Critical Factors which Assist or Hinder the Achievement of the Four Franchising Imperatives.

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Abstract

The economic and social contribution of franchising is widely reported. However, little research has examined the factors influencing the achievement of the four franchising imperatives (i.e., unit growth, uniformity, local responsiveness and system-wide adaptation). Based on the seminal work of Bradach (1995), the four franchising imperatives were found to be key elements driving franchise success. This paper will explore the four franchising imperatives within the context of multiple-unit franchising. This represents and important gap in the organizational choice literature. The purpose of this research was to identify those factors which may enable or hinder the achievement of the four franchising imperatives in plural franchising arrangements. An exploratory convergent interviewing approach was used to collect data from a sample of 16 respondents. A series of eight propositions derived from the qualitative stage of this research are presented for later quantitative testing. The results suggest that the four franchising imperatives are best achieved through the provision of rewards systems and business growth models, professional development training, timely communication with head office staff, and allowing informal flexibility beyond contract provisions. Key factors that may hinder the achievement the four imperatives include a lack of franchisor-initiated innovation and chain franchisee decision-making involvement, franchisee personality and costs of compliance.

Introduction

One of the challenges of determining why firms adopt franchising concerns the variety of organisational forms encompassed within franchising. In particular, present-day franchise systems often occupy a range of organisational forms to facilitate expansion. Predominantly firms choose to grow their systems through company-owned unit expansion, single unit franchising, multiple unit franchising or some combination thereof (Kaufmann, 1992; Robicheaux, Dant and Kaufmann, 1994). This study focuses on multiple-unit franchising (MUF) which is a dominant franchising expansionary strategy in many western economies (Kaufman and Dant 1996). In recent years there has been a plethora of research examining the motivational incentives governing multi-unit franchising choice (for example, Grunhagen and Mittelstaedt 2002, 2005; Weaven and Frazer 2006) and the key success factors associated with this form of franchising expansion (Bradach 1995). However, there is some evidence that MUF is not always a successful strategy (Robicheaux et al. 1994; Zarco and Einhorn 1999). Moreover we do not currently know the factors influencing the achievement of the four franchising imperatives (i.e., (1) unit growth, (2) uniformity, (3) local responsiveness and, (4) system wide adaptation) within the context of franchisee mini-chain development. This represents an *important gap* in the literature.

Literature Review

Prior research presents (often competing) theories explaining the use of franchising as an organisational form (see Dunning's Eclectic theory, transaction cost analysis). However, two dominant theories have empirical support in the literature. These are resource scarcity and agency theory. Resource scarcity theory suggests that firms engage in franchising as a mechanism to fuel system growth as often they are limited by internal capital and managerial supply. In contrast, agency theory suggests a unified relationship co-exists between the principal (i.e., franchisor) and the agent (i.e., franchisee) to minimise the monitoring of independent units within geographically dispersed areas. However, to date the literature acknowledges that there exists no single explanation for franchising (e.g., Alon and McKee, 1999; Chow and Frazer, 2003; Combs, Michael and Castrogiovanni, 2004; Hunt, 1973; Inma; 2005; Jensen and Meckling, 1976). Therefore, this research aims to extend current franchising theory and specifically the area of MUF, through a preliminary examination of the four franchising imperatives (i.e., unit growth, uniformity, local responsiveness and systemwide adaptation) and multiple unit franchising adoption. A brief explanation of the four franchising imperatives is provided below.

Unit growth: As discussed above, franchising as a growth strategy is explained through resource constraints theory and agency theory (Falbe and Welsh, 1998; Inma, 2005; Kaufmann, 1996; Kirby and Watson, 1999). Specifically, the addition of units into a system enables higher growth rates which lead to the development of economies of scale (e.g., spreading of resources associated with advertising and administrative expenses across units). Bradach (1995) suggests that there are three approaches in which unit growth can be achieved in franchising networks: 1. the addition of company units to a system, 2. the addition of franchisees who add several units to a chain and, 3. the inclusion of additional units to a preexisting franchisee within the system (i.e., incremental franchising, IF). In support of this, Garg, Rasheed and Priem (2005) found that franchisors adopting a (rapid) growth strategy favoured the use MUF strategies.

Uniformity: In some franchising systems (particularly those that are recently established) concern for rapid growth exceeds the need to maintain system uniformity (Stern and El-Ansary, 1988; Bradach, 1998). MUF is preferred when wide variations occur between units, which are probable within systems incorporating several independent franchisees. Therefore, it is assumed that under a MUF network, management practices are easily transferable and, subsequently, uniformity is more likely (Kaufmann and Dant, 1996; Weaven and Frazer, 2007). Furthermore, uniformity is crucial in MUF arrangements because it enhances (1) brand name capital, (2) enables greater monitoring on part of the franchisor and, (3) uniformity is more detectable under a MUF arrangement (e.g., size of mini-chains and contractual obligations of multiple unit owners) (Bradach, 1995, 1997, 1998; Sorenson and Sorenson, 2001; Yin and Zajac, 2004).

Local responsiveness: Local responsiveness is recognised as a means by which organisations demonstrate 'flexibility' (e.g., Pehrsson, 2007). In this sense, organisations are characterised as understanding customer needs and adapting to heterogeneous markets (e.g., Albaum, Strandskov and Duerr, 2002; Narver and Slater, 1990). However, Garg et al. (2005) suggests that variations are prevalent in the approach taken by franchisors to accommodate local markets. Similarly, Bradach (1995) found that the degree to which franchisors enable franchisees to respond to local market conditions also differs. For example, larger and more mature franchisors 'allowed for greater latitude in varying elements of the uniform format in response to local circumstances' (Bradach, 1998, p. 25) which was also determined to enhance the overall operational performance of the franchise network.

System-wide adaptation: From a franchising perspective, adaptation is recognised as a notion closely associated with system uniformity (Garg et al., 2005; Kaufmann and Eroglu, 1998). Given this, Kaufmann and Eroglu (1998) suggest that franchisors are required to trade the benefits associated with standardisation and adaptation which are often necessary to meet the demands of local markets (Kaufmann and Eroglu, 1998) and are often linked to system success (Stanworth and Curran 1999). Through accommodating heterogeneous markets, franchisors are able to benefit from increased revenues and greater alignment of units within the system (Kaufmann and Eroglu, 1998). Bradach (1995) suggests that system-wide adaptation consists of four stages: (1) developing new ideas, (2) assessing the suitability of ideas, (3) electing the most suitable ideas and, (4) employing the ideas. However, no additional study has examined the four franchising imperatives within existing multiple unit franchising forms. In addition, no other study has identified the factors enabling or hindering each of the four franchising imperatives. Therefore, given the above discussion, the following research questions are proposed:

RQ: What are the factors that facilitate or impede the achievement of the four franchising imperatives (i.e., (1) unit growth, (2) uniformity, (3) local responsiveness and, (4) systemwide adaptation) in franchising systems adopting multiple unit franchising strategies?

Research Design and Sample

This exploratory research involved a series of in-depth interviews in order to gain a broader understanding of the issues found to influence the four franchising imperatives of (1) unit growth, (2) system uniformity, (3) local responsiveness and, (4) system-wide adaptation. In order to gain a rich picture and clearer understanding (Deshpande, 1983) into the relevant issues of this research, a convergent interviewing technique was applied (Woodward, 1997). Convergent interviewing is an unstructured process, which aims to identify objective information and is a valid technique when examining small samples (Deshpande, 1983). In particular, the focus of this approach is based on the information provided from the respondents as opposed to the answers given to a set of predetermined questions outlined by the researcher (Dick 1990). Within this study, the incorporation and development of probe questions was implemented in order to identify information where interviewee agreement or disagreement occurred. The sample consisted of 16 respondents, an equal split between retail and service franchise firms. In addition, the franchise firms interviewed had been franchising for a period of between six to 26 years, of which, the number of multiple-unit franchisees in each franchise system ranged from one to 300. Interview duration was between 45 minutes and one and a half hours. Results and a series of 8 propositions derived from the interviews are presented below.

Results

System growth.

In relation to system growth, ten respondents indicated that the best ways to achieve system growth when pursuing a multiple unit franchising strategy is through attracting franchisees that have growth intentions from the outset. Moreover, these respondents suggested that it was imperative to present a business model incorporating set rewards criteria that accommodates sequential expansion opportunities for high performing franchisees. Of the ten respondents, eight stated that this strategy had to be incorporated in the vision and mission of the system. Example statements from respondents are provided. "It is the ability to attract

appropriate franchisee that are interested in growing unit holdings from the outset" and "You have to fundamentally have a good business model that shows potential multi-site franchisees how they will be able to grow". Thus it is proposed that:

P1: In systems pursuing a multiple unit growth strategy, system growth is facilitated through the provision of rewards systems and mini-chain business growth models that accommodate franchisee growth aspirations from the outset.

Interestingly, nine respondents indicated that the primary factor considered to hinder unit growth was a perceived lack of system innovation (e.g., product development) within the franchise system that may be viewed by multiple unit franchisees as reducing the competitive differentiation and strength of the corporate brand. For instance, "We have to remain innovative or our best franchisees will look elsewhere. Cross system ownership is common" and "Having the wrong franchisees, not innovative". Thus it is proposed that:

P2: In systems pursuing a multiple unit growth strategy, system growth is inhibited by a lack of perceived franchisor-initiated innovation in terms of future product and service additions.

Uniformity.

In relation to system uniformity, on-going training centring upon multiple unit franchisee professional development was viewed as important in maintaining franchisee commitment to the vision and standards of the franchisee. In particular, chain franchisees required administrative instruction so as to maximise intra-system (operational) economies of scale. In addition a majority of respondents suggested that regular communication with area representatives and franchisors assisted the promotion of system uniformity. Examples reported from respondents include: "When one is training, our multi-site licensees need to feel that they are being given every opportunity to develop professionally" and "Like they're constant vigilance in terms of support to these franchisees in terms of visits and business development". Thus, it is proposed that:

P3: In systems pursuing a multiple unit growth strategy, system uniformity is facilitated by ongoing professional development training programs and timely communication with area representatives and franchisors.

In relation to system uniformity, the key factor considered to hinder system uniformity was a lack of decision-making involvement in areas such as new product development, rebranding initiatives and training manual alterations (reported by eight respondents). For instance: "If they don't feel like their involved, we've found that they change things for their local market. In the extreme they are misrepresenting or misusing our brand". Thus it is proposed that:

P4: In systems pursuing a multiple unit growth strategy, system uniformity is hindered by a lack of decision-making involvement by chain franchisees in system operations.

Local responsiveness.

In relation to being locally responsive, a majority of respondents reported that allowing chain franchisees the flexibility to develop local area marketing/advertising initiatives in contiguous areas assisted local responsiveness. Moreover, local initiatives were more successful when chain franchisees were actively involved in the local community (e.g., networking). For example: "Our larger franchisees often develop marketing campaigns in their areas ...we learn a lot from them" and "Our best multi-site franchisees are the ones that are active ...involved in community groups, sporting groups and the like". Thus it is proposed that:

P5: In systems pursuing a multiple unit growth strategy, system local responsiveness is facilitated by granting chain franchisees some informal flexibility (i.e., can *modify* e.g., corporate marketing plans to accommodate local region) to develop local marketing initiatives in contiguous areas.

Slightly more than half of the respondents reported that the key factor inhibiting the local responsiveness was the mind-set of franchisees and difficulties in communicating the informal flexibility inherent within the franchising contract. For example: "Some (multiple unit) franchisees don't get it...they aren't confident enough to believe that they are allowed to do it" and "Some of the multi franchisees don't have the drive, the energy or the confidence to develop their own plans. It has to be communicated to them when they join". Thus,

P6: In systems pursuing a multiple unit growth strategy, system local responsiveness is hindered by franchisee personality (i.e., franchisees unwilling to make changes to system to accommodate local market needs) and difficulties associated with communicating informal provisions in the franchise agreement.

System-wide adaptation.

In relation to system-wide adaptation, seven respondents indicated that timely and open communication between the franchisor and chain franchisees would best enable system-wide adaptation. Factors of less significance were related to the investment of resources by the franchisor/franchisee and good internal systems to manage system adaptations. Examples reported from respondents include: "We have to listen and openly communicate with our larger franchisees…we always have to be available". Thus we suggest that:

P7: In systems pursuing a multiple unit growth strategy, system-wide adaptation is facilitated by timely an accurate information exchange between the multiple unit franchisee and franchisor.

The main factor considered to hinder the adaptation of new products and/or processes to franchise networks was the financial cost and/or resources associated with a given adaptation. For instance, more than half of respondents indicated that as chain franchisees had multiple units, their investment in an adaptation (brand amendment, shop fit-out etc) would often result in them being resistant to change. For example, "They have a lot more money that they have to invest...they're not always happy about it. Recently we had to offer some financial assistance with our re-branding strategy". Thus,

P8: In systems pursuing a multiple unit growth strategy, system-wide adaptation is hindered by financial costs associated with system-wide adaptation compliance in larger intra-system networks. Results of each of the constructs and their associated propositions are outlined in Table 1.

Table 1.

Proposition	Construct	Results	
P1	Unit growth		Medium
P2			Medium
P3	Uniformity	Strong	
P4			Medium
P5	Local Responsiveness	Strong	
P6			Medium
P7	System-wide		Medium
P8	adaptation	Strong	

Discussion and Conclusion

This research was the first study to investigate the critical factors influencing the four franchising imperatives of unit growth, system uniformity, local responsiveness and system-

wide adaptation in firms pursuing a multiple unit franchising strategy. Specifically, this study found that multiple-unit franchising is beneficial in meeting the four franchising imperatives. Firstly, the results revealed that franchisors pursuing a multiple-unit franchising growth strategy look for franchisees that have a growth orientation mind-set centered on encouraging franchisees to differentiate their brand through continued innovation. Secondly, the results suggest that in relation to system uniformity franchisors need to provide timely communication, employing professional development and training initiatives to guide operational compliance. Thirdly, franchisors employing strategies to promote local responsiveness support constant flexibility, encouraging the promotion of local area marketing initiates and active involvement within the local community. By doing so, this will enable franchisees to be more actively involved in the decision-making process of the network and, therefore, multiple-unit franchisor are viewed as providing more informal flexibility than that evident within single-unit systems. Finally, the results indicate that multiple-unit franchisors employing strategies to accommodate system-wide adaptation practice open and constant communication with their franchisees in relation areas concerning the applicability, flexibility and economic viability to alternations within their franchise network (i.e., investment of resources). The eight propositions proposed in this study will be empirically tested in a large scale survey of multiple-unit franchise systems across both Australia and the United States of America.

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