction as the dependent variable. The first two-way between groups ANOVA used military service and franchise category as the independent variables and job satisfaction as the dependent variable. Table 7 shows the descriptive characteristics for the combined relationship of military service and franchise category with job satisfaction as the dependent variable.

Table 7
Descriptive Statistics – Dependent Variable: Total Job Satisfaction

HAVE YOU EVER SERVED IN THE MILITARY?	FRANCHISE CATEGORY	MEAN	STD. DEVIATION	N
Yes	Maintenance and Cleaning Services	75.27	8.852	26
	Home Repair and Improvement Services	80.89	9.504	27
	Business Related Products and Services	76.92	9.742	25
	Total	77.74	9.554	78
No	Maintenance and Cleaning Services	72.00	10.385	55
	Home Repair and Improvement Services	74.86	8.397	37
	Business Related Products and Services	77.30	10.379	74
	Total	75.00	10.184	166
Total	Maintenance and Cleaning Services	73.05	9.982	81
	Home Repair and Improvement Services	77.41	9.304	64
	Business Related Products and Services	77.20	10.174	99
	Total	75.88	10.049	244

Table 8 shows the test of between subjects effect with job satisfaction as the dependent variable. A significant main effect was found for military. A significant effect was also found for franchise category. There was no significant effect found for the interaction term.

Table 8 Test of Between-Subjects Effect – Dependent Variable: Total Job Satisfaction						
SOURCE	TYPE III SUM OF SQUARES	df	MEAN SQUARE	F	SIG.	PARTIAL Eta SQUARED
MilExp	456.284	1	456.284	4.761	.030	.020
FranCat	701.679	2	350.839	3.660	.027	.030
MilExp*	354.773	2	177.386	1.851	.159	.015
FranCat						
Error	22811.406	238	95.846			
Total	1429328.000	244				
a. R Squared = .070 (Adjusted R Squared = .051)						

In addition, table 9 identifies where there were significant differences in job satisfaction between military and non-military franchisees based on the franchise category. An independent samples t-test was conducted to detect any differences. Since conducting three 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 .016 (.05/3).

Table 9 Independent Samples t-test – Job Satisfaction – Military Service Category								
CATEGORY	MILIATRY SERVICE	N	MEAN	STD. DEV.	STD. ERROR MEAN	t	SIG. 2-TAILED	REJECT OR RETAIN NULL
Home Repair & Improv.	Yes	27	80.89	9.50	1.83	2.68	.009	Reject
	No	37	74.86	8.40	1.38			
Maintenance & Cleaning	Yes	26	75.27	8.85	1.74	1.38	.170	Retain
	No	55	72.00	10.38	1.40			
Business Services	Yes	25	76.92	9.74	1.95	-1.6	.874	Retain
	No	74	77.30	10.38	1.21			

The second two-way between groups ANOVA used military service and gender as the independent variables and job satisfaction as the dependent variable. Table 10 shows the descriptive characteristics for the combined relationship of military service and gender with job satisfaction as the dependent variable.

Table 10 **Descriptive Statistics for Military and Gender – D.V. – Total Job Satisfaction**				
HAVE YOU EVER SERVED IN THE MILITARY?	GENDER – MALE OR FEMALE	MEAN	STD. DEVIATION	N
Yes	Male	77.12	9.288	74
	Female	89.25	7.588	4
	Total	77.74	9.554	78
No	Male	74.93	10.566	125
	Female	75.90	8.485	39
	Total	75.16	10.094	164
Total	Male	75.74	10.142	199
	Female	77.14	9.200	43
	Total	75.99	9.977	242

Table 11 shows the test of between subjects effect with job satisfaction as the dependent variable. A significant main effect was found for military. A significant effect was also found for gender. There was a significant effect found for the interaction term.

Table 11 **Test of Between-Subjects Effect – Dependent Variable: Total Job Satisfaction**						
SOURCE	TYPE III SUM OF SQUARES	df	MEAN SQUARE	F	SIG.	PARTIAL Eta SQUARED
MilExp	813.327	1	813.327	8.398	.004	.034
Gender	577.318	1	577.318	5.961	.015	.024
MilExp* Gender	419.048	1	419.048	4.327	.039	.018
Error	23050.597	238	96.851			
Total	1421478.000	242				
a. R Squared = .039 (Adjusted R Squared = .027)						

No other significant main effects were found between military and the other independent variables identified in the study using job satisfaction as the dependent variable.

DISCUSSION

The results of this study will begin by comparing the level of franchisee job satisfaction to previous studies and interpret the results for the hypotheses. Based upon the descriptive statistics, the mean and standard deviation for this study (M = 75.73, SD =10.01, N = 251) for job satisfaction were similar to Morrison's (1996) study on franchisee job satisfaction (M=75.66, SD=11.63, N=307). In addition, 66 percent of the respondents in this study reported franchising met or exceeded job satisfaction. This was lower compared to similar studies like Walker (1971) on franchisee satisfaction where 77% of respondents said franchising met or exceeded their expectations and Gallup's (1992), study which reported 70% of the respondents reported that their franchise had either met or exceeded their expectations. The next section will discuss the results of the four research questions and hypotheses.

Hypotheses Discussion

A one-tailed, independent sample t-test was conducted on the four hypotheses to examine if franchise business owners who have served in the military have a statistically significant higher level of satisfaction in running a franchise compared to franchisees who have not served in the military. The four areas of measurement included life satisfaction, career satisfaction, job satisfaction, and total overall satisfaction. There were no significant differences identified in life, career, and overall satisfaction. However, several statistical tests indicated franchisees who served in the military had a significantly higher level of job satisfaction compared to franchisees who have not served in the military.

There are several notions why franchise business owners had a significantly higher level of job satisfaction compared to franchise business owners who have not served in the military. One idea suggested in previous literature is the importance of following systems. Much of the literature described franchising as a system. The franchisee is the individual who is following the system set in place by the franchisor. Michael and Combs (2008) point out one big advantage in franchising is that it provides a system of operational routines. Franchisees should have the ability to follow a system as well as enjoy executing the daily routines in order to be successful in franchising. The hallmark of franchising is business owners can duplicate and produce the same success and outcomes by following the routines that are set in place by the franchisor. Therefore, the results of the study imply that ex-military franchisees find a higher level of satisfaction in their jobs because they enjoy following the routine and systems set in place by the franchisor. The franchise systems that were randomly selected for this study had been franchising an average of over 25 years (M = 25.17, SD = 12.49, minimum-maximum 11-61, N = 12) indicating well established franchise systems. Previous literature suggests there are several thousand brands of franchises in the United States. Some brands have only been franchising less than a year while others have been franchising over 50 years. Many established franchisors are known for their strict rules, systems, and procedures enforced by the franchisor while the less established brands might provide more flexibility to the franchisee. In some cases, strict penalties are enforced to franchisees that do not follow the system of the franchise. This is more of a classic model of franchising. Other franchisors may provide more flexibility with their franchisees which suggests that not all franchises are alike just because they are labeled "a franchise". Therefore, this study is suggesting ex-military would be better matches for franchises that are more doctrinaire and have well established systems set in place. The next section will discuss differences in total overall satisfaction.

Conclusions

There are several contributions offered by this study. First are the differences identified in satisfaction between franchise business owners who served in the military and franchisees who did not serve in the military. While there were no significant differences identified in life, career, and overall satisfaction, several statistical tests suggested franchisees who served in the military had a significantly higher level of job satisfaction compared to franchisees who have not served in the military. There were also significant differences identified between the three different categories selected in this study. For example, franchise business owners who served in the military were significantly more satisfied with their job than franchise business owners who have not served in the military in the Home Repair and Improvement category.

Limitations

There were several limitations to this study. The survey sample included only three industry segments from single unit franchises possibly limiting the generalizability of these results. However, the chosen industries and sample demographics appear to be somewhat representative of the franchise industry in general. Other limitations of this research, as a result of time and financial considerations, include the nature of the research design, which includes potential non-response bias. As well, there are inherent limitations in drawing causal inferences regarding the antecedents of job satisfaction. The next section will discuss implications for practice and recommendations for future studies.

Implications for Practice

There are several suggestions for practice that could be drawn from this study. Franchisors seeking new franchisees may find a market of aspiring entrepreneurs in individuals with a military background. Previous literature suggested many military veterans are steering towards a career in entrepreneurship. The results of this study suggest that ex-military could make good candidates to franchises with well established systems set in place that allows them to utilize their skills and abilities. Franchisors looking to attract more individuals with a military background to a franchise system can offer significant discounts to this audience. This discount can include waiving a franchisee fee. This offer can be emphasized in promotions like trade shows, websites, and entrepreneurial or military magazines.

Another suggestion is for multi-unit franchise business owners or corporate run establishments with strong systems and routines set in place to consider recruiting ex-military as managers. This study focused on single unit franchise owners. Single unit franchise owners typically operate the franchise so many of the duties of a manager would be similar to a single unit franchisee. Previous literature suggested that the military spend a significant amount of time and effort in leadership training for officer positions. One suggestion in attracting ex-military for franchise management positions is to encourage them to apply in the job description. Job openings for franchise managers could be posted on military websites or magazines.

Recommendations For Future Studies

Several recommendations for future research can be drawn from this study. To begin, this study focused on a single unit franchise business owner. A similar study could be conducted using the same survey tool on multi-unit franchisees to determine if the results of this study would have been the same. It can be assumed that running several franchises as opposed to one single unit is a different experience. Multi-unit franchisees spend less time working in the business and more time on the business. This type of study could fill a gap by exploring if the military simply prepares individuals for an entrepreneurial job like owning and operating one franchise unit, or does it help in leading multiple franchise units. The research questions and hypotheses could be the same or similar to this study.

To be sure, a similar study could explore if ex-military are indeed more satisfied in managing a franchised business compared to non-military franchise managers. Managers of franchise systems are also required to follow the strict rules set in place by the franchise. Like ex-military, franchise managers are also exposed to a significant amount of training so it would seem like a reasonable hypothesis to suggest that franchise managers who have served in the military would have a higher level of job satisfaction in managing a franchised business.

This study could also continue with a qualitative study on franchise business owners who served in the military. Qualitative research can fill some gaps in this study by starting questions with words like ‘what’ or ‘how’. Some examples of questions could include the following: How did the military prepare you for franchise ownership? What skills did you learn in the military that are applied to franchising? What are your goals for franchising? What are the career experiences of men or women that served in the military and are now franchisees? The primary form of data collection for this study should be through in-depth interviews. A qualitative study can also focus on the experiences of ex-military moving from a single unit to multi-unit franchise.

This study did not identify a specific branch or level of the military. It would be interesting to learn if there were significant differences in satisfaction between the different military branches, levels, and amount of years served in the military. The challenge of doing this type of study is coming up with a big enough sample to determine if there are significant differences between the different categories of the military.

This survey merged three existing instruments to measure total overall satisfaction. This study may have provided an opportunity for a new survey tool to measure total overall satisfaction. Chronbach’s alpha scored high measuring at a reliability of .92. Lastly, future studies can also use other occupations to detect differences in franchisee satisfaction. Suggestions of other occupations could include police or fire fighters. The next section will include a final conclusion statement.

Conclusion Statement

This is one of the first studies to determine if franchisees who served in the military had a significantly higher level of overall satisfaction in running a franchise versus franchisees who have not served in the military. Previous literature suggests that even with the popularity and growth of franchising, choosing capable franchisees continues to be franchisor's most difficult challenge. It was also suggested that many military steer towards a career in entrepreneurship. Entrepreneurs have the option of creating a new business, buying an existing business, or purchasing a franchise. Franchising may be a viable entrepreneurial opportunity for ex-military. This study is suggesting franchisors that have strong systems set in place and allows franchisees to make use of their skills and abilities may find a strong pool of franchisees among ex-military looking to pursue a career in entrepreneurship. Finally, several tests conducted in the study showed that there was a significant difference between job satisfaction between the three industries analyzed in this study. Therefore, aspiring entrepreneurs looking to buy a franchise should take a self-assessment as well as diligently research the franchise and industry. This can begin by conducting a simple SWOT analysis.

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BENEFITS OF CHAMBER OF COMMERCE MEMBERSHIP: LARGE VS. SMALL POPULATION CENTERS

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ABSTRACT

This paper provides a contrast of small chambers of commerce (i.e., fewer than 150 members) in rural areas to a chamber in a large metropolitan area (1000+ members). The obvious differences included a lack of full time support staff and a slower pace of change in the rural communities as compared to the metropolitan area. Likewise, as expected in smaller communities we found a general attitude of self-reliance. Such an attitude seemed to be positive while avoiding the negatives of a "not-invented-here" attitude.

An interesting difference between the larger and smaller chambers was on their respective mission priorities. We found that the smaller community chambers tended to focus on the community as a whole instead of prioritizing business performance. A natural extension from a better community to a better business environment was expected.

INTRODUCTION

Rural areas in the United States account for 80 percent of the land area but only 20 percent of the population (Macke & Markley, n.d.; The Aspin Institute, n.d.). Yet, they are major providers of energy (gas, oil, coal), food, natural resources, and contain much of the manufacturing sector. Rural areas are important recreation and vacation destinations and increasingly, retirement locations.

On the other hand, rural economic performance is not doing well. For instance, rural regions account for a small and slowly decreasing share of U.S. employment. The rural poverty rate is higher than in urban areas. And, wages are low. The average rural wage in 2001 was $24,648 versus $36.376 per worker reported in urban areas (The Aspin Institute, n.d.).

Several trends contribute to the decline in economic performance in rural areas. For one, there has been the population migration to urban areas. Interstate highway systems have replaced railroads thus marginalizing towns originally based on the railroads. These highway systems have also replaced many state highways, thus bypassing many small towns. Globalization and outsourcing rural-based manufacturing plants have resulted in closing of these facilities. Last, the entry of Wal-Mart style, big box, stores into larger rural towns has led to the demise of small town merchants. Essentially, rural areas are faced with a new knowledge-based and specialized economy versus the commodity-based one of old.

One approach to slowing this decline and developing the economies of rural communities lies in asset-based entrepreneurship through building business using creative, historic, and natural assets in the community. Here, local small business owners and entrepreneurs need to set the foundation for future economic growth (Allen, J. C., n.d.).

Another model of economic and community development is community-based entrepreneurial training and support called the Western Edge Program. It includes helping entrepreneurs create and evaluate their business plans, assisting small business owners implement their business plans to start and grow their businesses, and to provide follow-up help (Allen, J. C., n.d.).

The purpose of this paper is to examine how small chambers of commerce in rural areas help promote members' businesses and provide educational programs to improve members' business skills. These activities are then compared to promotion and educational services provided by a large chamber located in an urban area. Winslow's, "Business Community Relations 101: Getting the Most Out of Your Chamber Membership" (Winslow, L., n.d.) serves as a framework or structure for this study.

LITERATURE REVIEW

The concept of a chamber of commerce first appeared in Europe at the end of the 17th century. The earliest locally-based chamber in North America was established in Charleston, South Carolina in 1772 (Morro Bay, n.d.). Today there are 2,800 state and local chamber chapters and 3,000,000 business members in the U.S. (U.S. Chamber of Commerce, n.d.).

As with their ancestral guilds, the activities of early U.S. chambers were limited to commerce, at least initially. However, over time, the role of chambers expanded to include recruiting new businesses to an area, job creation and other socioeconomic concerns such as housing, public education, workforce development, community services, and unemployment. More recently, chambers have become active in the legislative areas of local, state, and federal government in order to look out after the interests of business members and the economic and social welfare of their communities (Morro Bay, n.d.).

Chambers of commerce are an important force in any community, large or small, yet little academic research has been done on them. Studies include one by Dawley, Stephens, and Stephens (2005) who studied the multi-dimension ability of organization commitment of volunteer chambers of commerce board members. Modeling was used to examine the effects of organizational commitment on several critical roles the board member is to perform. Study results showed that normative, affective, and continued commitment based on few alternatives had a positive effect on the role of board members. Another study by Lacho, Bradley, and Cusack (2006), investigated the role of business nonprofit organizations in helping with the survival of small businesses in the New Orleans Metropolitan Area in the aftermath of Hurricane Katrina. The business nonprofits, including three chambers of commerce, made extensive use of email in communicating with their members as well as holding workshops on disaster relief topics such as SBA loan programs and insurance. Cooperation or partnering on events with government economic development agencies was carried out.

Lacho (2008) studied the government affairs activities of four chambers of commerce in suburban New Orleans. Each of the studied chambers has a standing government affairs or public policy/committee which monitors local, state, and federal issues and informs the membership about them. Members have the opportunity to interact with local, state, and nationally elected officers at locally-based forums such as luncheons or meet them at the state legislature. A recent development is for government affairs committees to work with similar committees of other chambers on issues of common concern.

The Schapiro Group (2007) studied if consumers really patronize businesses because they are chamber members. Data came from a scientific web-based survey of 2,000 adult consumers nationwide. Their findings show if consumers know that a small business is a chamber member the chamber enjoys a 44% increase in consumer favorability rating and a 63% increase in the likelihood that consumers will patronize the business in the future. (The Schapiro Group, 2007.).

Lacho and Brockman (2011) studied how a small business could be promoted through the services of a chamber of commerce. Their study of a single chamber showed that print and online listings are used. Event sponsorships are available. There are many opportunities for networking, e.g., at luncheons or special networking events. Other help included grand openings, sponsorships, and allowing the chamber logo to be used in the business member's advertising, letterhead and business cards.

RESEARCH METHODOLOGY

An exploratory study format was used given the very early stages of any theory development concerning relationships between chambers of commerce and small business owner members (Siggelkow, 2007). Such a method is applicable to the current situation because of the lack of significant studies and because it allows for richer data (Eisenhardt & Graebner, 2007; Eisenhardt, 1989, 1991).

We chose a relatively large and vibrant Chamber of Commerce as the exemplar of the Winslow (2012) framework. We found that the Jefferson Parish Chamber provided many of the services referenced in Winslow (Lacho & Brockmann, in press). We then used a convenience sample of smaller, rural, chambers as the basis for our study. We set a cap of 150 Chamber members as our definition of "small".

Table 1
DESCRIPTIVE DATA OF PARISHES

Chamber/ Parish	Population	Number of Households	Median Household Income	Highest Education (%HS/%BS)	Number of Businesses
Jefferson	438902	169478	$54635	32/16	
Franklinton	3876	1468	$24750	47/18	1600
Lacomb	8694	3329	$43919	36/13	892
Madisonville	9376	3336	$82464	28/25	1148
Mean	7315	2711	$50377		1213

The authors conducted structured interviews with the leadership of the chambers. The chamber president or representative was interviewed in person or by telephone. The interviews lasted 30 to 60 minutes. Secondary sources such as the chamber website, email notices, and chamber printed materials and newsletters were used.

Our questions were structured following the typology of Traditional/Passive/Casual educational formats presented in Lacho & Brockmann (in press). Traditional is where there is a clear intent to transfer knowledge in a student-teacher type environment; Passive which is less structured than Traditional but still having a clear intent of transferring knowledge such as luncheon presentations by noted speakers; and, Casual which did not have an original intent of transferring knowledge but where the opportunity still exists (see Appendix for the interview outline).

RESULTS

As expected, the rural chambers were much less active than the large chamber. This disparity is reflected in the lack of full time paid staff and standing committees. The large chamber has a paid, full-time, president. The presidents of the rural chambers had full-time jobs or business outside of the chamber duties. Their chamber presidency was a voluntary position. Similarly, significantly fewer educational or promotional activities were present in the rural areas. While the large chamber had monthly meeting for its members as well as many of the standing committees, the rural chambers had general meetings only once a quarter and the standing committees met less frequently. Most of the committees were structured more as ad hoc than as standing.

The committee structure reflects a focus on community event support instead of business development. For instance, the large chamber has standing committees for Business Growth and Development, Governmental Affairs, and Education. Each of these committees has 30+ members and meets once a month. The rural chambers' committees were composed of mostly ad hoc groups responsible for coordinating events as Santa on the Bayou, Dragon Boat races, and festivals. While the large chamber had a special events committee as only one of several committees, the rural chamber committees were focused solely on special events.

Table 2
DESCRIPTIVE DATA OF CHAMBERS

Chamber	Yr Chamber Formed	Members	Paid Staff	Standing Committees	Special Events
Jefferson	1997	1000	7	6	10
Franklinton	1955	150	1	8	1
Lacomb	1976	120	0	3	3
Madisonville	1974	100	0	0	12

The traditional type educational events were obvious by their absence. None of our rural chambers offered any traditional type educational events. At most, the respective members were informed of opportunities elsewhere when such events were available. These opportunities included offerings at the nearby University and Community College or events at other larger Chambers in the nearby area. Even though some opportunities did exist, it was rare when a member from the rural chambers took advantage and attended any of the educational sessions.

The passive and casual type educational events were much more prevalent, particularly the networking events but at a frequency much less than with the larger chamber. For instance, the larger chamber had weekly networking events where the rural chambers met quarterly but may have only had a ribbon cutting once per year. The pace of change in the rural areas would be expected to be much slower than in larger communities.

Table 3
BENEFITS SUMMARY

Support		Franklinton	Lacomb	Madisonville
Promotional				
	Listing of member businesses:			
	Print Format	Yes	Yes	Yes
	Electronic Format (e.g., on Website)	Yes	Yes	Yes
Educational Benefits				
	Traditional Lectures	No	No	No
	Workshops	Yes	No	No
	Lunch Speakers	Yes	Yes	No
	Webinars	No	No	No
Networking Events				
	Speed Dating	No	No	No
	Business After Hours	Yes	Yes	Yes
	Ribbon Cutting Events	Yes	Yes	Yes
	Sponsoring Events	Yes	Yes	Yes
	Membership meetings	Yes/Qtrly	Yes/Qtrly	Yes/Qtrly

DISCUSSION

There appears to be an interesting theme that emerged during our interviews with the small chambers. Instead of a priority on advancing the business community, the small chambers presented a focus on improving the community at large and therefore making it a better place to live. The secondary effect assumed that if the community was doing well, then business in that community must also be doing well.

Our sample also provided an interesting cross-section of geographies. The Lacomb area is centrally located in the parish (county) equidistant between the two large metropolitan centers (i.e., population greater than 25,000 each). Lacomb is advertised on the parish's web site as an excellent location in which to have access to the entire parish. Several highways, an interstate, and rail service link Lacomb to the rest of the parish. Franklinton, on the other hand, is somewhat isolated and has limited transportation infrastructure. A two-lane highway provides the only access through the town and therefore limits the access by larger semi tractor-trailer traffic. Madisonville enjoys its quaint small town environment and is not that interested in growing any larger than it already is. We therefore found that our sample provide a cross-sectional sampling where we had one location growing, one wanting to grow but restricted from doing much, and one that didn't want to grow.

The very nature of the small communities (i.e., being small) may be a cause for some of our results. For instance, smaller means a less munificent environment (i.e., fewer resources available) but an often more cordial and intimate one (Viner, 2011). A lack of resources was obviated by the lack of support staff making initial contact difficult but not onerous. That is, rarely did anyone answer the phone directly. However, every message left was always returned within a day. Such an occurrence reflects the common belief that people in small towns are often laid back but definitely willing to help (Viner, 2011).

Another common theme in small towns is that the entire community, and by extension the chamber, are just more involved and often more self-sufficient. The chamber members already know each other and therefore the networking events (e.g., traditional business card exchanges) are not necessary. Such intimacy may also explain/justify the less frequent meetings of the chamber as compared to the larger chambers. Our sampling traditionally met on a quarterly frequency while the Jefferson chamber was having committee and general membership meetings at least monthly.

Akin to the self-sufficiency inherent in small communities, is the possibility of a initial wariness of strangers. Such wariness may be a cause for the lack of attendance at the more traditional training sessions given in conjunction with the larger nearby chambers. Another possibility is that technology is making the information available without having to travel.

CONCLUSION/FURTHER RESEARCH

Our findings suggest that chambers of commerce in rural areas have different priorities than those of larger communities. While the traditional focus of Chambers of Commerce is on developing commerce and business, our results suggest that the smaller chambers focus on the community first and then business. The smaller chambers are more inclined to prioritize community development with a belief that a better community will results in better business performance.

Our small sample obviously makes an extension of this research into other small communities a natural choice for further research. Another extension would be to examine different geographical areas to see if cultural values and economic factors will affect the priorities.

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APPENDIX

1. What does the chamber do to help small business members promote their businesses?
   Areas to probe:
   Listings
      Print
      Internet
   Networking events
      Speed dating
      Business after hours
   Other
      Ribbon cutting
      Sponsorship of events
      Chamber committee opportunities
      Special promotion discounts to members by members
      Other
2. What does the chamber do to help members improve management/business skills?
   a. Traditional lectures/workshops--What topics
   b. Luncheons, social events
   c. Networking events
   d. Webinars
   e. Other
3. Demographic data
   a. Year in which chamber was formed
   b. Committee structure
   c. Number of members
   d. Other
4. What roles does your chamber play in your community's overall economic development initiatives? Does the chamber view itself as having such a role?
5. Does your chamber partner with other organizations in….
   a. Business recruitment?
   b. Business retention?
   c. Promoting entrepreneurship and small business development?
6. Typically, which organizations are these?

   a. Federal
   b. State
   c. Local
7. Is your community…
   a. A designated as a Main Street community? What is the role of the Chamber?
   b. A participant in Entergy's Team City program? What is the role of Chamber?

OPTIONS FOR IMPROVING GENDER EQUITY AT TOP LEVELS OF MANAGEMENT IN CORPORATE AMERICA

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ABSTRACT

This paper focuses on gender equity. It considers mentoring and sponsorship. It also considers quotas for hiring females on boards of directors. Other related issues such as maternity benefits, paternity benefits, and child care benefits are also addressed.

INTRODUCTION

A study conducted in 2008 compares men and women who recently graduated from top MBA programs. The men are paid approximately $4600 more than the women. The women report being in lower level management positions and experiencing less job satisfaction compared to the men (Ibarra, Carter, and Silva, 2010).

Women held 16.6% of board seats for Fortune 500 companies in 2012. The United States does not impose any laws specifying a quota for female corporate board members. Norway was the first country to impose a quota in 2003. A minimum of 40% of the board members in Norway must be women. There are harsh fines for firms that do not comply with the mandated quota. A 2011 French law required corporate boards to be at least 20% female by 2014 for board members to qualify for their fees. An Italian law mandates that women must make up one-third of the board members on listed and state-owned enterprises by 2015. Similar laws are in place in Belgium, Netherlands, and Iceland. The regulations in Finland say both sexes should be represented on corporate boards but does not specify specific percentages or timetables (Lublin, 2012). Research indicates that women need to be more qualified than men to be considered to serve on corporate boards and women pay a higher personal price to become board members. The higher divorce rate among female board members is one factor supporting the personal sacrifices. Female board members tend to be younger and were added to the board more recently (Groysberg and Bell, 2013)

IMPACT OF WOMEN ON CORPORATE BOARDS

Having just one woman on the board of directors on a board cuts the risk of bankruptcy by 20% (Bart and McQueen, 2013). One explanation would be that a company that would put women on the board might be more progressive business people, which would result in better decision making.

A survey of more than 600 board members showed that women are more likely to consider the rights of others and to take a cooperative approach to decision making. Female board members will also be more likely to use cooperation in decision making compared to their male counterparts (Bart and McQueen, 2013).

Another study showed that female representation on corporate boards improved governance, management control, and a greater sensitivity to other perspectives (Fondas and Sassalos, 2000).

Boards with a significant composition of women report a 53% higher return on equity, a 66% higher return on invested capital and a 42% higher return on sales (Joy, 2007).

One study found that women board members might bring a different perspective because a significantly higher percentage of women list arts and culture, travel, and philanthropy and community service as outside interests. For example 26% of women and 16% of men list philanthropy and community service as outside interests. Men were more likely to list sports as an outside interest. The same study revealed that women are more likely to list to communicate effectively as a perceived strength. Men were more likely to list global experience as a strength, which might be partially be explained by women not being considered for overseas assignments because of perceptions that women with families would be unwilling to relocate. There are reported higher levels of satisfaction for both women and men if management concept that more satisfied workers are more productive.there is a greater gender balance (Groyberg and Bell, 2013). It is a basic

Thorhild Widvey, a Norwegian politician, served as the minister of energy in Norway from 2003 – 2005. She often states, “I do not like quotas, but I love what they do.” She believes that the attitudes toward women have improved. Mari Teigen, professor and research director at the Institute for Social Research in Norway has a different viewpoint. She states that at best, having more females on boards has resulted on only a slightly positive effect (Smale, 2013).

ROLE OF GOVERNMENT

Women seem to pay a higher personal price to become board members than men. The role of quotas could be considered. Nearly all of the female directors from countries with quotas agreed that they are effective. About half of the female directors from countries without quotas believe that they are effective (Groysberg and Bell, 2013).

An argument could be made that more generous vacation, maternity, and paternity benefits could make it easier to climb the corporate ladder. The United States is the only industrialized country without a paid maternity leave policy (Sandberg, 2013).

Sweden’s paternity and maternity benefits are among the most generous in the world. Swedish citizens and foreign residents receive 80% of their present salary with a cap of $65,000 for a period of thirteen months. Each parent must take a minimum of two of the thirteen months. There is considerable debate about expanding it to three months. There is increasing support for the three month minimum. Some Swedes still believe that families should decide how to allocate the leave rather than having it dictated by the government. The costs to the Swedish taxpayers for the generous benefits are estimated at 0.8% of gross domestic product, which amounted to $3.7 billion dollars in 2007. The dollar amount would be much higher in the United States due to the much larger population (Hansegard, 2012).

Even with the very generous leave benefits, Sweden is one of the stronger economies in Europe. The country seems to be dedicated to gender equality. Couples who split the paternal leave evenly do receive a bonus. Parents receive 80% of their salary if they need to take time off from work to take care of a sick child. A form needs to be filled out by the child's nursery for the parents to collect the money (Isacsson, 2012).

Increasing the number of vacation days could help some women climb the corporate ladder. The United States is the only developed country without a legally required vacation day or holiday. Every country in the European Union has a law stating a minimum of four work weeks of paid vacation. Austria is the highest with 22 paid vacation days and 13 paid holidays.

ROLE OF MENTORING AND SPONSORSHIP

An estimated 33% of men say that weaker networks and the old boys club are obstacles women face in corporate America (Groysberg and Bell, 2013). It is possible to change the corporate culture. For example, upper level management could make a deliberate effort to include women when they get together for golf or other activities that were restricted to the men.

The benefits of mentoring have been reported in a multitude of research. Increased compensation and more frequent promotions would be a few of the benefits. Women who have climbed the corporate ladder often mention effective mentoring as a reason for their success. There are generally no differences reported on the likelihood of receiving mentoring experiences. (O'Brien, 2010).

It is imperative that the quality of the mentoring be as effective for women as it is for men. One strategy that could be implemented by the corporation is to make sure that women are being mentored by people of the same level in the organization as the men. Women have been mentored by mentors with less organizational clout. Sponsorship strengthens the mentoring process. Sponsorship has the mentor use his or her influence with senior executives to advocate for the mentee (Ibarra, Carter, and Silva, 2010).

Perhaps, a more structured mentoring program is one solution. Research supports that the more structured mentoring programs are more effective. One study documents that women who found their mentor through a formal program were 50 percent more likely to be promoted than women who found their own mentors. (Sandberg, 2013).

CONCLUSIONS

Effective mentoring and sponsorship programs are effective in reducing gender inequity in higher level management positions.

The research clearly supports female board members do have an impact on the corporation. There is greater cooperation, more sensitivity to different perspectives and improved governance. The economic impact is favorable. The firm is less likely to go bankrupt. There is a higher return on equity, invested capital, and sales. Perhaps, the top management of firms that are more open to having female board members would have traits that make them better business people, which could explain the better financial performance.

FUTURE RESEARCH

Future research will discuss issues with women of color, who are underrepresented in upper management positions. While women hold only 17 % of board seats in the United States, it is worse for women of color. Women of color hold 3% of board seats (Sandberg, 2013).

Another topic would be to consider the impact of female Chief Financial Officers. Some research indicates that gender differences in conservatism and risk aversion may impact Chief Financial Officer's decision making (Peni and Vahamaa, 2010).

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MARKET ENTRY IN THE U.S. AIRLINE INDUSTRY

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ABSTRACT

Most large U.S.-based airlines have been in bankruptcy at least once in the past twenty years, and most new entrants have not survived in this highly competitive industry. Large capital requirements, fluctuating fuel costs, volatile economic conditions, and labor issues have made it difficult for new firms to capture and maintain market share. Sophisticated pricing and yield management software allows large established airlines to target the customers the new entrants to are trying to serve.

In spite of these challenges, several entrepreneurs have been successful surviving and gaining market share by offering some unique combinations of services, routes, and pricing. Allegiant, Spirit, JetBlue, and Virgin America all exceeded $1 billion in revenue in 2014, although as competitors they were nonexistent or insignificant in 1995. Each of these entrepreneurial firms followed a different path to success, and each has carved out what appears to be a defendable niche in the highly competitive U.S. airline industry.

The success of these entrepreneurial entrants is evidence that market entry is possible in highly competitive environments, provided entrepreneurs carefully plan their market entry, adapt to and capitalize on opportunities that arise, and offer a service that differentiates them from dominant competitors. Despite having sufficient planes and staff to match the capacity taken by new entrants, the dominant competitors could not match other aspects of the entrepreneurs' offerings while continuing to serve their existing customer base.

STRUCTURE OF THE U.S. AIRLINE INDUSTRY

The U.S. airline industry underwent significant deregulation in the late 1970s, and by the early 1980s, each airline was largely free to decide what routes to fly, and the fares to charge on those routes. Deregulation also allowed for entry of new competitors, and the development of price-based competition. The failure rate of new entrants was high, however, and by 1995 only six of the airlines started between 1979 and 1982 remained in business as independent airlines. Most faced a fate similar to that of Trump Airlines – after failing to post a profit and defaulting on its debt, remaining assets were acquired by other airlines (Webley, 2011). Since 1995, airlines have reported cumulative losses of over $20 billion, most of which occurred between 2001 and 2009 (Airlines for America, 2015).

> *"In the early years [after deregulation], new airlines had appeared; but most could not survive. Some, like People Express, were consumed in mergers and acquisitions, while others, like Air Florida and nearly 200 other airlines, collapsed into bankruptcy. Although ticket prices had spiraled downward, new entrants had never accounted for more than 5% of the passenger market."* (McGahan and Kou, 1995).

The U.S. airline industry has undergone significant restructuring and consolidation over the past twenty years. At the end of 1994, the top three airlines were American (17% of the market), United (16%), and Delta (13 %), with a combined forty-six percent of industry revenue. The next three airlines – US Air, Continental, Northwest – have all subsequently been merged into the first three, with Southwest (#7 in 1994 at 3%) now #4 in market share. By 2014, the top four airlines (American, United, Delta, and Southwest) generated over two-thirds of the industry's revenues. Two regional airlines, Alaska and Hawaiian, were the only other airlines that operated in their current form in 1994 and survived to have more than $1 billion in revenues in 2014 (MIT, 2015a). The period from 1990-2011 saw 189 bankruptcies in the airline industry (AP, 2011), with most new entrants either simply dissolving, and/or being acquired by one of the larger competitors.

Four new airlines, that either did not exist in 1994 or were trivial in size, managed to attract capital and grow their operations to achieve more than $1 billion in revenue in 2014. In an industry where competitors bear significant fixed costs, have logistical difficulties in making rapid capacity changes, face volatile demand due to economic changes, are buffeted by changing oil prices, and have challenging labor relations, survival has proved difficult for both established firms and entrants. Allegiant, Virgin America, JetBlue, and Spirit, however, have all staked out a vialble position in the U.S. airline industry. Analyzing the strategies utilized by these entrepreneurs, and identifying similarities across firms, provides insight on successful entrepreneurial strategies in highly competitive industries.

Table 1 provides comparative data on the four airlines profiled, and for comparison purposes, Delta Airlines.

Table 1
Comparative Data on Airlines

	ALLE-GIANT	JETBLUE	SPIRIT	VIRGIN AMERICA	DELTA
2014 System Operating Rev. (in $million)	1,100	5,820	1,931	1,490	40,430
2014 System Passenger Rev. (in $million)	800	5,340	1145	1,310	27,950
2014 Total Rev. Per Avail. Seat Mile (cents)	10.19	14.12	11.81	13.00	14.40
2014 Costs Per. Avail. Seat Mile (cents)	10.92	11.69	10.44	11.33	13.03
2014 Average Annual Wages	34,433	72,742		79,992	86,138
2014 Available Seat Miles per Employee	4.54	3.38		4.92	2.72
2014 Available Seat Miles per $ Employee Compensation	40.85	32.95		42.68	22.67
2014 Load Factor, or Capacity Utilization	89%	84%	87%	82%	85%
2014 Net Income ($million)	87	401	225	61	1.190
Market Capitalization (7/2015) (in $million)	3,330	6,800	4,620	1,240	34,660
2014 Number of Aircraft (at year end)	70	152	65	53	370*
2014 Airports Served	96	87	56	21	333
2014 Routes Served	233			35	

Data in the first 8 rows for Allegiant, JetBlue, Virgin America, and Delta is from the MIT Airline Data Project (http://web.mit.edu/airlinedata/www/default.html). Data for Spirit is taken from other sources (primarily the Spirit website and 10-K filings), and may not be reported equivalently. Data for the remaining rows is taken from Yahoo! Finance (finance.yahoo.com), company websites, and 10-K filings; it may not all be reported on a completely comparable basis. Where a field is blank, either there were contradicting numbers that could not be reasonably reconciled, no number could be found, or a number that could be found did not appear to be timely/valid/comparable.
* Number of aircraft probably does not include those owned and operated by separate regional companies flying for Delta

ALLEGIANT

Allegiant's first flights in 1997 served Fresno, California, and by 1999 the company provided regular service between Fresno, California and Las Vegas, Nevada. The company entered bankruptcy in 2000, moved to Las Vegas, and began providing charter services to Harrah's hotels and casinos. By 2002 it started developing its own routes to and from Las Vegas, and by 2004 it was offering vacation packages from 13 small cities to Las Vegas. The company now serves 96 U.S. cities with most flights taking vacationers from small northern communities to vacation destinations in the south. (Allegiant, 2015) (Allegiant's route map can be found at https://www.allegiantair.com/route-map.)

Allegiant's business model involves serving a clear target market (vacationers in the northern U.S., and Canadians who drive across the border to catch a flight) with low cost flights. It faces no direct competition on most of the city-pairs it serves (Mayerowitz, 2013). For example, a customer in Bellingham (Washington) or Bozeman (Montana) interested going to Phoenix (Arizona) would have to change aircraft in one of the hub cities of those airlines also serving these cities. In addition to offering direct flights, Allegiant charges low fares to attract budget-conscious vacationers. Thus, Allegiant's value proposition to its target market of leisure customers is cheap non-stop service to popular vacation destinations. It also will bundle hotels, car rentals, show tickets, and even Las Vegas wedding chapels for customers. Many of Allegiant's customers would not have taken a trip if not for Allegiant's route, or would not fly as often. In that way the company is attracting new customers, rather than taking customers away from other airlines (Aleshire, 2012)

Keeping costs low is key to Allegiant's business model. One way Allegiant does this is by tightly managing labor costs – most employees earn \$10-20 less than they would at competitor airlines (Mayerowitz, 2013; CAPA, 2014). Most aircraft are in use less than 6 hours per day, and return to where they originated, thus avoiding any overnight layover costs for crew members. While this results in low aircraft utilization, most of Allegiant's aircraft are over 20 years and are paid for. Although the older aircraft are less fuel efficient than newer aircraft, these higher fuel costs are easily offset by the low aircraft acquisition and depreciation costs and the high capacity utilization (and high seat density) on each flight. Allegiant's flights operate over 87% full, and they also install more seats on each plane (CAPA, 2014).

> *"Allegiant's business model seems to fly in the face of conventional wisdom. A fleet of old, fuel-inefficient aircraft, flying with low frequencies and at low daily utilization rates in markets with a high degree of seasonality." (CAPA, 2014)*
>
> *"'Allegiant tends to bring people into the airport who wouldn't normally fly,' says Tim Bradshaw, director of the Eastern Iowa Airport in Cedar Rapids. 'It brings people off the couch.'" (Mayerowitz, 2013)*

Allegiant tends to only provide service when and where it can fill its planes. Thus, on Tuesdays and Wednesdays when vacationers are either on vacation or back at work (not popular travel days for vacationers), many of Allegiant's aircraft sit on the tarmac and crews having the day off. Overall, Allegiant does not gain any significant advantage from its low cost of aircraft, because it does not use the aircraft as many hours per day or days per week as competitors. However, the low cost of the aircraft gives Allegiant the flexibility to park planes when their target customers are less likely to fly.

Allegiant's attention to controlling costs means that it is not known for customer service or punctuality. "Allegiant had the worst on-time rating of any U.S carrier in 2012" (Nicas, 2013). The company does not have a toll free number for customer service, and has been known to cancel flights if not enough customers book tickets. The company's size means that it does not have many extra planes or crews available to cover when mechanical problems or weather delays occur.

An important contributor to Allegiant's profit is ancillary revenue, i.e., revenue other than that received for air fare. In 2013, about a third of Allegiant's revenue was ancillary. These ancillary revenues fall into two categories: commissions and fees. Commissions are earned when customers book other services through Allegiant, including hotels, airport transportation, car rentals, or entertainment. Allegiant also collects fees for baggage (checked and carry-on), fees for not paying baggage fees in advance, in-flight services, internet bookings, telephone bookings, assigned seats, etc. In many instances the posted airfare is less than half the cost a customer will end up paying to Allegiant.

VIRGIN AMERICA

The financing and business plan for Virgin America took some time to work out, and there were challenges in obtaining regulatory approval from the U.S. government. Virgin America finally launched service in 2007 with cross country flights between New York and California. It operates separately from other Virgin Group companies owned by British entrepreneur Richard Branson, who maintains minority ownership in the airline. Virgin America issued an initial public offering in 2014. The company is based in the San Francisco Bay area, with a heavy concentration of its flights serving San Francisco and Los Angeles. Most routes are cross country, connecting Boston, New York (three airports), Florida (2 airports), and Washington (two airports), with San Francisco (SFO) and Los Angeles (LAX). Other cities served include Chicago, Seattle, Austin, Dallas, and Portland. (Virgin America's route map can be found at https://www.virginamerica.com/cms/airport-destinations.)

The company's target customers are business travelers who take long domestic flights and want the experience to be enjoyable and/or productive. All planes are new Airbus A320-family models with satellite TV, on-demand movies, wi-fi, and power outlets at every seat. The planes have a first class cabin, and two classes of service in the economy cabin. Virgin America has received many awards for its service, and typically has the highest customer satisfaction rating in the industry (Virgin America Awards, 2015).

The fares for economy class travel are on par with those of the large competitors serving the same routes, with Virgin America providing a superior experience. The customers don't seem to mind paying a little extra (on top of the base fare) for some additional inflight services, connectivity, and entertainment. Given the company is using newer planes and providing extra amenities, these expenses should be higher than those of competitors. However, Virgin America reduces costs through the simplicity and lack of complexity in its business model. They fly one type of (new) aircraft (which reduces training costs and allows for interchangability), don't have to deal with connecting flights and crew changes, and serve travel-savvy customers.

> *"'If you look at Delta and the other carriers, they are built for managing complexity, and it shows up in their cost structure among other things,' [Virgin America CEO David] Cush said.... 'We really aren't.'" (Schlangenstein, 2015)*

Virgin America's revenue and expenses per available seat mile (two key metrics used in the airline industry) are below those of the four largest competitors, and above those of Spirit, Allegiant, and other ultra low cost competitors (MIT, 2015b). Due to the relatively long average length of flights and use of new aircraft, employee productivity (as measured by employees per available seat mile, available seat miles per dollar of employee compensation, and maintenance employees per aircraft) is in most cases twice that of the four largest competitors (MIT, 2015c). On the routes it serves, Virgin America has found that it can provide a superior travel experience at a lower cost by keeping its operations simple and customer focused.

JETBLUE

JetBlue began service in 2000, and has steadily expanded from its base at JFK airport in New York. The initial leadership team was able to raise over $100 million in financing, and had experience at Southwest and other airlines. JetBlue purchased new planes outfitted with leather seats and amenities to convey a high end experience to customers. Through the years, there have been a number of leadership changes, some unprofitable years, and changes in both strategy and operations as the company adapted to competitive moves by both larger rivals and ultra low cost carriers. What has remained constant is JetBlue's branding, although there have been a number of different slogans, all point to the idea that you get more and pay less at JetBlue – leather seats, an inflight satellite-based entertainment system, and commitment to customer service. JetBlue has one of the lowest rates of cancelled flights, believing that passengers want to get where they are going, even if it means arriving late. Pricing has generally been lower than that of the four largest competitors, but higher than that of the ultra low cost carriers. Over the years, the company has won a number of awards for its service, including Top Low Cost Airline For Customer Satisfaction (JetBlue Awards, 2015).

Basing its operations at JFK allowed it to tap into one of the largest airline markets, New York City. This location also meant high costs of operations, crowded facilities and air traffic, and many competitors. As the company grew, it added bases (it prefers not to use the term hubs) in Boston, Fort Lauderdale, Washington DC and Orlando. It now serves about 90 cities, and is expanding its routes in Central America, South America, and the Caribbean. (JetBlue's route map can be found at http://www.jetblue.com/WhereWeJet/.)

Operationally, JetBlue started out offering point-to-point service on new Airbus A320 jets, fully appointed with more legroom and high-end amenities than its larger competitors. The flights were generally short East Coast routes, so no meals were served, but free snacks and drinks were provided. As more flights were added, and the advantages of basing multiple flights from the same airport became evident, the company also added smaller capacity Embraer 190 jets, making the route map appear more like the hub-and-spoke system of earlier regional East Coast competitors. The operational model has been described as a "hybrid between the 'hub-and-spoke' system used by most legacy carriers, and the 'point-to-point' system used by many discount airlines (Hoyt, O'Reilly, Rao, and Sutton, 2010). In response to competition, some of the free amenities have been eliminated, and these services now generate fee-based ancillary revenue.

JetBlue's target market lies somewhere between value conscious leisure travelers and "road warrior" business travelers; customers willing to pay a little more in order to have a little more "humanity" in their travel experience. In 2014 JetBlue announced it was reconfiguring its planes to add more seats (and thus less leg room), and expanding its lay-flat first class service on transcontinental flights (JetBlue, 2014). The goal is to generate more revenue on flights, without having a significant impact on the cost to operate the flights.

SPIRIT

During the 1980s and 1990s, Spirit transformed itself from a charter tour company based in Michigan to an airline based in southern Florida. In 2014 Spirit reached the size threshold that requires additional data filing with the Department of Transportation (thus historical data on Spirit is not in the MIT Airline Data Project database and was not available for inclusion in Table 1). In 2014, Spirit exceeded $1.1 billion in fare revenue, with almost $0.8 billion more in non-fare revenue. Much of the non-fare revenue was generated by ancillary fees for baggage, seat assignments, printing boarding passes, on-board services, etc.

Spirit's cost per available seat mile was very similar to that of Allegiant (~$0.1), which is two to five cents cheaper than that of the four largest competitors. Spirit's operational model differs substantially from that of Allegiant, however. Spirit flies between major metropolitan areas in the U.S., and from its base in Fort Lauderdale, to over twenty destinations in the Central America, South America, and the Caribbean. (Spirit's route map is available at http://www.spirit.com/RouteMaps.aspx .) Spirit competes on the basis of having the lowest fares on the routes it serves; "The customers we seek to attract overwhelming ranked total price as the most important variable when choosing an airline," stated CEO Ben Baldanza (Tuttle, 2014). All prices are laid out like an a la carte menu.

> *"'We believe it is important to let customers decide what is of value to them,' said Ben Baldanza, Spirit's chief executive. 'Imagine if you went to a restaurant and all the meals came with dessert. That's great if you like dessert but, if you don't, you would prefer the option to pay less for the meal and not take the dessert.'" (Carey, 2011)*

The airline offers one class of service, with seats that don't recline and with less legroom than major airlines. If a customer prints their boarding pass at home, has one carry-on that will fit under the seat, doesn't care where they sit, and doesn't purchase anything on board, the price is low. "The average ticket price on Spirit is $73 each way, and passengers pay, on average, another $55 in fees and in-flight purchases" (McCartney, 2015). Thus, both the base fare, and the final ticket price paid by the average customer, tends to be lower than that of competitors on the same routes.

There are no screens, no wi-fi, nor entertainment options, no tray tables, and every square foot of surface is for sale to advertisers who have a captive audience for the length of the flight. (Advertising is another source of ancillary revenue.) Spirit receives more than its share of complaints, but many are because customers didn't understand the company's business model. In summary, customers get what they pay for, and don't get what they don't pay for.

> *"'No one goes to Chick-fil-A and complains they can't get a hamburger. And people shouldn't come to Spirit if they want lots of legroom,' Spirit Chief Executive Ben Baldanza says" (McCartney, 2015).*

Spirit flies primarily newer, although not necessarily new, Airbus A320-family aircraft. By operating with just one family of aircraft, aircraft and flight crews are interchangeable, reducing complexity in operations. There is 2-3 inches less legroom than on major carriers' planes, which leads to 15-20% more seats. The planes fly on average 13 hours a day (McCartney, 2015). By focusing on heavily traveled routes between major destinations (where competitors provide significant total capacity), Spirit attempts to maintain high capacity utilization by regularly filling its planes with passengers seeking low prices. As long as there are price-sensitive travelers seeking flights, it aims to capture that small portion of the overall market (1-2 flights per day) that look seek the lowest fares. The larger competitors, therefore, have more exposure to cyclicality in demand, and generall have overall lower capacity utilization.

DISCUSSION

In terms of the overall U.S. airline industry, these four firms combined represent only about 5% of industry revenues, and a slightly larger portion of the profits. Each has identified a particular customer segment, has acquired and aligned resources to allow it to serve those customers, and tries to define a market position that differentiates it from competitors. For each company, the combination of target customers, routes served, and operational choices needs to mesh in order to successfully compete with each other and the four large network competitors (American, Delta, Southwest, and United). However, the actual goal is to compete as little as possible for customers.

Both Spirit and Allegiant are clear examples of the ultra low cost carrier model - advertising low initial fares, but charging fees for anything beyond bare bones transportation. They differ, however, in the routes they serve and the hours they operate. By targeting just a portion of the total customers available on heavily traveled routes, Spirit's planes and crews are in the air more hours per day and days per week than Allegiant's. Spirit uses newer more fuel efficient aircraft, and provides connections to get customers to a large number of locations. In contrast, Allegiant uses old inefficient (but paid for) planes that operate fewer hours per day and days per week. It serves markets that are underserved, and Allegiant has few routes with direct non-stop competition. Almost all of Allegiant's customers are vacationers flying point-to-point from small northern locations to popular vacation destinations in the southern U.S. Both Allegiant and Spirit use low fare prices to entice customers to fly – attracting customers who otherwise might not be flying. Each represents less than 1% of the overall U.S. airline market, but generate more than $1 billion in revenue, have operating margins exceeding 20%, and report significant free cash flow (over $300 million in 2014). Each of these companies started as small charter operators, and gradually expanded.

JetBlue and Virgin America have business models that involved high start-up costs related to new planes, high amenity service, and clear branding to differentiate them firms from established competitors. Obvious differences are that JetBlue is based on the East Coast and flies primarily short routes, whereas Virgin America is based on the West Coast and flies primarily long routes. The two compete on some non-stop cross-country routes, and post prices that are similar, as well as being similar to their larger competitors' non-stop prices. They can offer superior service relative to their larger competitors (nicer seats, more legroom, better entertainment options) because the cost of operations over their much simpler route structure is lower. Neither their ultra low cost competitors nor their larger network competitors can afford to provide the same amenities, and provide these amenities network-wide to their customers.

What all four entrants share in common is that they have designed their business model to align their pricing, operational decisions, and service offering to a small segment of customers that finds the value provided attractive (JetBlue has less than 3%, and the other three each earn less than 1% of the industry revenues). Their larger competitors (that are typically 15X larger in terms of revenues, and more than that in terms of staff and planes) can not reasonably respond to only the customers targeted by the entrants, without impacting costs and pricing for many of their other customers. As long as the entrants do not directly target the larger competitors' main markets, they can assume that retaliation will not be a significant concern.

As it has grown, JetBlue has faced some tough retaliation from competitors, and is in the process of adapting its business model to the new competitive realities of maintaining a position between their larger competitors and ultra low cost competitors. Maintaining JetBlue's position in the "sweet spot" between these ends of the market (JetBlue, 2014) is causing the company to make some changes.

The uniqueness of Allegiant's business model, and the fact that it is growing the air traffic market rather than taking customers away from other competitors, means it is less likely to face competition from the largest airlines, although the size of their current target market is limited.

The U.S. airline industry is a large market that has attracted many entrants since deregulation, most of which are now bankrupt. These four firms help illustrate that entry into a large and competitive market can be successful as long as the right choices are made that insulate entrants from direct retaliation from established competitors.

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THE ROLE OF REPUTATION AND SIGNALING IN HIGHLY FRAGMENTED INDUSTRIES

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ABSTRACT

In this paper, I empirically test the reputation-performance relationship and the signaling-performance relationship. Integrating the reputation literature and signaling theory with industrial organization, I ask if there are positive performance effects to both (i) having a high reputation and (ii) signaling a high reputation in industries that are fragmented. Using a sample of eBay transactions, I find mixed results for the impact of reputation on performance but positive results for signaling reputation on performance.

BACKGROUND

The reputation of a new firm is incredibly important in order to overcome what Stichcombe has labeled the "liability of newness (Stinchcombe 1965)." While this may seem obvious, the mechanisms by which entrepreneurs inform other market participants about their reputational value are not so obvious. While new ventures must sometimes garner legitimacy prior to worrying about reputation, it is important to study ways that entrepreneurs project an abstract value (i.e. reputation) when they are incredibly young. However, newness is not the only hurdle in selling the idea of one's reputational score in the marketplace. Because new ventures tend to coalesce in industries which by their nature are highly fragmented (Porter 1980), information problems exist by and between market participants in attempting to send and receive information while minimizing noise.

This paper will empirically study the mechanisms by which small and new firms in highly fragmented space disperse information concerning their value. The contribution of this paper is in empirically studying the value of reputation as well as signals of reputation in markets and industries that are highly fragmented. While other published works study the effect that reputation has on performance measures, there has been little work that theoretically attempts to explain in what types of market conditions this may or may not be more effective. The paper proceeds as follows. Section II puts forth current theory on reputation and signaling as well as proposing specific hypotheses. Section III addresses the data and methods used. Section IV contains the results of the empirical study. Finally, Section V is a discussion that incorporates the results with both current theory and potential future directions.

LITERATURE AND HYPOTHESES

Reputation and Signaling in Fragmented Markets

The literature on reputation is found in multiple disciplines including entrepreneurship, management, marketing, finance and economics. In the management literature, reputation has been viewed as a strategic intangible resource that allows firms to capture incremental rents over rivals (Weigelt and Camerer 1998; Roberts and Dowling 2002). In a study of manufacturing firms, Herremans, Akathaporn and McInnes (1993) found that firms with a reputation for social responsibility outperformed competitors. Carmelli and Tishler (2004) found a relationship between perceived organizational reputation and a series of performance variables in a sample of Israeli government authorities. Choi and Wang (2009) likewise found evidence that reputational effects, observed through positive stakeholder relations, aids firms in recovering from inferior performance. While a full literature review of the reputation-performance link is beyond the scope of this paper, the vast majority of empirical papers in management find a positive relationship between the two measures (Bauer 2010).

In the economics literature, reputation has been both theoretically modelled and empirically tested (Kreps and Wilson 1982). Klein and Leffler (1981) introduce a model of unobservable quality whereby sellers decide between selling goods that are either low or high quality but which are both sold at premium prices. They find that the gains from producing a high quality good, which equates to a high reputation, are greater than the one-shot gains from producing low-quality goods and pricing them at premium, which would equate to a bad reputation. Shapiro (1983) set forth an equilibrium model by which sellers, in order to compensate for unknown product-quality, add a premium to high quality items in order to signal the reputation of the firm earned through previous periods. Following on these two works, Allen (1984) argued that firms produce goods of a certain quality with the expectation that consumers will be able to discern the cost functions of firms with high-quality and, subsequently, will not purchase from these firms if they decided to cut costs and enter the low-end of the market.

Titman (1984) and Maksimovic and Titman (1991) posit models by which a firm's capital structure is a signal of its quality. Other actors may be apprehensive to transact with the focal firm due to high debt loads because this debt may signal an inability to offer high-quality products. This can be due to the increased probability and costs of a future bankruptcy (Titman 1984) or to the inability of a firm to honor its future contract obligations regardless of its bankruptcy propensity (Maksimovic and Titman 1991). In a seminal work, Fombrun and Shanley (1990) find empirical evidence that firms send different signals to different agents with respect to corporate reputation. These include market, accounting, institutional and strategy signals to convey performance, conformity and strategic posture.

The crucial aspect of many of the works in economics is the inclusion of asymmetric information where buyers are unaware of the true reputation of the seller. In order to reduce this information problem, sellers must signal their quality, which is unobservable. Spence's (1973) model of signaling has become the most cited in information economics, yet Akerlof's (1970) paper on the market for lemons predates Spence. In Akerlof's (1970) model, buyers of used cars are at an information disadvantage in that they cannot discern the true quality of a used automobile. Therefore, in an attempt to mitigate their risk, buyers are unwilling to pay more than the average price of a car in the marketplace, thereby driving out certain sellers. As the market iteratively shrinks, good sellers (i.e. those with high prices) are driven out and eventually the market fails. As Akerlof (1970) pointed out, one mechanism to signal quality and, therefore, to salvage markets is a warranty.

Warranties may signal quality if they are effectively informative. The informativeness of a signal (Holmstrom 1979) means that there must be a cost to send a signal if that signal is to be a true proxy for quality. For example, in Akerlof's used car market, a signal is only informative if high quality sellers can send it due to the fact that it would be cost prohibitive for low quality sellers to do so. But what about signals in industries that are highly fragmented? Industries such as this are characterized by having a large number of small market sellers all of which are generally unknown (Caves and Porter 1977; Porter 1980; Dess 1987; Brown 2011, 2016). As such, these sellers have an asymmetrical information problem with respect to their reputation since buyers will be unaware of crucial seller characteristics. In order to overcome this issue, sellers in fragmented markets may use warranties to reduce the asymmetry and to induce buyers to patronize them in lieu of some other unknown seller. While evidence of reputational quality is predicted to be positively related to a seller's price, the signaling of such quality should also have the same effect in direction, if not in magnitude. Therefore, I posit the following hypotheses:

Hypothesis 1: A seller's price is positively associated to the seller's reputation.

Hypotheses 2: The interaction of multiple reputation measures will be positively related to sales price.

Hypothesis 3: A seller's price will increase in the presence of a signal of high reputation (i.e. a warranty)

METHODOLOGY

Sample

The sample for this study was taken from sales data on the website eBay (www.ebay.com). Data was derived from transactions on eBay because of the website's low entry barriers, which is a major characteristic of highly fragmented industries. Gathering information concerning fragmented industries from typical data sources such as Compustat is difficult. The reason for this difficulty is that information on Compustat comes from publicly traded firms. In fragmented industries, typically only a small percentage of firms are publicly traded, with the vast majority being privately traded and, therefore, difficult to get data from. As an example, taking the SIC code 1531 (Operative Home Builders) in 2012, there are over 35,000 firms with aggregate industry revenue of over $170 Billion. Of the 35,000 firms, only 13 were publicly traded; additionally, the 13 firms together only accounted for approximately 20 percent of the industries revenues. Therefore, in industries such as this where there is high fragmentation, studying only those firms that are publicly traded may not represent the actual behaviors and results for the typical firm in this setting.

Data Collection

The data for this study was collected manually from eBay and covers the time frame of November 1, 2009 to November 30, 2009. The listings were searched by keywords "Blackberry Curve New" and only items which were new and never opened were included in the sample. Next, I manually extracted only listings for Blackberry Curve 8300 models. The final sample consisted of 75 observations which were listed and sold in the month. It was important to have a sample from the same general time period because electronic items, such as smart phones, tend to depreciate as newer models are introduced. The inclusion of only new items is an attempt to control for product quality which is important in isolating a seller's quality. There have been other studies that use eBay samples including Standifird (2001), Melnick and Alm (2002 and 2005), Javalgi, Cutler and Todd (2004), Houser and Wooders (2006) and Resnick, Zeckhauser, Swanson and Lockwood (2006).

Estimation

An ordinary least squares (OLS) regression was utilized with the following specification:

$$\boldsymbol{Y} = \propto \ + \boldsymbol{\beta}'\boldsymbol{X} + \boldsymbol{W}'\boldsymbol{Z} + \ \boldsymbol{\epsilon}$$

where the dependent variable is the sale price of the unit and $\boldsymbol{\beta}'\boldsymbol{X}$ are vectors of parameter estimates and explanatory variables and $\boldsymbol{W}'\boldsymbol{Z}$ are vectors of parameter estimates and control variables.

Variables

Dependent Variable. The Dependent variable is **Price**. The price was recorded for each sale as the net proceeds received by the buyer less commissions and fees. Therefore, the closing price plus the shipping charge were included in price. This calculation was employed because offering “Free Shipping” can have the effect of a buyer’s willingness to pay which, in effect, negates the free shipping that they would receive. Additionally, the seller still must carry the shipping burden even if the product is sold with free shipping.

Explanatory Variables: Reputation

I operationalized reputation in two distinct ways. The first is the feedback percentage that the seller had on the date of the recorded purchase. The second way that reputation was measured was through the experience of the seller. Experience is an important measure that buyers take into account because if a seller has been actively selling for a lengthy period of time, then buyers have more assurance about the seller’s volatility. However, there are two ways to measure experience: calendar time and transaction time. Specifically, I measured these items as follows:

- **Seller Feedback Percentage (Feedback)—**Percentage of total feedbacks that result in a positive appraisal of the seller. It is calculated as Feedback = Positive/(Positive + Negative). This variable was input as the whole number of the feedback and not in decimal form.
- **Experience (Months)—**Number of months that the seller had an account on eBay until the data collection period of November 2009.
- **Transaction Experience (Transactions)--**Natural log of the number of transactions which measures how many total feedbacks were given by buyers. The log form was used because of the large variation in the range of values for this variable.

Explanatory Variable: Signaling

As hypothesized, sellers may signal their quality through offering a warranty. On eBay, sellers have the ability to opt into giving buyers a warranty that allows the buyer to return the merchandise for a specified period of time for a refund. Theory predicts that sellers that offer warranties reduce the asymmetrical information that the buyer has with respect to the seller’s quality or reputation. Therefore, prices for sellers that offer warranties should be higher than those sellers who do not. Specifically, I measure this as follows:

- **Refund (Warranty)—**Dummy variable which equals 1 if a refund was offered and 0 if a refund was not offered. The refund option on eBay serves as a seller warranty in case the buyer is not satisfied with the transaction.

Control Variables. Control variables used were 1) day of the week and 2) time of day to control for the potential for variability in pricing as a result of heavy or weak demand during certain times noted by other authors who studied eBay transactions (Melnick and Alm 2002; Houser and Wooders 2006). A third control variable, labeled "Model" controlled for different models of Blackberries in the sample. Additionally, I controlled for product quality during sampling by only measuring new in box items.

RESULTS AND DISCUSSION

Results

Table 2 includes the results of the regression analysis in SPSS. Model 1 is the control only model and is not significant with an F-Value of 0.929. Models 2 through 4 add in the explanatory variables and interactions. Hypothesis 1 predicted that as a firm's reputation increased, so would the price of its product. I measured reputation in three ways: (i) Feedback Rating, (ii) Calendar Time in Business, and (iii) Transaction Time in Business. There is limited support for Hypothesis 1 as the coefficients for these three reputational proxies have contradictory signs. The Feedback variable is statistically significant in Model 2 and 4 but the sign of the coefficient is opposite of that predicted. Transaction time is statistically significant in all models but, once again, the sign is opposite of that predicted. The results, therefore, show evidence that as a seller's feedback rating or number of transactions increase, its sales price actually decreases. However, if reputation is measured in calendar time in business, two of the models do find evidence for an increase in sales price.

Hypothesis 2 predicted that the interaction of multiple reputation measures would increase sale price. As can be seen in Table 2, Model 3, the coefficient on the interaction of Calendar Time (Months) and Feedback Rating is positive and significant, providing evidence for Hypothesis 2. However, the coefficient of Calendar Time (Months) and Transactions is insignificant. Therefore, there is mixed support for Hypothesis 2.

The most striking results pertain to Hypothesis 3, which predicted that the signal of quality (refund/warranty) would be positively related to sale price. This hypothesis had overwhelming support in Models 2 through 4 as the coefficient was both positive and significant. Since the variable Refund was a binary, the interpretation of this coefficient is that if a seller offers buyers the signal of quality, the average price of an individual unit increases $24.17 to $31.85, depending on the model. These increases are after I controlled for other reputational factors, such as seller feedback and experience. Therefore, Hypothesis 3 is supported.

Discussion

In this paper, I theoretically propose and empirically test the notion that reputation has a positive effect on performance. The empirical setting is eBay sellers as I was attempting to simulate a highly fragmented industry. In addition to testing for actual reputational effects, I also tested signaling theory to determine if performance was positively related to sending a clear message to buyers that quality was high. eBay data, while not perfect, is an adequate setting since buyers do not have awareness of individual sellers but where buyers do have access to some key metrics about the seller.

My results were mixed for the reputational measures, which leads to an interesting interpretation. The coefficients on the feedback rating and transaction experience variables were significant yet negative. While this is opposite what was hypothesized, there are potential alternate viable explanations. For example, while the reputation literature predicts higher performance for firms with high reputations, there is another logic that may be viable. As a seller becomes more efficient (transaction experience) and garners a better reputation (feedback rating), it could be that this seller has a lower cost structure. If the seller has a lower cost structure, then it could be attempting to reduce its sales cycle or increase its volume through pricing its product at a more competitive price. Therefore, instead of reputation having a positive effect on price, it would have a positive effect on other metrics (i.e. sales cycle) at the expense of price. This is an interesting implication and should be part of future empirical studies on reputation.

The signaling measure in this study was unambiguous, however. Offering a warranty or refund was positively associated with price as predicted. Signaling theory predicts that if a signal is both known and informative, it can have positive consequences and this relationship was borne out in my estimations. An inference drawn from theory is that only sellers that can afford to send the signal will do so since it will be cost prohibitive, in the long run, for bad sellers to do so. While my results cannot address this, the results published here can be a platform for additional studies to determine if this is the case.

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Table 1: Summary Statistics

Variable	N	Mean	St. Dev	Min	Max
Price	75	272.11	116.27	86.00	525.95
Refund	75	0.53	0.50	0.00	1.00
Experience	75	43.04	34.15	1.00	132.00
Number Feedbacks	75	7279.74	15161.05	0.00	61948.00
Feedback Rating	75	95.87	15.89	0.00	100.00

Table 2: Regression Results

	DV=Price N=75 **Model 1**	DV=Price N=75 **Model 2**	DV=Price N=75 **Model 3**	DV=Price N=75 **Model 4**
Explanatory Variables: Reputation				
Feedback		**-5.89**	-3.02	**-5.03**
Months		**0.32**	**24.84**	-0.24
Transactions		**-4.99**	**-4.44**	**-8.76**
Explanatory Variable: Signaling				
Refund		**31.85**	**24.17**	**30.56**
Interactions				
Months * Feedback			**0.25**	
Months * Transactions				0.09
Feedback * Transactions				
Control Variables				
Time of Day	Included	Included	Included	Included
Day of Week	Included	Included	Included	Included
Model	Included	Included	Included	Included
Constant	**218.23**	**805.54**	**523.97**	**744.54**
F-Statistic	0.009	5.557	5.709	4.877
F-Significance	0.929	**0.000**	**0.000**	**0.000**
R-Squared	0.000	0.287	0.335	0.301

Note: All control variables were statistically insignificant