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A RESOURCE-BASED VIEW OF THREE FORMS OF BUSINESS IN THE STARTUP PHASE: IMPLICATIONS FOR FRANCHISING

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ABSTRACT

The decision to buy a franchise, start a new independent business, or buy an existing business is a critical decision faced by entrepreneurs. This study uses the Resource-Based View (RBV) of organizations to compare franchisees in the startup phase to both entrepreneurs who start new independent businesses and entrepreneurs who purchase established businesses. Our analysis of U.S. data from the Kauffman Firm Survey found similarities among those starting franchises and purchasing existing independent businesses. Implications for future research and practice are discussed.

Keywords: franchisees, entrepreneurs, business startups, resource-based view

Certain data included herein are derived from the Kauffman Firm Survey release 5.3. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author(s) and do not necessarily reflect the views of the Ewing Marion Kauffman Foundation.

INTRODUCTION

The decision to buy a franchise, start a new independent business, or buy an existing business is a critical decision faced by entrepreneurs. Research on franchising has been conducted for five decades (Combs & Ketchen, 2003; Oxenfeldt & Kelley, 1969). A majority of these studies examine franchising as an organizational form from the perspective of the franchising firm. One stream of research examines the decision by the franchisor to grow by selling franchises or establishing company owned units (Brickley & Dark, 1987; Combs & Castrogiovanni, 1994; Combs & Ketchen, 2003). Other studies look at the survival of franchises compared to other businesses (Bates, 1995, 1998). Far less research is conducted from the perspective of the franchisee and even fewer studies consider the decision by entrepreneurs to select a particular business form. What is missing from the literature is a comparison of franchises in the startup phase to both new independent ventures and purchased established businesses. Previous studies have compared franchises to non-franchises, or franchises to independent new businesses (Sardy & Alon, 2007). Our study adds to the literature by including the purchase of an existing business to the analysis of the decision of the entrepreneur.

It is important for both researchers and practitioners to consider the choice by the entrepreneur to purchase an existing business. In prior studies, particularly studies of survival, franchises are most often compared to all other ventures. Failure to consider the third alternative may confound the results of studies on performance and survival by grouping together different business forms (Shrader & Simon, 1997). Established businesses offer a different set of resources than do startups. These include a local brand, reputation and set of routines; however, these resources may be less valuable than those associated with national franchises (Litz & Stewart, 1998).

In the empirical portion of this paper, we adopt the Resource-Based View (RBV) to examine potential differences in resources, including inputs of human capital, among the three forms of entrepreneurship.

Entrepreneurial Choices and the Resource-Based View of Organizations

The RBV holds that sustained competitive advantage rests on organization resources that are valuable, rare, inimitable and nonsubstitutable (VRIN) in an organizational setting that has the policies and procedures to exploit the resources (Barney, 1991; Barney & Clark, 2007; Knott, 2003; Kraaijenbrink, Spender, & Groen, 2010). A number of frameworks and theories share the RBV platform including core competencies (Hamel & Prahalad, 1994), dynamic capabilities (Helfat & Peteraf, 2003; Teece, Pisano, & Shuen, 1997) and the knowledge-based view (Grant, 1991). In addition, human capital theory is an aspect of the resource-based view that focuses attention on the knowledge and skills which individuals, both entrepreneurs and employees, contribute to competitive advantage (Barney & Clark, 2007; Becker, 1964; Davidsson & Honig, 2003). In a meta-analytical review of human capital, task-related human capital is associated with entrepreneurial success (Unger, Rauch, Frees, & Rosebush, in press). Thus, RBV looks at both individual characteristics and organizational factors to examine the source of competitive advantage.

Alvarez and Basinets (2001) argue that entrepreneurial opportunities emerge when certain individuals have insights into the value of these resources that others do not. These resources and capabilities can be viewed as the unique combination of tangible and intangible assets that allows a firm to gain competitive advantage in the market place. In essence, each organization's unique combination of capabilities, skills, and knowhow constitutes its resources (Grant, 1991; Tierce & Pisano, 1994).

The research literature on the effect of core competencies and capabilities in providing competitive advantage in startups is generally focused on high-tech ventures, especially those new firms with venture capital investment (Arthurs & Busenitz, 2006; Baum & Silverman, 2004; Zheng, Liu, & George, 2010). There are fewer studies examining the core competencies and capabilities associated with competitive advantage in non-high-tech ventures and purchased established businesses. However, this is not the case with franchising; there are a number of research studies examining the effects of core competencies and capabilities of franchising systems on competitive advantage (Fladmoe-Linquist, 1996; Garg, Rasheed, & Priem, 2005).

Franchising: A Choice for Entrepreneurs

The RBV is especially relevant to franchising because competitive advantage is based on those unique intangible assets and the various economies associated with operating a franchise (Mariz-Pérez & García-Álvarez, 2009). In other words, the franchisor supplies each franchise with a proven business model, including resources for such competitive advantage, specific know-how, a brand name, and a management and operating system that is supported by both training and structure, all in exchange for a fee. A detailed typology of such resources (Grant, 1991) can easily be applied to franchising. There are cost advantage driven resources in the form of process technology, system capacity, and access to low-cost inputs, and differentiation advantage with its brand, product technology, marketing, distribution, and service capabilities.

Many individuals are attracted to a particular franchise's powerful brand, which can offer a competitive advantage in the marketplace relative to lesser-known, independent businesses that must strive to gain notice and acceptance of customers. Franchisors operate under economies of scale, and therefore franchisees can obtain supplies at lower costs than if they were operating truly independently. Additionally, franchises, particularly business-format franchises, often provide training, marketing support, and well-tested operational best practices (Walker, 1991). These forms of intellectual, structural and relational capital included with franchises are particularly attractive to individuals who are lacking experience in either entrepreneurship or the franchise's particular industry (Watson & Stanworth, 2006), providing opportunities for individuals to pursue entrepreneurship in an area different from their primary educational or work experience background. Consequently, franchisors work hard to imbed best practices in an operational routine and by enforcing that routine, while franchisees develop the necessary discipline to follow such routine. The franchisor leverages its stock of strategic assets in the form of a routine while a franchisee understands the economic value of such routine, especially in the first years of operations.

The decision to become a franchisee is undertaken by an individual or team of individuals that have complex and varied motivations and ambitions (Kauffman, 1999). Individuals seeking entrepreneurship may be attracted to the apparent success of highly visible franchises as well as aspects of the franchise system (Gauzente, 2002). From a RBV a successful franchise business format is a valuable, scarce, and inimitable resource for competitive advantage. Compared to wage and salary employment, franchising offers both greater autonomy and the potential to earn according to the financial success of the business (Felstead, 1993; Kaufmann, 1999; Stanworth & Kaufman, 1996). In addition, many individuals who desire self-employment might prefer the predictability and "turn-key" nature of a franchise as opposed to the ambiguity that may accompany decisions associated with starting a new independent business (i.e., everything from marketing and branding, human resource management, pricing to suppliers and distributors) (Kaufmann, 1999).

Franchising versus Independent Start-ups

The promotional literature that has long been used in the industry touting a "tried and true" or less risky method of starting a business has been brought into question by a number of academic studies, and there is an overall perception that franchising success statistics have long been over-reported (Piling, 1991). Inaccurate and incomplete data have long plagued the franchise industry (Cross, 1998). The franchise industry has suffered from being more protective and secretive than other industries so data is limited, especially data that, over time, would support or refute claims that franchising leads to higher success rates (Hoy, 1994). These studies have concluded that found differences of success between franchises and independent businesses vary depending on definitions of franchises and independent businesses, the age of the businesses, and the definitions of failure and survival (Holmberg & Morgan, 1996). However, there have been no studies that have compared success among the three business forms—purchasing a franchise, starting a new independent business, and purchasing an existing business.

Few comparison studies between franchisees as entrepreneurs and independent business owners have appeared in the literature (Runyan & Droge, 2008). The existing research generally examines differences in success between the two types of businesses. Studies look at both individual characteristics and those of the organization. Individual characteristics of franchisees associated with success include risk-taking (Withane, 1991); while organizational characteristics associated with success include, economies of scale. (Bronson & Morgan, 1998). Franchising also appeared to defend market share more successfully than did independent businesses (Shanghavi, 1991).

None of these studies differentiated between the various types of independent businesses and or examined them in comparison to franchises. For the most part, studies compared franchises to a catch-all category of non-franchises, grouping all other types of businesses into one category, or new independent businesses to all other forms of businesses (including franchises). However, their contributions are significant because they compare either the organizational form, or the entrepreneur as franchisee, to other types of business owners.

Differentiation between Forms of Start-Ups

In many ways, franchising appears to offer resources that would provide competitive advantages over new independent businesses. However, entrepreneurs may also consider a third route to entrepreneurship: purchasing an existing independent business. Purchasing existing independent businesses is a major option for new entrepreneurs. The American Family Business Survey (MassMutual Financial Group, 2007) reported that 40.3 percent of the respondents in their national survey expect to retire by 2017. While some of these existing businesses will be passed on to the next generation in the family, many will be available for purchase—evidenced by the surprisingly low percentage of successors selected (MassMutual Financial Group, 2007). On any given day, approximately 1.7 million small businesses are for sale in the United States (Campbell, 2004); and small businesses are selling even in the most recent recessionary period (Schnitzler, 2009). Although rarely compared to franchises, purchased independent businesses share similar characteristics with both new independent businesses and franchises. We have summarized these similarities and differences in Table 1.

Table 1: Similarities and Differences across Business Forms

Characteristic	Franchise	Purchased Independent	New Independent
Brand	National/ International	Local/Regional	None existing
Established Procedures/ Structural Capital	High	High	Low
Product Technology/ Quality Control	High	Moderate	None
Knowledge of Suppliers and Vendors/ Relational Capital	High	Moderate	Low
Access to low-cost inputs	High	Moderate	Low
Training	Usually	Possible	No
Marketing Support	High	None	None
Autonomy and the ability to pursue passion	Low	High	High
Fees and Royalties paid to others	Likely	Possible	Unlikely

Purchased independent businesses have similarities to franchises with regard to brand name, proven business model, supply chain/relational capital, structural capital/operations, and turn-key. First, although franchises can have brand names that are nationally or internationally recognized, communicating a promise of a predictable product or service in consumers' minds, established independent businesses may have an accepted brand presence on a local or regional level that provides advantages over new independent businesses that are unknowns. Second, although a new owner can make changes to the operations of a purchased business given their high level of autonomy, they frequently have the option of continuing operations in the exact manner as the previous owners.[1] Indeed, substantially departing from the existing business model by altering products, services, or operations may detract from the power of the local company's brand. The owner, therefore, has fewer decisions to make and can devote less time to planning in the startup phase. The new owner may have knowledge of which individuals and organizations can serve as suppliers and vendors, sometimes referred to as relational capital and therefore does not have to seek them independently. In fact, individuals purchasing existing businesses can secure more favorable contract terms relative to owners of new businesses, depending on the track record of the established company with their suppliers and the new owner's knowledge of the previous contract terms. A purchased independent business likely cannot take advantage of economies of scale, and therefore may suffer from liabilities of smallness. However, a purchased existing business is less likely to suffer from liability of newness (Stinchcombe, 1965), in which new businesses must simultaneously struggle internally with developing routines and competencies as well as externally with established competitors and regulators. In fact, a new franchisee suffers more from liability of newness than a newly purchased independent business because, although its brand has legitimacy for consumers, it must find its niche in the local landscape among entrenched establishments.[2] Third the training and support offered to new owners of an existing business varies a great deal. In some instances, the new owners were in fact employees of the business for many years and thus have significant on-the-job training. In other instances, the new owner may shadow the previous owner for a period of time prior to purchase or the owner may remain at the business for a period of time after purchase.

Purchased independent businesses share two attractive qualities with new independent businesses. First, purchased independents often afford the owner with greater autonomy in decision making relative to franchises. Although the owner purchasing the business often continues operations in a way that builds on the existing competencies developed in the business, the owner is also free to adapt practices to suit their preferences. In some instances, franchisees are constrained by the requirements of the franchisor to follow procedures that may incur significant costs, but not enhance sales. For many would-be entrepreneurs, franchise restrictions on product offerings and marketing, operations, and human resource

[1] Even in the event of a purchaser desiring to turnaround a struggling business, the business owner would have many existing structures, ranging from employees to business procedures to equipment that could significantly shorten the length of time from purchase to full-capacity operations relative to a new startup.

[2] A possible exception when purchasers of existing businesses would not enjoy avoiding liability of newness would be in the personal services industry, in which customers may follow the owners to their new ventures or take the change in ownership as an opportunity to consider competitors. However, one does not have to assume that all customers remain when a business changes ownership for a business to benefit from an existing track record.

management would be too constraining. Many are seeking not only to be their own boss, but to pursue passions, work using their own methods, and follow pursuits unavailable to them as a wage and salary worker (Carter et al., 2003). Indeed, entrepreneurs favoring autonomy (Watson & Stanworth, 2006) are predicted to be less likely to pursue franchising. Second, purchased independent businesses, like new independent businesses, likely do not have to pay fees and royalties to an existing owner in the way that franchisees must pay to franchisors (Kaufmann, 1999). If these costs are not adequately compensated by the high level of sales generated from the established brand and marketing support, they can undermine success.

HYPOTHESIS DEVELOPMENT

Entrepreneurial Resources

Next, we discuss the resources that the literature has identified as important to business form decisions.

Human Capital Resources. Human capital includes skills and experience and is an important component of the RBV of organizations. Numerous studies have documented that new businesses started by owners with entrepreneurial and industry-specific experience have more favorable outcomes than businesses started by less experienced individuals (Bosma, van Praag, Thurik, & de Wit, 2004; Chandler, 1996, Lerner & Almor, 2002; Reynolds, 2007; Van Auken, 1999; van Praag, 2003). Individuals who lack experience may turn to franchising as a way to overcome their inadequacy, relying on the training, brand, and proven business model of a franchise to replace their lack of experiential knowledge (Watson & Stanworth, 2006). Further, it is argued that the perceived value of franchise ownership declines with experience, as franchisees are less in need of the structure and support of a franchise, making them more likely to leave the franchise (Dant &Peterson, 1990; Watson & Stanworth, 2006). Purchased businesses also potentially attract individuals with relatively less industry experience with their forms of structural and relational capital, but a complete industry outsider is less likely to be aware of an opportunity to purchase an existing independent business than of an opportunity to purchase a franchise. Based on the findings that a lack of industry and ownership experience may influence the entrepreneur's decision to purchase a franchise, we hypothesize that:

> *Hypothesis 1: Prior industry experience will be negatively associated with becoming a franchisee, such that more experienced business owners will be more likely to become owners of new or purchased independent businesses.*

> *Hypothesis 2: Prior ownership experience will be negatively associated with becoming a franchisee, such that more experienced business owners will be more likely to become owners of new or purchased independent businesses.*

An hour worked by entrepreneurs or 'sweat equity' is an important human capital contribution to new ventures (Chaganti, Decarolis, & Deeds, 1995). Research indicates that owners of franchises work significantly more hours than other business owners (Bates, 1995). This increase in work intensity, or average hours worked on a weekly basis, may result from the need to fulfill the operational requirements of the franchise (store hour requirement) or from an increased in perceived efficacy of the business. If entrepreneurs believe their business is likely to be successful, they may work more hours than those less confident in the business's eventual success. Therefore, we hypothesize that:

> *Hypothesis 3: Hours worked will be positively associated with becoming a franchisee, such that business owners working fewer hours will be more likely to become owners of new or purchased independent businesses.*

METHODOLOGY

Sample

The Kauffman Firm Survey (KFS) is the largest longitudinal study of new businesses ever embarked upon (DeRoches, Robb, & Mulcahy, 2009). KFS is a panel study of 4,928 new businesses founded in 2004 that mirrored the true population, according to Dunn & Bradstreet. Base year data was collected in 2005 using both web-based and Computer Assisted Telephone Interviews (CATI) which asked many measures of specificity—Including the nature of new business formation activity (franchisees, new independent businesses, or purchased independent businesses); characteristics of the strategy, offerings, and employment patterns of new businesses; the nature of the financial and organizational arrangements of these businesses; and the characteristics of their founders/partners. Due to the nature of franchising, analysis was limited to service and retail industries only (2,922 cases) to minimize the potential noise created by having firms as diverse as high-tech biotechnology firms alongside home-based SMEs. Furthermore, the weight function in Stata®, an integrated statistical package for data analysis, data management, and graphics (www.stata.com),was used to limit the influence of the high-tech oversample, but due to the industry foci (only service and retail were included), we did not find any significant differences in our analysis between weighted and not weighted data.

As expected, the majority of the businesses in the sample (2,530 or 92.4 percent) consisted of new, independent businesses while 132 (or 4.82 percent) were purchased existing businesses and 76 (or 2.78 percent) were franchises. The franchise sample (2.78 percent of the total KFS dataset) closely matches the reported total franchise to new startup businesses ratio of 3.3 percent reported in the economic research study conducted by PricewaterhouseCoopers for the International Franchise Association Educational Foundation (2008).
The use of the dataset was made possible as part of the Data Enclave agreement between one of the researchers, the Ewing Marion Kauffman Foundation, and the National Opinion Research Center (NORC). Ranges could not be reported and any cell frequencies containing fewer than ten cases had to be combined or suppressed to protect the confidentiality of the participants. The researchers elected to recode some of the variables in an effort to keep all respondents part of this research analysis. The recoding affected less than one percent of the sample.

Measures

Independent Variables

Prior Industry Experience. Respondents indicated the number of years of experience they had accumulated in the industry of the new business. For respondents, the researchers averaged the years of industry experience across all owners for whom the respondent provided industry experience data, a maximum of ten owners.

Ownership Experience. Respondents indicated whether any owners had prior experience starting a business. Those that had at least one prior ownership experience by any owner were coded as 1, and zero otherwise. Because owning two businesses is not necessarily more entrepreneurial experience than owning one due to variations in length of ownership, we did not count or average the number of businesses previously owned across the owners. Because of the data use agreement, maximum values, or values with a frequency less than ten, are not reported. However, because respondents could report any number of owners, there are outliers. One was used as an indicator of more than one owner, otherwise 0 was used. This captures most of the variation.

Average Hours Worked. Respondents were asked to indicate how many hours per week each owner worked in the business. The researchers averaged the number of hours worked per week in the business across the first ten owners.

Dependent Variable

Business Form. This study examines the differences and similarities among three business forms: franchise, new independent business, and purchased independent business (an existing business that was not a franchise). This variable is called b1_bus_start_0 in the Kauffman Firm Survey.

Control Variables

The researchers introduced control variables to help better distinguish among the three forms of business.

Primary Business Operation Location. Respondents were asked to select the primary location from which the business was operated. The options included residence, such as home or garage; rented or leased space; space the business purchased; or site where a client is located. The researchers ignored the latter option of "site where a client is located" due to a limited number of franchisees selecting that option. The researchers created indicators for owning a building and a home-based business, thus leaving rented location as the reference category.

Team. Because the resources of owners are measured at the team level (hours worked, industry experience, and startup experience), we controlled for whether the business was started by one person or a team of two or more persons. Means, standard deviations, and correlations are provided in Table 2.

Statistical Procedures

To test for similarities and differences among the three business forms**,** we utilized multinomial regression analyses. Multinomial analysis is an appropriate analytical technique when the dependent variable has more than two possible values and the categories cannot be rank-ordered. Table 3 presents the results of the multinomial logistic regression models, which include the raw coefficients (B), the standard errors (SE), and the odds-ratios (OR), which are exponentiated coefficients that assist in interpreting significant comparisons. The first set of coefficients compares new independent businesses to franchises, the second set of coefficients compares purchased independent businesses to franchises, and the third set of coefficients compared purchased businesses to new businesses. The chi-square test demonstrated that the set of antecedents in our model significantly predicted differences across forms of businesses with χ^2 (12, N = 2738) 154.88, p < *or* =.01, Cox and Snell pseudo R^2 = .12. We eliminated 187 cases that had missing values. The data are weighted and thus the analyses produce robust standard errors.

Table 2: Means, Standard Deviation, and Correlations

Variables	M	SD	1	2	3	4	5	6	7	8	9	10
1 Franchise Business	0.03	0.18	1.0000									
2 Purchased Independent Business	0.06	0.23	-0.0482	1.0000								
3 Home Business	0.51	0.5	-0.1107	-0.1904	1.0000							
4 Own Building	0.05	0.23	-0.023	0.1723	-0.2469	1.0000						
5 Average Hours Woked	41.22	23.18	0.0656	0.0975	-0.3158	0.0578	1.0000					
6 Average Industry Experience	11.04	9.66	-0.1039	-0.0707	0.0123	0.028	-0.0159	1.0000				
7 Ownership Experience	0.43	0.50	0.0033	-0.0009	-0.1189	0.0605	-0.0031	0.0422	1.0000			
8 Teams of Owners	0.35	0.48	0.0865	0.0762	-0.2234	0.1098	-0.0153	-0.0782	0.191	1.0000		
9 Profit Indicator Year 1	0.33	0.47	-0.0494	-0.0014	0.0909	-0.0055	0.0277	0.1153	0.0206	-0.074	1.0000	
10 Profit Amount Year 1	-1761.4	181664	-0.0154	0.037	0.0221	0.0221	0.005	0.0177	-0.0382	-0.0322	0.1633	1.0000

Table 3: Estimated Coefficient of Multinomial Regression of Antecedents of Franchising

Predictor	B	SE	OR
	New Business versus Franchised Business		
Intercept	2.88	0.38	
Home Business	1.09***	0.32	2.97
Own Building	1.29	0.77	3.63
Average Hours Worked	-0.01*	0.00	0.99
Average Industry Experience	0.10***	0.013	1.11
Ownership Experience	0.11	0.26	1.12
Team of Owners	-0.79	0.27	0.46
	Purchased Business versus Franchised Business		
Intercept	0.46	0.47	
Home Business	-0.59	0.43	0.55
Own Building	2.3**	0.79	9.97
Average Hours Worked	0.00	0.00	1.00
Average Industry Experience	0.07*	0.03	1.07
Ownership Experience	-0.13	0.32	0.88
Team of Owners	-0.41	0.32	0.66
	Purchased Business versus New Business		
Intercept	-2.42	0.31	
Home Business	-1.68***	0.30	0.19
Own Building	1.01***	0.25	2.75
Average Hours Worked	0.01+	0.00	1.01
Average Industry Experience	0.03**	0.01	1.03
Ownership Experience	-0.24	0.21	0.79
Team of Owners	0.38+	0.20	1.46
Chi-Square		154.88***	
Df		12	
-2 log pseudo likelihood		1799.12	
Pseudo R^2		0.12	
Sample Size		2738.00	

+=<.1, *=p<.05, **=p<.01, ***=p< or =.001

RESULTS

Hypothesis 1 predicted that entrepreneurs' industry experience would be negatively associated with starting a franchise. The analysis demonstrated that the average industry experience of the team of owners was significant for new independent ($B = .10$, $p < .001$) and purchased ($B = .07$, $p < .05$) businesses over franchise businesses. That is, for every year of average industry experience, a business was 1.11 times more likely to be a new independent business than a franchise. Similarly, for every year of average industry experience, a new business was 1.07 times more likely to be a purchased business than a franchise. Therefore, the results support Hypothesis 1 and franchises, and to a lesser extent, purchased businesses appear to provide an opportunity for business owners to explore new industries in which they have limited experience.

Hypothesis 2 predicted that entrepreneurial experience would be negatively associated with starting a franchise. The results of our analysis showed no significant differences among the three business forms with regard to the owner's prior entrepreneurial start-up experiences. In other words, Hypothesis 2 was rejected; individuals that are experienced are no more likely to choose one form or another relative to novice entrepreneurs. Stated another way, the appeal of a proven business model (franchises) is not diminished for owners that have opened businesses before.

Hypothesis 3 predicted that franchisees would work significantly more hours than owners of new or purchased independent businesses. According to the multinomial logistic regression analysis, average hours worked by owners was found to be negatively related to owning a new independent business ($B = -.01$, $p < .05$), while not significantly predicting the selection of purchased and franchise businesses. For every one hour increase in the amount of work worked by owners each week, a business is only .99 times as likely to be a franchise relative to a new independent business. This result partially supports hypothesis 3, and indicates that owners of new independent businesses tend to work less than owners of purchased businesses or franchises.

In the model presented, two business location control variables were included as predictors of business form, namely whether a business was a home-based business (home-based business = 1, not home-based business = 0) and if the business owned the building (owned building = 1, did not own the building = 0). Renting a business location is the reference category. The results demonstrate that purchased businesses and franchises are similar with regard to primary business location, but different from new independent businesses. The coefficients show that the three business forms significantly differ from one another in whether the business is a home-based business. Respondents operating out of their homes are only .19 times as likely to purchase independent businesses as they are to open a new independent business, consistent with conventional expectations ($B = -1.68$, $p < .001$, $OR = .19$). Although the analysis showed that home businesses were equally likely to be purchased businesses or franchises, home businesses are 2.97 times as likely to be a new independent business as they are a franchise ($B = 1.09$, $p < .001$). Therefore, when new business owners favor starting a home-based business, they are least likely to purchase an existing business and more likely to start a new independent business.

The results for owning a building for business operations show that owners purchasing their business location are significantly more likely to purchase an existing business than open a franchise ($B = 2.3$, $p < .01$) or a new independent businesses ($B = 1.01$, $p < .001$). Those purchasing their business location are equally likely to start a new independent business or purchase a franchise. Those purchasing their business location are 9.97 times as likely to purchase an existing business as they are to open a franchise and are 2.75 times as likely to purchase an existing business as they are to open a new business. Franchisors often require franchisees to rent their buildings, which may account for the observed differences among the three business forms.

DISCUSSION

The results of this study provide insight into the difference among three business forms in the startup phase: franchises, new independent businesses, and purchased independent businesses. While the study is preliminary in nature, it is one of the first of its kind to make comparisons across these three forms and utilize the resource-based view to show the resources of competitive advantage contained within each form. As predicted, the absence of relative structural and relational capital provided by new independent startups appears to require more industry experience than franchises. Purchased independent businesses, at least with regard to industry experience, appear between franchises and new independent businesses. Although the structural and relational capital of franchises and purchased businesses may make up for a lack of industry experience, entrepreneurs apparently do not seek to substitute those resources for entrepreneurial experience. First-time business owners were no more or less likely to start one form of business relative to experienced business owners. The results for hours worked are intriguing. On the one hand, as argued in the hypothesis development, franchisees would be motivated to work more hours because the operational requirements of the business format franchise may necessitate a high number of hours worked and the entrepreneur may perceive a franchise to have greater chances of success than an independent new business. At the same time, independent new businesses are most exposed to liability of newness and thus founders of those types of businesses can ill-afford to under-exert themselves. This finding warrants further investigation.

CONCLUSION

The RBV of organizations provides a useful framework for examining the difference among the three business forms from the resources provided by the entrepreneur in the form of human capital and the resources that are a key part of the business forms. Thus, we sought to understand to what extent entrepreneurs match their background to the organizational form with complementary resources.

The results of this study have direct implications for research on franchising and decision making by entrepreneurs to select a particular business form. This study is a first attempt to examine factors that influence entrepreneurs to choose from among the three forms—franchises, new independent startups, and repurchased existing businesses—an area that had not been previously researched. However, there was little support in the literature for comparison of variables across the three business forms so we were limited in the hypothesis we could test. Additional research needs to be conducted comparing entrepreneurs who chose one of these three forms to provide further insights into the similarities and differences, as well as advantages and disadvantages, that may exist between the different forms of businesses that impact performance and success over time.

First, as has been stated by scholars in the field, more research needs to be conducted from the perspective of the franchisee rather than the franchisor or franchising firm. This study adds to the literature by focusing on the franchisee as entrepreneur in the startup phase. Limited research has been conducted in this area. Second, additional research needs to be focused on decision making by entrepreneurs and the effects of the organizational lifecycle on profitability over time with longitudinal data. While the Kauffman Foundation has financially supported longitudinal data sets that can be used by researchers to find answers to these questions, more work is needed in the area of franchising that has historically been difficult to research due to limited access to data by the industry. Additional research in this area may aid in uncovering answers as to why entrepreneurs choose a particular business form over another, including cognitive, behavioral, and environmental factors that may influence the decision making process. Third, variables that affect business profitability, both in the short- and long-term, as well as various measures of success and performance, need examination.

The study has important implications for the franchising field for practitioners. First, the results may reveal important factors for entrepreneurs to consider when making decisions concerning the purchase of a franchise, existing independent business, or starting a new independent business. Second, this study provides some initial comparisons in the crucial startup phase between franchisees, those who purchase an existing independent business and entrepreneurs that start a new independent business that previously has not been available. This study gives entrepreneurs information to aid in their decision-making as to which form of business best fits them. With the number of existing businesses for sale at an all-time high, studies on existing businesses are crucial. Third, more than a fourth of franchisee businesses in the study were home-based, which significantly differs from the other two types of businesses. This may signal the availability of new franchising options available to entrepreneurs with limited access to start-up capital. Future studies should compare profitability levels across all three forms. Advantages and disadvantages of the three forms in light of the entrepreneur's characteristics and business plan should be considered from a long-term perspective to improve decision making. This may alleviate some of the concerns potential franchisee may have in terms of the added value of franchising versus the costs. By providing more information on the three forms, it is hoped that entrepreneurs can make better decisions in selecting the form that best suits them and improve their chances of success.

IMPLICATIONS AND FUTURE DIRECTIONS

One of the major limitations of this study is the database. While the available data have longitudinal information on the three forms—which is highly unusual, it is restricted in other aspects. First, only U.S. businesses are included. Second, the KFS database could be expanded to include more variables pertinent to franchising. For example, the number of family members involved in the franchise, percentage owned by silent investors, the goals and decision making process of entrepreneurs, and cooperative alliances. Third, as our group comparisons analysis showed, the KFS includes entrepreneurs with a diverse array of businesses within each form. For example, some franchisees may include stand-alone retail locations requiring major capital investment, whereas others may be operated out of the owners' home with limited upfront investment. Industry also has important implications for whether the customers of an existing business will continue to patronize it under new ownership. Fourth, given the intriguing findings we found with regard to entrepreneurs purchasing an existing independent business, more information needs to be collected on the history of these businesses. Fifth, the wording of the questionnaire allows for the category of franchisee to include owners opening a new location of a franchise along with owners purchasing rights to an existing franchise. Empirically studying the differences among these types of franchisees may yield important findings.

Additionally, future studies could compare a wider range of types of firms to include and categorize the types of businesses. First, the results from the three forms with U.S. entrepreneurs could be compared internationally with samples in other countries to see if the results are comparable and generalizable. Second, entrepreneurs' businesses from industrialized versus emerging countries could also be compared to better understand how to improve the success rates of these three forms of businesses and what form has the greatest chance of success in emerging versus industrialized economies. Third, future studies need to look at a wide variety of formats that could influence selection and success probability for entrepreneurs. For example, in franchising alone, there are various hybrid forms of franchising, home-based franchises, and family business franchises, among others. There are formats in each of the three forms that could be examined. These variations of forms need to be studied to determine if and how they impact success. Fourth, an examination of the impact of ownership structures among the three forms, such as non-operating (silent) business partners, and family business partners, needs to be conducted. Fifth, existing franchised businesses for sale could be examined in comparison to purchasing an existing independent business. Lastly, longitudinal comparisons of business forms past the startup phase through other phases, including growth and decline, would provide valuable strategic information that could improve profitability and success. We have taken the first step in comparing franchisees to those who purchase an existing independent business or start an independent business in the startup phase over a four-year period. Limited research has been conducted that compares these three forms from a RBV. More research is clearly needed to better assist entrepreneurs in the decision-making process, provide a more realistic picture of the strengths and weaknesses of each business type and improve performance over the long term.

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