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Franchise Entrepreneurial Leadership: The Relationship Between Levels of Success in a National Logistics Franchise System and Its Dominant Leadership Style

John C. Cary
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Franchise Entrepreneurial Leadership: The Relationship Between Levels of Success in a National Logistics Franchise System and Its Dominant Leadership Style

**Abstract**
Entrepreneurs within the United States are plagued with high incidences of failure in the early years of business. What seems to be lacking in these organizations is leadership and the type of leadership style that leads to greater levels of success. This quantitative study answered the following research question: Is there a significant relationship between the various degrees of success of selected national franchises and the assessed leadership styles of their leaders? The leadership styles assessed were transformational and transactional. A random sample of 50 franchise leaders throughout the United States was selected and the data was collected from a Multifactor Leadership Questionnaire (Mind Garden, Inc.) to determine if there was a significant difference between the two leadership styles. The relationship between the two leadership styles was tested using a T-test analysis at a .05 alpha level. The findings showed that there was a significant difference in styles, indicating that transformational leadership delivers greater levels of success at the franchisee level. The study validates the literature on the importance of leadership in large and small organizations and adds franchise entrepreneur leadership to the base of the research knowledge—data that is limited and has not been extensively researched to date. The dissertation study was structured to show that some franchising organizations have the latitude for entrepreneurship, and they are plagued with the same problems all small businesses face in the wake of competition and troubled economies. Understanding leadership at the franchisee level has its merit, and like many small and large companies, franchises need effective leadership at every level for success to exist and perpetuate.

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Franchise Entrepreneurial Leadership: The Relationship Between Levels of Success in a National Logistics Franchise System and Its Dominant Leadership Style

By

John C. Cary

Submitted in partial fulfillment of the requirements for the degree Ed.D. in Executive Leadership

Supervised by

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August 2013
Dedication

This dissertation is dedicated to my wife, Susan, and our three boys, Tyler, Ben, and Ryan, who allowed me to pursue one of my life’s goals while still providing the support and encouragement I needed throughout this journey. I also want to recognize my parents, George and Beth Cary, for their interest and inspiration in my pursuit of a doctoral education—something they believe is one of the keys to a richer and more balanced life.

My sincere appreciation goes out to all those who guided and supported me along the way, to the completion of my dissertation. A special thank you goes out to Dr. Joanne Gavin, who I met during my process of choosing a school and doctoral program. She ultimately became my mentor for several projects as well as a friend, confidant, and voice of encouragement. Her husband, Dr. David Gavin, was also very instrumental—working with me on many of the statistical components of my study and providing valuable insight.

I would like to thank my Chair and Committee Member, Dr. Michael Robinson and Dr. Frank Auriemma, respectively, for all the time and effort they contributed toward my success. The meetings, conference calls, and open discussions were always well received and productive—their enthusiasm and interest toward my study made this challenging journey worth all the effort. My advisor and instructor, Dr. Claudia Edwards, played a critical role in this doctoral program with her tenacity and words of wisdom for me and all her advisees.
There are two professionals whose contribution behind the scenes cannot go unmentioned. My editors, Dr. Gloria Jacobs and Ms. Sharon Ryan provided me with assistance in shaping my chapters into APA format and lending their expertise in editing, formatting, and presenting material with a strong academic voice.

Finally, I want to recognize my fellow cohorts and, especially, my dissertation team members, Jeannine, Mac, Colleen, Kimberly, and Michelle, who made all this achievable through their humor, camaraderie, accountability, intellectual acumen, and most importantly, their friendship.
Biographical Sketch

John C. Cary is currently the franchise owner of Unishippers in Marlboro, NY. Mr. Cary attended the University of Alabama at Tuscaloosa from 1980 to 1984 and graduated with a Bachelor of Science degree in 1984. He attended Loyola University from 1984 to 1986 and graduated with a Master of Business degree in 1986. He came to St. John Fisher College in the summer of 2011 and began doctoral studies in the Ed.D. Program in Executive Leadership. Mr. Cary pursued his research in Franchise Entrepreneurial Leadership: The Relationship Between Levels of Success in a National Logistics Franchise System and Its Dominant Leadership Style under the direction of Dr. Michael Robinson and Dr. Frank Auriemma and received the Ed.D degree in 2013.
Abstract

Entrepreneurs within the United States are plagued with high incidences of failure in the early years of business. What seems to be lacking in these organizations is leadership and the type of leadership style that leads to greater levels of success. This quantitative study answered the following research question: Is there a significant relationship between the various degrees of success of selected national franchises and the assessed leadership styles of their leaders?

The leadership styles assessed were transformational and transactional. A random sample of 50 franchise leaders throughout the United States was selected and the data was collected from a Multifactor Leadership Questionnaire (Mind Garden, Inc.) to determine if there was a significant difference between the two leadership styles.

The relationship between the two leadership styles was tested using a T-test analysis at a .05 alpha level. The findings showed that there was a significant difference in styles, indicating that transformational leadership delivers greater levels of success at the franchisee level.

The study validates the literature on the importance of leadership in large and small organizations and adds franchise entrepreneur leadership to the base of the research knowledge—data that is limited and has not been extensively researched to date.

The dissertation study was structured to show that some franchising organizations have the latitude for entrepreneurship, and they are plagued with the same problems all small businesses face in the wake of competition and troubled economies. Understanding
leadership at the franchisee level has its merit, and like many small and large companies, franchises need effective leadership at every level for success to exist and perpetuate.
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Chapter 1: Introduction

Introduction

With small business enterprises being the backbone of the country, it is important to understand the statistics surrounding the success and failure rates of these organizations. It is commonly believed that each year more than one million new businesses are formed in the United States under a variety of structures, and of those, 40% fail within the first year, and 80% fail after five years. Of the 20% that manage to survive the five-year mark, 80% are gone within 10 years (Gerber, 1995).

When new entrepreneurs aspire to start an enterprise or company, they have two basic business opportunities to explore. The first is starting out as an independent business person without ties or affiliations to a corporate or regional branch office. The second is to buy into an existing business with already established business practices and procedures. This second choice is known as a franchise system.

Both choices can be equally risky and carry a high probability of failure. However, Stanworth, Purdy, English, and Willems (2001) wrote that the failure rate in independent businesses is not quite as high as the public might surmise. The study noted that, within the first six years, survival rates were at 66% and not the 80% rate commonly cited. In fact, they stated that the figures might be as low as 35% in the construction industry and 47% in the manufacturing industry. Even at these figures, the numbers are staggering. Stanworth et al. (2001) explained the component that can reduce the failure rate is measured by how quickly a company begins its operation; thus a franchise model
with systems and processes already in place might be a viable solution for an entrepreneur.

Unfortunately, research indicates that the franchise option does not show any more promise than the independent businesses. Two studies conducted using data from 1980 through 1992 showed only 29% of the franchise stores or businesses studied were still operating after 12 years. Lafontaine and Shaw (1997) looked at 2,524 businesses over this same time span and concluded that 583 (23%) franchise systems were still operational. This assumes that more franchise systems left the market than entered. Additionally, they tracked 138 franchise systems beginning in 1983 and discovered approximately 25% lasted for at least 10 years.

One explanation for failure was the rapid attrition rate of the franchisor. Within four years, half of the franchisors closed their doors, leaving the franchisees without a business. Lafontaine and Shaw’s findings complicated understanding the failure rate of franchisees, because the closing of a franchisor is an uncontrollable variable from the perspective of the franchisee. Nonetheless, it is clear from the statistics that both franchise owners and small business entrepreneurs are not doing as well as they should. Although the two studies provided insight into one possible reason for the failure of franchises, there was little mention of leadership as part of the equation and the impact leaders have on franchises.

O’Grady and Malloch (2011) argued that organizations needed leaders who looked ahead, saw changes or signposts, and informed others of the forthcoming changes. Followers look to their leaders for guidance in the complexities of a changing world. Despite the enthusiasm entrepreneurs demonstrate, along with the desire for
independence and business ownership, much of the current literature tells a different story of the life of an entrepreneur. Small businesses, independent and franchises alike, struggle to survive in the marketplace during the formative years. The research study looked at the role leadership plays within business ownership and whether particular leadership styles were pervasive and influenced success in the franchise.

It would make sense that, with all the literature in the field of leadership, the role of leadership would have proven its value to the success of an organization. Kouzes and Posner (2007) explained, “Leadership is everyone’s business” (p. 339), and because it is everyone’s business, Kouzes and Posner suggested that leadership can be learned and that individuals can make a difference within an organization. One way to understand the role of the individual is through what Maier and Zenovia (2011) called “intrapreneurship.” “The intrapreneur is the revolutionary inside the organization who fights for change and renewal from within the system. This may give rise to these conflicts and transform them into positive aspects for the company” (Maier & Zenovia, 2011, p. 972).

Kouzes and Posner (2007) stated that, “leadership can happen anywhere, at any time” (Kouzes & Posner, p. 8). Leadership is demonstrated in public, private, and government sectors. The literature on leadership practice has focused on schools, corporations, government, and other entities, but it has left out small businesses, franchises, and entrepreneurs. Specifically, the literature did not show the influence leadership has on franchise businesses and entrepreneurship. Given the high failure rate of small businesses and entrepreneurial organizations, there was a need to know if leadership styles and practices, in fact, influenced success.
Northouse (2010) asserted that leadership and management have some noteworthy differences. He argued that leadership dates back as far as Aristotle, and the study of management was evident in the 20th century. Much of the literature identified management as a major contributor to business failure and conflict, and this is looked at repeatedly through the framework (Shane, 1998). Shane, of Case Western Reserve University, has been one of the most prolific researchers who studied the Agency Theory (Shane, 1998), which suggests that a manager’s lack of ownership in a business may be problematic. He has written extensively on entrepreneurship, organizational behavior, and management science, and he explained that while franchising solves many of the problems linked to the Agency Theory, it is not a fool-proof solution. An emphasis on leadership rather than management provided additional insight into many of the problems faced by franchise owners. As such, the review of the literature investigated many of the problems faced by franchise owners and indicated that leadership has not yet been examined as a means of mitigating the issues.

Problem Statement

With so many small businesses starting out in the United States, why do so many fail in the formative years? Leadership and leadership styles have been studied extensively and have been shown to deliver success in large organizations (Northouse, 2010). Northouse stated transformational leadership has the endorsement of many CEOs, prominent leaders, and top organizations. He noted that transformational leaders are in the forefront promoting and respecting the sentiments of others and delivering a vision for the future of the people in their respective organizations. This form of leadership has
been shown to have a great influence on followers, providing them with the tools to accomplish tasks normally outside of their abilities (Northouse, 2010).

The other influential leadership style is transactional leadership. Transactional leadership includes a management style that uses a reward system to either motivate followers or help to promote and advance the leaders’ own agendas (Northouse, 2010). Avolio (2011) stated that, while transactional leadership forms a foundation for transformational leadership, it does not promote an individual’s full potential, and thereby, makes one less creative and innovative. These two leadership styles formed the theoretical framework for this dissertation research.

The value and economic growth that entrepreneurs deliver to society, local communities, and the Gross Domestic Product (GDP) cannot be underestimated (Hussain, Sultan, & Ilyas, 2012). As the largest employer of the private sector, Hussain et al. (2012) suggested that without this group, who would be left to development new ideas and services, providing the needed competition that yields those innovations and products that are consumed by everyone? Entrepreneurs and small business are the groups that absorb the risk to benefit themselves and the rest of society. These new products and services elevate everyone’s standard of living, as well as decrease the poverty level, through their employment efforts. Rural areas of our country have enjoyed the dividends of entrepreneurs making inroads and penetrating areas that have normally been left behind by those larger enterprises, thereby bringing jobs and opportunities to that segment of the economy.

Hussain, Sultan, and Ilyas (2012) stated that entrepreneurs do need those leadership qualities to ensure their efforts raise the standard of living and benefit all
members of a community. If their research is valid, what sector of our business world holds the key for carrying out this task, if the failure rate of franchisees, entrepreneurs, and small business owners continue down its current path? Understanding the different leadership styles that drive success at this level ultimately impacts all of us, making this study invaluable to many stakeholders.

With the high failure rate, leadership may be what is absent among franchises and small business entrepreneurs. It stands to reason that the limited source of research literature studying leadership in this market segment may have perpetuated the problem. Given that small-business enterprises form the backbone of the United States economy, it is important to understand the circumstances surrounding the success and failure rates of these organizations.

Peterson, Kozmetsky, and Ridgeway (1983) noted the leading cause of small business failures stem from the lack of managerial skills. This being a general term, the problem areas they cited include undercapitalization, overhead, cash flow issues, and overextension. These problems all found their source from a lack of management skills. The researchers conducted a survey of 1,000 small businesses, which were defined as those with 10 or fewer employees and a net worth of $200,000. The prevailing cause of failure (55%) included lack of management, high interest rates, and recessionary and economic factors. Within the same group, nearly 16% noted that they did not know how to mitigate or reduce the extent of the businesses’ failures and what could have been done differently.

Beaver (2003) defined the small business market as those in operation for a period of three years. It was suggested that some of the problematic areas in the small business
sector are issues with management, adequate capital, strategic planning, and understanding the demand of product and services from the market. There are other factors influencing the success and failure including the natural ebb and flow of the economy. Although the health of the economy relies heavily on new entrepreneurs entering the market with their innovation and creative ideas, Beaver noted some of these new business owners come into the economy at the wrong time, and failure is simply a matter of bad luck. Beaver further explained that many new businesses are conceived in response to unemployment, layoffs, or desperation to find employment. In many cases, these businesses would never have been launched without these unfortunate circumstances; therefore, the entrepreneurs, franchisees, or independent owners were not trained or prepared for this type of opportunity.

Ucbasaran, Westhead, and Wright (2011) labeled these renegades as serial entrepreneurs. They seem to be unfettered by failure and continue down the path of entrepreneurship confident they will eventually find success because time will change the equation of what works and what fails in the economy. However, Beaver (2003) stated that small business owners often lack the skills and managerial insight to change with the economy and current situation in an effort to avoid failure. “The major cause of small business failures—according to the individuals surveyed—is a lack of management expertise” (Peterson, Kozmetsky, & Ridgway, 1983, p. 15). While there is extensive failure among small and large businesses alike, Beaver (2003) stated that small businesses have a shorter life and fail at a rate 10 times that of larger organizations.

Vazquez (2009) posited that a key contributor to franchise failure is linked to the concept of passive ownership. Passive ownership occurs when the owner of a franchise
delegates the duty of running and operating the business to someone who does not have a vested interest in the business. Castrogiovanni, Combs, and Justis (2004) explained that franchising solves many of the problems related to the agency theory, but passive ownership is an exception to this theory. Shane (1998) suggested that much of the blame on failure rates is placed on management, supporting the agency theory. The owner (principal) and the employee (agent) working at odds with one another underscore the issues of the agency theory (Shane, 1998).

Lafontaine and Shaw (as cited in Stanworth, Purdy, English, & Willems, 2001) studied both franchised businesses and non-franchised businesses and found both to be equally problematic at survival during the formative years. They examined a 12-year period between 1980 and 1992 and identified 2,524 franchises started during that time. Throughout the measuring period, 1,941 (77%) left the business. A similar study tracked 138 franchise systems over a 10-year period, to discover a survival rate just under 25%. Because Stanworth et al. regarded franchise businesses as small businesses; little distinction was made between the success rates of franchised and non-franchised businesses during the formative years (Stanworth et al., 2001).

*Franchise World* surveyed hundreds of franchisees from all of the top companies to find out what determines the level of satisfaction from the franchisees. Stites (2011) outlined many of the concerns of franchises from listening to their dialogue. Stites noted that lack of communication and leadership were problematic areas but suggested that the area of leadership continues to receive some of the lowest scores. He did not imply that all is well on the leadership front but, rather, that leadership needs to be addressed in the franchise systems.
Ramirez-Hurtado, Rondan-Cataluna, Guerrero-Casas, and Berbel-Pineda (2011) studied identifying profiles that franchisors look for in their recruiting efforts for new franchisees. They suggested that the success of the company and the relationships between the two parties (franchisee and franchisor) rely heavily on choosing franchisees with certain characteristics. Ramirez-Hurtado et al. (2011) listed 13 items as part of the study. The first five items included shrewdness, self-esteem, management ability, human relations, and entrepreneurial character. Leadership, leadership style, or leadership approach did not make the list. However, as the literature review shows, leadership style may be an important factor in the success of a franchise. Thus, there is a need to know if the degree of franchise success has a significant relationship with a dominant leadership style. With transformational and transactional leadership positioned as prevalent leadership styles, the proposed study investigated which of the two leadership styles showed a stronger relationship with franchise levels of success.

Theoretical Rationale

Two interrelated ways of understanding leadership were used as the theoretical framework for the research: transformational leadership and transactional leadership. Additionally, the Agency Theory was used as a way to understand the problems associated with the failure of small businesses and franchises. This section provides a brief overview of the theoretical framework. The review of the literature in Chapter 2 contains a detailed exploration of how these theories provided insight into issues of leadership in small businesses and franchises.

Transformational leadership. Transformational leadership is one of the styles that may be missing from entrepreneurs and their drive for success. Kouzes and Posner
(2007) explained transformational leadership as leadership that motivates others to contribute collaboratively with their leader in a concerted manner. These leaders provide the incentive that followers need to infuse their effort for the good of the group or organization. Bass (2003) and Avolio (2011) stressed the importance of transformational leadership in organizations. They argued that transformational leaders get followers to perform at a higher level than was originally intended.

**Transactional leadership.** Transactional leadership is displayed when a transaction takes place between a leader and a follower for a job well done or when an activity is accomplished (Bass, 2003). Bass (2003) argued that transactional leadership is simply an extension of transformational leadership, and Avolio (2011) explained that effective leaders must exercise both transactional and transformational leadership, which is known as full-range leadership.

**Agency Theory.** The Agency Theory (Shane, 1998) is a framework that scholars and researchers have studied and suggested as a cause for failure in retail outlet businesses. The Agency Theory asks, when a manager is paid a fixed wage to operate a store branch, what are the incentives for producing sales and revenue? The Agency Theory posits that when someone is simply given a fixed wage, the incentive to increase sales efforts is diminished. Vazquez (2009) stated that franchising solves the problem proposed by the Agency Theory by giving the storeowner or manager a claim or stake on the profits. The Theory names two parties involved, the principal (company) and the agent (manager). In a franchise system, the principal is the franchisor and the agent is the franchisee.
Because the franchisee benefits directly from every sale, it is suggested that the agent (franchisee) is more engaged under this arrangement (Vazquez, 2008). Franchising minimizes three problems under the Agency Theory. These include moral hazard, adverse selection, and uphold. Castrogiovanni, Combs, and Justis (2004) discussed these from a retail outlet perspective and compared them through the lens of a franchise system. Within a small business, there is a moral hazard that a store manager has no incentive to deliver his or her best effort, but a franchisee with ownership will have a greater desire to be fully engaged. Understanding this Theory may provide an entrepreneur with some insight and guidance when choosing the type of business organization best suited for his or her circumstances.

**Statement of Purpose**

The purpose of the study was to look at the leaders in a national logistics franchise organization and determine whether the degree of success of these franchises showed a significant relationship to a dominant style, either transformational or transactional leadership. The quantitative study measured the independent variable, leadership style, against the dependent variable, degree of success, with franchisees. The study surveyed a purposeful sample population of 50 franchisees within a national logistics franchise company. This franchise organization is a third-party logistics company and falls under the headings of a business-systems franchise.

Analysis was conducted using the Statistics Program for the Social Sciences (SPSS) and included a t-test that analyzed the mean of success between the two groups (transformational and transactional). Descriptive statistics include mode, median, and standard deviation. Additionally, the research examined the relationship between the
demographics of the sample franchise population, testing both leadership styles to
determine whether there was a relationship between leadership style, degrees of success,
and demographics. The demographic categories included gender, age, education, and
size of the franchise unit.

Research Questions

The research study attempted to answer the following questions:

**Essential research question.** Is there a significant relationship between the
various degrees of success of selected national franchisees and the assessed leadership
styles of their transformational and transactional leadership as perceived by the leaders?
The levels of success were defined by the researcher and the leadership styles were
transformational and transactional.

**Supporting research questions.** There were four questions that were answered
as part of addressing the essential research question.

1. Is there a significant relationship between the gender of the franchisee, the
degree of success of the franchise, and the dominant leadership style?
2. Is there a significant relationship between the age of the franchisee, the degree
of success of the franchise, and the dominant leadership style?
3. Is there a significant relationship between the education of the franchisee, the
degree of success of the franchise, and the dominant leadership style?
4. Is there a significant relationship between the size of the franchise, the degree
of success of the franchise, and the dominant leadership style?
Potential Significance of the Study

The research explored the relationship between leadership and leadership styles and their influence on success with entrepreneurial franchise leaders who had reached varying degrees of success as defined by the study. There is an abundance of research on leadership and its importance in a wide array of fields, yet little is known about the practice of leadership and the effective contribution it makes to the success in franchise organizations, franchise leaders, independent businesses, and other entrepreneurial businesses. As Gerber (1995) showed, the failure rate of small businesses is 80% after five years. By understanding leadership in entrepreneurial franchises more academically, this study will contribute to the decrease in failures.

The study was significant because it provides scholars and business leaders with evidence as to whether the transformational or transactional leadership approach has a more significant impact on the success of franchisees in the studied national logistics franchise organization. Because franchising is an emerging field in business, understanding franchise success from a leadership standpoint provides new knowledge concerning the relationship between leadership style and franchise success. As aspiring entrepreneurs enter the business world, whether as a franchisee or independent business owners, they will be able to use the information provided by the research to better understand the value of leadership in an organization. This knowledge will allow them to be better-informed consumers of business ownership.

The results of this study will also be of significance to the franchisor when selling new franchisee units. For instance, the research should help franchisors identify the type
of leaders, transformational or transactional, best suited for a particular type of business-systems franchise.

Furthermore, the data will inform franchise organizations on the proper selection and training processes necessary for recruiting successful franchise leaders. If franchisors more fully understand the transformational and transactional leadership styles that influence success in a franchise system and their corresponding demographics, they might be able to reduce the attrition level and minimize the recruiting time and effort expended by the franchise companies.

**Definition of Terms**

**Franchise system.** A franchise system is a business system composed of a franchisor and franchisees. For example, McDonald’s is a franchise system with the corporate office selling and administering all the standalone franchise restaurants. The headquarters is also the only entity holding the name “McDonald’s” while the local restaurants may operate under the name of “John Doe’s Restaurant, Inc. doing business as McDonald’s.”

**Franchisor.** The franchisor, according to Cox and Mason (2009), is the corporate office that owns the franchise name and trademark.

**Franchisee.** The franchisee is the individual store or business owner that purchases the rights to the trademark for a set number of years.

**Traditional- and business-format franchise.** Franchise companies fall under headings: the traditional franchise and the business-format franchise. The traditional franchise system includes those companies that provide a product to their distributors at a wholesale price. The distributor is allowed to resell the product on the retail market at a
higher price, yielding a profit. Under the traditional model, franchise owners are not responsible for paying royalties. The business-format franchise is one that provides a product, service, or business model by the franchisor and allows the franchisee to use the name to promote and sell the product or service. In exchange, the franchisee is required to pay a monthly royalty back to the franchisor for the life of the franchise (Akremi, Mignonac, & Perrigot, 2010).

**Entrepreneur.** Ramsey (2011) defines an entrepreneur as someone who leads a team or group into a venture in hopes of yielding growth and prosperity. The word is derived from a French word *entreprendre*, which translates to someone who takes a risk (Ramsey, 2011).

**Success.** For the purposes of this research, success was defined by five traits:

1. The franchise business has operated for at least five years.
2. There was a year-over-year incremental positive-growth pattern for the past five-year period.
3. There was a net revenue of $300,000 by the end of the fifth year.
4. The shipment requirement from the franchisor was met during the past five years.
5. The franchisee has retained 75% of its customer base for the past five years.

**Leadership.** Northouse (2010) defined leadership as “a process whereby; an individual influences a group of individuals to achieve a common goal” (Northouse, 2010, p. 3).

**Franchise sales territory.** A franchise sales territory of (1.0) is defined as having 12,500 businesses (non-retail) in the area, based on the Standard Industrial
Classification (SIC) code listing from the respective county. The franchisor establishes this sales territory designation.

Chapter Summary

This chapter provided background into the field of franchise entrepreneurs and why it was important to explore entrepreneurs and their struggles with success. The theoretical framework of transformational and transactional leadership and the Agency Theory were described as a tool for designing the proposed research and for understanding the results. The chapter also provided the research question and sub-questions used to guide research design and analysis. The chapter concluded with operational definitions of key terms used throughout the research.

Chapter 2 reviews existing literature and theories studied as a way of finding a solution to the issues that plague small businesses and entrepreneurs. Chapter 3 details the methodology used during the research study. Chapter 4 presents the results of this research and the interpretation of the findings are discussed in Chapter 5.
Chapter 2: Review of the Literature

Introduction and Purpose

With so many small businesses starting out in the United States, why do so many fail in the formative years? Northouse (2010) detailed the various types of leadership styles and approaches in practice today, demonstrating the value leadership plays in an organization’s health and performance. Two of the leadership styles described by Northouse are transformational and transactional.

With the endorsement of many chief executive officers (CEOs), prominent leaders, and top organizations in the field, Northouse (2010) noted that transformational leaders are in the forefront promoting and respecting the sentiments of others and delivering a vision for the future of the people. This form of leadership has been shown to have an influence on followers, providing them with the tools to accomplish tasks normally outside of their abilities (Northouse, 2010).

A philosophically different, yet sometimes complimentary, style of leadership includes transactional leadership. Northouse described transactional leadership as a management style that uses a reward system to either motivate followers or help promote and advance the leader’s agenda. Avolio (2011) stated that while transactional leadership forms a foundation for transformational leadership, it does not help promote an individual’s full potential and, thereby, makes one less creative and innovative. These two leadership styles together formed the theoretical framework for the study.
A review of the literature indicates a lack of information on the needed leadership in franchise entrepreneurs. There is extensive literature on leadership skills and their value in organizations, but understanding leadership in the context of franchises has limited literature sources. Clearly, with the high failure rate of small businesses, something is missing in leadership training and awareness. The study explored the proclivity toward one of the leadership approaches practiced in varying degrees of successful franchises to close this gap and add new knowledge to the existing body of literature. Specifically, this study examined leaders in an entrepreneurial franchise system and determined whether the success of the franchises was related to the leaders’ transformational or transactional leadership approach.

The literature review highlights four major areas and demonstrates the importance each plays in understanding the gravity of the leadership problem facing entrepreneurs in both franchise systems and independent businesses. The areas include: (a) entrepreneurship, (b) the value of leadership in organizations, (c) the emerging field of franchising, and (d) transformational and transactional leadership. The literature review looks at some areas of research that impact and influence entrepreneurs in their quest for success. For example, the literature review answers the question of what is being done to make the road to business ownership and self-employment a possibility for a greater number of individuals. By considering the behavioral differences that generate opposing results, the literature review illustrates why some enterprises succeed and others fail. The study also looked at franchise systems as a viable solution for some aspiring entrepreneurs.
The literature review was conducted using a variety of resources including the Google Scholar search engine, professional books from local libraries, and the database provided by St. John Fisher College. The Lavery Library at St. John Fisher College provided access to scholarly journals, articles, abstracts, and dissertations from the business category. Within this category, the majority of the literature search used the Business Source Complete, Oxford Journals, and ProQuest Central data sources. With a few exceptions, the literature discussed in this chapter was limited to studies published after 2000.

**Entrepreneurship**

Each year, a million new businesses in the United States are formed under a variety of structures. Within the first year, 40% of those no longer exist, and after five years, the failure rate increases to 80%. Of those who manage to survive the five-year mark, 80% are gone within 10 years (Gerber, 1995). Entrepreneurs are part of the group that struggles. As suggested by Bann (2009), an entrepreneur looks for opportunity in self-employment venues despite the ramifications it has on the individual’s personal life. Bann noted that entrepreneurs want to put themselves in positions where they can dictate the situation. Entrepreneurs look for challenges that can enhance their self-esteem.

Bann’s study of entrepreneurs was a phenomenological investigation on what it takes to be an entrepreneur and how entrepreneurs differentiate themselves. The study used the Trait Theory to explain that some people are inherently predisposed to entrepreneurship and possess the behaviors of commitment, drive, and perseverance. The qualitative methodology involved 18 participants. Each participant needed the following requirements to be part of the study: (a) was the owner of his or her business, (b) worked
in a similar industry, (c) company’s revenues were less than $2 million dollars per year, (d) organization was in business for at least two years of operation, (e) business was profitable or at least achieved a break-even point for one year, and (f) was at least 25 years old.

Analysis of interviews with the entrepreneurs identified four underlying themes (Bann, 2009). First, each participant experienced an ill-fitting situation in either their personal life or working environment. This event drove them into the direction of entrepreneurship. Second, each participant maintained a level of self-confidence that afforded them the drive, determination, sustainability, and work ethic to pursue their entrepreneurial endeavors. Third, each shared a desire to go out into their community and the world to teach, communicate, and pass on life lessons to others to affect change in someone’s life. The last theme of the research revealed the entrepreneurs’ desire to be respected by their community and peers and receive a positive perception from the public (Bann, 2009).

**Entrepreneurial psychology.** Young (2007) wrote of entrepreneurs learning how to learn. Young insisted, as their businesses grow and change, they are constantly confronted with the unknown, creating that urgent need to learn about the new circumstance. These changes yield self-development, growth, problem-solving skills, and the opportunity for learning.

Chattopadhyay and Ghosh (2002) looked at the concept called locus of control. It includes both internal and external locus of control. Those possessing internal locus of control design events around their lives that allow for control over the outcome. People with external locus control assume activities occur around them for a reason or that luck
is involved. Entrepreneurs believe in having direct control in their destiny and what happens in their day-to-day life is their responsibility (Chattopadhyay & Ghosh, 2002).

Thus, entrepreneurs see themselves as individuals who exercise internal locus control and this is reflected when they try to affect performance in their company or organization. Chattopadhyay and Ghosh (2002) stated that there is no term in the English language that is equivalent to entrepreneur, only to say that it is someone who looks for achievement. They further explained that an entrepreneur is someone who enjoys his or her independence and rugged challenges, while at the same time is motivated by rewards. An entrepreneur is an individual who has a different risk-tolerance than a non-entrepreneur.

The study conducted by Chattopadhyay and Ghosh (2002) was centered on the Theory of Locus of Control and intended to test whether the Locus of Control Theory held true and predicted entrepreneurial success. Their research looked at five theories including: (1) self-achievement, (2) risk-avoidance, (3) feedback of results, (4) personal-innovation, and (5) planning. The research measured success in terms of incremental profit per year. The instrument used was the Miner Sentence Completion Test-Form T. The research tested each theory with eight questions for a total of 40 questions. Fifty people participated in the study including 25 traditional entrepreneurs and 25 non-traditional (first generation) entrepreneurs. The findings indicated that self-achievement, which is derived from internal locus control, was a better predictor for entrepreneurial success than the other four factors.

Xu and Ruef (2004) indicated that entrepreneurs take a greater responsibility for their actions because of their less-structured work environment and many of the uncertain
possibilities that come their way. The entrepreneur is not necessarily a riskier business person but is more risk tolerant. In order to attain their goals of success, a certain level of risk must be pursued. In the entrepreneurial environment, the only constant is change. A counter argument suggested that entrepreneurs may actually be more risk-averse than the general population. They may choose the option of low-probability of failure from the social and psychological standpoint. Maintaining their business, respect of the community, and their autonomy may suggest a greater value than a high-risk, high-return endeavor (Bann, 2009; Xu & Ruef, 2004).

Social entrepreneurial traits. Vasakaria (2008) noted that leaders and leadership styles can surface in a multitude of shapes and forms. One of these is the elusive entrepreneur. Vasakaria referred to the elusive entrepreneurs simply as a rare breed of leaders. Whitford (2010) wondered if someone could learn to be an entrepreneur. He looked at research conducted at higher education institutions, where entrepreneurship was beginning to make some traction inside the business schools. Entrepreneurship embodied a host of behaviors and not some phenomenon that one person or organization had and the others did not. Entrepreneurs were leaders that looked to minimize and reduce the odds of failure (Whitford, 2010). Minimizing the odds of failure was important; however, entrepreneurs embraced failure as one of the steps toward success (Vasakaria, 2008).

The framework of social entrepreneurship was studied by Nga and Shamuganathan (2010) as a key contributor to business success by entrepreneurs. They listed five personality traits that contributed to success: (1) openness, (2) extroversion, (3) agreeableness, (4) conscientiousness, and (5) neuroticism. Additionally, they
revealed five social dimensions that link to these traits: (1) social vision, (2) sustainability, (3) social networks, (4) innovation, and (5) financial returns. The relationship study between the traits and social dimensions revealed a strong influence with agreeableness among all the dimensions, and openness linked closely with three of the five. The findings revealed that social entrepreneurs pursue their interests with the community at large in mind.

The research indicated that social entrepreneurs strive to integrate the social, economic, and environmental issues that influence the lives of others. They transform their message, possibly altruistically, through their social networking, engagement, and the commitment toward social change (Nga & Shamuganathan, 2010). Nga and Shamuganathan (2010) explained that social vision involves the intervention of the social entrepreneur for the betterment of the society and fills the gap that government and private enterprise may overlook. They drive forward with their mission regardless of the pending market forces that may dictate a different course of action.

The research identified sustainability as the underlying reason for social entrepreneurs to carry out their action (Nga & Shamuganathan, 2010). Social entrepreneurs see their world as a community ecosystem with enterprises interconnected for enhancing society’s quality of life. While corporate philanthropy has a hidden agenda of receiving something in a reciprocal fashion, the social entrepreneur strives for long-term sustainability for social balance and social well-being. Additionally, social networking provides a venue for the entrepreneur to deliver the message to a wider audience, drawing in members who will support the message. This social networking
approach deepens the trust and credibility of the social entrepreneur. The trust continues to strengthen further for all participating stakeholders (Nga & Shamuganathan, 2010).

Innovation is critical at any level of entrepreneurship, but it is truly embraced by the social entrepreneur. Commercial entrepreneurs, who are more profit driven, neglect some of the markets pursued by social entrepreneurs because those markets lack the return on investment. Social entrepreneurs look to provide opportunity and bring to the community many of the underprivileged products and services that might otherwise not make it to the mainstream markets (Townsend & Hart, 2008).

The fifth and final dimension of social entrepreneurship is the idea of financial return and what it means to private enterprise and to the social entrepreneur. The commercial entrepreneur knows that a business must show a profit for its stakeholders. Nga and Shamuganathan (2010) argued that the social entrepreneur sees a different model. The social entrepreneur looks to non-profit opportunities and hybrid organizations, which are those that may pay out to the investor but put dividends back into the business to serve social policy needs. The Aravind Eye Hospital in India is an example of this social practice, bridging the gap between what the government can support and what the general population cannot. This hospital placed a greater value on social responsibility than on generating greater profits (Nga & Shamuganathan, 2010).

**The spirit of entrepreneurs.** Like a doctoral student looking for new knowledge to add to the world, an entrepreneur is an individual, group, or team responsible for creating a new venture or opportunity (Jain, 2011). Jain noted that people can respond and act differently under the same situations, and consequently, one action may suggest characteristics of an entrepreneur. What is it about that person who can discover and act
on an opportunity while another person is blind to the situation? Ramsey (2011) argued that an entrepreneur is someone who leads a team or group into a venture in hopes of yielding growth and prosperity. The word, itself, is derived from a French word *entreprendre*, which translates to someone who takes a risk (Ramsey, 2011).

Jain (2011) performed a meta-analysis research study on entrepreneurial competency that supports many of the findings discussed in the literature review. The study looked for the “who, what, where, and when” of entrepreneurship and the reason some discovered an opportunity and others did not (Jain, 2011). Jain pointed out that certain personalities were predisposed to entrepreneurial activity, and there was a direct correlation between motivation and performance at a business. Additionally, the achievement factor was instrumental in motivating someone, leading to success. Other conditions worth noting include, innovation, which is the application of invention, risk-taking, internal locus of control, and creativity.

Jain pointed to two entrepreneurial concepts, self-efficacy and family background, suggesting that these tend to receive less press than the others. Self-efficacy is defined as a person’s ability to follow the rules and take the actions required in order to reach a milestone or established goal. Jain asserted that some people may have grown up or were part of an entrepreneurial family and, therefore, had a greater possibility of reaching success as entrepreneurs (Jain, 2011).

Young’s study (as cited in Chopra, 1994) examined the seven spiritual laws of success that contribute to the learning practices of entrepreneurs. He stated that in order for entrepreneurs to be successful in the fast-paced and complex world we live in, the
entrepreneur must learn how to learn and be motivated to learn. The foundation to this theory lies in the seven spiritual laws (Chopra, 1994), which follow.

1. The law of potentiality looks at problems faced by entrepreneurs and states that problems surface for a reason and from external factors. Rather than viewing these factors as problems, entrepreneurs need to learn to see them as opportunities rather than obstacles. The entrepreneurs need to look into their own spirits and understand the cues they are receiving.

2. The second law is called the law of giving. Chopra (1994) suggested that an entrepreneur can capitalize from what may appear to be a negative situation and derive a positive outcome. For example, an entrepreneur may encounter an unhappy employee experiencing pressure on the job and offer an apology for creating the situation. The idea of giving and receiving is demonstrated in such an exchange. The entrepreneur can offer care and concern, which can be more valuable at the time than some monetary compensation.

3. The law of Karma, or cause and effect, is the third law discussed. This involves someone listening to him- or herself, understanding exactly what is motivating the decision, and knowing that it is the correct decision at that time. It is learning to self-reflect and understand the choices at that time.

4. The fourth law, the law of least effort, supports Nga and Shamuganathan’s (2010) idea of agreeableness. Chopra (1994) explained that it is not to be confused with the law of least resistance, which tells one to take the easier path with the fewest hurdles. The entrepreneur follows the road to success. Instead of spending energy converting
someone to their thinking, the entrepreneur should go with the flow and use the energy’s momentum to carry them to an opportunity.

5. The law of intention and desire explains that entrepreneurs can prosper by focusing on the larger picture of humankind and not on individual opportunity. Their intentions should not look to the outcome but rather the social implications of their efforts. The fruits of their labor should be secondary. Hartog, Praag, and Sluis, (2010) compared the wage and income puzzle between an entrepreneur and an employee. Their study revealed that employees have a greater concern over the salary levels in comparison to the entrepreneur. Factoring in the longer hours and, in some cases, lower pay, entrepreneurs are more satisfied than employees are, because they are less driven by income maximization (Hartog et al., 2010).

6. The sixth law of success deals with detachment. Chopra (1994) stated the law of detachment tells entrepreneurs that learning to detach oneself from the goal or outcomes will actually bring them closer to their chosen outcome. If the focus is on security, wealth, income, growth, and so on, this only inhibits the creativity and thought process toward the outcome. By removing or detaching oneself from the outcome, entrepreneurs are free to explore, create, and reflect. Young (2007) wrote that, “It is an attachment to the known that limits the creative vision of entrepreneurs and their businesses” (p. 20). This law is challenged by Chattopadhyay and Ghosh (2002), as they suggested that one of the critical reasons someone pursues the life of entrepreneurship is for the achievement factor.

7. The final, seventh, law of success is the law of Dharma or the purpose of life. This law helps the person understand their purpose and that their gifts and talents should
be harnessed to promote the community at large and not be ego based with the focus on an individual’s needs and wants. The entrepreneur produces goods and services to benefit those who need work while still embracing humanity for the betterment of the whole (Chopra, 1994).

**Small Business Failures**

**Background.** The statistics speak for themselves regarding the failure rate with small businesses in the United States. Nearly 80% of all of the thousands of entrepreneurs making an attempt at small business ownership through entrepreneurial endeavors will not succeed (Schiff, Hammer, & Das, 2010). The literature review covers some of the reasons why this happens and what some entrepreneurs are doing to offset the problem.

**Government bureaucracy.** The economy has gone through unprecedented challenges in the past few years because of the mortgage meltdown, energy prices on the rise, foreclosures, and general unrest in the marketplace (Monahan, Shah, & Mattare, 2011). Monahan et al. claimed the solution to this problem might lie in the hands of the small business sector and entrepreneurs of our country. The Small Business Administration (SBA) supported this by endorsing the importance of the small business sector and stated that they employ over half of the workforce in the private enterprise (SBA, 2004).

If enterprise development in the marketplace is going to succeed, both the entrepreneur and the external factors supporting the entrepreneur need to exist. That external factor, explained by Carter and Wilton (2006), is the government. The
government is the one entity that can play a dominant role in affecting change in areas such as tax reform, deregulation, interest rate reduction, and foreign investment projects.

When the government plays its part in facilitating economic enterprise development, the government will experience fewer recipients of welfare dollars and government-assisted programs. Carter and Wilton (2006) detailed an extreme example of a failed attempt to promote an enterprise in the country of Zimbabwe. Due to its high unemployment and limited infrastructures, many world leaders and organizations went to Zimbabwe in an effort to create wealth and prosperity for the country.

Zimbabwe had some quasi ownership in what would normally be a private company. Because most of these companies operated under the terms of a monopoly, there was limited competition. Once regulation was lifted, business began to flourish. The Zimbabwean government wanted to promote indigenization by awarding contracts and terms to their indigenous entrepreneurs. This, however, kept competition out of the game and resulted in poor goods and services. The failed effort by the Zimbabwean government is only one example of the power and influence the government wields over enterprise development on both sides of the continuum. For entrepreneurs to succeed and contribute to society in a positive manner, they need the support and concerted influence of their government (Carter & Wilton, 2006).

**Serial entrepreneur.** Dujowich (2010) explained that there are three types of entrepreneurs: novice, portfolio, and serial (or habitual). The one most notable for failure is the serial entrepreneur. The novice, as the term suggests, is the person who is new to the game. They are first-time entrepreneurs who normally do not last long in the business. The second, the portfolio entrepreneurs, run several operations and businesses
simultaneously. They have the luxury to absorb failure because there are other companies succeeding and, thereby, offsetting any loses. The last, the serial entrepreneur, is a person who starts one company and, if unsuccessful, will begin a second (Dujowich, 2010). This entrepreneur may continue the cycle until it is economically unfeasible. The serial entrepreneur can be classified as a habitual entrepreneur as well.

Ucbasaran, Westhead, and Wright (2011) described the habitual entrepreneur as overly optimistic to their own detriment. They further explained that these entrepreneurs do not stop and analyze past performance as well as others might. The lack of analysis is viewed as a waste of time and a ticket to failure. Venture capitalists have studied different types of entrepreneurs to determine those that may fall under the category of serial. As suggested by Ucbasaran et al. (2011), venture capitalists will avoid investment opportunities with those they suspect of having serial entrepreneurial tendencies.

Isenberg (2011) argued that failure and anxiety should not be used interchangeably. Entrepreneurs need to have a level of fear when it comes to business failure. Isenberg’s research mentioned that the United States, along with other economically sound countries, need to create policies that encourages entrepreneurial activity rather than focusing on the failure component. He believed that entrepreneurs need to understand that success will eventually follow failure; it is part of the process. Government policymakers need to remove the barriers that make one failure the end of success. He suggested that government should allocate resources and promote programs for success rather than policies that address failure. Entrepreneurs are not reckless
gamblers, but they need adequate training and support from top management, as does any professional.

**Capital.** While serial entrepreneurs are overly optimistic in projecting business success, Dujowich (2010) pointed out that what Ucbasaran et al. (2011) failed to emphasize in their research is the issue of undercapitalization. The entrepreneur who continues to open and shut down businesses must eventually face an economic reality. Schiff, Hammer, and Das (2010) alleged that most entrepreneurs go into a new business in hopes of removing themselves from their daytime job and grind. These new entrepreneurs typically underestimate the working capital that is needed to start a new venture. Additionally, they fail to factor in a personal budget and what the day-to-day, cost-of-living expenses are, and they do not put aside capital to replace materials sold as product. Most entrepreneurs do not realize the time it will take to turn a profit and may begin drawing money from the business for personal needs. As this cycle continues, the business is left with minimal working capital, creating the demise of the business.

Schiff et al. (2010) suggested a feasibility test for aspiring entrepreneurs to determine the personal financial needs of the family and what the business must generate to avoid the road to bankruptcy. The authors did not mention a type of entrepreneur (novice, portfolio, serial) in their study; however, the serial entrepreneur studied by Ucbasaran et al. (2011) might benefit the most from this type of test. If an entrepreneur were privy to this information, it may suggest a strategic time in the future for such an endeavor, allowing them to maintain their current employment with entrepreneurial opportunities at a later date (Schiff et al., 2010).
Failure repeated. Ucbasaran et al. (2011) claimed that serial entrepreneurs seem to thrive on failure, continuing until success is achieved. Yamakawa, Peng, and Deeds (2010) explained that failure can be beneficial up to a point and can vary under certain conditions. Isenberg (2011) pointed to external factors that might perpetuate the failure phenomenon. He did hold the entrepreneur accountable as did Yamakawa et al. (2010). It is likely for new entrepreneurs to experience some failure in their first set of businesses and learn from those lessons. However, how many failures can they sustain until they actually have a negative impact, and the learning curve is working against them (Isenberg, 2011)?

Yamakawa et al. (2010) looked at the number of previous failures, its effect on entrepreneurs, and the relationship to internal and external factors. They also wanted to know if failure was intrinsically or extrinsically motivated. If the cause was internal, this meant it was a controlled variable, and some traits the entrepreneur held, which influenced the outcome. External factors were events out of the control of the entrepreneur. An entrepreneur motivated intrinsically is one driven by the passion for his or her business and with the willingness to overcome adversity and challenges that lie ahead. Extrinsic motivation is motivation through rewards or gifts in exchange for something. The study found that entrepreneurs showing internal blame had a greater success with each subsequent business they started. They learned from their failures in greater numbers than those blaming external factors. This finding held true only up to a certain point at which time it caused a negative impact on subsequent businesses.

Dujowich (2009) posited that serial entrepreneurs blamed themselves for their failures, and they were able to rebound in a positive manner. Because the blame was not
on someone or something outside the business, those who turned to themselves for blame also turned to themselves to find answers and solutions for improving the subsequent business venture. Yamakawa et al. (2010) noted that those entrepreneurs who turn to internal factors for blame learn from this experience to the benefit of future endeavors. However, they do reach a point that their self-efficacy is at risk, which creates a burden that may have negative consequences. While all entrepreneurs face obstacles throughout their journey, those who can deal with the post-failure consequences are most likely to yield success in a business (Yamakawa et al., 2010).

**Small Business Success**

**Innovation.** Those possessing the skill of innovation carry with them the ability to excel and create entrepreneurial success based on a study by Dyer, Gregersen, and Christensen (2009). The researchers outlined five traits they found to be responsible as a catalyst for entrepreneurial innovation: (1) associating, (2) questioning, (3) observing, (4) experimenting, and (5) networking. Innovators have the ability to associate or tie unrelated ideas into cohesive information. This is known as the Medici Effect, which has its origins in Italy when specialists in various disciplines came together and sparked the era of the Renaissance. Innovators also have a strong drive to question things rather than simply take them at face value. Upon questioning something, what follows are a series of questions: why, why not, and what if?

Observing through action research is another way innovators view problems and seek solutions. For example, in the Dyer et al. (2009) study, it was explained that Intuit founder, Scott Cook, simply observed his wife’s frustration with taxes and bookkeeping. He went on to design and invent what is now called *Quick Books.*
The fourth technique common among successful innovators is their quest to experiment. Dyer et al. (2009) explained that innovative entrepreneurs have the drive to experiment in unorthodox ways, always looking for new ways and insight to see what will emerge from the experimentation. The final skill mentioned was the networking ability that high-end innovators develop and nurture in their quest for innovation. They surround themselves with different types of talented people with various backgrounds and skill sets. Like those of the Renaissance age, innovators engage with different talents in hopes of drawing inspiration from others and spreading their own message.

Dyer et al.’s (2009) research looked at 3000 entrepreneurs and high-end executives to determine which of the aforementioned skills were used. Those at the bottom of the chart were the non-innovators who lacked the five skills mentioned earlier. The top five innovators studied revealed the common skill of observation. Each scored near the 80th percentile in the survey. This leads to the theory of social capital among entrepreneurs and the value it plays in the performance of business success, and how they can expand their capital.

**Equity theory.** Job satisfaction, motivation, and performance are the three key elements that can provide an organization with a competitive advantage and enhance their effectiveness in the market (Al-Zawahreh & Al-Madi, 2012). These researchers stated that employees look at themselves and attempt to compare the input and output ratios relative to others within the same organization. These inequities may be the reason for failure if managers ignore this in the workplace. Conversely, employees experiencing equity generally perform at a higher level or at a level that equals the input/output ratio.
Al-Zawahreh and Al-Madi (2012) found that employee pay or salary is the most important form of outcome that an employer can deliver. Other factors include promotions, training, occupational title, and bonuses. They note that employees can experience guilt, shame, remorse, if the employer’s output is greater than their own input. In this case, research showed that employees would equalize this inequity through greater work efforts and increased performance. It was stated further that if employees understood from management with honest terms the reasons for cutbacks, reductions, and layoffs, then equity was realized. However, inequity is traced to theft, absenteeism, strikes, and grievances—all in a response to inequities between input and output ratios.

**Social capital.** Entrepreneurs running a small business in their neighborhoods or towns enjoy the benefits of drawing business from their local network. The theory of social capital looks at the level of social capital and its value to the success of the local entrepreneur (Schutjens & Volker, 2010). The researchers were interested in discovering what advantages are at play in establishing and building ties and networks on a local level. They asked, “Does social capital dictate performance; who can access the social capital, and to what extent?” The research team spoke to 385 individuals in neighborhoods in the Netherlands to see who had access to social networks and what lead to networking ties for the purposes of procuring and growing a business community. The findings revealed that an acquaintance is not as important as originally thought. Instead, they found that family ties and higher education were most important.

Additionally, those entrepreneurs with higher education had a greater source of available networking ties through their more-educated peers. This afforded them greater exposure and access beyond the local level. In fact, Schutjens and Volker (2010) argued
that the educated sectors were more likely to have social capital gains on a non-local level. Those with a greater level of education had a broader and more extensive social capital network than the less-educated group. Trades people, such as plumbers, construction workers, retail workers, and those working in manufacturing, also had stronger ties and social capital on a local level. Furthermore, businesses with partners had a greater amount of social capital due to the acquaintance concept. Each partner had the other’s network to draw on and expand from. Those businesses with one owner had a greater need for social capital since they lacked the network of a partner. Long-established firms held more social capital than newer firms because their network extended beyond several generations, and sheer time gave them an advantage. The larger cities allowed for greater social capital for no other reason than the greater supply and demand of businesses, people, and networks available (Schutjens & Volker, 2010).

**Self-management.** Management normally involves a leader and a follower or followers who collectively carry out various functions in an organization in hopes of accomplishing an objective or a goal (Lucky & Minai, 2011). What happens when there is only one owner, or person, and the leader and follower are the same? The theoretical framework discussed by Lucky and Minai (2011) argues that self-management is critical to the success of the entrepreneur and his or her business. If an entrepreneur’s personal affairs are in order, then there is a better chance of success in business. Self-management requires entrepreneurs to know who they are, how to invest their time wisely, plan strategically, and avoid time wasters.

The researchers explained that we all have the same 24 hours in a day, and those who understand how to manage their time will excel. As examples, they mentioned Bill
Gates, Michael Dell, and Steve Jobs and their ability to self-manage themselves and their successes. The researchers pointed to the direct correlation between an entrepreneur’s effective self-management style and its relationship to performance in the organization. Their methodology included a survey of 500 managers and entrepreneurs, and they used a Likert scale, measuring responses from one to five. The questions focused on the participants’ personal effectiveness and its impact on business performance as well as self-management style and whether they were reaching their entrepreneurial goals and objectives. The research revealed the importance of managing people and one’s self and how this can enhance the performance of the firm or organization.

Leadership

Leadership is a complex process and is present in many aspects of our lives (Kouzes & Posner, 2007). They asserted that leaders can reside in many places and can be found in ordinary individuals and in a host of different settings. Northouse (2010) stated, “Leadership is a process whereby an individual influences a group of individuals to achieve a common goal” (p. 3). With the many leadership styles today, Kouzes and Posner (2007) explained the five behavioral indicators that all of these styles embody. They include: (1) model the way, (2) inspire a shared vision, (3) challenge the process, (4) enable others to act, and (5) encourage the heart.

Model the way. Kouzes and Posner (2007) suggested that great leaders should model the way for followers and demonstrate through their beliefs and actions. Before they can be understood, trusted, and followed, what they stand for must be clearly communicated. Baldoni (2003) argued the importance of communication and the level of trust that is conveyed through a confident message. The level of trust between leaders
and their workers can model the way for the entire organization. “Credible leaders are those who by their actions and behaviors demonstrate that they have the best interests of the organization at heart” (Baldoni, 2003, p. 4).

Sabir, Sohail, and Khan (2011) suggested that leaders play a vital role in employee satisfaction and commitment to the organization through effective leadership. Although their study did not include empirical evidence, the research indicated that organizational culture provides a means to employee commitment. Whether the leadership exercises a transformational or transactional style, how the leaders align the company’s culture with the values of its employees is critical for a successful organization (Sabir et al., 2011). Through communication, leaders establish their credibility, and that credibility, as stated by Baldoni (2003), is the currency that facilitates action. Credibility is accomplished by telling the truth, disclosing the good as well as the bad, not overselling something for personal satisfaction, and simply doing what you said you were going to do, or, rather, model the way (Baldoni, 2003).

**Inspire a shared vision.** The second valuable trait of leaders throughout the various leadership styles involves the shared vision. Great leaders have the vision to look forward and then work backward based on that visionary goal. However, this needs to happen in concert with their followers, and those followers need to envision their own set of dreams. Kouzes and Posner (2007) stated that followers get this message only from a great leader who inspires a collaborative vision. Avolio (2011) discussed these sentiments as a sharing of dreams and visions. He pointed out that it is important for people to feel part of a larger group but not to the point of excluding others or perhaps team members, if looking at an organization. A shared vision can display a negative
action, if carried out through a cult, sub-group, or fascist organization. Avolio (2007) suggested the importance of trust among team members, so the shared-vision trait can yield a positive return with a shared vision at the individual as well as the group or company level.

**Challenge the process.** To challenge the process, Kouzes and Posner (2007) claimed that one must innovate, explore, search, and—at times—take risks. Leaders must constantly search out and push the limits of mediocrity because customers are always looking for the next new idea, service, or product. This trait is instrumental at ground level in creating ideas that can affect change or perhaps revolutionize an industry. For example, Slater (2000) described how Jack Welch, CEO of General Electric, instituted a program for his employees, giving them the unique opportunity to candidly express their feelings, good and bad, regarding operations at the rank-and-file level. Jack Welch became CEO of General Electric in the 1980s, and amid massive restructuring, layoffs, and re-organizing, saw a real need to create a positive, less-bureaucratic environment for both managers and workers.

At one of the company’s leadership programs in New York, Welch was confronted and bombarded with questions that he had dealt with many times in the past. He was asked, “What was the gap between leadership management and workers, and how can the problems be solved?” As explained by Slater (2000), Jack Welsh created a strategic solution named the *Work-Out Program*. Welsh began communicating directly with the lower-level managers and employees—those workers who were on the production floor. He realized that this group of followers understood better than he and the upper-level managers what was happening at the ground level. With the rollout of the
program, he began to realize that as workers began feeling more ownership of their work, they became more productive members of the team and of the company. The General Electric experience illustrates how great leadership places value on its followers, team members, and employees, and understands the meaning of accomplishing projects as a group (Slater, 2000).

**Enable others to act.** The fourth trait of leadership, as noted by Kouzes and Posner (2007), is enabling others to act. Effective leaders see goals and dreams in an organization come to fruition when a group has operated in concert with each other and not on an individual level. Leaders need to create a need of worthiness with their followers and let them exercise the talents they possess. Berger, Choi, and Kim (2011) argued that globalization is creating the need for leadership to embrace and understand the concept of local manager knowledge, local management, and social capital when large organizations expand their operations beyond their own country.

Riaz and Haider (2010) looked at leadership within companies and the effect it played on the followers’ and employees’ jobs and career satisfaction. With job success and career satisfaction as the dependent variables, the researchers studied how these were cultivated under different leadership styles. The study was conducted in Pakistan with 240 participants from various private-sector organizations. There were 65% males and 35% females in the survey. The participants ranged in age from 21 to 40 years, with 45% in managerial positions, and the balance in non-managerial jobs. The instrument used to measure the study was called the Transformational Leadership Behavioral Inventory (TLI) and used a five-point Likert scale.
The results of the study revealed a significant correlation between career satisfaction and transformational leadership. Not surprisingly, job satisfaction had a positive relationship to transactional leadership styles. This linked closely with the rewards system for employees performing well on the job and negatively for those who performed poorly (Riaz & Haider, 2010).

Since the recent financial meltdown of 2008-2009, there has been debate over globalization, anti-globalization, and its effect on the world economy (Berger et al., 2011). As companies expand into some of the lower pyramid countries of the world, what is the value of sending an expatriate to the country to run and manage the operations? Berger et al. (2011) suggested that these companies need leaders who can harness the value of local managers who are those people indigenous to the country. Kouzes and Posner (2007) suggested that trust and relationships are key ingredients when enabling others to act with a leadership strategy. When organizations spread their businesses to other countries, facilitating trust and strong relationships are best handled with local managers, local identity, and local social capital (Berger et al., 2011).

Encourage the heart. The final behavioral trait inherent in all leadership styles is classified as encouraging the heart (Kouzes & Posner, 2007). Leaders who expose their true feelings and appreciation to another follower and employee are connecting to the heart and soul of that person. Kouzes and Posner (2007) demonstrated this clearly through one of their stories involving a manager at a major corporation. This manager honored a key employee with a gift representing the dedication and hard work demonstrated by her associate. Secondly, she made purposeful efforts to celebrate and honor the team with a movie and lunch. She preserved this tradition so that it gave
special meaning to accomplishments by her entire team. The byproduct of this effort was the strength and cohesion that developed throughout the group for the efforts within the team itself.

**Leadership Approaches**

Some of the most widely studied approaches to leadership are skills, style, trait, and situation (Northouse, 2010). The most recognizable of the group, as cited by Northouse, is the situational approach. Within this approach, leaders have the ability to move along the continuum, making adjustments as different opportunities arise and as employees’ developmental skills change with time. This approach is not linked to any particular leadership type but, rather, studied from the lens of leadership style and the developmental levels of subordinates (Northouse, 2010). The synergy of multiple leadership types, namely transformational and transactional, is studied as full-range leadership (Avolio, 2010).

Avolio (2010) suggested that an effective leader must utilize the skills of both transactional and transformational leadership depending on the situation. “What we have clearly learned is that leaders who can balance transactional and transformational leadership across time, situations,[emphasis added] and challenges are the most effective” (Avolio, 2010, p. 50). The situational approach discussed by Kouzes and Posner (2007) is leadership that is acted upon in the moment. They highlighted a manager from Hewlett-Packard during a speech presented to students at Santa Clara University, emphasizing the importance of reacting in the moment. “Michele’s observation and her own experiences of leadership in the moment are testimony to how
important it is to approach every interaction and every situation [emphasis added] as an opportunity” (Kouzes & Posner, 2007, p. 348).

Chung (2009) described situations with small business entrepreneurs from what he calls the *garage team*. He explained that small companies may begin operations in what he terms a garage where the members of the company work and function initially from single-room environments. Chung described DHL International as beginning the delivering and shipping business in a garage where shipments were sorted and organized. As with other entrepreneurial businesses, he suggested the need for multitasking and situational management skills as a key factor in the success of DHL International. Although he did not use the label situational leadership, he noted that most small businesses are built as a moving target unlike large counterpart corporations.

These large corporations, Chung (2009) claimed, are so departmentalized that the need to change and adjust to the current situation is not a concern, as it seems to be in startups. Because Chung emphasized the value of each team member, he found it critical that each be nimble enough to take on different situational tasks. In the garage team, he stated what is not needed in the start-up days are marketing, human resource departments, or layers of managers and CEOs.

With start-up companies operating under the garage model and having limited resources, Chung (2009) noted the primary focus should be centered on selling and promoting the products and services. Assigning a CEO or executive-level position is detrimental to the start up because these organizations do not have enough specialized work to allow an executive the luxury of handling that one aspect of the business. Chung
suggested that this is the very thing that turns these companies into a dinosaur with a quick demise.

As one of the co-founders of DHL International, Chung has been a lead advocate of entrepreneurship and education. As chairperson of DHL (Hong Kong), Chung has taught creativity and entrepreneurship at the University of Hong Kong. He concluded that companies need flexibility in the formative years, and by assessing the situation at hand, each member of the garage team needs to feel out where he or she can best contribute leadership to the group’s goal.

If a leader is to capture the attention of an audience, he or she needs great communication skills, and as Baldoni (2003) phrased it, leaders need to engage their audience. He cited communication as a key element for all great leaders and stated that leaders need to reach their followers through both the heart and the head. Baldoni suggested that great communicators and orators reach their listeners by stimulating the intellect, appealing to the emotions, and engaging the body. Although some leaders may not capture their audience by their charismatic speaking, ultimately, if they share their superior knowledge on a subject, Baldoni argued that this will capture the listeners. Many speakers have the uncanny ability to express themselves and attract followers through storytelling. Steve Jobs of Apple Computers used his body language and computer demonstrations to entice his audience.

The third type of engagement used by successful leaders and communicators is the engagement of the physical body by the speaker in collaboration with the listeners. Baldoni claimed many preachers have the power to engage a group when they rally
people to get up and move. The simple act of engaging the body helps to engage the mind.

While there are numerous forms of communication for leaders to harness, there is little mention of the non-verbal level of communication (Remland, 1981). What situational approaches do leaders need to adopt when understanding their own non-verbal communication skills and delivery? Remland looked at the meaning behind messages sent from managers to their subordinates. He argued the same non-verbal facial communication might be interpreted differently from subordinate to subordinate.

Communication in large business settings are dominated more by speaking and listening than other forms of communication. In fact, Remland (1981) stated the importance of face-to-face dialogue in businesses, agencies, and government environments. However, he stated that 93% of the dialogue is actually through non-verbal communication or by way of facial expressions and body language. The role of great leaders is to understand their subordinates and adapt their behavioral skills to various situations and to each of their followers and subordinates.

When a leader’s verbal communication is not in line, or consistent, with their non-verbal communication, facial, and body language, this can send the wrong message to a particular employee. Remland (1981) suggested that successful leaders need to understand their behavioral signals because what they do has more influence on subordinates than on who they are and what they say. The influence of non-verbal communication is mentioned with two examples in the military and manufacturing world. A low-level enlisted person will salute to the authority of an officer in command and a factory worker may wait for a gesture from a supervisor before sitting down in the chair.
of their office. Both cases demonstrate the non-verbal communication delivered from a superior to a subordinate (Remland, 1981).

Similarly, Kouzes and Posner (2007) suggested that leaders need to be mindful of their behavior and set examples for the followers in an organization. The element of follow up from a leader will indicate how an organization might respond to commands. “What you do speaks more loudly than what you say” (Kouzes & Posner, 2007, p. 78).

**Leadership Model**

Northouse (2010) stated the leadership style most relevant and important is, in many cases, contingent upon the group being lead and managed. Many great leaders have their own styles they intend to exercise upon a group, but the type of followers the leaders must work with can dictate a leadership style based on the situation. These situational leadership approaches involve behavioral patterns that are both directive (tasks) and supportive (relationship) driven (Boleman & Deal, 2008; Northouse, 2010). Supported by Northouse (2010), the directive approach shows leaders acting in a one-way linear direction toward the subordinate, without much latitude on the part of the follower. Contrary to this approach is the supportive method that provides more collaboration between the leader and subordinate. The leader allows for a more active role on the part of the follower, listening and helping the person achieve their own goals while acting more as a facilitator. Figure 2.1 shows the difference between the two leadership approaches.
Entrepreneurial leadership. What is the relationship between leadership and entrepreneurship? Does one need to exist for the other to be practiced? (Bhattacharyya, 2006). Bhattacharyya claimed that some entrepreneurs are not always good leaders, yet some high-level executives are great leaders only to transform into entrepreneurs. The researcher looked at components of innovation, entrepreneurship, and the leadership skills that make this possible in both small and large companies. Bhattacharyya pointed out that simply starting a small local restaurant that caters to a particular customer base does not necessarily qualify someone as an entrepreneur. He cited an establishment like McDonald’s franchise, as an innovative company that has refined a business system,
developed management processes, and penetrated new markets. Indicated by Bhattacharryya, “This is entrepreneurship” (p. 107).

Bhattacharryya (2006) explained that purposeful innovation requires systematic thinking and planning. Many entrepreneurs want to quickly move ahead rather than methodically look at the larger picture that waits in the future. He noted that entrepreneurs fail in many cases by chasing the big dreams and not those modest pursuits. In contrast to this thinking, Sitkin, See, Miller, Lawless, and Carton (2011) explained that many companies set extremely high goals for the company in hopes of creating an innovative learning environment for the employees. Many companies see this as an opportunity to pursue the ultimate quest, and others see it as a last resort.

If innovation is to happen, Bhattacharryya (2006) noted that the management practices of the entrepreneur must address four key areas: (1) The company must embrace change and see this as an opportunity. (2) It must set the stage for the challenges to be worked. (3) The organization needs to provide the policy and procedural framework for entrepreneurial leaders to prosper and excel. (4) Lastly, managers need to understand that products, services, and technologies become obsolete, and without innovation, failure is inevitable.

Kouzes and Posner (2007) pointed to relationships as one of the five leadership practices of interest that great leaders need to own. They suggested that leadership is a relationship, which comes under the heading of enable others to act. Kouzes and Posner (2007) argued that leaders need to earn the respect and trust from their followers if the leadership is to project a clear, proven message. How can this be demonstrated at an early stage in someone’s life and be effective at a later time in a leader’s career?
Abbasi, Siddiqi, and Azin (2011) looked at the role of communication and the value it added to a potential leader from the standpoint of business leaders, professionals, and faculty members. Abbasi et al. (2011) wanted to show the four communication skills that entrepreneurs needed to enhance their leadership skills. These skills are reading, writing, listening, and speaking. Refined communications skills can bridge the gap between leadership and entrepreneurship. Abbasi et al. suggested that language skills will develop self-confidence, which will lead to entrepreneurial and leadership qualities. To command the respect of their followers, a leader must exude strong communication leadership skills.

Abbasi et al. (2011) conducted a quantitative study on the importance and need for teaching and studying entrepreneurship at higher education and the value of communication as a successful leadership skill. Their research included a self-rated questionnaire sent out to 50 participants. The participants included business persons, faculty members, and students at the undergraduate and graduate level. Each participant was given 25 questions and asked to answer using a Likert scale ranging from strongly agree (1) to strongly disagree (5). The second part of the research used a Likert scale as well and explored the importance of communication, leadership, management, and interpersonal skills.

The researchers sampled 100 faculty members, asking about the level of communication skills held by their students. The results of the two-part study revealed overwhelmingly, that entrepreneurial education at the university level is critical for those students looking to pursue a business. The study also noted the importance of an entrepreneur to the health and wellness of the economy. One of the responses suggested
this might be a solution to the unemployment problem. The second part of the survey looked at the importance of communication and concluded that excellent communication skills were important to the entrepreneurs’ success and the relationship to their followers.

**Franchise Ownership**

The concept of franchising can be traced to the medieval times, which includes the 5th century and up through the 15th century (Lafontaine and Blair, 2005). Lafontaine and Blair (2005) explained that the sovereign powers of the time, namely, kings, the church, and government, would relegate certain powers and duties to be carried out by groups or individuals. These activities were community based and were to be reported back to the powers in charge. This right to collect taxes or promote local activities was a privilege but with the responsibility of payment back to the sovereign group. A portion of the earnings was paid back to the king for the right of ownership to some activity. The payment was called a *royalty*; the term still in use today by franchise businesses (Lafontaine & Blair, 2005).

Dickie (1992) confirmed that the term franchising became part of the business lexicon in 1959 as a way of conducting business. Lafontaine and Blair (2005) wrote that
there are two basic types of franchise systems today. The first, called the *traditional*,
dates back to the 1800s when companies sold the rights to individuals or agents to sell
their goods and services within a sales territory. The most recognizable company
operating under this model was the Singer Sewing Machine Company and the
McCormick Harvesting Company. These companies eventually transitioned over to a
dealership model, where this is seen today in the automobile, gas station, and soft drinks
industry. These companies are referred to as dealers (Lafontaine & Blair, 2005).

*Franchising’s History* (2010) stated that Midas Mufflers is one of the largest
automotive franchises with more than 2,400 franchise stores extending throughout 15
countries. The company started in 1956 and has its primary business in the mufflers,
brakes, and tire maintenance business. Another household name occupying the franchise
world is the company known as H&R Block. *Franchising’s History* detailed how Henry
Bloch (spelled with an *h* at the end), while attending Harvard, discovered the tax
problems small businesses were having and later established H&R Block in 1958. This
would be regarded as a business-systems franchise that must follow certain processes and
procedures outlined by the corporate franchisor.

The two primary sources of income for the franchisor include the initial admission
fees and the ongoing royalty payments. Watson and Johnson (2010) argued that these
royalty payments are really management fees. Lafontaine and Blair (2005) explained it
in terms of royalty. The initial fee paid to the franchisor is the admissions payment to
become a franchisee. These fees may differ from industry to industry and be affected by
the maturity of the franchise system. If the franchise company is not well established,
then the fees are likely to be smaller than those franchise companies that have performed
well and been in existence for a longer period. The fee is normally based on the size of
the franchise territory and is relatively small over the life of the franchise. The royalty
fee is calculated as a flat fee, percentage of sales, or percentage of gross profit.

Lafontaine and Blair (2005) explained that some franchisors charge a minimum
royalty fee based on sales activity and targets established for the franchisee to reach.
New franchise companies struggle with the proper strategy to adopt when figuring
franchise fees and royalty payments. If the fees are too high, it may be difficult to attract
new franchisees to the business. These new franchisees may not know the future of the
franchise system and if they have to pay out a large portion of their income in royalty
payments this may make it difficult for the franchisor to bring in new owners (Shane,

**Franchisee vs. franchisor.** The major components of a franchise system in
today’s market include the products and services, the franchisee, and the franchisor. The
franchisor is the corporate office and support network, and it is the only entity that legally
owns the franchise name. The franchisee is the independent owner of one or more of the
franchise stores. McDonald’s is a franchise system with the corporate office selling and
administering all the stand alone franchise restaurants. They are also the only entity
holding the name McDonald’s while the local restaurants throughout the country may
operate under the name of John Doe’s Restaurant, Inc., doing business as McDonald’s
(Franchising Your Business, 2004).

The relationship between the franchisor and franchisee is very similar to a
company with agents under its control. It may also be compared to that of a supervisor
who may be the manager of a local store under the direction of the corporate office
The Agent/supervisor relationship has been studied extensively by many researchers through what is known as the Agency Theory. 

**Agency Theory.** The Agency Theory, as indicated by Vazquez (2009), is the framework that many scholars and researchers have looked to as the reason for failure in retail outlet businesses. When a manager is paid a fixed wage to operate a store branch, what are the incentives for producing sales and revenue? Vazquez (2009) believed franchising solves this problem by giving the store owner or manager a claim or stake on the profits. There are two parties involved in this theory, namely, the principal (company) and the agent (manager). When someone is simply given a fixed wage, the incentive to increase the sales efforts is diminished. In the franchise system, the Principal is the franchisor and the Agent is the franchisee. Because the franchisee benefits directly from every sale, it is suggested that the Agent (franchisee) is more engaged under this arrangement (Vazquez, 2008).

Much of the literature puts blame on management as a major contributor to business failure and conflict. This is looked at repeatedly in the literature through the framework of the Agency Theory. Shane (1998) is one of the most prolific researchers who studied the Agency Theory. He has written extensively on entrepreneurship, organizational behavior, and management science. Shane explained, as well, that franchising solves many of the problems linked to the Agency Theory.

**Agency Theory problems.** Franchising minimizes three problems under the Agency Theory. These include moral hazard, adverse selection, and upholding. Castrogiovanni, Combs, and Justis (2004) discussed these from a retail outlet perspective and compared it through the lens of a franchise system. There is a moral hazard that a
store manager has no incentive to deliver his or her best effort; but a franchisee, with ownership, will have a greater desire to be fully engaged. Secondly, the Agency Theory suggests that the store manager agent may inflate his or her qualifications to secure a position ordinarily reserved for a different type of candidate. Through the purchase of a franchise unit, it is believed that the owner has the skills to operate at a productive level. Lastly, the agent may ask for concessions and uphold the original contract after considerable resources, time, and effort have been invested in this individual. Comparatively, the franchisee has contributed their time, money, and resources, and any re-negotiation with the franchisor influences both parties (Castrogiovanni, Combs, & Justis, 2004).

One of the flaws to this theory, which is not studied at length, is the measurement of passive ownership in a franchise and its impact. Vazquez (2009) explained passive ownership under a franchise system may have the same results as the store outlet operated by a manager with a fixed salary. If the owner has given the responsibility to someone else (non-owner) and the behavior is not monitored, then performance may be marginal. However, if there are systems in place to monitor behavior, then the outcome is more likely to reveal a positive return.

**Relationship challenges.** Watson and Johnson (2010) brought to mind that franchisors who provide the promised services to the franchisees can expect the franchisee to perform favorably. Conversely, if the franchisor failed to deliver the support, training, research, and development that are expected, then the franchisee may act in an opportunistic manner. Akremi, Mignonac, and Perrigot (2010), described opportunistic behavior as franchisees acting in their own best interest by tarnishing the
brand name, disclosing proprietary company information, not complying with royalty payments, and encroaching on another franchise territory. Opportunistic behavior can act in reverse to this when the franchisor, in an attempt to sell and increase outlets, sells an overlapping territory to the detriment of neighboring franchisees, thus, saturating an area (Watson & Johnson, 2010).

Because of the complexity of legal contracts, franchise systems’ success has hinged greatly on the format of the contract (Azoulay & Shane, 2001). Establishing contracts between the franchisor and franchisee has been the subject of debate among experts in the field. Azoulay and Shane (2001) examined franchise systems and their contract terms relating to territorial exclusivity. They noted that franchise companies that exercised protected franchise areas had a higher success rate than those franchises with open or non-exclusive territories. Those marginal, non-exclusive franchise areas that border franchise territories under an exclusive agreement run the risk of losing customers to the adjoining franchise (Nair, Tikoo, & Liu, 2009).

Exclusive territories are geographic areas sold to one franchisee, giving that owner the protected rights to all of the business in the designated territory. A non-exclusive franchise area is open to all franchisees operating in the franchise system. The territory and purchase price are normally defined and calculated by its population, business count, or potential business available. Franchisors receive royalties based primarily on sales data, while the franchisees target monthly and yearly profit margins. This action is heavily favored on the side of the franchisor and, as suggested by Nair et al. (2009), a franchisor may sell another franchise unit in a non-exclusive area to increase sales and royalties, depleting the profits for the respective franchisee.
Sustainability. With the failure rate of small businesses reaching 80% each year in the United States (Gerber, 1995), are franchise businesses able to compete and operate more efficiently? Stanworth, Purdy, English, and Willems (2001), explained that these businesses are vulnerable, as well, in their formative years. Franchise companies are small businesses with the need for capital and resources of a mid-size company. Stanworth et al. (2001) pointed out that before these franchise companies reach a break-even point, a great deal of foundation and infrastructure needs to be developed. The franchisor must provide field support to its franchisees, recruit potential buyers, develop processes for running the company, and managerial functions.

Stanworth et al. (2001) explored the notion of why the franchisor would want to sell franchise outlets if it is a tried and tested formula for success. Why would they sell a business when it could be retained in-house at a greater profit? This is analogous to a corporation sharing their stock dividends with shareholders. It was explained that both parties are partaking in the fruits of the company’s labor. By enlisting franchisees to buy and operate additional stores and franchise offices, the franchisor understands that, in many cases, these franchise owners are prior small business owners. Secondly, the labor cost associated with the franchise operation beyond the initial investment is the responsibility of the individual owner with a nominal expense falling back on the franchisor (Stanworth et al., 2001).

Blut, Backhaus, Heussler, Woisetschlager, Evanschitzky, and Ahlert (2011) explored the intercompany relationships of the franchisee and franchisor at four different stages in the lifecycle of the franchise. Blut et al. (2011) stated that different opportunities exist at the various crossroads. Blut et al. looked at the relationship
between the two parties and the peaks and valleys of the franchise life cycle. Normally, the Life Cycle Theory can apply to companies by illustrating the dynamic relationship between business partners or intercompany communications.

The four stages of the Life Cycle Theory include: (1) formation, (2) exploration, (3) maturity, and (4) termination. These follow an inverted U-shaped curve with the strongest level of communication, cooperation, and shared norms falling at the maturity level. Blut et al. (2011) stated this is when the company experiences the greatest level of synergy between partners, associates, and company communication, as a whole. After this point, the termination phase, the costs, and benefits do not measure up, creating an imbalance and a deterioration of buyer-seller or intercompany relationships. This can differ dramatically within the relationship of a franchisee and franchisor (Blut et al., 2011). In fact, this theory follows a U-shaped curve with the honeymoon stage at the start, followed by routine, crossroads, and finally stabilization.

The Life Cycle Theory, through the lens of a franchise system, follows a U-shaped curve (Blut et al., 2011). When a franchisee purchases a new franchise unit, store, or business system, the excitement and the thrill of ownership translates into the highest level of intercompany relationship between the franchisee and franchisor. The communication level is at a peak, and the cooperation and dependence are at their highest points. Subsequent to this stage is the routine level, at which point reality sets in and the franchisee begins to experience the day-to-day grind and must now face performance and accountability measurements with the corporate office. Eventually, the franchisee enters the crossroad stage and begins to understand processes and conform to the system’s requirements. The last phase of the franchise life cycle is called stabilization. This is
when the franchisee has become a productive franchise associate and incrementally has improved for the betterment of the system. The level of dependence on the franchisor and system has dropped creating a stronger level of interdependence and less reliance on the franchisor (Stanworth et al., 2001).

After the *honeymoon phase*, the stabilization phase has the highest level of shared relational norms and communication between the two parties. This is another crossroads point for the franchisee as entrepreneurial tendencies begin to emerge. A challenge facing franchisors is finding the balance between exercising the standards in place, and allowing the franchisee the freedom to be an entrepreneur. By allowing some degree of autonomy, the franchisor is also unleashing its (or his or her) control of the system to its franchise holders (Davies, Lassar, Manolis, Prince, & Winsor, 2011). As a franchise system matures, the franchisees become less reliant on the home office, and political struggles can begin to favor the franchisee. This tug-of-war, suggested by Davis et al. (2011), can be the start of internal conflicts between the two parties.

In an effort to create a set of standardized rules and regulations for the franchise body, Phan, Butler, and Lee (1996) noted that it is difficult for the franchisor to plan for all the contingencies that may arise. Because all the detailed situations are unpredictable and not accounted for, this allows for some deviation from the written standards by the franchisee. These deviations can be difficult to monitor and police and they are not worth the franchisor’s effort. Are there enough opportunities for the franchisee to deviate from the norm? Ketchen, Short, and Combs (2011) explored whether or not franchising can be classified as entrepreneurship. If franchising falls under the entrepreneur category, then theoretical research needs to be conducted on this topic. If not, then the two fields,
franchising and entrepreneurship, should not be mixed and studied together. If the possibility exists, there needs to be further understanding of their overlapping components and the distinguishing features (Ketchen et al., 2011).

**Franchisee entrepreneur.** Mellewigt, Ehrmann, and Decker (2011) research looked to depict the franchisor as having greater control than the franchisee from a financial standpoint. Having a higher financial yield than the franchisee, the franchisor has more to lose and therefore has established rules and policies to maintain that position (Shane, 1996). Because franchising is regarded as a type of entrepreneurship, there is a delicate balance at play between the two parties, creating an enormous challenge for the system to operate synergistically (Davies et al., 2011).

Franchise owners can face enormous obstacles throughout their ownership, creating drastic changes in their existing business model. One case involved a franchise owner faced with the decision to sell the franchise business, convert to a new system, or run their franchise independently without the support of the franchisor. These compliance issues confront franchise owners with little or no recourse in the matter. Explained by McCrea and Torres-Baumgarten (2011), a franchise owner of a mailing services company had to decide whether to sell his franchise, operate it independently, or convert it over to the national shipping company that was taking over the franchise system. If the franchisee chose to operate the existing franchise independently, he or she would be free to exercise entrepreneurial freedom on his or her own terms. If the decision were to convert, the franchisee would be held accountable to the franchise standards.
Is franchising an entrepreneurial business? Ketchen et al. (2011) explored that notion in their research by answering with a yes, no, or maybe. They cited researchers who claim franchisees are not entrepreneurs but, in fact, may carry the label of non-entrepreneurial managers (Seawright, Smith, Mitchell, & McClendon, 2011). Ketchen et al. (2011) stated that franchisees have rules and standards to adhere to from the franchisor making the classification of an entrepreneur inaccurate—an independent entrepreneur has the autonomy to exercise more freedom of business than does a franchisee.

If a franchisee is going to be called an entrepreneur, then there needs to be scholarly work and theory tested in the field as well as added exposure to journal articles and research. If a franchisee is not going to be called an entrepreneur, then perhaps franchising should be not placed in the field of entrepreneurship to begin with. If it is undecided or a maybe, there needs to be further work to draw some concessions on when it is fair to consider franchising a form of entrepreneurship and when it is not (Ketchen et al. 2011).

Welsh, Desplaces, and Davis (2011) studied franchise owners as entrepreneurs, and looked at their success rates in comparison to an independent business. They considered an existing independent business in the same groupings as a franchise. Like a franchisor selling a proven and tested system, someone purchasing an existing independent business is also buying into a proven model. Welsh et al. (2011) argued that both the independent business and the franchise entrepreneur are driven by success and are risk takers. However, they claimed the independent business owner is more motivated, self-reliant and hence more independent. The franchisee or franchise entrepreneur operates more efficiently, but this may be the result from the economies of
scale they are able to capitalize on. Retail franchising performed favorably over independent stores under highly competitive conditions. Both groups were shown to reduce failure rates by their local presence in the community.

It was suggested by Welsh et al. (2011) that franchisees and franchisors have competing interests at work, placing the franchise entrepreneur at a disadvantage. Shane (1996) claimed these business system franchises or hybrid businesses solve many of the managerial problems faced by organizations. Unlike most managers in a company, the franchise concept allows for ownership by the manager or local store operator, giving them a stake in the game. Welsh et al. argued that the franchisee is driven by profit and growth while the franchisor places an emphasis on branding and shareholder growth.

Phan, Butler, and Lee (1996) argued franchisors are driven through sales motives rather than profit, whereas profit margin is what franchisees focus on. This may help explain why most incentives, royalties, activity targets are based on sales and not profit or gross profit. It is easier for the franchisor to monitor sales than profit, placing their interests ahead of the franchisee. Phan et al. (1996) outlined the different ways a franchisor accounts for royalty from the franchisee, and this theory may explain why they use sales rather than profit for accounting. Basing royalty on sales has no impact on the franchisor, yet tight margins can affect the franchisee quite differently.
Transformational Leadership

Avolio (2011) suggested that transformational and transactional leadership are the two most effective forms of leadership. He demonstrated that these styles create what is known as full range leadership (Avolio, 2011). Bass (2003) preceded this when he suggested that transactional leadership is simply an extension of transformational leadership. Avolio (2011) mentioned a discussion he had in one of his workshops with a student who felt the idea of transforming a company is only a theory and it could never happen in their company. He continued to state that, “an attitude that like may actually become the leadership style that is practiced” (p. 135).

Transformational leadership has been shown to possess several strengths, making it the most effective style (Avolio, 2011). This type of leader also displays strength in an attitude toward his or her followers. It is not just about the leader’s interests but, rather, the synergy between the leaders and followers and how they relate to each other. Northouse (2010), along with his colleague Bass (2003), understood that transformational leadership provides a foundation for other leadership styles and expands on their key characteristics.

Ling, Simsek, Lubatkin, Lyon, and Veiga (2008), studied transformational leadership at the corporate level to see what influence a CEO could command in a macroeconomic setting. The researchers looked at top management team members (TMT) and their relationship to the CEO. It was suggested that a CEO with transformational leadership skills could provide those entrepreneurial traits to their TMT by promoting product innovation and strategic activities. The more support the CEOs demonstrated toward the top management team members through transformational
activity, the more likely the subordinates would deliver to their TMTs. CEOs were shown to have a greater effect on those they directly worked with, rather than the group below TMTs. It was the job of the top management team to deliver leadership to those followers (Ling et al., 2008).

Ismail, Mohamad, Mohamad, Rafiuuddin, and Zhen (2010) suggested there were different indicators of follower outcomes based on the leadership style of their leaders. Depending on the leadership style, procedural, or distributive justices may emerge because of the leader’s style. Transformational leadership is grounded in a relational contract between the leader and follower, but the transactional leader delivers what Ismail et al. (2010) call an economic contract. The study conducted by Ismail et al. took place in Malaysia but with American companies occupying a subsidiary overseas. Ismail et al. explained that a relational contract implies that a follower adopt a social exchange with the leader through covenant and psychological agreements. Stevens (2011) supported these sentiments suggesting a transformational leader supports autonomous behavior, which allows followers more freedom and responsibility to become “leaders in their own right” (p. 37). The term transactional leader is derived from the idea of “transaction” implying “you, as the follower, have something I, the leader, want (labor), and I have something you want (money). So let’s make an exchange” (Stevens, 2011, p. 37).

Ismail et al.’s (2010) research included 118 employees in US subsidiary companies that participated in the survey and that looked at the correlation between the perceived indicators of justice by followers under different leadership styles. Both transformational and transactional leadership styles were predictors of trust. Transformational leadership was a predictor of procedural justice, indicating a level of
fairness with the organization’s systems and processes. Under a transactional leader, the survey concluded that a significant correlation to distributive justice was established. The distributive justice was defined by how an individual felt on issues of fairness, addressing awards and recognition (Ismail et al., 2011).

Similar to the study of leadership predictors on individual outcomes conducted by Ismail et al. (2011), Rehman, Shareef, Mahmood, and Ishaque (2012) examined the relationship between leadership styles and organizational commitment. Organizational commitment casts a larger view of an organization in the field of management, and behavioral sciences and looks at the employees’ sense of belonging, attachment, and engagement with the organization. Stevens (2011) indicated that transformational leadership provides a greater sense of personal fulfillment and satisfaction for both the leader and employee. Stevens pointed to four needs that are at the core of transformational leadership: (1) the need to love and be loved, (2) the need to grow, (3) the need to contribute, and (4) the need for meaning. When individuals feel a sense of belonging and are challenged to grow and contribute, they are more likely to return to work, feel more human, and are more organizationally committed (Stevens, 2011).

Rehman et al. (2012) stated that organizational commitment happens when employees uphold their citizenship to the company as demonstrated through positive behavior and being a part the overall company goals and achievements. They indicated three facets of organizational commitment including: (1) emotional attachment to the organization and how well they identify themselves with the company, (2) the rationale on leaving the organization and the costs benefits associated with staying or leaving the
company, and (3) the value they have with the organization and how obligated and responsible they feel about their commitment (Rehman et al., 2012).

The sample population came from 150 Pakistanis working in the educational sector. Of this sample, the researchers received 101 responses. The findings revealed both leadership styles lead to organizational commitment but transformational was slightly higher. On the Pearson correlation analysis test, transformational leadership showed a .327 and transactional showed .310.

Slater (2000) discussed the problem corporations had in the 1950s, 1960s, and 1970s and the inability to break out of the style of top-down management. The point was argued by Stevens (2011) who suggested that leadership rarely starts at the grassroots level but rather at the top. Transformational leadership normally begins at the top with the president, CEO, general manager, or even the human resources (HR) manager. Stevens further explained that the human resources manager is the one that deals with the well-being of the employees and has a transformational effect on others.

Finally, in the 1980s, Jack Welch and the General Electric Company thought it was time to challenge the norm. Welch who was CEO at the time, said, “The less managing someone does, the better off the company is” (Slater, 2000, p. 16). Those ingredients of the General Electric leadership style embraced energy, energizers, edge, and execution. This meant the leader needed to have energy to motivate team members by creating a competitive edge that is deliverable. All these components became part of a larger model of authentic leadership, which General Electric adopted (Slater, 2000).

Although General Electric has followed authentic leadership since the 1980s, Northouse (2010) implied that authentic leadership is an emerging style still in its
formative years of development. He stated that this style is exactly as it is called, authentic. An authentic leader needs to be real and authentic to his or her followers. It was clearly demonstrated what happens when the leadership style is not in practice and subsequently violated. Large corporations, like Enron and WorldCom, fell prey to the inaction of a leader not carrying out authentic leadership (Northouse, 2010).

Groves and LaRocca (2011) looked to explain the relationship between transformational and transactional leaders and their top management team members (TMT) to promote corporate social responsibility. Groves and LaRocca stated that transformational leadership is about putting others before a cause. They mentioned that deontological ethics is a trait of transformational leaders. Deontological ethics tells leaders to judge the morality of an action before carrying out their mission. One of the theories that links corporate social responsibility (CSR) to the leaders is the thought that transformational leaders influence their followers on a corporate level to carry out their message to the community at large, through the actions and values, passed from the leaders of the organization (Groves & LaRocca, 2011).

In times of technological, social, and political change, the need for transformational leaders is more valuable today than it has been in the past (Warrick, 2011). With downsizing, cutbacks, uncertainty, and ensuing competition, having one transformational leader at the top of an organization increases a company’s chance of success (Warrick, 2011). Warrick suggested that while transformational leadership is imperative for the success of an organization, it is not clear what skills are needed to carry out this type of leadership. In order for an organization to thrive in tomorrow’s
world, there needs to be collaboration between transformational leadership and organizational development, as both are interrelated.

The skills needed to deliver transformational leadership, as suggested by Warrick (2011), are leading, championing change, and transforming organizations. This can only occur when a company exercises the concepts of organizational development (OD). “OD is a planned and collaborative process for understanding, developing, and changing organizations to improve their health, effectiveness, and self-renewing capabilities” (Warrick, 2011, p. 13). In an economy that promotes greed, Stevens (2011) argued those companies operating with transformational leadership thrive under the paradigm of placing the growth and well-being of individuals over company profits. When this model is put into practice, organizations will ultimately persevere with happy more productive followers and greater profits (Stevens, 2011).

**Transactional Leadership**

Bass (2003) wrote that transactional leadership forms much of the base of what is known as the popular leadership style called transformational. This can evolve from a transactional leader delivering promises to followers and subordinates in the form of rewards and exchanges. If the transactional leader is able to maintain this promise and level of commitment, over time, the leader may earn the trust of his followers. This may be a viable strategy, but as Avolio (2011) argued, appeasing each employee and having him or her buy into transactional leadership can be a difficult challenge and may not have the consistent support of followers for the long term.

Bass (2003) explained that transactional leadership precedes the actions of transformational leaders; thus implying one style cannot exist without the other. This
notion of integrating transactional and transformational leadership is highlighted as full-range leadership (Avolio, 2011). As suggested by Northouse (2010), transactional leaders do not attempt to personalize goals or agendas for their followers; rather, they administer accolades and reward systems in hopes of influencing the behavior of subordinates in order to adhere to the leader’s plans and possibly the followers’ goals.

The most effective leaders are those who embody the elements and characteristics of both transformational and transactional leadership (Avolio, 2011; Bass, 2003). This is the premise of full range leadership theory, which makes for a more effective leader (Avolio, 2011). What happens when transformational leadership is trapped inside the world of transactional leadership, when managers and leaders are trying to affect change inside the organization? Seidman and McCauley (2011) discussed how these two styles, while sometimes polarizing, operate to change and transform an organization over time.

Transactional leadership is prevalent in those work environments that demand information, numbers, statistics, and measureable indicators. The transactional managers expect to receive something in return for the rewards and incentives set for the followers and subordinates. This theory works well for an organization that does not receive demands for change, customization, technology updates, and anything that warrants a cultural change (Seidman & McCauley, 2011). This leadership model was illustrated with a large telephone company and its telephone management sales teams and with a doctor’s medical practice. In both examples, transactional managers are focused on the counting of sales calls fielded by customer service agents during a particular time, and in the doctor’s case, the number of patients seen during the period of an hour.
Bass (1997) demonstrated the components of transactional leadership through the lens of selling or the sales process by salespersons. Bass suggested that selling requires both transactional and transformational leadership styles—full-range leadership—to be an effective salesperson. However, he noted that selling involves the process of a sale, which is a transaction or exchange, the very essence of transactional leadership. He stated; however, that the process may be an impersonal transaction between two parties. The salesperson has something the consumer wants, product, and the consumer have something the sales agent wants, money. When this type of transaction links to brand building; Morhart, Herzog, and Tomczak (2011), posited that transformational leadership is more effective for a company’s image and its customer sustainability.

An organization needs leadership at its core to persuade, influence, and command. It is through efforts that a company moves its followers and members toward a common goal (Kanungo, 2001). Whether the leadership employs a transformational or transactional style, each must maintain their ethical values, and Kanungo (2001) argued that organizations gain their credibility and moral integrity through their ethical values. “Without ethical leadership, organizations lose their long-term effectiveness and become soulless structures” (Kanungo, 2001, p. 259). Structure is a key element in transformational leadership enabling brand-building behavior, but when the transactional leadership exhibits a *crowding-out effect*, it undermines the branding behavior created by a transformational leader (Morhart et al., 2011).

Kanungo (2011) explained that leaders should follow two ethical perspectives—regardless of whether they consider their style transactional or transformational. Teleological ethical leadership does not account for the leader’s intrinsic value but,
rather, the value of the larger population or the good of the group and not any self-interest. The second ethical perspective is deontological and considers ethical acts as those that are performed out of obligation and for pure reason. The person is the end rather than a means to an end. Deontological leaders provide autonomy to their followers and allow them to dictate their own fate.

One of the driving motivators of a leader’s ethics is the altruistic intent of their actions. Kanungo (2011) proposed that a leader creates this through mutual altruism that includes the leader’s own self-interest in mind but for the benefit of the whole. The second approach removes all self-interests and demonstrates self-sacrifice and inconvenience on part of the leader (Kanungo, 2011).

Transactional leadership is needed to provide structure, accountability, standards of practice, reward measurements, and goal setting, and it is still popular among personnel managers who must oversee employees who are relating to frontline customers (Morhart et al., 2011). However, there is a point of diminishing return when transactional leadership is discounted, and the style delivers a negative psychological impact on its followers. Bass (1997) argued that some transactions are void of any behavioral influences. Morhart et al. suggested transformational leadership can foster branding behavior by its followers, through the employee’s ability to create brand perception from the customer.

Transactional leadership impedes this behavior from its followers, suggesting they only do what is required with a pay for performance management style (Morhart et al., 2011). It is stated by Morhart et al. (2011) that frontline employees are not thwarted by a transformational leader, and perhaps this style leads to in-role branding behavior as well
as extra-role branding. These two branding behaviors promote and demonstrate a follower’s desire to work beyond the written code and contract and carry their actions and loyalty for the good of the company and its corporate brand (Morhart et al., 2011).

Motivation is shown to be one of the behavioral elements to success within an organization, leading to greater productivity (Chaudhry & Javed, 2012). The researchers understood the value of leadership, but wanted to study the style that was grounded in motivating a company and its employees in the banking sector. The Latin derivation of the term motivation translates to “mover” or “to move.” They studied a group of 278 participants in the Pakistani community to research what leadership style would emerge as the dominant motivating catalyst. The independent variable was motivation and the dependent variables included contingent reward, management by exception (active), management by exception (passive), passive/avoidant management, transactional leadership, and laissez faire management. Using descriptive statistics and Pearson’s correlation (Chi Square), the study reported a positively significant association between motivation and transactional leadership. The standard deviation was .63465 compared to laissez faire reporting a low motivational significance at 1.10385 SD (Chaudhry & Javed, 2012).

Seidman and McCauley (2011) explained that too many organizations operate under transactional leadership guidelines by micro-managing transaction measurements. This management approach makes it difficult for companies to respond quickly to new products, systems, and ensuing competition. Conversely, transformational leadership addresses some of those intangibles, including motivation and encouragement, to effect change and enhance performance.
Because of some recent theoretical advances in organizational change, transactional and transformational leadership styles have been shown to work collectively for the benefit of both schools of thought (Seidman & McCauley, 2011). One of these is called *neuroscience* and looks at the sustainability of a group within a company. The metaphor of neuroscience refers to the idea that to achieve sustainability, leaders need their followers working together just as neurons fire and are wired together. Seidman and McCauley (2011), stated that transformational leaders operating within a transactional leadership culture struggle with sustainability as a strategy.

Bolman and Deal (2008) explained that a company must demand training and participation from its subordinates for sustainability to occur. In their study, they found that when a corporate firm decided to invest resources into a new hi-tech system for the purposing of advancement, it received some push back from many of the long-standing employees. When the company demanded to move forward, little buy-in and participation took place. Once the CEO was able to find the resources for training on the new system, the opportunity was gone. Bolman and Deal (2008) argued that organizations need the transformational buy-in and support of participants for new ideas to prevail.

A second advancement in organizational change involves what Seidman and McCauley (2011) referred to as *positive deviants*. These people within a group love what they are doing and see their job function as a means of promoting social goodness. With their infectious attitude toward others, they facilitate buy-in from their peers. They are highly respected by their co-workers and very influential with transactional managers. By promoting social goodness through transformational change, these deviants allow for
a higher value of transactional behavior among the followers (Seidman & McCauley, 2011). The third means of affecting organizational change happens through a *fair process*. This translates to deviants and leaders treating their subordinates and followers with a sense of fairness. This, again, has the contagious effect of permeating an organization with a sense of dignity and respect and spreading the social goodness deeper and deeper into all levels of the company. The fairness process actually works on its own, allowing a transformation to occur in areas without a transformational leader present.

The *final breakthrough*, although an enormous challenge, looks at developing organizational change by mass customization. For transformational leaders and managers, working under the transactional umbrella, this requires a great deal of motivation, vision, and passion on the part of a leader. Seidman and McCauley (2011) noted that moving a localized idea to a larger scale rollout is accomplished by the positive deviants in the organization. Ideally, leaders need to have touch points with all of those in the system where buy-in is imperative. As large companies grow and spread across states and countries, this strategy becomes inefficient. This is where transformational leaders begin to harness the power of positive deviance. As Seidman and McCauley (2011) stated, positive deviants can spread the word and effect change throughout the organization in many of those areas that the leaders are not able to logistically penetrate.

**Chapter Summary**

This chapter looked at the various types of entrepreneurs and provided a deeper understanding of entrepreneurial behavior and the critical role entrepreneurs, both
franchise entrepreneurs and independent, play in the health and welfare of the economy. The review of the literature looked at some of the possible reasons for the high failure rate among new businesses and entrepreneurs and solutions that may mitigate this problem. The chapter outlined what some entrepreneurs are doing to harness talent and affect change in the local and world economy. The literature discussed the importance leadership plays in the success of businesses across various sectors and the absence of this in franchises and small entrepreneurial organizations.

While franchising may be an option for entrepreneurs, it is plagued with failure as well. The literature review highlighted two major types of leadership styles in practice today and demonstrated how these styles can affect positive change in businesses. Chapter 3 will look at the design and methodology that the study underwent to determine whether successful franchisees show a stronger proclivity toward transformational or transactional leadership and the correlation of leadership styles to specific demographics.
Chapter 3: Research Design Methodology

General Perspective

With so many small businesses starting out in the United States, why do so many fail in the formative years? The lens of leadership may be one perspective useful for answering this question. Leadership and leadership styles have been studied extensively, and certain types of leadership, such as the transformational leader and the transactional leader, seem to deliver success in organizations (Northouse, 2010).

Northouse (2010) stated that transformational leadership has had the endorsement of many CEOs, prominent leaders, and top organizations. He noted that transformational leaders are in the forefront promoting and respecting the sentiments of others and delivering a vision for the future of business leaders. This form of leadership has been shown to have an influence on followers, providing them with the tools to accomplish tasks normally beyond their abilities (Northouse, 2010).

A second leadership style is transactional leadership, which is a management style based on a reward system to either motivate followers or help promote and advance the leader’s own agenda (Northouse, 2010). Avolio (2011) stated that while transactional leadership forms a foundation for transformational leadership, it does not promote an individual’s full potential and thereby makes one less creative and innovative. These two leadership styles, transformational and transactional, formed the theoretical framework for this research.
Given the high failure rate among entrepreneurs, small businesses, and franchise organizations (Gerber, 1995), a clearer understanding of effective leadership is what is needed. The limited amount of scholarly research and literature in franchise and entrepreneurial leadership has perpetuated the problem. Given the fact that small business enterprises form the backbone of the United States economy, it is important to understand the statistics surrounding the success and failure rate of these organizations. Each year, more than one million new businesses are formed in the United States under a variety of structures. Within the first year, 40% fail, and after five years, 80% fail. Of those that manage to remain successful, 96% are gone within a 10-year span (Gerber, 1995).

Entrepreneurial small businesses may be failing due to a lack of transformational leadership. Kouzes and Posner (2007) defined transformational leadership as leadership that motivates others to collaborate with their leader in a concerted manner. A transformational leader provides the incentive that followers need to contribute to the good of the group or organization. Bass (2003) and Avolio (2011) stressed the importance of transformational leadership in organizations. They argued that transformational leaders help motivate followers to perform at a higher level than was originally intended.

Bass (2003) suggested that transactional leadership is simply an extension of transformational leadership, and Avolio (2011) explained that effective leaders must exercise both transactional and transformational leadership, the combination of which is known as full-range leadership. Avolio argued that transformational leadership on its own might limit the success of followers, making them rely solely on the potential of
their own abilities. Transactional leadership, however, facilitates the key elements of goal setting and performance monitoring. Conversely, organizations that lack transformational leadership do not prepare followers to ultimately lead on their own, adapt to changes, or embrace innovational challenges (Avolio, 2011). Therefore, both styles of leadership are needed to create a highly effective organization.

The review of the literature in Chapter 2 outlined the importance of leadership in organizations and looked at why some organizations succeeded while others failed. The literature review showed that extant research has failed to provide answers for entrepreneurs who operate through a franchise model. Additionally, the existing research has not examined whether leadership in these organizations contributes to their success.

This study attempts to answer the following research question: Is there a significant relationship between the various degrees of success of selected national franchises and the assessed leadership styles of their transformational and transactional leaders as perceived by the leaders? The levels of success were defined by the researcher, and the leadership styles assessed were transformational and transactional.

The four supporting research questions are as follows:

1. Is there a significant relationship between the gender of the leader, the degree of success of the franchise, and the dominant leadership style?
2. Is there a significant relationship between the age of the leader, the degree of success of the franchise, and the dominant leadership style?
3. Is there a significant relationship between level of education of the leader, the degree of success of the franchise, and the dominant leadership style?
4. Is there a significant relationship between the size of the franchise, the degree of success of the franchise, and the dominant leadership style?

The study looked at the leaders in a national logistics franchise organization that operates as a business-systems franchise, and the researcher conducted t-test analyses to determine whether the degrees of success of these franchises showed a significant relationship with transformational or transactional leadership styles.

The study defines a successful franchise as follows:

1. The franchise business has been in operation for at least five years.
2. There has been a year-over-year incremental positive-growth pattern for the past five-year period.
3. The franchise has net revenue of $300,000 by the end of the fifth year.
4. The shipment requirement from the franchisor was met during the past five years.
5. The franchisee has retained 75% of its customer base for the past five years.

The quantitative research design consisted of two primary sets of analysis from data collected using the Multifactor Leadership Questionnaire (MLQ). The data was used to determine whether a participant showed a tendency toward transformational or transactional leadership. Data were collected from franchisees across the United States. In that the targeted research participants are part of a single franchise organization, and fragmented and located in many areas of the country, a qualitative study was not logistically possible within the time constraints of the dissertation process. An online survey, however, offered an appropriate method for this study.
Data analysis, first, compared the independent variables (transformational and transactional leadership styles) against the mean of the dependent variable (degree of success in franchises) using a t-test. The second analytic component examined the demographics of the sample population (gender, age, education, and size of franchise) in order to determine whether certain demographics showed a correlation between leadership style and success. Descriptive statistics were used to report demographic comparisons between the two leadership groups and their relationship to success and leadership styles.

**Research Context**

The franchise organization studied composed of approximately 200 individual franchise sites. The corporate franchisor office is located in the western part of the United States. The company began in the late 1980s with only one office and one franchisee. Its primary services have evolved over time with the expansion of additional franchise units, but its core mission and objective have not changed. The company is a third-party logistics (3PL) agent for other companies such as United Parcel Service (UPS), DHL Worldwide Express (DHL), Yellow Roadway Corp, and 25 additional freight carriers.

The partnership with the listed companies has allowed each franchisee the opportunity to penetrate their local markets, and with leadership and entrepreneurial skills, build and service their own pool of customers in their respective territories. The geographic location and size of each franchise can vary considerably as well as the franchisee’s gender, age, level of education, and franchise size. The typical franchise location consists of an office suite located within the franchisee’s territory as set by the
contract of the franchise agreement. The franchise leaders normally work with inside and outside sales representatives, customer service agents, freight consultants, billing clerks, and managers. To minimize bias, the researcher, a franchise owner and operator, did not participate in the study.

**Research Participants**

The research participants were leaders, owners, CEOs, or presidents who are part of the national logistics franchise organization located in the western part of the United States. It included those owner-operators who take on the leadership role within their franchise. The entire population of franchise owners in this system included 200 owner-operators, and the goal of 25% of the entire population of 200 franchise leaders was the target for this study. The 50 participants were selected without bias to any particular geographical area within the United States.

The information on the franchise leaders was gathered using an online database provided by the franchisor to all franchisees. This information was accessed by the researcher through the company’s intranet support website. This list included all franchisees and their corresponding name, telephone number, electronic mail address, name of their franchise entity, and city and state of operation.

A pre-qualifying email (See Appendix A) was sent to the franchise body of owner-operators to initially determine if they met the requirements for participation in the leadership study. Each franchisee was required to answer yes to the three following questions to qualify as a participant:
1. Are you an active owner?
2. Do you employee at least one person?
3. Have you been a franchisee for at least one year?

The second phase of this process called for gathering, collecting, and codifying the email responses from all potential participants that qualified for the study. Those franchisee owners who did not meet the qualifiers by answering “yes” to all three questions were eliminated from the study. Each of the qualified respondents was listed on an Excel spreadsheet as Potential Participant #1, #2, #3, etc. The names, phone numbers, email addresses, franchise entity names, cities, and states were listed on the Excel data sheet.

A second email was sent to a random group of 50 potential participants asking for their participation in the leadership research study (See Appendix B). The individuals that responded to the second email and agreed to be a participant were included in the study. With a response rate of less than 50 participants, a second randomly chosen group was selected to complete the deficit. The researcher continued through the initial list of potential participants, randomly choosing the balance needed until 50 respondents agreed to participate.

As needed, an additional email campaign was developed and combined with follow-up telephone calls, to those unresponsive to the initial email. Once the researcher procured 50 qualified participants who agreed to participate, the process was discontinued. The remaining unresponsive participants were still considered for the study for increasing the sample, however, only one additional participant subsequently agreed but failed to properly answer and return the survey results to be counted. If more than 50
respondents agreed to participate from the first randomly chosen group, this larger sample pool would have been used for the study.

The franchise leaders who agreed to participate in the study were not compensated but offered the opportunity to receive a confidential email copy of the leadership survey results directly from Mind Garden, Inc.

**Instruments Used in Data Collection**

This study investigated whether there was a significant correlation between the franchise’s success and the leadership style of the franchise owner, as perceived by the leader. The individual franchisees were chosen from independent sites from all regions of the United States. The data collection instrument was the Multifactor Leadership Questionnaire (MLQ) survey. The MLQ was designed to identify leaders’ tendencies toward either a transformational or transactional leadership style, rather than classifying them with an absolute leadership style. The MLQ was developed by Avolio and Bass (1995) was found to be valid and reliable. A valid instrument is one that delivers what it purports to test, and a reliable instrument reports the same findings after repeating the test several times. Mind Garden, Inc. holds the copyrights to the MLQ survey. The company customized the survey to meet the specific needs of the researcher. The survey contained three sections with a total of 37 questions.

The first section included questions designed for the leader, owner, or president of the franchise office. This form had 28 questions (See Appendix C) wherein the leader assessed his or her leadership style and behavior toward the followers, employees, and associates in their organizations. Eight of the questions centered on transactional leadership, and 20 focused on transformational leadership. The questions were not
categorized in any particular order, giving the instrument further integrity. The survey used ordinal data on a five-point Likert-scale rating format with answers ranging from 0-4, with 0 meaning “not at all” and 4 meaning “frequently, if not always.” Participants completed the survey online, and unlike a manual survey, the online version forced the participants to answer each question before advancing to the next question.

The second section included five questions regarding the degree of success in the leader’s franchise organization, as defined within the study (See Appendix D). The questions recorded nominal data requiring a “yes” or “no” response, and all five questions needed to be answered with a “yes” or “no” to qualify the leader as a participant.

The last part of the survey included four demographic research questions and used a nominal scale. The demographic questions included gender, age, level of education, and size of the franchise (See Appendix E). The instrument prompted the participant to choose from a drop-down menu of demographic choices, with each question providing two options. The instrument asked whether the participant was male or female, greater than or equal to the age of forty, whether the participant was a college graduate, and if the size of their franchise was between 0-3 sales territories and greater than 3 sales territories.

**Administering the MLQ.** All participants were asked to complete each section of the survey and were informed that the survey requires approximately 20 minutes to complete. They were asked to read and agree to an informed consent agreement prior to completing the survey. All email addresses from qualified participants were uploaded to the survey system, and Mind Garden, Inc., sent out the survey electronically. The participants’ anonymity was maintained by Mind Garden, Inc., and the researcher had
access to only the collected data. If follow-up was required in order to obtain all survey
responses, an email was sent to the entire group of participants noting that some
participants had not completed the survey. Data analysis began once all the data had
been collected.

**Validity.** The extent to which an instrument demonstrates results that are credible
and meaningful yields its validity. The validity of a study can tell the researcher if it can
be generalized to a larger population. Avolio and Bass (2004) have been instrumental in
the development phases of the survey instrument for over 25 years. Antonakis, Avolio,
and Sivasubramaniam (2003) suggested the instrument was valid in the measurement of
full-range leadership. Antonakis et al. (2003) conducted a study on 1,089 female raters
and 2,279 male raters from the same business sample pool and who, in turn, evaluated
same-gender leaders. They concluded through this test that the MLQ survey instrument
was valid in establishing the effectiveness of a leader across the full range of leadership
styles.

**Reliability.** Bass and Avolio (1990) conducted a reliability test of the MLQ by
studying two sample populations on six leadership factors using a 36-item questionnaire
survey. The first reliability test included 1,394 participants, and the second sample
population had 1,498 participants. The questions were rated on a five-point Likert scale
format. The test looked at the mean, standard deviation, and the inter-correlation
between the two groups using Cronbach’s alpha coefficient to report values. The scale of
the first group ranged from .63 to .92, and the second group ranged from .64 to .92.
These findings were consistent with earlier versions of the MLQ developed by Bass and
Avolio. Estimates of internal consistency were greater than .70 in all the leadership factors with the exclusion of management-by-exception (Bass & Avolio, 1990).

Cheung and Rensvold (1999) studied the reliability of the MLQ instrument across gender lines, using the six-factor leadership model to test the following: charisma/inspirational, intellectual stimulation, individualized consideration, contingent reward, passive corrective, and management-by-exception. The participants included 1,392 women and 2,766 men. The results from the test taken by the two groups showed invariance with charisma/inspirational, intellectual stimulation, individualized consideration, contingent reward, passive corrective, and management-by-exception. The researchers concluded that the instrument could be expected to function across genders equally—at least in the United States (Cheung & Rensvold, 1999).

Data Analysis

The research involved a quantitative analysis of the relationship of franchise success and the leader’s tendency toward a transformational or transactional leadership style in a business-format franchise system. The data collection instrument used a five-point Likert scale. Sub-questions were investigated using demographic data collected at the same time the participants complete the MLQ. The data were collected and processed through the Statistical Package for the Social Sciences (SPSS), a statistics program on a Windows-based system.

The SPSS was used to run an independent t-test on the data, indicating to the researcher the mean of degrees of success between the transformational and transactional groups. The t-test analysis was used to determine if the difference between the two groups was significant or not. If the significance value was .05 or less, then it was
reported as significant. These findings showed the relationship between the degrees of success and the tendency toward a transactional or transformational leadership style in this national logistics franchise system.

The first section of the survey included 28 questions on leadership styles. The average score of the Likert scale was used to determine the tendency of each participant toward transformational or transactional leadership style. The survey provided 20 questions focused on transformational leadership and eight on transactional leadership. The transformational leadership scores was totaled, divided by 20, and carried out to two decimal points. The same process was used on the eight transactional leadership questions. These scores were totaled, divided by eight, and carried out to two decimal points. The higher of the two numbers instructed which leadership group the participant was placed. This data was used to separate the sample population into one of two groups—transformational or transactional—and each participant was identified with the appropriate style. If a participant’s numbers were identical and he or she could not be placed into one of the groups, this was reported as such in the study.

Bass and Avolio (1995) noted that transformational and transactional leadership styles are associated with specific influences and behaviors. The questionnaire was divided into different sub-scales for each leadership style. Transformational leadership sub-scales included idealized influence (two parts), inspirational motivation, intellectual stimulation, and individual consideration. Transactional sub-scales included contingent reward and management-by-exception. The MLQ survey yielded statistics on the descriptive data on all participants’ responses to the questions and a breakdown of each
The researcher reported on the mean, median, mode, and standard deviation for each participant in each of the sub-categories.

The second part of the MLQ survey was customized to include five questions relating to the level of success of each participant’s franchise. The level of success of the organization was decided based on a combination of yes and no answers to the questions. Each “yes” answer received 1 point, and each “no” answer received zero (0) points. Participants answering “yes” to all five questions were coded with a “5” on the success continuum. Participants answering “no” to all five questions were coded with a “0” on the success continuum. All numbers between those ranges were included and coded with the respective numbers 1, 2, 3, or 4.

A t-test was then used to analyze the mean of success from the transformational and transactional leadership groups. The means calculated out to two decimal points due to the limited range between 0-5. All of the participants in the transformational group had a number corresponding to their organization’s level of success, and all the participants in the transactional group had a number corresponding to their organization’s level of success. These two groups of numbers were totaled and divided by the number of participants in the respective groups. A t-test analysis determined if the difference between these averages indicated a significant difference at a level of .05 or less. The study also reported on the standard deviation, mode, median, and frequency of the two groups’ level of success.

The third section of the survey included a demographic study of the sample population using nominal data. Participants identified their gender, age range, level of education, and size range of their franchise organization through a series of four
questions. Each question had only two choices as a response, allowing the researcher to use a binary coding system of “0” and “1” when categorizing each answer. All of the answers classified as male, less than or equal to forty years of age, no college degree, and a franchise territory less than or equal to 3.0 sales territory were coded as a “0” for data analysis purposes. All the answers classified as female, greater than forty years of age, college educated, and a franchise territory greater than 3.0 sales territories were coded as a “1” for data analysis purposes. Once the researcher finished coding the four demographic categories, the data were uploaded into SPSS along with the data collected in Section 2 of the survey. It included that participant’s organization’s level of success number. A t-test analysis was then used to determine if there was a significant difference within each demographic category and level of success. This demographic analysis was performed with both leadership styles.

**Summary of the Methodology**

The proposed research was a quantitative analysis of the relationship between leadership style and success of a franchise. An online MLQ survey was used to collect the self-perceived leadership styles of 50 franchisees. Additionally, data analysis examined the relationship between gender, age, level of education, and size of the organization in order to determine whether there was a relationship between those variables, leadership style, and the success of an organization.

The researcher outlined and recorded a timeline of events using a Microsoft Excel spreadsheet to help manage and facilitate the study. Each activity showed a projected date of completion with an actual date of completion. Each participant was assigned a number with his or her corresponding name, email address, telephone number, and
location. Completion of the MLQ by each participant was recorded. If a participant failed to respond, a follow-up email to the entire group was administered, indicating that one or more participants failed to answer the entire survey. After three failed attempts, the prospective participant was removed from the survey and noted as a non-responder. Those that did respond to the survey were instructed to answer all of the questions to be considered valid participants.

The survey was administered through a third-party company, Mind Garden, Inc., to maintain anonymity between the researcher and the participants. Mind Garden, Inc. did not disclose the names of the participants to the researcher and only identified them with a participant number. With the completion of the study, all anonymous data collected by the researcher remains in a locked safe for a period of three years. Once that time period has been reached, the data will be destroyed by the researcher, only leaving access to the information through the written dissertation and online library system.
Chapter 4: Results

Introduction

The purpose of the study was to determine whether there is a significant correlation between the success levels of a franchise and the leadership style of the owner. The study examined the correlation between the dominant leadership style and the success levels in four demographic categories including gender, age, education, and size of the franchise. The quantitative study used the Multifactor Leadership Questionnaire (MLQ) survey to collect data from qualifying franchise leaders. Qualifications included the following conditions: a) active owner, b) worked with at least one follower, and c) in the business for at least one year.

Research Questions

The study addressed the following five research questions:

1. Is there a significant relationship between the various degrees of success of selected national franchisees and the assessed leadership styles of their transformational and transactional leadership as perceived by the leaders? The levels of success were designed by the researcher and the leadership styles were transformational and transactional.

2. Is there a significant relationship between the gender of the franchisee, the degree of success of the franchise, and the dominant leadership style?

3. Is there a significant relationship between the age of the franchisee, the degree of success of the franchise, and the dominant leadership style?
4. Is there a significant relationship between the education of the franchisee, the degree of success of the franchise, and the dominant leadership style?

5. Is there a significant relationship between the size of the franchise, the degree of success of the franchise, and the dominant leadership style?

Chapter 4 reports on the research findings through a narrative approach supported by tables and graphs depicting the statistical and descriptive data. Each of the five research questions follows this format in their respective order.

**Data Analysis and Findings**

Survey data were collected from leaders of a logistics franchise organization and responses were processed by a third-party company Mind Garden, Inc., to maintain anonymity. The targeted population was smaller than originally planned due to the number of co-owned franchised units. Identifying the redundant ownership arrangements reduced the population from 200 to 100 franchise leaders. These numbers showed some variance due to the dynamic nature of the systems’ franchisee enrollment process and attrition level. However, the variance did not influence the number of qualified participants expected for the research study. Table 4.1 demonstrates the results of the process used to arrive at the 50 qualified participants.

The 50 qualified participants responded to a three-part online MLQ survey designed to assess a tendency toward a dominant leadership style, determine the franchise level of success, and address four demographic questions regarding gender, age, education, and size of the franchise.

Four qualified participants did not respond to subsequent emails and two declined the study. Table 4.1 represents the entire population including all franchise leaders who
declined participation, failed to respond, issued an incomplete survey, or maintained
erroneous contact information. Twenty franchise leaders answered “no” to at least one of
the three pre-qualifying questions, eliminating them from the study.

Table 4.1

*Population Breakdown*

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Franchise Leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified Participants</td>
<td>50</td>
</tr>
<tr>
<td>Non-Qualified Participants</td>
<td>20</td>
</tr>
<tr>
<td>Unable to Contact</td>
<td>10</td>
</tr>
<tr>
<td>Qualified, No Response</td>
<td>4</td>
</tr>
<tr>
<td>Qualified, Declined Participation</td>
<td>2</td>
</tr>
<tr>
<td>Survey Not Completed</td>
<td>4</td>
</tr>
<tr>
<td>No Initial Response</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

In the first section of the survey, the franchise leader answered 28 questions
dealing with transformational and transactional leadership. The questions were randomly
placed between the two leadership styles. The survey was structured such that each
respondent had to provide an answer before advancing to any subsequent question. The
instrument used ordinal data on a Likert-scale with answers ranging from 0-4, with 0
The participants could choose “not sure” if they were unable to give a valid answer. This was recorded as a “blank” on the output data sheet. Six participants answered one question as “not sure” and one participant answered “not sure” to two of the questions.

Each participant answered 20 transformational and eight transactional leadership questions. Each question received an answer between 0-4 on the Likert scale. The responses to the transformational questions were added and divided by 20 to yield a value on the transformational Likert scale. The same procedure was performed on the eight transactional questions except the total was divided by 8. For instance, if a participant’s score on the transformational questions yielded a total of 60, then the number was divided by 20 to produce a 3 on the overall transformational Likert Scale. If the same person scored a 16 on the questions addressing transactional leadership, then the number was divided by 8 to yield a 2 on the transactional Likert Scale.

All answers recorded as “not sure” were removed from the Likert scale calculation. For example: If a respondent scored a 36 on all the transformational questions and chose “not sure” on two of the questions, the score of 36 was divided by 18 questions instead of 20 questions. Table 4.2 displays the scores from the 50 participants and only includes participants in the research study.

While the focus of the study was the relationship between levels of success among franchises and the correlation with a dominant leadership style, it is important to understand that many leaders in the study embodied attributes from both transactional and transformational leadership styles. The raw data, without any statistical analysis performed, however, illustrates that the dominant style seems to favor transformational
leadership. The transactional leaders, like their counterpart showed traits of transformational leadership, commonly referred to as full-range leadership.

Table 4.2

Participants' Average Likert Scores for Leadership

<table>
<thead>
<tr>
<th>Participants</th>
<th>Transformational</th>
<th>Transactional</th>
<th>Participants</th>
<th>Transformational</th>
<th>Transactional</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2.65</td>
<td>1.25</td>
<td>26</td>
<td>2.90</td>
<td>1.25</td>
</tr>
<tr>
<td>2</td>
<td>2.90</td>
<td>2.38</td>
<td>27</td>
<td>3.25</td>
<td>2.38</td>
</tr>
<tr>
<td>3</td>
<td>3.75</td>
<td>3.50</td>
<td>28</td>
<td>2.89</td>
<td>2.13</td>
</tr>
<tr>
<td>4</td>
<td>3.50</td>
<td>2.38</td>
<td>29</td>
<td>2.80</td>
<td>2.63</td>
</tr>
<tr>
<td>5</td>
<td>2.70</td>
<td>2.50</td>
<td>30</td>
<td>2.40</td>
<td>2.13</td>
</tr>
<tr>
<td>6</td>
<td>3.55</td>
<td>3.13</td>
<td>31</td>
<td>3.00</td>
<td>2.38</td>
</tr>
<tr>
<td>7</td>
<td>3.40</td>
<td>2.88</td>
<td>32</td>
<td>3.45</td>
<td>2.50</td>
</tr>
<tr>
<td>8</td>
<td>2.90</td>
<td>2.88</td>
<td>33</td>
<td>2.90</td>
<td>2.38</td>
</tr>
<tr>
<td>9</td>
<td>3.55</td>
<td>2.00</td>
<td>34</td>
<td>3.40</td>
<td>2.57</td>
</tr>
<tr>
<td>10</td>
<td>3.20</td>
<td>1.75</td>
<td>35</td>
<td>2.95</td>
<td>3.00</td>
</tr>
<tr>
<td>11</td>
<td>2.40</td>
<td>2.13</td>
<td>36</td>
<td>2.75</td>
<td>2.50</td>
</tr>
<tr>
<td>12</td>
<td>2.35</td>
<td>1.88</td>
<td>37</td>
<td>3.00</td>
<td>2.13</td>
</tr>
<tr>
<td>13</td>
<td>3.30</td>
<td>3.25</td>
<td>38</td>
<td>3.26</td>
<td>2.50</td>
</tr>
<tr>
<td>14</td>
<td>2.65</td>
<td>1.63</td>
<td>39</td>
<td>1.90</td>
<td>1.63</td>
</tr>
<tr>
<td>15</td>
<td>3.10</td>
<td>3.63</td>
<td>40</td>
<td>3.60</td>
<td>2.88</td>
</tr>
<tr>
<td>16</td>
<td>3.85</td>
<td>3.38</td>
<td>41</td>
<td>4.00</td>
<td>3.63</td>
</tr>
<tr>
<td>17</td>
<td>3.20</td>
<td>2.25</td>
<td>42</td>
<td>2.70</td>
<td>1.63</td>
</tr>
<tr>
<td>18</td>
<td>2.60</td>
<td>1.75</td>
<td>43</td>
<td>3.05</td>
<td>2.00</td>
</tr>
<tr>
<td>19</td>
<td>2.53</td>
<td>2.38</td>
<td>44</td>
<td>2.25</td>
<td>2.00</td>
</tr>
<tr>
<td>20</td>
<td>3.65</td>
<td>2.75</td>
<td>45</td>
<td>2.85</td>
<td>2.25</td>
</tr>
<tr>
<td>21</td>
<td>3.05</td>
<td>2.13</td>
<td>46</td>
<td>2.45</td>
<td>2.50</td>
</tr>
<tr>
<td>22</td>
<td>2.25</td>
<td>2.38</td>
<td>47</td>
<td>3.25</td>
<td>1.43</td>
</tr>
<tr>
<td>23</td>
<td>3.00</td>
<td>2.00</td>
<td>48</td>
<td>3.05</td>
<td>3.00</td>
</tr>
<tr>
<td>24</td>
<td>1.75</td>
<td>2.50</td>
<td>49</td>
<td>3.30</td>
<td>3.00</td>
</tr>
<tr>
<td>25</td>
<td>3.30</td>
<td>3.13</td>
<td>50</td>
<td>3.40</td>
<td>2.14</td>
</tr>
</tbody>
</table>
All 50 participants in the study demonstrated a level of full-range leadership by scoring at or above a “1” in both transactional and transformational leadership before any other categorizing took place. The descriptive data in Table 4.3 indicated transformational leadership tendencies, with a tighter standard deviation, but continued to support the argument made by Avolio (2011).

Table 4.3

_Descriptive Data on Transformational and Transactional Leadership (MLQ Survey)_

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>Mode</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational</td>
<td>50</td>
<td>3.00</td>
<td>3.00</td>
<td>2.90</td>
<td>.48</td>
</tr>
<tr>
<td>Transactional</td>
<td>50</td>
<td>2.41</td>
<td>2.38</td>
<td>2.37</td>
<td>.58</td>
</tr>
</tbody>
</table>

All 50 participants delivered a Likert score greater than zero in each category, indicating some degree of both transformational and transactional leadership styles. The output placed each participant into one of the two leadership groups based on the results of the average score on the Likert scale. A higher average on the transformational leadership questions placed the participant into the transformational leader group, suggesting a tendency toward transformational leadership. Conversely, a higher average on the transactional leadership questions placed the participant into the transactional leadership category, suggesting a tendency toward transactional leadership. The bifurcation of these two groups is shown in Tables 4.4 and 4.5. None of the participants
received identical Likert scores, allowing all participants’ scores to be included in the results.

The data was averaged to two decimal points using statistical tools in Excel to arrive at a leadership style for each participant. The greater of the two averages placed the participant in either the transformational or transactional file. For purposes of t-test analyses, data was grouped according to their respective leadership group. The tables aligned participants of transactional leadership tendencies in contiguous rows followed by those of transformational leadership tendencies. Thus, the data in Tables 4.4 and 4.5 do not necessarily represent order or a participant’s number from the raw data.

Table 4.4

*Transactional Leadership Tendencies*

<table>
<thead>
<tr>
<th>Participants with Transactional Leadership Tendencies</th>
<th>Average Likert Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3.63</td>
</tr>
<tr>
<td>2</td>
<td>2.38</td>
</tr>
<tr>
<td>3</td>
<td>2.50</td>
</tr>
<tr>
<td>4</td>
<td>3.00</td>
</tr>
<tr>
<td>5</td>
<td>2.50</td>
</tr>
<tr>
<td>Participants with Transformational Leadership Tendencies</td>
<td>Average Likert Score</td>
</tr>
<tr>
<td>---------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>1</td>
<td>2.65</td>
</tr>
<tr>
<td>2</td>
<td>2.90</td>
</tr>
<tr>
<td>3</td>
<td>3.75</td>
</tr>
<tr>
<td>4</td>
<td>3.50</td>
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<tr>
<td>5</td>
<td>2.70</td>
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<td>6</td>
<td>3.55</td>
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<tr>
<td>7</td>
<td>3.40</td>
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<td>8</td>
<td>2.90</td>
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<td>9</td>
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<td>10</td>
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<td>11</td>
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<td>13</td>
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<td>15</td>
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<tr>
<td>21</td>
<td>3.00</td>
</tr>
<tr>
<td>22</td>
<td>3.30</td>
</tr>
<tr>
<td>23</td>
<td>2.90</td>
</tr>
</tbody>
</table>

The dependent variable, levels of success, measured all 50 participants in Section 2 of the MLQ survey. Each participant answered “yes” or “no” to five
definitions of success as defined by the research (Appendix D). The participants provided an answer to each question before advancing to the next. Unlike Section 1 of the survey, the participants did not have the option of deferring the question or answering “not sure” to the question.

Table 4.6

*Levels of Success Score: Descriptive Data*

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>Mode</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational</td>
<td>45</td>
<td>4.07</td>
<td>4</td>
<td>5</td>
<td>1.14</td>
</tr>
<tr>
<td>Transactional</td>
<td>5</td>
<td>2.40</td>
<td>3</td>
<td>3</td>
<td>1.52</td>
</tr>
</tbody>
</table>

Figure 4.1 shows the scores grouped by frequency of responses. The descriptive data between the two groups’ levels of success as shown in Table 4.6 suggested a stronger tendency toward transformational leadership in all descriptive categories.

*Figure 4.1.* Frequency of scores within the two leadership groups spread across the numerical success range from 0-5.

**Primary research question results.** The primary research question asked whether there is a significant relationship between the various degrees of success of selected national franchisees and the assessed leadership styles of their transformational
and transactional leadership as perceived by the leaders. The levels of success were defined by the research, and the leadership styles, as informed by the literature, were transformational and transactional.

An independent sample t-test compared the independent variables (transformational and transactional leadership) with the respective dependent variable (levels of success). Analysis divided the sample using each participant’s Likert score on the MLQ survey. Participants showed a stronger tendency toward either transformational or transactional leadership, and they were catalogued accordingly. Additionally, each participant received a score based on their level of success from the five questions developed by the research.

Table 4.7 illustrates the group statistics used for computing the t-test. The table shows the 50 participants used in calculating the t-test: 45 leaders with transformational leadership tendencies, and five leaders with transactional leadership tendencies. The table provides assurance on the accuracy of participants used and validates that none of the data was rejected or incomplete for analysis. For example, if a participant was excluded from the numbers, it would show 44 transformational leaders instead of 45. The difference of the means was 1.667.

Table 4.7

*Transformational and Transactional Group Statistics*

<table>
<thead>
<tr>
<th>Leader Style</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Std. Err mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Success Code: Transformational</td>
<td>45</td>
<td>4.07</td>
<td>1.136</td>
<td>.169</td>
</tr>
<tr>
<td>Success Code: Transactional</td>
<td>5</td>
<td>2.40</td>
<td>1.517</td>
<td>.678</td>
</tr>
</tbody>
</table>
The results of the t-test are shown in Table 4.8 with a t-test value of 3.015. This value showed that there is a significant difference in the levels of success between the two leadership groups, transformational (M = 4.07, SD = 1.136) and transactional (M = 2.40, SD = 1.517); DF = 48, t = 3.015, and the significance (2-tailed) value = .004. The results suggested that transformational leadership does yield greater levels of success than transactional leadership. These data were derived from the MLQ survey and posed the questions from the leader’s perspective at the franchise level.

The t-test results show a mean of 4.07 with the transformational leadership group and a standard deviation of 1.136. The results imply that 68% of the transformational group falls within one standard deviation (1.136) from the mean of 4.07. Ninety-five percent of the group falls within two standard deviations (2.28), and 99% of the group falls between three standard deviations (3.41) of the mean.

The analysis produces an output with 48 degrees of freedom. Since there are two groups in question, the formula subtracts two from the entire sample. There are 48 possible outcomes but knowing 48 of the variables allows the remaining two to be answered without running the test.

Additionally, the test shows a 95% CI with a lower limit of .555 and an upper limit of 2.778. This indicates that if the test was administered to all samples within a population group, then each group would fall within this range at a .05 alpha level, with only 5% falling within this boundary by chance. If the study were conducted on a different group of 50 franchise leaders within the population, then the difference of the mean between the two groups would again fall between .555 and 2.778 with a 95% chance of it being true.
Table 4.8

T-Test for Equality of Means

<table>
<thead>
<tr>
<th></th>
<th>t</th>
<th>df</th>
<th>Sig.</th>
<th>Mean</th>
<th>Std. Error</th>
<th>95% CI</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>(2 Tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Difference</td>
<td></td>
<td>Difference</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Lower</td>
<td>Upper</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Success Code: Equal Var. Assumed</td>
<td>3.015</td>
<td>48</td>
<td>.004</td>
<td>1.667</td>
<td>.553</td>
<td>.555</td>
<td>2.778</td>
<td></td>
</tr>
</tbody>
</table>

Note. Indicates a significant difference at the .004 alpha levels based on the independent samples t-test with 48 degrees of freedom.

The results of the t-test provided two rows of data based on the Levene’s test of equality of variances. Levene’s test of equality gives an output of the F value. The F value is the variance and assumed either equal or unequal variances as shown in Table 4.9. The data output showed F with a significance of .430. If the significance is >.05, then the row representing equal variance is used in reporting the t-test results. In this case, only one row of data in the Levene’s test of equality is shown, suggesting equal variances.
Table 4.9

*Levene’s Test for Equality of Variances*

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal Variances Assumed</td>
<td>.633</td>
<td>.430</td>
</tr>
<tr>
<td>Equal Variances not Assumed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The leaders identified with transformational leadership tendencies showed a higher mean than those identified with transactional leadership tendencies in all categories classified with transformational attributes as shown in Tables 4.10 and 4.11. Table 4.12 compares the same attributes with the normative sample. The only attribute higher in the normative sample was Individualized Consideration.

The research looked at five attributes normally associated with transformational leadership and two attributes normally associated with transactional leadership. Transformational attributes included Idealized Influence (Attributed), Idealized Influence (Behavior), Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration. Transactional attributes included Contingent reward, and Management by Exception.

The leaders identified with transactional leadership tendencies showed a higher mean than those identified with transformational tendencies in both categories classified with transactional attributes. The same was true when this group was compared to the normative sample group.
### Table 4.10

*Attributes of Those with Transformational Leadership Tendencies (MLQ Survey)*

<table>
<thead>
<tr>
<th>Attributes (N = 45)</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idealized Influence (Attributes)</td>
<td>3.10</td>
<td>.56</td>
</tr>
<tr>
<td>Idealized Influence (Behavior)</td>
<td>3.10</td>
<td>.57</td>
</tr>
<tr>
<td>Inspirational Motivation</td>
<td>3.20</td>
<td>.62</td>
</tr>
<tr>
<td>Intellectual Stimulation</td>
<td>2.86</td>
<td>.56</td>
</tr>
<tr>
<td>Individual Consideration</td>
<td>3.11</td>
<td>.52</td>
</tr>
<tr>
<td>Contingent Reward</td>
<td>3.05</td>
<td>.66</td>
</tr>
<tr>
<td>Management by Exception</td>
<td>1.73</td>
<td>.81</td>
</tr>
</tbody>
</table>

### Table 4.11

*Attributes of Those with Transactional Leadership Tendencies (MLQ Survey)*

<table>
<thead>
<tr>
<th>Attributes (N = 5)</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idealized Influence (Attributes)</td>
<td>2.38</td>
<td>.43</td>
</tr>
<tr>
<td>Idealized Influence (Behavior)</td>
<td>2.78</td>
<td>.86</td>
</tr>
<tr>
<td>Inspirational Motivation</td>
<td>2.16</td>
<td>.48</td>
</tr>
<tr>
<td>Intellectual Stimulation</td>
<td>2.62</td>
<td>.50</td>
</tr>
<tr>
<td>Individual Consideration</td>
<td>2.68</td>
<td>.81</td>
</tr>
<tr>
<td>Contingent Reward</td>
<td>3.20</td>
<td>.76</td>
</tr>
<tr>
<td>Management by Exception</td>
<td>2.42</td>
<td>.54</td>
</tr>
</tbody>
</table>
Table 4.12

*Attributes of Those from a Normative Sample (MLQ Survey)*

<table>
<thead>
<tr>
<th>Attributes (N = 3,375)</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idealized Influence (Attributes)</td>
<td>2.95</td>
<td>.53</td>
</tr>
<tr>
<td>Idealized Influence (Behavior)</td>
<td>2.99</td>
<td>.59</td>
</tr>
<tr>
<td>Inspirational Motivation</td>
<td>3.04</td>
<td>.59</td>
</tr>
<tr>
<td>Intellectual Stimulation</td>
<td>2.96</td>
<td>.52</td>
</tr>
<tr>
<td>Individual Consideration</td>
<td>3.16</td>
<td>.52</td>
</tr>
<tr>
<td>Contingent Reward</td>
<td>2.99</td>
<td>.53</td>
</tr>
<tr>
<td>Management by Exception</td>
<td>1.58</td>
<td>.79</td>
</tr>
</tbody>
</table>


**Second research question results: gender.** The second research question asked whether there is a significant relationship between the gender of the franchisee, the degree of success of the franchise, and the dominant leadership style. Analysis involved examining the sub-group of 45 transformational leaders and grouping them by gender. Similar to the first phase of the study that tested the correlation between leadership styles and the franchises’ levels of success, this phase tested the significant difference at a .05 or less alpha level between males and females and their respective means with levels of success. Table 4.13 shows the descriptive data on the demographics of gender and scores relating to levels of success. The formulas in MS Excel calculated to two decimal points for mean, median, and standard deviation and only a single digit for the mode. The mode reported the number occurring most frequently, so this could not be a fractional number.
or one with decimals. Females accounted for 15% of the sub-group but showed a higher score in each category and a tighter standard deviation as related to levels of success.

Table 4.13

*Gender Demographics: Level of Success*

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>Mode</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>38</td>
<td>4.03</td>
<td>4.00</td>
<td>5</td>
<td>1.17</td>
</tr>
<tr>
<td>Female</td>
<td>7</td>
<td>4.29</td>
<td>5.00</td>
<td>5</td>
<td>.95</td>
</tr>
</tbody>
</table>

Table 4.14 displays the group statistics used for computing the t-test. It indicated the 45 participants used in calculating the t-test and showed 38 males and 7 females with transformational leadership tendencies. The table provides assurance on the accuracy of participants used and validates that none of the data was rejected or incomplete for analysis. For example, if a participant was excluded from the numbers, the data would show 37 males instead of 38. The difference of the means was .26.

Table 4.14

*Male and Female Demographics: Transformational Leadership Statistics*

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Std. Err. Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>38</td>
<td>4.03</td>
<td>1.174</td>
<td>.190</td>
</tr>
<tr>
<td>Female</td>
<td>7</td>
<td>4.29</td>
<td>.951</td>
<td>.360</td>
</tr>
</tbody>
</table>
The results of the t-test provided two rows of data based on Levene’s test of equality of variances. Levene’s test of equality gives an output of the F value. The F value is the variance and is assumed either equal or unequal variances as shown in Table 4.15. The data output showed F with a significance of .991. If the significance was >.05, then the row representing equal variance was used in reporting the t-test results. In this case, only one row of data in the Levene’s test of equality is shown, suggesting equal variances.

Table 4.15

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal Variances Assumed</td>
<td>.000</td>
<td>.991</td>
</tr>
<tr>
<td>Equal Variances not Assumed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.16 shows the results of the t-test with a value of .551. This value showed that there was no significant difference in the levels of success between males and females under transformational leadership: males (M = 4.03, SD = 1.174), females (M = 4.29, SD = .951); DF = 43, t = .551, and the significance (2-tailed) value = .585. The results suggested that there was little distinction between gender and their levels of success in a franchise through transformational leadership.
Table 4.16

*Gender: Results of the Independent Samples T-Test*

<table>
<thead>
<tr>
<th></th>
<th>t</th>
<th>df</th>
<th>Sig. (2 Tailed)</th>
<th>Mean Difference</th>
<th>Std. Error Difference</th>
<th>95% CI Lower</th>
<th>95% CI Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Success Code:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal Var Assumed</td>
<td>.551</td>
<td>43</td>
<td>.585</td>
<td>.259</td>
<td>.471</td>
<td>-.691</td>
<td>1.209</td>
</tr>
<tr>
<td><strong>Success Code:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal Var Not Assumed</td>
<td>.638</td>
<td>9.714</td>
<td>.538</td>
<td>.259</td>
<td>.407</td>
<td>-.651</td>
<td>1.169</td>
</tr>
</tbody>
</table>

*Note.* This data indicates no significant difference in levels of success at a .05 alpha level between male and female transformational leaders.

**Third research question results: Age.** The third research question asked whether there is a significant relationship between the age of the franchisee, the degree of success of the franchise, and the dominant leadership style. Analysis involved the sub-group of 45 transformational leaders grouped by age. Similar to the first phase of the study that tested the correlation between leadership styles and the franchises’ levels of success, this phase tested the significant difference at a .05 or less alpha level between franchise leaders less than or equal to 40 years of age and those greater than 40 years of age. Table 4.17 illustrates the descriptive data on the demographics of age and their scores relating to levels of success.

The formulas in MS Excel calculated out to two decimal points for mean, median, and standard deviation and only a single digit for the mode. The mode reported the
number occurring most frequently, so this could not be a fractional number or one with decimals. The franchise leaders 40 years old and younger accounted for only 13% of the sub-group and similar to the descriptive data on gender, younger franchise leaders showed a higher score in each category, except mode, and a tighter standard deviation as it related to levels of success.

Table 4.17

*Age Demographics: Level of Success*

<table>
<thead>
<tr>
<th>Age</th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>Mode</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;40 years</td>
<td>39</td>
<td>4.05</td>
<td>4.00</td>
<td>5</td>
<td>1.17</td>
</tr>
<tr>
<td>≤40 years</td>
<td>6</td>
<td>4.17</td>
<td>4.50</td>
<td>5</td>
<td>.98</td>
</tr>
</tbody>
</table>

Table 4.18 illustrates the group statistics used for computing the t-test. It includes the 45 participants used in calculating the t-test and showed 39 leaders greater than 40 years old and 6 leaders less than or equal to 40 years old. The table provides assurance on the accuracy of participants used and validates that none of the data was rejected or incomplete for analysis. For example: If a participant was excluded from the numbers, it would show 38 “40 year olds” instead of 39. The difference of the means was .12.

Table 4.18

*Age Demographics: Transformational Leadership Statistics*

<table>
<thead>
<tr>
<th>Leader Style: Transformational</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Std. Err. Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leaders ≤40 years old</td>
<td>6</td>
<td>4.17</td>
<td>.983</td>
<td>.401</td>
</tr>
<tr>
<td>Leaders &gt;40 years old</td>
<td>39</td>
<td>4.05</td>
<td>1.169</td>
<td>.187</td>
</tr>
</tbody>
</table>
The results of the t-test are shown in Table 4.19 with a t-test value of .229. This value showed that there was no significant difference in the levels of success between those leaders greater than 40 years-old and those less than or equal to 40 years-old under transformational leadership: Greater than 40 years-old (M = 4.05, SD = 1.169) and less than or equal to 40 years-old (M = 4.17, SD = .983); DF = 43, t = .229, and the significance (2-tailed) value = .820. The results suggested that there was little distinction between those leaders greater than 40 years old and those less than or equal to 40 years old and their levels of success in a franchise.

Table 4.19

*Age: T-Test for Equality of Means*

<table>
<thead>
<tr>
<th>t</th>
<th>df</th>
<th>Sig. (2 Tailed)</th>
<th>Mean Difference</th>
<th>Std. Error Difference</th>
<th>95% CI Lower</th>
<th>95% CI Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>.229</td>
<td>43</td>
<td>.820</td>
<td>.115</td>
<td>.504</td>
<td>-.900</td>
<td>1.131</td>
</tr>
</tbody>
</table>

Success Code: Equal Var. Assumed

<table>
<thead>
<tr>
<th>t</th>
<th>df</th>
<th>Sig. (2 Tailed)</th>
<th>Mean Difference</th>
<th>Std. Error Difference</th>
<th>95% CI Lower</th>
<th>95% CI Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>.261</td>
<td>7.364</td>
<td>.802</td>
<td>.115</td>
<td>.443</td>
<td>-.921</td>
<td>1.152</td>
</tr>
</tbody>
</table>

Success Code: Equal Var. Not Assumed

*Note.* This indicates no significant difference in levels of success at a .05 alpha level between leaders greater than 40 and those leaders less than or equal to 40 years old.

The results of the t-test provided two rows of data based on the Levene’s test of equality of variances. Levene’s test of equality gives an output of the F value. The F value is the variance and assumed either equal or unequal variances as shown in Table 4.20. The data output showed F with a significance of .985. If the significance was >.05, then the row representing equal variance was used in reporting the t-test.
results. In this case, only one row of data in the Levene’s test of equality is shown, suggesting equal variances.

Table 4.20

*Age: Levene’s Test for Equality of Variances*

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal Variances Assumed</td>
<td>.000</td>
<td>.985</td>
</tr>
<tr>
<td>Equal Variances not Assumed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Fourth research question results: Education.** The fourth research question asked whether there was a significant relationship between the education of the franchisee, the degree of success of the franchise, and the dominant leadership style. Analysis involved the sub-group of 45 transformational leaders grouped according to college educational status. Similar to the earlier phase that tested the correlation between leadership styles and the franchises’ levels of success, the study tested the significant difference at a .05 or less alpha level between franchise leaders who graduated from college and those who did not graduate from college. Table 4.21 shows the descriptive data on the demographics of education among franchise leaders and scores relating to levels of success in their respective franchise.

The formulas in MS Excel calculated out to two decimal points for mean, median, and standard deviation and only a single digit for the mode. The mode reported the number occurring most frequently, so this could not be a fractional number or one with decimals. The franchise leaders who did not graduate from college accounted for 27% of
the sub-group. Similar to the descriptive data on gender and age, results showed a higher score in each category, except mode, and a tighter standard deviation as it related to levels of success.

Table 4.21

*Education Demographics: Levels of Success*

<table>
<thead>
<tr>
<th>Education Level</th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>Mode</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>College Graduate</td>
<td>33</td>
<td>3.97</td>
<td>4.00</td>
<td>5</td>
<td>1.21</td>
</tr>
<tr>
<td>Not College Graduate</td>
<td>12</td>
<td>4.33</td>
<td>5.00</td>
<td>5</td>
<td>.89</td>
</tr>
</tbody>
</table>
Table 4.23 shows the results of the t-test with a value of .348. This value showed that there was no significant difference in the levels of success between those leaders listed as college graduates and those who are not college graduates with transformational leadership tendencies: college graduates (M = 3.97, SD = 1.212) and not a college graduate (M = 4.33, SD = .888); DF = 43, t = .948, and the significance (2-tailed) value = .348. The results suggested that there was little distinction between those leaders that were college graduates and those leaders who were not. The p value within the group was closer to the .05 alpha levels than all the other demographic groups analyzed.

Table 4.23

*Education: T-Test for Equality of Means*

<table>
<thead>
<tr>
<th></th>
<th>t</th>
<th>df</th>
<th>Sig. (2 Tailed)</th>
<th>Mean Difference</th>
<th>Std. Error Difference</th>
<th>95% CI Lower</th>
<th>95% CI Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Success Code:</td>
<td>.948</td>
<td>43</td>
<td>.348</td>
<td>.364</td>
<td>.383</td>
<td>−.410</td>
<td>1.137</td>
</tr>
<tr>
<td>Equal Var. Assumed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Success Code:</td>
<td>1.096</td>
<td>26.735</td>
<td>.283</td>
<td>.364</td>
<td>.332</td>
<td>−318</td>
<td>1.045</td>
</tr>
<tr>
<td>Equal Var. Not Assumed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note.* This indicates no significant difference in levels of success at a .05 alpha level between college graduates and those not graduating from college.

The results of the t-test provided two rows of data based on the Levene’s test of equality of variances. Levene’s test of equality gives an output of the F value. The F value is the variance and assumed either equal or unequal variances as shown in Table 4.24. The data output showed F with a significance of .830. If the significance
was >.05, then the row representing equal variance was used in reporting the t-test results. In this case, only one row of data in the Levene’s test of equality is shown, suggesting equal variances.

Table 4.24

*Education: Levene’s Test for Equality of Variances*

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal Variances Assumed</td>
<td>.047</td>
<td>.830</td>
</tr>
<tr>
<td>Equal Variances not Assumed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The formulas in MS Excel calculated out to two decimal points for mean, median, and standard deviation and only a single digit for the mode. The mode reported the number occurring most frequently, so this could not be a fractional number or one with decimals. The franchise leaders, who owned franchises territories less than or equal to 3.0 sales territories accounted for 35% of the sub-group. Unlike the other minorities in the previous demographic categories, the descriptive data on this group reported a lower mean than the majority group, yet a tighter standard deviation. The median and mode were identical between the two groups.

**Fifth research question: Size of franchise.** The fifth research question asked whether there was a significant relationship between the size of franchise, the degree of success of the franchise, and the dominant leadership style. Analysis examined the sub-group of 45 transformational leaders grouped according to the size of their franchise.
Similar to the initial phase that tested the correlation between leadership styles and the franchises’ levels of success, this phase tested the significant difference at a .05 or less alpha level between the leaders who owned a franchise greater than 3.0 sales territories and those leaders whose franchise was less than or equal to 3.0 sales territories. Table 4.25 shows the descriptive data on the demographics of franchise size among franchise leaders and their scores relating to levels of success in their respective franchise.

Table 4.25

*Size of Franchise Demographics: Levels of Success*

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>Mode</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 3.0 Sales Territories</td>
<td>29</td>
<td>4.14</td>
<td>4.00</td>
<td>5</td>
<td>1.16</td>
</tr>
<tr>
<td>≤ 3.0 Sales Territories</td>
<td>16</td>
<td>3.94</td>
<td>4.00</td>
<td>5</td>
<td>1.12</td>
</tr>
</tbody>
</table>

Table 4.26

*Size of Franchise Demographics: Transformational Leadership Statistics*

<table>
<thead>
<tr>
<th>Leader Style: Transformational</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Std. Err. Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 3.0 Sales Territories</td>
<td>29</td>
<td>4.14</td>
<td>1.156</td>
<td>.215</td>
</tr>
<tr>
<td>≤ 3.0 Sales Territories</td>
<td>16</td>
<td>3.94</td>
<td>1.124</td>
<td>.281</td>
</tr>
</tbody>
</table>
Table 4.26 shows the group statistics used for computing the t-test. The test includes the 45 participants used in calculating the t-test, and results showed 29 leaders who own a franchise whose territory is greater than a 3.0 sales territory and 16 leaders who own a franchise whose territory is less than or equal to 3.0 sales territory. The table provides assurance on the accuracy of participants used and validates that none of the data was rejected or incomplete for analysis. For example, if a participant was excluded from the numbers, it would show 28 “3.0 Sales Territories” instead of 29. The difference of the means was .20.

Table 4.27 shows a t-test value of .562. This value indicates that there was no significant difference in the levels of success between those leaders who own franchise territories greater than 3.0 sales territories and those franchise leaders who own territories less than or equal to 3.0 sales territories with transformational leadership tendencies: franchise territories greater than 3.0 sales territories (M = 4.14, SD = 1.156) and franchise territories less than or equal to 3.0 sales territories (M = 3.94, SD =1.124); DF = 43, t = .562, and the significance (2-tailed) value = .577. The results suggested that there was little distinction between leaders who own larger franchises compared to those who own smaller franchise units.
Table 4.27

*Franchise Size: T-Test for Equality of Means*

<table>
<thead>
<tr>
<th>t</th>
<th>df</th>
<th>Sig. (2 Tailed)</th>
<th>Mean Difference</th>
<th>Std. Error Difference</th>
<th>95% CI Lower</th>
<th>95% CI Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>.562</td>
<td>43</td>
<td>.577</td>
<td>.200</td>
<td>.357</td>
<td>-.519</td>
<td>.920</td>
</tr>
<tr>
<td>.567</td>
<td>31.833</td>
<td>.575</td>
<td>.200</td>
<td>.354</td>
<td>-.520</td>
<td>.921</td>
</tr>
</tbody>
</table>

*Note.* This indicates no significant difference in levels of success at a .05 alpha level between those larger and smaller franchise territories.

Table 4.28

*Franchise Size: Levene’s Test for Equality of Variances*

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal Variances Assumed</td>
<td>.000</td>
<td>.988</td>
</tr>
<tr>
<td>Equal Variances not Assumed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Figure 4.2. Frequency of similar success scores among males.

The study examined four demographic categories including gender, age, education, and size of the franchise. SPSS, a software tool for statistical analysis, was used to perform a t-test analysis within each group to determine if their means showed a statistical difference at a .05 alpha as it related to levels of success in a franchise organization.

Histograms were used to display the number of similar scores within a particular demographic as well as its mean and standard deviation. Males dominated the gender category, and Figures 4.2 and 4.3 show the frequency of responses at the various levels of success within this group.
Figure 4.3. Frequency of similar success scores among females.

Figure 4.4. Frequency in similar success scores among franchise leaders greater than 40 years of age.

Older franchise leaders dominated the age category, and Figures 4.4 and 4.5 show the frequency of responses at the various levels of success within this group.
Figure 4.5. Frequency in similar success scores among franchise leaders less than or equal to 40 years of age.

Figure 4.6. Frequency in similar success scores among franchise leaders who graduated from college.
Figure 4.7. Frequency in similar success scores among franchise leaders who did not graduate from college.

Franchise leaders who graduated from college dominated the education category, and Figures 4.6 and 4.7 show the frequency of responses at the various levels of success within this group.

Although the larger franchise units dominated, this category had the greatest number of leaders in the minority group, or smaller franchise ownership, than any other demographic category. Figures 4.8 and 4.9 show the frequency of responses at the various levels of success within this group.
Figure 4.8. Frequency in similar success scores among franchise leaders who own franchise units greater than 3.0 sales territories.

Figure 4.9. Frequency in similar success scores among franchise leaders who own franchise units less than or equal to 3.0 sales territories.
The dissertation research addressed the correlation between levels of success in a franchise organization and the leadership style showing a greater tendency toward transformational leadership among franchise leaders. Subsequently, analysis tested the four demographic categories within transformational leadership against the levels of success to determine whether there was a statistical difference at a .05 level using a t-test analysis.

Transactional leadership proved to be the less dominant style, and Table 4.29 displays the demographics among this group.

Table 4.29

<table>
<thead>
<tr>
<th>Transactional Leadership Demographics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attribute</td>
</tr>
<tr>
<td>Gender</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Age</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Franchise Size</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Summary of Results

Chapter 4 presented the analysis of a dominant leadership style in a logistics franchise organization from data collected from franchise leaders. The study looked at transformational and transactional leadership styles as perceived by the leaders of individual franchise units, and its correlation to levels of success at the franchise level. Fifty qualified franchise leaders agreed to the participant in the study. Each participant completed on MLQ (Multifactor Leadership Questionnaire) online survey consisting of three sections: a) 28 leadership questions, b) five questions defining success, and c) four demographic questions.

A t-test was used to analysis the data to determine if there was a significant difference at a .05 alpha level between the two leadership styles and levels of success at the franchisee level. Subsequently, the group within the dominant leadership style was further tested using a t-test analysis to determine if there was a significant difference within each of the demographic groups and levels of success at the franchisee level. Tables and graphs were used to provide a visual representation of the findings and results along with a narrative approach.

Presented in Chapter 5 is a summary of the interpretation of the research questions and their respective findings as a result of the analysis. From this, recommendations and benefits of the study are delineated. Also included, are the practical applications in the market, further research areas to explore, and a conclusion.
Chapter 5: Discussion

Introduction

This chapter provides a discussion and interpretation of the findings presented in Chapter 4. Chapter 5 first presents the implications of the findings, followed by the study’s limitations, and recommendations based on the findings and literature review. The chapter concludes with a summary of the entire study.

Implications of the Findings

The primary research question asks, “Is there a significant relationship between the various degrees of success of selected national franchisees and the assessed leadership styles of the transformational and transactional leadership as perceived by the leaders?” The levels of success are defined by the researcher, and the leadership style is determined to be either transformational or transactional. To answer the research question, franchise leaders of the sample population responded to 28 questions from an Multi-leadership Questionnaire (MLQ) designed to measure the leaders’ tendency toward transformational and transactional leadership. The study also provides a discussion and interpretation of the data on the dominant leadership style and its correlation with demographics and levels of success.

Transformational and transactional leadership. Of the 50 leaders who participated in the study, 45 show a tendency toward transformational leadership while only five display transactional leadership tendencies. Each franchise leader answered 28 mixed leadership questions using a Likert scale format. The scaled responses show
leadership tendency toward transformational and transactional. The 45 transformational leaders yield a higher average on the transformational questions in comparison to the transactional questions answered. Likewise, the five transactional leaders yield a higher average on transactional questions. The responses were catalogued before studying the correlation with the levels of success and before determining whether there is a significant difference between the two leadership styles. All the leaders in the study average at least a score of “1” or greater, suggesting characteristics of full-range leadership.

Both leadership styles promote success in franchises, and the data gathered through the MLQ survey reflects the leaders’ success level. However, the overwhelming number of leaders with transformational tendencies indicates that these franchise leaders must believe transformational qualities are in line with what their followers and associates search for in a leader. For instance, Stevens (2011) indicated that transformational leadership provides a greater sense of personal fulfillment and satisfaction for both the leader and employee.

Rehman et al. (2012) stated that organizational commitment occurs when employees uphold their citizenship to the company as demonstrated through positive behavior and being a part the overall company goals and achievements. They indicate three facets of organizational commitment including: (a) emotional attachment to the organization and how well they identify themselves with the company, (b) the rationale on leaving the organization and the costs benefits associated with staying or leaving the company, and (c) the value they have with the organization and how obligated and responsible they feel about their commitment (Rehman et al., 2012). The literature
provided credence to the transformational attribute named Inspirational Motivation that shows the highest mean from the MLQ survey results (see Table 4.11).

Transformational and transactional leadership are the two most effective forms of leadership (Avolio, 2011). Bass (2003) argued that transactional leadership is simply an extension of transformational leadership, and Avolio (2011) demonstrated that together, these styles create full-range leadership.

The franchise organization experiences its own form of transformation on a macro-economic level. Prior to the financial meltdown in 2008, the franchise organization represented one major shipper that is no longer a domestic carrier (DHL Express) but fostered widespread franchisee success. The franchise corporation replaced the DHL Express book of business with United Parcel Service, but this collaborative business model has only seen moderate success levels. Many of the successful franchisees retreated from the business or downsized to accommodate for the weakened economy.

One theory may explain how the 2008 economic event may have contributed to the rise of leaders with transformational tendencies. During healthier economic times, leaders may have more financial freedom to reward followers for positive performance (a transactional leadership trait), yet during recessionary periods, leaders have more reason to exercise transformational leadership skills in support of future prosperity.

In times of technological, social, and political change, the need for transformational leaders is more valuable than it has been in the past (Warrick, 2011). With downsizing, cutbacks, uncertainty, and ensuing competition, having a transformational leader at the top of an organization increases a company’s chance of
success (Warrick, 2011). Warrick suggested that while transformational leadership is imperative for the success of an organization, it is not clear what skills are needed to carry out this type of leadership. In order for an organization to thrive in tomorrow’s world, there needs to be collaboration between transformational leadership and organizational development, as both are interrelated.

The descriptive statistics provided by the dissertation study include data on both styles using all 50 participants. Each descriptive category, including mean, median, and mode, show transformational leadership with higher output numbers. The results imply a tendency toward transformational leadership as the dominant leadership style. Additionally, the transformational group shows a SD = .484 and a SD = .582 for the transactional group, suggesting a tighter variance for transformational leaders. This statistic indicates a greater level of consistency with transformational leaders and perhaps some outliers within the transactional leadership group, affecting the standard deviation.

The 28 questions embedded into the survey consist of attributes addressing both transformational and transactional leadership. The attributes under transformational leadership include: a) Idealized Influence (Attributes), b) Idealized Influence (Behavior), c) Inspirational Motivation, d) Intellectual Stimulation, and e) Individual Consideration.

The attributes under transactional leadership include: a) Contingent Reward and b) Management by Exception.

The findings are consistent with the average score on the Likert scale with the two groups. The data on the five transactional leaders show a higher mean score in each of the attributes in comparison to those scores from the transformational leaders. The transactional leaders have a higher mean than transformational leaders on Contingent
Reward and a greater standard deviation, indicating a wider variance. In the category of Management by Exception, transactional leaders show a higher mean and a lower standard deviation, suggesting a tighter variance.

The 45 transformational leaders exhibit higher means in all the transformational attributes, which supports the overarching dominant leadership style. However, when the standard deviation is analyzed, only two of the five attributes show a lower SD number: Idealized Influence (Behavior) and Individual Consideration. This finding may be attributed to some transformational leaders who are outliers and scored extremely high on the MLQ causing the excessive spread in variance relative to their transactional counterparts.

The attributes of the transformational group are higher than the normative sample in five of the seven categories. While nearly equivalent, the normative sample shows a higher mean in Intellectual Stimulation and Individual Consideration. The two groups have identical SD = .52 with Individual Consideration, and only a .04 difference in the standard deviation for Intellectual Stimulation. In comparing these same categories between the normative sample and the transactional group, there is a large spread in the mean of the two groups. These descriptive data provides further support and confirmation offered by the T-test analysis.

Levels of success. The dependent variable in the study, levels of success, measures the leaders—both transformational and transactional—through a series of five questions developed by the researcher. This is the second section of the survey, which followed the leadership questions. The first part of the survey bifurcates leaders into two leadership groups facilitating the initial comparison. The descriptive statistics do not
show extreme differences in the various categories, yet when compared with levels of success, it is evident that a significant difference may exist. The difference in the mean between transformational and transactional is 1.167, with a mean of 4.07 for transformational leaders and 2.40 for transactional leaders. This descriptive data suggests that leadership does matter and the importance of recognizing the tendencies that prevail in this study.

It is unknown how many of the leaders excluded from the study would have scored at or above average on the success questions. One of the qualifiers of the study called for the franchise leader to maintain an active role in the day-to-day business. The Agency Theory, discussed in Chapter 2, notes that managers or owners of a company who are not active may experience some failure as a result of their inactive behavior. The sample pool was filtered for the study because the literature suggested the presence of inactive managers and owners to be problematic.

One may infer that leaders with only a slightly greater tendency of transformational leadership over transactional tendencies could translate into a comparatively greater level of success. In fact, the descriptive data from the MLQ survey in Section 1 indicates the difference in mean is .59 with transformational leaders at 3.0 and transactional leaders at 2.41. As such, the findings may contradict what the literature tells us regarding transactional leadership qualities. As an organization that measures itself through metrics using shipping data, numbers, and percentages to forecast success and economic outcome, transformational leadership should not outperform transactional leadership so profoundly.
Transactional leadership is prevalent in work environments that demand information, numbers, statistics, and measureable indicators. The transactional managers expect to receive something in return for the rewards and incentives set for followers and subordinates. The theory works well for an organization that does not receive demands for change, customization, technology updates, and anything that warrants a cultural change (Seidman & McCauley, 2011).

An analysis of the questions addressing levels of success (Appendix D) among both groups of franchise leaders shows the majority of both groups scoring a 3 or higher. A score of 5 indicates that a franchise leader answered “yes” to all five questions. It is important to note that a five-year qualifier was part of each question. Only two franchise leaders, one from each group, received a zero, suggesting no success quantitatively. The five-year qualifier is a critical component, as this is one of the foundations upon which the study is designed. However, the study does not delineate which questions each leader responded with a “yes” or “no,” so no determination is made to the value each contributes to a leader’s success.

It is commonly believed that each year, more than one million new businesses are formed in the United States under a variety of structures, and of those, 40% fail within the first year, and 80% fail after five years. Of the 20% that manage to survive the five-year mark, 80% are gone within 10 years (Gerber, 1995). In response to the early failure rate, the franchise leadership dissertation study requires each respondent to use data from 2008 to 2013.

**Independent samples t-test analysis.** The dissertation study examines the relationship between the levels of success and the two leadership styles using an
independent sample t-test analysis. This is the most logical test to determine whether there is a significant difference between the means of the two groups once the scores establish levels of success. The t-test looks at the difference between the groups mean as it relates to the variability of the groups. In this case, the groups include those with transformational and transactional leadership tendencies. No other statistical analysis generates this type of information.

The results from the t-test analysis show a t-value of 3.015, which translates into an alpha level of .004. This falls below the .05 level tested for significance. This indicates that there is a significant difference between the levels of success and the two leadership styles. More importantly, this suggests that leadership in the organization matters greatly to the success of the franchise, and transformational leadership yields greater dividends than transactional leadership.

The data also implies that the majority of the 50 franchise leaders exercise some form of leadership, and in many cases an amalgamation of the two styles. The study does not break down franchisees’ tenure with the organization. Ironically, the shipping company, in its formative years and represented by the franchise organization, is cited in the literature. While transformational and transactional leadership is not discussed per se, Chung (2009) described situations with small business entrepreneurs from what he called the garage team. Chung (2009) recounted how small companies often begin operations in what he terms a garage or location where the members of the company work and function initially from single-room environments.

Specifically, Chung (2009) described DHL International as beginning the delivering and shipping business in a garage where shipments were sorted and organized.
He suggested that, as with other entrepreneurial businesses, the need for multi-tasking and situational management skills was a key factor in the success of DHL International. He noted that most small businesses are built as a moving target unlike large counterpart corporations, and consequently may lack formal leadership in the first few years. It is possible some franchise leaders are still operating as a garage team company, unaware of any real leadership.

The literature explains the importance of leadership, but does not identify the opportune time in the life of a new business venture during which a leader should begin to incorporate his/her leadership skills. The dissertation research pinpoints a 5-year range at which the continuum of success is studied. Chung (2009) argued that the primary focus needs to be selling and the promotion of products and services in those formative years and not on leadership positioning. Again, it is not clear which franchise leaders employed leadership early in the business cycle, and those who may have started after the five-year mark. Furthermore, assigning a CEO or executive-level position is detrimental to a start-up business because these organizations do not have enough specialized work to allow an executive the luxury of handling one aspect of the business. Chung (2009) suggested that creating an executive-level position is the very thing that turns these companies into a dinosaur with a quick demise.

It is interesting to note that in an organization that employs a large force of inside and outside sales representatives and favors transformational leadership, two schools of thought have emerged from the literature on the sales component and where it stands on the leadership spectrum.
First, Bass (1997) demonstrated the elements of transactional leadership through the lens of selling or the sales process by salespersons. Bass suggested that selling requires both transactional and transformational leadership styles—full-range leadership—to be effective. However, he noted that selling involves the process of a sale, which is a transaction or exchange, the very essence of transactional leadership. He stated, however, that the process may be an impersonal transaction between two parties. The salesperson has something the consumer wants—the product, and the consumer has something the sales agent wants—money. Morhart, Herzog, and Tomczak (2011) posited that when this type of transaction links to brand building, transformational leadership is more effective for a company’s image and its customer sustainability.

**Attributes.** Section 1 of the survey consists of transformational and transactional attributes as part of the leadership questions. Within each of the transformational leadership questions are embedded five attribute questions and on the transactional side, there are four questions addressing each attribute. Tables 5.1 and 5.2 show the breakdown of questions linked to each attribute. Appendix H contains the list of the questions.

Table 5.1

<table>
<thead>
<tr>
<th>Attribute Items Within the Transformational Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attribute</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Idealized Influence</td>
</tr>
<tr>
<td>Idealized Influence (Behavioral)</td>
</tr>
<tr>
<td>Inspirational Motivation</td>
</tr>
<tr>
<td>Intellectual Stimulation</td>
</tr>
<tr>
<td>Individual Consideration</td>
</tr>
</tbody>
</table>
Table 5.2

*Attribute Items With the Transactional Group*

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Corresponding Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingent Reward</td>
<td>1, 11, 16, 35</td>
</tr>
<tr>
<td>Management by Exception</td>
<td>4, 22, 24, 27</td>
</tr>
</tbody>
</table>

When the attributes data from the two leaderships are compared to those data of the normative sample, the findings are consistent with the t-test analysis. Three of five attributes from the franchisee transformational group show a higher mean and the two categories from the franchisee transactional group show higher mean than the normative sample. This suggests that, regardless of the leadership style, the participating franchise leaders demonstrate a strong sense of leadership in their chosen style. Consequently, this may explain the .004 alpha levels between the levels of success between the chosen groups.

The current literature provides limited insight on the value of leadership to a company’s success among entrepreneurs, including independent and franchised businesses. The literature also fails to highlight any research on the demographics within the business segment and its relationship to success. The dissertation study illustrates that transformational leadership has a significant impact on the success of a franchise when compared to transactional leadership. The following section provides an interpretation of four demographic categories and the findings that emerged from the dissertation study using the data from the dominant leadership style.
Gender demographics. The sample gender population of this franchise group is overwhelmingly male, as is the entire population, including those excluded from the study. The data indicates slightly more than five times the number of males than females in leadership roles; yet, the female sample data shows a greater mean and median in terms of levels of success than the male sample. The t-test reports a .991 p value, suggesting no significant difference in levels of success between males and females as it relates to transformational leaders. Thus, leadership is not reserved for any one gender or demographic group, and as Kouzes and Posner (2007) pointed out that “leadership is everyone’s business” (p. 339). Unlike the comparison made between the two leadership styles and their contribution to the attributes, the dissertation study does not look at the prevailing attributes between the genders within the transformational leadership group.

Age demographics. The age of the participants in the dissertation study show no significant difference in levels of success at the franchise level. The t-test produced a two-tailed significance level of .820. Similar to gender demographics that show a high ratio of males to females, the age demographics show 39 participants over the age of 40, and the remaining 6, at or below the age of 40 years. This small group’s descriptive data, however, shows a higher mean and mode as well as a tighter standard deviation in terms of levels of success.

One of the major cornerstones of the dissertation study is built around the fact that 96% of all small businesses are not in operation after 10 years (Gerber, 1995). Although, the literature discusses at length some of the behavioral traits entrepreneurs’ exercise that may result to their premature failure rate, the literature excludes analysis of the age variable. The dissertation study’s findings on age implies that businesses that manage to
survive beyond the critical time may involve leaders who tend to be older than 40. Such an implication supports the findings from Gerber (1995). Because so many businesses expire before the five-year or even 10-year mark, it may be that younger aspiring entrepreneurs are not included in the statistical sample.

Dujowich (2010) explained that there are three types of entrepreneurs: novice, portfolio, and serial (or habitual), and the one most responsible for failure is the serial entrepreneur. The novice, as the term suggests, is the person who is new to the game. They are first-time entrepreneurs who normally do not last long in the business. The second, the portfolio entrepreneurs, run several operations and businesses simultaneously. They have the luxury to absorb failure because there are other companies succeeding and thereby, offsetting any loses. The last, the serial entrepreneur, is a person who starts one company and if unsuccessful will begin a second (Dujowich, 2010). The serial entrepreneur may continue the cycle until it is economically unfeasible. The serial entrepreneur can be classified as a habitual entrepreneur as well.

Through its 25-year tenure, the logistics franchise system has employed many of the novice entrepreneurs mentioned in the literature who did not survive beyond the formative years, which adds to the staggering statistics on failure rates. The franchise system does not allow or support serial entrepreneurs—they are not allowed into the franchise body once terminated or failure consumes their business. The portfolio entrepreneur is perhaps representative of many of the larger and more stable franchise units. This may be a contributing factor as to why older franchises dominate the sample.

Those transformational leaders who fall into the younger category might be the exceptional ones who started unusually early in their career, took over the business from
an established unit, or simply beat the odds on success. These different variables raise a number of research questions for further study in the field of franchise entrepreneurship.

**Education demographics.** The demographic group of education is consistent with those of gender and age in terms of significance and descriptive statistics. Those franchise leaders without a college degree make up 27% of the sample population with the balance of 73% as college graduates. The t-test shows no significant difference at a .05 alpha level between education and levels of success among franchise leaders. The mean and mode of those without a college degree are greater than those with college degrees. Additionally, the group without college degrees has a tighter standard deviation with a SD difference of .22. This finding suggests greater parallel between these demographic sub-groups with less variance of scores than when the groups are studied and tested and consolidated as a unit within larger samples.

The franchise system in question does not mandate that an individual hold a college or advanced degree; however, it is not known what the decision process is when considering someone who lacks such credentials. Are there more candidates retaining college degrees who ultimately apply for franchise ownership, or is it more likely that this group of people has the funds available to purchase a franchise? These are questions in need of further study.

The theory of social capital provides a foundation for the findings on education in that family ties and education rank higher in importance than informal business acquaintances for purposes of creating a network of business resources. Additionally, entrepreneurs with higher levels of education have a greater source of available networking ties through their more educated peers. This affords greater exposure and
access beyond the local level, which suggests a greater chance of success (Schutjens & Volker, 2010).

Local connections and networks, as suggested by Schutjens and Volker (2010), are more beneficial to those in the trade businesses (such as plumbers, construction workers, and retail workers) if they are to experience some level of success. The well-educated business leaders maintain a more comprehensive web of contacts and peer networks extending beyond their immediate geographic location.

The franchise body delineates itself through franchise territories; however, these boundaries can extend beyond the contractual limits when business contacts surface from personal and educational contacts in neighboring territories. This may explain and validate the success among franchise leaders who hold college degrees. Such levels of success might be difficult to achieve for the 33 college graduates in the study if their networks were confined to the immediate franchise territory under contract. While the requirements of the franchise system calls for franchisee leaders to operate within a purchased territory, the franchisor establishes concessions for those with extended networks to capitalize on those outside opportunities as described by Schutjens and Volker (2010).

Abbasi et al. (2011) presented more concern for those in business and the importance of teaching entrepreneurship in higher education. They noted the critical need of education in the emerging field of entrepreneurship. It stands to reason that the dissertation study includes more franchise leaders who graduated from college, but it is important to highlight that those not graduating college exhibit higher numbers on many of the descriptive classifications.
The results of the two-part dissertation study reveal that entrepreneurial education at the university level is critical for those students looking to pursue a business. The Abbasi et al. (2011) study also notes the importance of an entrepreneur to the health and wellness of the economy. They did not mention the sample population belonging to a franchise organization. Instead, Abbasi et al. studied students and faculty from higher education. The dissertation study does not investigate the type of education, field of study, or major the franchise leaders surveyed secured as part of their college education. This is an area both the Abbasi et al. (2011) and dissertation study failed to consider and may have significance for further research.

College education has become an increasingly important prerequisite for many disciplines and areas of business that once did not demand such credentials. The college diploma is on track to represent what the high school diploma signified 30-40 years ago. Although the literature emphasized the value of education, the dissertation study shows no significant difference between the two groups, which leaves another gap of knowledge to be filled by further study.

**Size of franchise.** The last demographic group, franchise size, is the least disparate of the four categories. Franchise leaders with a sales territory less than or equal to 3.0 territories represent 35% of the sample population, claiming the largest of the minority groups. Inconsistent with the other minority groups, the small franchise pool shows a smaller means score than the leaders who own larger units, but the small franchise pool contains a tighter standard deviation regarding levels of success. However, this difference is not significant in terms of the t-test analysis. The p value is
.562, indicating there is no significant difference in levels of success between large and small franchise businesses in the logistics organization studied.

The definition of success is somewhat relative to the size of each of the franchise units with the exception of net revenue. If a small and large franchise both reach net revenue of $300,000 during a five-year period, the smaller franchise may actually realize a greater level of success than a larger franchise, considering the variable of expense on the larger franchises. Multiple range levels might best depict a true number and a relative level of success based on franchise size.

The three types of entrepreneurs identified by Dujowich (2010) include novice, serial, and portfolio, with novice and serial entrepreneurs as those whose businesses became unsustainable shortly into the commerce cycle of the organization. Dujowich did not specify whether the entrepreneurs studied were sole proprietors or companies with two or four employees, but the data implied that Dujowich’s findings paralleled a smaller franchise model. The more successful portfolio businesses suggested additional owners and managers within the organization, and perhaps they are run along lines similar to larger franchise units.

Contrary to the established literature, the larger franchise organizations are best suited to the portfolio entrepreneur; however, the dissertation study indicates little difference in the levels of success. The Agency Theory may provide insight as to why the smaller franchise units performed equally as well as the larger portfolio franchise organizations. Specifically, the smaller franchise units do not have the resources available to hire managers or agents to run the operation. In turn, the leaders are more active than those in the larger franchises. As larger franchises grow and expand, the
original owners may take on a more passive role, resulting in a declining business relative to those smaller active franchisees. The larger franchise leaders may claim active status, but relative to their tenure in the system, their active duty may be declining.

One of the flaws within the application of the Agency Theory to the issue of the role of the leader, which has not been studied at length, is the measurement of passive ownership in a franchise and its impact. Vazquez (2009) explained passive ownership under a franchise system may have the same results as a store outlet operated by a manager with a fixed salary. If the owner of a business has given the responsibility to someone else (non-owner) and behavior is not monitored, then performance may be marginal. However, if there are systems in place to monitor behavior, then the outcome is more likely to reveal a positive return.

**Limitations**

The ability to extrapolate from the dissertation study and generalize it beyond the scope of the franchise organization studied should be cautiously considered. With a sample population of 50 and an entire population of 200 and growing, the data has relevance at that level only. As such, conducting a similar test with a competing organization in the same industry could bring additional value to the research. However, gathering adequate data from a competitor has its challenges in procuring the information and producing it in a timely manner.

The findings of the dissertation study should not be applied to those food franchise organizations that exercise high levels of standardization through a form of top-down management. With fluctuating leadership styles, standardizations practiced under
food industry franchises would be compromised, thus breaching its conformity across state and country lines.

**Limitations to methodology.** The study was limited to quantitative research, and without a qualitative component, it is assumed the franchise leaders have provided absolute answers; however, answers to solutions and problems always carry a conditional element. The franchise studied emerged from the 2008 financial crisis faced with leadership issues unprecedented in the history of the franchise. The organization was forced to operate under economic models that changed the business and its leadership landscape. The qualifying transformational and transactional traits may have emerged under a qualitative study thereby adding knowledge about the franchise owners’ leadership strengths and weaknesses as it relates to success.

**Limitations to data collection instrument.** The MLQ Form 5X instrument designed by Avolio and Bass (1995) and administered by Mind Garden, Inc., posed limitations through its leadership questionnaire. The results delivered a tendency of transformational and transactional leadership styles about the perceived leaders, but used an unequal number of leadership questions. A similar study using a different leadership instrument containing equally weighted questions on each side of the leadership continuum may show different results.

**Limitations of selected qualifications and variables.** The franchise participant qualified for participation in the study if he or she answered “yes” to all three qualifying questions, yet one of the success criteria called for a five-year tenure as an owner. The study results did not distinguish between those franchises operating for two, three, or four years, nor did it suggest those at the five-year mark may be declining in success.
The study has limitation constraints on the demographic categories and the correlation to success. Franchisees have various capital input and requirements needed to operate an organization. The literature stated that lack of business capital and understanding its requirements can impact the failure and success rate of entrepreneurs.

While serial entrepreneurs are overly optimistic in projecting business success, Dujowich (2010) pointed out that what Ucbasaran et al. (2011) failed to emphasize in their research is the issue of undercapitalization. The entrepreneur who continues to open and shut down businesses must eventually face an economic reality. The limited research of the dissertation study only allowed for the exploration of age, gender, education, and size of franchise units. Capital is a critical element, particularly in the formative years of business, and may have influenced the results of the dissertation study.

**Recommendations**

Recommendations for further research into franchise entrepreneur leadership include a study that looks at the leadership differences between the franchisor and franchisee. For example, does it require one leadership style at the corporate office and something else at the franchisee level to maintain a viable partnership? The literature suggests that each group, franchisee and franchisor, has competing interests at various stages in the relationship and one style may violate the synergy while the other may promote and enhance success.

The divided interests between franchisee and franchisor are mentioned in the relationship to the payment of royalties and its calculated basis and from the territory exclusion and inclusion debate. Franchisors prefer using sales for tracking and royalty purposes, but this may not benefit the franchisee financially. Similar problems arise from
the value proposition of franchise systems enforcing territorial boundaries for its franchisees versus the open territory model (Nair et al., 2009).

A second research question that emerges out of the dissertation study is, How does the leadership of the franchisor influence that of the franchisee, and does the franchisee have added influence on the franchisor? A future study could look at a timeline of success and determine which group exerts more leverage and drives the leadership of the entire organization. This fundamental principle is the force from which entities control their destiny through greater corporate influence with a diminishing dependence on a vendor, organization, or corporate franchise. The larger, more successful franchises may command the attention of the franchisor when establishing system wide processes and procedures. Both rely on each other for the system to operate, but over time, the influences may change in favor of the franchisee.

A third future research question is, What leadership styles are franchisors employing in the recruiting process and does this change once the franchisee is part of the system? Data could provide insight into if one style is more effective in recruiting and another in the retention of franchisees.

A study of a national logistics franchise organization might benefit from a more comprehensive success questionnaire beyond the five questions asked in the dissertation study to include a total of 10 questions. Increasing the level of success coding from five to 10 may extend the possibility of making a stronger case for the success component. Also, there are other leadership surveys that may be more inclusive than the MLQ Form 5-X that further research studies might consider. The dissertation study only asked for
the leader’s self-perception in terms of leadership, but the contributions of his or her
followers might present valuable insight into leadership measurements.

The dissertation study was framed through the lens of entrepreneurship including
the small business segment, both independent and franchise organizations. Many
researchers have been undecided regarding the classification of franchise companies.
Although standardization is one of the cornerstones of the franchise model, not all are
structured under this format, including the national logistics franchise studied in the
dissertation research.

Franchise development and a best practices program at the franchisor level may
benefit from the study by employing those leadership qualities that emerge from
franchisee leaders in the wake of different market conditions. The data informed the
reader that different leadership styles are more desirable and understanding these
concepts may affect the success of the organization.

Finally, future study could investigate the perception of the franchise owners and
whether they regard themselves as entrepreneurs owning their own business, or do many
of the franchise procedures preclude them from such a status?

Conclusion

The dissertation study on franchise entrepreneur leadership and its relationship
with levels of success from the franchisee perspective is based on the researcher’s
experience as an entrepreneur and franchisee. The researcher’s experience led to
curiosity about the issues that plague many small businesses and the entrepreneurs that
represent franchised organizations.
The research grew out of the problem suggesting that after 10 years in business, 96% of the companies are no longer in operation (Gerber, 1995). The review of the literature indicates that the economy relies heavily on the franchise market segment, and that half of the employment opportunities emerge from franchise entrepreneurs and their small businesses ((Monahan, Shah, & Mattare, 2011; SBA, 2004). Once the problem statement was crystallized, the underlying research question became apparent as well as the four supporting questions.

**Primary research question.** Is there a significant relationship between the various degrees of success of selected national franchisees and the assessed leadership styles of their transformational and transactional leadership as perceived by the leaders? The levels of success were defined by the researcher, and using the existing literature, the identified leadership styles were transformational and transactional.

The four sub-questions addressing the primary research question are:

1. Is there a significant relationship between the gender of the franchisee, the degree of success of the franchise, and the dominant leadership style?
2. Is there a significant relationship between the age of the franchisee, the degree of success of the franchise, and the dominant leadership style?
3. Is there a significant relationship between the education of the franchisee, the degree of success of the franchise, and the dominant leadership style?
4. Is there a significant relationship between the size of the franchise, the degree of success of the franchise, and the dominant leadership style?

**Theoretical framework.** The research questions informed the theoretical framework from which this study was conducted. Two interrelated ways of
understanding leadership are used as the theoretical framework for the research: transformational leadership and transactional leadership. Additionally, the Agency Theory is used as a way to understand the problems associated with the failure of small businesses and franchises.

An exploration of how the theories provide insight into issues of leadership in small businesses and franchises supports what the literature has shown as a critical need for leadership skills in larger organizations. However, the research literature failed to include franchise and small business entrepreneurs in its consideration of business leadership. The dissertation study, therefore, adds to the literature through its inclusion of franchise organizations—demonstrating the value of leadership on this business segment and the levels of success it purports to influence.

**Purpose of the study.** The dissertation study provides an understanding of the influences that leadership may have, if any, at the franchisee and small business level and its effect on success. Because franchising is an emerging field in business, understanding franchise success from a leadership standpoint provides new knowledge concerning the relationship between the leadership style and franchise success. As such, the study provides knowledge of the dominant leadership style, transformational or transactional, that delivers higher levels of success from the franchisee perspective.

**Significance of the study.** The results of this study may be of significance to the franchisor when selling new franchise units. For instance, the research may help franchisors identify the type of leaders, transformational or transactional, best suited for a particular type of business systems franchise. Furthermore, if franchisors more fully understand the transformational and transactional leadership styles that influence success
in a franchise system and their corresponding demographics, they might be able to reduce the attrition level and minimize the recruiting time and effort expended by franchise companies.

**Methodology.** The research was a quantitative study that included 50 participants from a national logistics franchise system located in the western part of the United States. The purposeful sample was part of an entire population of 200 franchisees, and the group studied included franchise leaders, owners, or presidents of their individual franchise unit. Upon meeting the qualifications for the study, the franchise leaders were administered an online Multifactor Leadership survey by Mind Garden, Inc., which included three parts. The first section included questions confirming leadership tendencies: transformational and transactional. The second section asked five questions regarding levels of success at respective franchise location. The questions on levels of success were designed by the researcher and incorporated into the original survey.

The final section looked at four demographics of the franchise system for purposes of answering the supporting research questions.

The results from a Likert scale in Section 1 of the survey were used to bifurcate the participants into transformational and transactional groups. Each participant received two scores using the Likert scale: transformational leadership average score and transactional leadership average score. The higher of the two averages determined their placement into the transformational or transactional category.

The results were used as the independent variable, filtering out the transactional leaders and testing for significance at a .05 alpha level against the dependent variable, levels of success, using t-test analysis. Using only data from the dominant leadership
style, transformational, were the four demographic classes tested against the dependent variable, levels of success, using t-test analysis.

The findings also contained descriptive data on both leadership styles, including mean, median, mode, and standard deviation, to support the findings and to provide another perspective of the data outside of the t-test results. Finally, the data was compared to normative data included with the MLQ Form 5-X. These data showed the five attributes typically associated with transformational leadership and the two found with transactional leadership styles.

**Findings of the study.** The results of the data analysis show critical differences between the levels of success between transformational and transactional leadership. The most apparent disparity is in the raw numbers within the sample. The entire sample of the population includes 50 participants, and 45 of the 50 exhibit transformational leadership tendencies while only five show transactional leadership tendencies.

While the results are consistent with the theory on full-range leadership in that all 50 participants scored greater than 1 on the Likert scale in the first section of the leadership survey, the number of transformational leaders is overwhelmingly dominant. The t-test delivered an alpha level of .004 when comparing the mean of the two groups, with a threshold of .05 or less for determining a significant difference.

Unlike the relationship between success levels and leadership style, the secondary analysis using only the dominant style tested against demographics has a different result. The 45 transformational leaders were sorted using four demographics and tested for significance between binary groups (gender, age, education, size of franchise). The independent variable is transformational leadership and the dependent variables are the
four demographics: gender, age, education, and size of franchise. For example, the mean of levels of success were tested between all males and females within the transformational leadership group. An alpha level of .05 or less was used to test for a significant difference. A t-test was used for demographic analysis. The same procedure was applied to the three remaining demographic groups. The numbers of participants within the demographic groups are not as drastically different as they were in the initial testing groups. The results of the t-test at each of the four demographic groupings show no significant difference at the .05 alpha levels.

The results of the dissertation study suggest that leadership is valuable and has an influence on success and business longevity, but the demographics of the leader is of little importance. However, these data should be used cautiously and only applied to franchise organizations of similar design.

**Implications and conclusions.** Franchising is an emerging field and the literature on these organizations is limited. Furthermore, the most familiar type of franchise, which includes the food, hospitality, and business services industry, tends to lack the opportunity to exercise various leadership styles. Much of the debate on franchise literature centers on its problem with conformity and whether it can be classified as an entrepreneurial business.

The dissertation study was structured to show that some franchising organizations have the latitude for entrepreneurship, and they are plagued with the same problems all small businesses face in the wake of competition and troubled economies. Understanding leadership at the franchisee level has its merit, and like many small and large companies, franchises need effective leadership at every level for success to exist and perpetuate.
References


Appendix A

Prequalifying Email Participation Letter

I am a student at St. John Fisher College Ed. D. program in Executive Leadership. My doctoral research is in the study of leadership styles and their relationship to levels of success in a logistics franchise system. I am looking for your participation in this study to help add to the knowledge base in the field of leadership. I am asking you as a fellow colleague to read the three questions below and provide me with your answers: 1) Are you an active owner? 2) Have you been an owner for at least one year? 3) Do you employ at least one associate?

Please respond back to my email at your earliest convenience with your “yes” or “no” answers to all three of these questions. A second email will be sent to those randomly chosen from all the participants, asking for their formal participation in the study. I appreciate you taking the time and effort to answer the email and assisting in this valuable research study.

Sincerely,

John Cary
(845) 236-3060
John.Cary@Unishippers.com
Poughkeepsie, NY Franchisee
Appendix B

Email Letter Requesting Participation in the Study

Dear Franchisee:

I am a doctoral candidate at St. John Fisher College Ed. D. Program in Executive Leadership. I will be conducting research in the field of leadership, studying the relationship between levels of success and dominant leadership styles in a franchise system. This research is in partial fulfillment of the requirements for my doctoral dissertation.

Participation is voluntary, so you will not be compensated, but you may request a copy of the leadership survey for your records. Because it is voluntary participation, you may elect not to participate in the study.

A third-party company, named Mind Garden, Inc., will be used to facilitate the survey and to provide anonymity between you and the researcher. Your information will only be listed as a participant number—without any use of your name linked to the data.

Participants will be asked to answer 37 questions in total, with 28 of these on a five-point Likert scale addressing leadership tendencies. Five of the questions regarding levels of success can be answered with a “yes” or “no” response. The remaining four questions relate to demographics with a choice of two answers per question. The survey will be conducted online and will take no more than 20 minutes of your time to complete.

If you are willing to participate, please respond to this email indicating your acceptance. Your return email address will be used by the survey company. Mind Garden, Inc. will send an email to you with a link connecting you to the survey to complete.

Thank you in advance for your consideration. Please feel free to contact me with any further questions.

Sincerely,

John Cary
(845) 236-3060
John.Cary@Unishippers.com
Poughkeepsie, NY Franchisee
Appendix C

Multifactor Leadership Questionnaire

Transformational Leader Proclamations:

1. I re-examine critical assumptions to question whether they are appropriate.
2. I talk about my most-important values and beliefs.
3. I see differing perspectives when solving problems.
4. I talk optimistically about the future.
5. I instill pride in others for being associated with me.
6. I talk enthusiastically about what needs to be accomplished.
7. I specify the importance of having a strong sense of purpose.
8. I spend time teaching and coaching.
9. I go beyond self-interest for the good of the group.
10. I treat others as individuals rather than just as a member of a group.
11. I act in ways that build others’ respect for me.
12. I consider the moral and ethical consequences of decisions.
13. I display power and confidence.
15. I consider an individual as having different needs, abilities, and aspirations from others.
16. I get others to look at problems from many different angles.
17. I help others to develop their strengths.
18. I suggest new ways of looking at how to complete assignments.
19. I emphasize the importance of having a collective sense of mission.
20. I express confidence that goals will be achieved.

Transactional Leader Proclamations:

1. I provide others with assistance in exchange for their efforts.
2. I focus attention on irregularities, mistakes, exceptions, and deviations from standards.
3. I discuss in specific terms who is responsible for achieving performance targets.
4. I make clear what one can expect to receive when performance goals are achieved.
5. I concentrate my full attention on dealing with mistakes, complaints, and failures.
6. I keep track of all mistakes.
7. I direct my attention toward failures to meet standards.
8. I express satisfaction when others meet expectations.
Appendix D

Researcher’s Definition for Success

The study will define a successful franchise as follows:

1. Franchise business has operated for at least five years.
2. Year-over-year incremental positive-growth pattern for the past five-year period.
3. Net revenue of $300,000 by the end of the fifth year.
4. The shipment requirement from the franchisor was met during the past five years.
5. The franchisee has retained 75% of its original customer base for the past five years.
Appendix E

Demographic Questions for the Sample Population

1. Gender: Male or Female?

2. Age Range: Are you less than or equal to 40 years of age? Are you greater than 40 years of age?

3. Level of Education: College graduate or not a College graduate?

4. Size of Franchise: Less than or equal to three sales territories or greater than three sales territories?
Appendix F

Letter of Introduction to Participants (Informed Consent)

John C. Cary
Marlboro, NY 12542
John.Cary@Unishippers.com

Dear Franchisee:

I am doctoral student at St. John Fisher College Ed. D. Program in Executive Leadership conducting research in the field of leadership at the franchisee level. The research will begin once I have met the approval of the Institutional Review Board (IRB).

The proposed study will explore the proclivity toward one of the leadership approaches practiced in varying degrees of successful franchises to close this gap and add new knowledge to the existing body of literature. Specifically, this study will examine leaders in an entrepreneurial franchise system and determine whether the success of these franchises is related to the leaders’ transformational or transactional leadership approach.

The information gathered from the participants will only be used for research purposes. All of your responses to the survey will remain confidential with respect to your peers, subordinates, and superiors. The company that will facilitate the survey will provide anonymity between the researcher and your responses. The Institutional Review Board will ensure the safety and integrity of the study.

Thank you in advance for your consideration to participate in this valuable research study. If at any time you have questions, please feel free to contact me directly.

Sincerely,

John Cary
(845) 236-3060
John.Cary@Unishippers.com
Appendix G

Multifactor Leadership Questionnaire

Third Edition
Manual and Sample Set

Bruce J. Avolio and Bernard M. Bass
University of Nebraska and SUNY Binghamton

Contributions by:
Dr. Fred Walumbwa
Weichun Zhu
University of Nebraska—Lincoln
Gallup Leadership Institute

mind garden
Published by Mind Garden, Inc.
info@mindgarden.com
www.mindgarden.com

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Appendix H

Multifactor Leadership Questionnaire
Leader Form

My Name: ____________________________ Date: ________________
Organization ID #: __________________ Leader ID #: ____________

This questionnaire is to describe your leadership style as you perceive it. Please answer all items on this answer sheet. If an item is irrelevant, or if you are unsure or do not know the answer, leave the answer blank.

Forty-five descriptive statements are listed on the following pages. Judge how frequently each statement fits you. The word "others" may mean your peers, clients, direct reports, supervisors, and/or all of these individuals.

Use the following rating scale:

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<th>Not at all</th>
<th>Once in a while</th>
<th>Sometimes</th>
<th>Fairly often</th>
<th>Frequently, if not always</th>
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<td>1</td>
<td>2</td>
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<td>4</td>
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</table>

1. I provide others with assistance in exchange for their efforts.
2. I re-examine critical assumptions to question whether they are appropriate.
3. I fail to interfere until problems become serious.
4. I focus attention on irregularities, mistakes, exceptions, and deviations from standards.
5. I avoid getting involved when important issues arise.
6. I talk about my most important values and beliefs.
7. I am absent when needed.
8. I seek differing perspectives when solving problems.
9. I talk optimistically about the future.
10. I instill pride in others for being associated with me.
11. I discuss in specific terms who is responsible for achieving performance targets.
12. I wait for things to go wrong before taking action.
13. I talk enthusiastically about what needs to be accomplished.
14. I specify the importance of having a strong sense of purpose.
15. I spend time teaching and coaching.

Continued ➔
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<th>Not at all</th>
<th>Once in a while</th>
<th>Sometimes</th>
<th>Fairly often</th>
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</table>

16. I make clear what one can expect to receive when performance goals are achieved
0 1 2 3 4

17. I show that I am a firm believer in "If it ain't broke, don't fix it."
0 1 2 3 4

18. I go beyond self-interest for the good of the group
0 1 2 3 4

19. I treat others as individuals rather than as just a member of a group
0 1 2 3 4

20. I demonstrate that problems must become chronic before I take action
0 1 2 3 4

21. I act in ways that build others' respect for me
0 1 2 3 4

22. I concentrate my full attention on dealing with mistakes, complaints, and failures
0 1 2 3 4

23. I consider the moral and ethical consequences of decisions
0 1 2 3 4

24. I keep track of all mistakes
0 1 2 3 4

25. I display a sense of power and confidence
0 1 2 3 4

26. I articulate a compelling vision of the future
0 1 2 3 4

27. I direct my attention toward failures to meet standards
0 1 2 3 4

28. I avoid making decisions
0 1 2 3 4

29. I consider an individual as having different needs, abilities, and aspirations from others
0 1 2 3 4

30. I get others to look at problems from many different angles
0 1 2 3 4

31. I help others to develop their strengths
0 1 2 3 4

32. I suggest new ways of doing it to complete assignments
0 1 2 3 4

33. I delay responding to urgent questions
0 1 2 3 4

34. I emphasize the importance of having a collective sense of mission
0 1 2 3 4

35. I express satisfaction when others meet expectations
0 1 2 3 4

36. I express confidence that goals will be achieved
0 1 2 3 4

37. I am effective in meeting others' job-related needs
0 1 2 3 4

38. I use methods of leadership that are satisfying
0 1 2 3 4

39. I get others to do more than they expected to do
0 1 2 3 4

40. I am effective in representing others to higher authority
0 1 2 3 4

41. I work with others in a satisfactory way
0 1 2 3 4

42. I heighten others' desire to succeed
0 1 2 3 4

43. I am effective in meeting organizational requirements
0 1 2 3 4

44. I increase others' willingness to try harder
0 1 2 3 4

45. I lead a group that is effective
0 1 2 3 4

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