An Exploratory Model of the Relationships among the External Environment, Entrepreneurial Strategy, Mechanistic-organic Structure, and Financial Performance of Restaurant Franchisors from the Perspective of Franchisees

Hoon-Ku Sul

Dissertation submitted to the Faculty of the Virginia Polytechnic Institute and State University in partial fulfillment of the requirement for the degree of Doctor of Philosophy in Hospitality and Tourism Management

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(ABSTRACT)

The primary purpose of this study was to explore a model that examines the relationships among the external environment, entrepreneurial strategy, mechanistic-organic structure and financial performance of restaurant franchisors from the perspective of franchisees. The final structural model indicated that restaurant franchisees perceive that franchisors’ entrepreneurial strategy makes a highly positive contribution to franchisors’ financial performance. The external environment is perceived to have a negative impact on franchisor’s financial performance. Franchisees also perceived that franchisor’s entrepreneurial strategy and mechanistic-organic structure could have a significantly and mutually positive impact on each other.

The basic value of understanding entrepreneurial strategy is the prediction of certain financial outcomes. Entrepreneurial strategy proved to have a very significant impact on the franchisor’s financial performance from the perspective of restaurant franchisees. However, franchisors’ entrepreneurial strategy was not always perceived to guarantee financial success because of the negative impact of the external environment in the restaurant franchising industry on financial performance. Furthermore, restaurant franchisees perceived the franchisor’s external environment in the industry was unlikely to contribute to the franchisor’s entrepreneurial strategy or mechanistic-organic structure.

Restaurant franchisees viewed that a high level of franchisors’ entrepreneurial strategy had a mutual relationship with their organic structure. It is significant in their perception that their free-flowing relationship, authority, and communication involvement in the franchisor’s decision-making process establish high levels of franchisors’ entrepreneurial strategy. However, franchisors’ mechanistic-organic structure is not necessarily perceived to influence franchisors’ financial performance positively. The indirect effect of mechanistic-organic structure on financial performance through entrepreneurial strategy was not perceived to be significant.
Restaurant franchisees perceive that franchisors’ entrepreneurial strategy is driven by mechanistic-organic structure in the franchising system, not by external environmental change in the industry. It is very understandable for franchisees to perceive this way, because franchisees constantly provide franchisors with local environmental information through franchising communication and relationship channels. Restaurant franchisees compete with other restaurants in many local markets, so that they are knowledgeable about significant changes in the local environment. Restaurant franchisees might perceive that the local environment is a more critical issue to franchisors’ entrepreneurial strategy than is the general external environment in the industry. Thus, they might not think of the external environment in the industry as important enough to have an influence on entrepreneurial strategy and mechanistic-organic structure, except on franchisors’ financial performance.
DEDICATION

This dissertation is dedicated to the Almighty God who provides all human beings with hope and reason to lead their lives. I truly dedicate this dissertation to my parents, Dae-Suk Sul and Im-Hyun Min. They gave me birth and showed me this wonderful world that the God created. They worked hard and sacrificed so that I would have the opportunities that they never had. They are the source of my faith and hope to lead my life meaningfully. This dissertation could not have been complete without their unconditional love and patience.

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