#### RESEARCH ARTICLE

# Contrasting the Four Franchising Imperatives across Hybridized Governance Models; a Preliminary Investigation

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KEYWORDS. Multi-unit franchising, plural governance, four imperatives.

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### **ABSTRACT**

Although multiple-unit franchising is a popular and pervasive retailing strategy throughout the world, there is a paucity of prior research examining the factors influencing the achievement of the four franchising imperatives (i.e., unit growth, uniformity, local responsiveness and system-wide adaptation) within the context of these hybridized arrangements. Exploratory interviews were conducted (16 franchisees) and results suggest master franchising realizes the strategic imperatives of unit growth, system uniformity, system-wide adaptation and, (partially) local responsiveness. Both master franchising and area development arrangements enabled system uniformity, whilst, incremental and area representative arrangements promoted system-wide adaptation. Implications for practitioners and future academic researchers are presented.

#### INTRODUCTION

Franchising has become a pervasive retailing arrangement and is commonly employed as a mode of expansion for many firms both within Australia and many other world economies. In the United States, there are in excess of 1500 franchise systems that provide employment for approximately 18 million people and provide private sector contributions of US\$1.53 trillion (Baker and Dant 2008; Reynolds, 2004). The significant contribution of franchising is similarly evident in the United Kingdom in which the estimated 759 business format franchising systems account for approximately one third of all retail sales (British Franchise Association/Natwest, 2006). Although servicing a smaller population of 22 million people, the Australian franchise sector comprises of 1100 franchise systems which contribute A\$130 billion to annual Gross Domestic Product, lending support to claims that Australia represents the 'franchise capital of the world' (Frazer, Weaven & Wright, 2008; Walker 2004).

The impressive growth within the franchising domain both within Australia and internationally has increased the need to further explore the factors driving this area from a research context perspective. Whilst we acknowledge that a plethora of research has been examined within franchising, recent attention has been directed towards areas concerning franchise failure and success (for example, Frazer & Winzar, 2005; Castrogiovanni, Justis & Julian, 1993; Frazer, Merrilees & Bodey, 2007), international franchising (for example, Connell, 1999; Fladmoe-Lindquist, 1996, 2000; Frazer et al., 2007; McIntyre, Gilbert & Young, 2006; Quinn & Doherty, 2000), co-branding (for example, Wright & Frazer, 2007; Young, Hoggatt & Paswan, 2001), entrepreneurship (for example, Maritz, 2005; Maritz & Nieman, 2008; Michael, 2003), net technologies (for example, Dixon & Quinn, 2004; Paswan, Wittmann & Young, 2004; Young, Clark & McIntyre, 2006) and multiple-unit ownership (for example, Bodey & Weaven, 2007; Bodey, Weaven & Grace, 2007; Bradach, 1997; 1998; Grünhagen & Mittelstaedt, 2005;

Kalnins & Lafontaine, 1999; Kaufmann, 1996; Shane 1996a, 1996b; Weaven & Frazer, 2003, 2006, 2007).

One such area which has recently received growing interest is the prevalence of hybridized organizational forms. Such arrangements allow organizations to distribute their products more efficiently and effectively domestically, and across borders, to their customers (Shane 1996a). Evidently, franchisee-owned unit networks present an additional hybridised form of channel structure (Grünhagen & Mittelstaedt, 2000). In particular, the incidence of multiple-unit arrangements, whereby franchisees own more than one unit, is significant (Kaufmann & Dant, 1996). Whilst concerns have arisen as to the effectiveness of MUF as a successful venture growth strategy (Kaufmann 1992; Robicheaux et al., 1994), the dominance of MUF in many franchise systems both within Australia and internationally reinforces this as an area worthy of further research (Weaven, Grace and Manning, 2009).

However, to date, there has been limited exploration of the relative performance of alternative MUF governance arrangements from the franchisor's perspective. Previous research by Bradach (1995) suggests that franchise system success is predicated upon the choice of organisational structures that facilitate rapid unit growth (and associated scale economies), system uniformity (to ensure consistent delivery of the service experience and brand promise), local market responsiveness (to guarantee that franchisees proactively manage local market needs) and system wide adaptation (to sustain or improve competitive market positioning through the assessment and implementation of new ideas in response to changing market conditions). Although MUF arrangements more effectively deal with issues associated with system growth and system wide uniformity (Bradach 1995; Zeller, Alchabal & Brown 1980), greater incentives alignment between agent and principal (Bercovitz 2004; Kaufmann & Dant 1996) and system success (Kalnins & Lafontaine 2004), we do not currently know which of the four prominent MUF strategies (incremental expansion, master franchising, area development

franchising and area representation agreements) are best equipped to realize each of the four strategic imperatives.

Therefore, this study will endeavour to explore the four franchising imperatives or management challenges (i.e., (1) unit growth, (2) system uniformity, (3) local responsiveness and, (4) system wide adaptation); factors considered to drive franchise system performance. An additional purpose of this study is to explore the influence of the strategic imperatives within the context of franchisee mini-chain development.

### LITERATURE REVIEW

Three main areas of literature were reviewed. First, in order to address the two research questions proposed, this study will apply dependency theory as the central theoretical framework. Second, the literature pertaining to MUF and, in particular, the four main forms of multiple-unit arrangements (i.e., master franchising, area development franchising, area representative arrangements and incremental franchising) are presented. Finally, a review of the four franchising imperatives (i.e., unit growth, system uniformity, local responsiveness and system-wide adaptation) from a MUF context is provided.

### **Dependency Theory**

Much research exploring the relationships between firms within channels of distribution has done so from the perspective of *dependence*. Dependence has constantly been found to explain inter-organizational behaviors (e.g., Morgan & Hunt, 1994) by providing explanation in terms of the distribution of labor within firm arrangements (Dant & Gundlach, 1998). For example, Frazier and Summers (1986) suggest that channel partners have the ability to assign and execute their distinctive roles more effectively as each party has a vested interest in the welfare of the other. In doing so, both parties have the opportunity to receive substantial rewards in return for effective cooperation (Frazier & Summers, 1986).

From a research context perspective and, more so within the channel literature, dependence has consistently been linked to power, conflict and satisfaction (Burkle & Posselt, 2008; Davies et al., 2009; Frazier & Summers, 1986). Typically, justification is found through the theoretical arguments proposed by Emerson (1962). Emerson (1962) argues that dependence is the inverse of power between Firm A and Firm B. As such, dependency is characterized by two interrelated factors of (1) the motivational goals mediated by B on behalf of A and, (2) inversely proportional to the availability of such goals to A outside the A-B relationship (Emerson, 1962).

The relationship common between Firm A and Firm B implies that dependency can play an important role within the context of franchising. From a franchising viewpoint, dependency appears to be a relatively obvious proposition given the foundations born through the franchisorfranchisee relationship. Specifically, the franchisor-franchisee relationship implies that a contractual and on-going arrangement exists between two parties (i.e., the franchisor; the franchisee) both of which have a vested interest in the role each play. For example, franchisees are expected to implicitly uphold the franchisors' brand(s), to facilitate growth (Roh & Andrew, 1997), development and expansion of the franchise system, to overcome local competition and enhance profitability through franchising fees and ongoing royalties (Justis & Judd, 1986). In contrast, franchisees also presume that the franchisor will actively participate in enabling the achievement of such growth, development and expansion through initial and ongoing training, services and support, in addition, to enacting proven operating procedures. This, in contrast, surpasses the costs of establishing a new brand (similar to initiating a new business venture); often restrained by financial resources and market place presence. Foremost, given the interrelated nature of the franchisor-franchisee relationship, we expect that dependency will play a focal role from a MUF perspective.

### Multiple-Unit Franchising (MUF)

Current research suggests that much of the future growth in franchising in many world economies will be attributable to the growth in MUF arrangements (Weaven & Frazer, 2007). MUF refers to an organizational arrangement in which franchisees are allowed to own more than one unit within the same franchise system (Kaufmann & Dant 1996). Traditionally, the view of franchising was founded based upon the operation of the single 'mom and pop' franchise store (Kaufmann, 1992). However, the growth of MUF has become increasingly prevalent among many franchise systems (Garg, Rasheed & Priem, 2005), as a growing proportion of existing franchisees operate more than a single outlet (Grünhagen, 1999). For example, within the McDonalds franchise network, 61.5 percent of restaurants opened between 1980 and 1990 were opened by existing franchisees (Kaufmann & Lafontaine, 1994).

Both Kaufmann and Dant (1996) and Kalnins and Lafontaine (2004) contend that the area of MUF has been relatively unexplored and limited in the realms of it's focus and, as such, remains in part, a 'curious anomaly' in franchising research (Kaufmann & Dant, 1996, p. 346). However, the application of MUF within many franchise systems suggests that there are a number of advantageous benefits derived from utilizing MUF (see Hussain & Windsperger 2010 for a review). In particular, the benefits attributed to MUF include greater control over the challenges present from unit addition (for example, Bradach, 1995; Kaufmann, 1990), assistance in the adaptation of the franchise system (for example, Bradach, 1995; Garg et al., 2005), minimisation of monitoring costs (for example, Kalnins & Lafontaine, 2004; Bercovitz, 2004), local market responsiveness and system survival (for example, Kalnins & Mayer, 2004) and, increases in overall system profitability through scale economies (for example, Garg et al., 2005; Grünhagen, 1999).

Whilst in the past there has been less acceptance of this mode of expansion (Frazer & McCosker, 1999; McCosker & Frazer, 1998) among franchise systems in Australia; there is evidence to suggest that this is changing (Frazer et al., 2008). Concerns were typically founded

based on efficiency consideration in relation to employment of unit-level managers where their remuneration is not dependent upon their performance. Therefore, conceptually, the application of employing a MUF strategy appears an unsound practice and counter-intuitive considering the major benefit of franchising arises from ownership attention at the local market level (Grunhagen & Mittelstaedt 2002). However, the increased utilization of multiple-unit franchisees justifies the need to further examine MUF and, in particular, the four primary organizational forms of MUF (i.e., incremental franchising, master franchising, area development franchising and area representative franchising), each of which are discussed in the following section.

Incremental franchising. Often referred to as incremental (IF) or sequential franchising, the right to additional franchise units is considered the most common form of franchising within the domestic context (Kaufmann, 1992; Weaven & Frazer, 2003). Incremental franchising is the process by which the franchisee is required to successfully prove to the franchisor their capabilities to operate the franchise unit as stipulated by the franchisor. In order to operate the system, the franchisee is required to demonstrate both the efficiency and productivity of the existing franchise unit. By doing so, this places the franchisee in a strong position to be granted the right to purchase additional franchise units (Kaufmann & Dant, 1996). The distinction between master franchising and IF is that master franchisees are immediately granted the right to multiple units (Kaufmann, 1992), whereas, incremental franchisees are bound to demonstrate their successes prior to being awarded the right to extend the single unit franchise. Furthermore, each additional unit purchased by the franchisee is governed under a separate franchise contract (Grünhagen & Mittelstaedt, 2002). Whilst there appear rigorous stipulations in relation to IF, there are clear benefits of adopting this process or governance form. Largely, the use of IF creates a greater probability that each franchise unit will succeed within the franchise system.

*Master franchising.* Master franchising, also commonly referred to as sub-franchising, is considered one of the most widely used forms of governance structures, especially within the

international and industry-specific context (for example, hospitality) (Roh & Andrew, 1997; Zietlow & Hennart, 1996). By definition, master franchising is the occupation of 'an independent business person who has contracted with the franchisor to sell franchises to franchisees in a specific geographic area or territory' (Justis & Judd, 1986, p. 16). Principally, the purpose of a master franchisee is to enable rapid growth (Roh & Andrew, 1997), development and expansion of the franchise system to overcome local competition and enhance profitability (Justis & Judd, 1986). Typically, the onus of the master franchisee is to recruit, select and qualify potential franchisees within a given territory. Generally, the contractual obligations between a franchisor and franchisee are the responsibility of the master franchisee. Furthermore, the master franchisee is obligated to provide initial and ongoing training and support, initiate marketing programs and monitor the adherence of operating, procedural and brand protection (Justis & Judd, 1986; Kalnins, 2005).

Area development franchising. Commonly considered a form of master franchising, area development franchising (Kaufmann & Kim, 1993) is characterized as an agreement by which the area developer maintains the right to open multiple units (Weaven & Frazer, 2003), over a pre-specified period of time, within an assigned geographic territory. This is in contrast to master franchising (or sub-franchising) because unlike master franchising, area developers, open, own and operate their own franchises within the assigned territory, whereas, master franchisees are limited to the management of the sub-franchisees on behalf of the franchisor. The area development agreement involves a franchisee owning and operating several units and, in some cases, across different states and territories. In effect, area developers often emplace hired managers or employees to operate each individual unit (Bodipo-Memba & Lee, 1997; Kaufmann & Kim, 1995).

Area representative franchising. In contrast to master or sub-franchising, area representation arrangements are an alternative form of MUF. The area representative is

obligated to assign potential franchisees to a designated area, whilst providing ongoing support and services to current franchisees (Lowell, 1991). As such, area representatives are not only responsible for monitoring franchisee behaviour, but, are also permitted to recruit potential franchisees to a franchise system (Whittemore & Perry, 1998). Area representation differs from master franchising, as the area representative is not granted the right to contract with potential franchisees but oversee an assigned territory on behalf of the franchisor. Therefore, despite the local assistance provided to the franchisee by the area representative, principally, the franchise agreement exists between the franchisor and the franchisee. Whilst, area representation is considered a form of MUF (Lowell, 1991; Frazer & Weaven, 2004), limited academic research has focused on area representative arrangements. A summation of the general characteristics of the four forms of MUF arrangements is presented in Table 1.

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Whilst there are arguments within academic research against the use of MUF as an organizational structure (Bradach, 1995), several studies including Kaufmann and Kim (1995), Kaufmann and Dant (1996) and Dant and Nasr (1998) have drawn attention to the prevalence of MUF within many franchise networks. Of particular interest, focus has been drawn to expansionary strategies (for example, Kaufmann, 1990; Kaufmann & Dant, 1996; Kaufmann & Kim, 1993, 1995), motivation and incentives (for example, Grünhagen & Mittelstaedt 2002; Weaven & Frazer, 2006, 2007) and differences between single-unit and multiple-unit operations (for example, Garg et al., 2005; Weaven & Frazer, 2006). Further research has explored the challenges which chain organizations encounter when employing a MUF framework (for example, Bradach, 1995; Garg et al., 2005). However, whilst it is evident that growth has occurred throughout the franchising literature in relation to MUF, significant gaps still exist. For example, with the notable exception of Bradach (1995), limited research has explored the key factors essential for MUF to succeed within the context of the four franchising imperative (i.e.,

operational performance), hence, ensuring sustainability of the franchise system. The aim of this research is to extend current franchising theory and specifically the area of MUF, through a preliminary exploration of the four franchising imperatives (i.e., unit growth, uniformity, local responsiveness and system-wide adaptation) and MUF adoption. As such, an explanation of the four franchising imperatives warrants further discussion.

Unit growth: Specifically, the addition of units into a system enables higher growth rates which lead to the development of economies of scale (for example, spreading of resources associated with advertising and administrative expenses across units). More often, the addition of units occurs through franchise units as comparable company-owned units often lack the financial and managerial resources required for rapid growth within the chain (Oxenfeldt & Kelly, 1969). As a consequence, access to required resources through franchised units further enables franchisors to pre-empt competitive strategies and assist in local market penetration (Lillis, Narayana & Gilman, 1976). Often, the cost advantages attained through scale economies determines the survival of small firms from larger more mature competitors (Hamel & Prahalad, 1996; Norton, 1988). However, scale economies are also recognized as essential for larger chains where price-based competition is prevalent (Garg et al., 2005).

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., IF). In support of this, Garg et al. (2005) found that franchisors adopting a (rapid) growth strategy favored 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 & El-Ansary, 1988; Bradach, 1998). However, large, mature firms consider uniformity (also referred to as standardization) (Kaufmann & Eroglu, 1998) to be crucial to the maintenance of brand-name

capital and the sustainability of the chain (Garg et al., 2005). For example, the franchisor's trademark provides assurance to a system when only a minimum level of quality is provided in an unfamiliar market (Luxenberg, 1985). 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 & Dant, 1996; Weaven & 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 (for example, size of mini-chains and contractual obligations of multiple-unit owners) (Bradach, 1995, 1997, 1998; Sorenson & Sorenson, 2001; Yin & Zajac, 2004).

Local responsiveness: Local responsiveness is recognized as a means by which organizations demonstrate 'flexibility' (for example, Pehrsson, 2007). In this sense, organizations are characterized as understanding customer needs and adapting to heterogeneous markets (for example, Albaum, Strandskov & Duerr, 2002; Narver & Slater, 1990). Therefore, there is a greater need to respond to local needs and preferences to ensure the applicability of a franchise system in a new market. Bradach (1992) suggests that franchisors need to employ either/or 'tactical local response' (p. 16) or 'strategic local response' (p. 16) to meet local conditions. 'Tactical local response' is applied to accommodate management objectives of employing personnel, selecting suppliers, establishing pricing decisions and utilizing appropriate marketing strategies to adapt to local consumer tastes (Bradach, 1992).

An alternative tactic employed is the 'strategic local response' (Bradach, 1992, p. 16) which implies that certain aspects of the uniform format may be modified to accommodate the idiosyncrasies of the local market. Prahalad and Doz (1987) suggest that customer needs are an accurate indicator for the integration of local responsiveness. Moreover, markets which are

homogeneous require limited market adaptation (Prahalad & Doz, 1987). Alternatively, heterogeneous markets dictate greater local responsiveness by an organization (Prahalad & Doz, 1987). To substantiate the value of addressing local market issues, Sin et al. (2000) found that organizations which adapt to local market conditions often enhance organizational performance. 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: There is no succinct definition of what constitutes adaptation (Håkansson, 1982). Furthermore, the unqualified use of the term adaptation in the marketing literature is considered problematic, since it is considered unreasonable to define marketing itself as the process of adapting an organization (Levitt, 1960). However, whilst definitional issues surround adaptation, the strategic marketing management process is often conceptualized as a process of adaptation, whereby, the firm responds to changes in the broad marketing environment, the competitive environment and accommodates consumer preferences (Aaker, 1998; Jain, 2000). From a franchising perspective, adaptation is recognized as a notion closely associated with system uniformity (Garg et al., 2005; Kaufmann & Eroglu, 1998). Given this, Kaufmann and Eroglu (1998) suggest that franchisors are required to trade the benefits associated with standardization and adaptation which are often necessary to meet the demands of local markets (Kaufmann & Eroglu, 1998) and are often linked to system success (Stanworth & Curran, 1999). Through accommodating heterogeneous markets, franchisors are able to benefit from increased revenues and greater alignment of units within the system (Kaufmann & 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.

The following discussion will provide a preliminary step towards understanding the influence of the four franchising imperatives on MUF arrangements. In doing so, this research aims to address the following two research questions:

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

RQ 2: Which of the multiple-unit forms are better equipped to realize the four strategic imperatives?

### RESEARCH DESIGN AND SAMPLE

The aim of this research was to examine the four franchising imperatives and their influence across different MUF organizational forms. As such, an inductive approach was adopted through a series of in-depth interviews as to gain a broader understanding of the issues found to enable and hinder the four franchising imperatives from a MUF context. In addition, the research also aimed to identify which of the MUF forms are more likely to achieve the four franchising imperatives.

### **Convergent Interviews**

In order to obtain 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 a common approach undertaken in exploratory inductive research where flexibility is desirable (Reige & Nair, 2004; Williams & Lewis, 2005) and is a method used to collect qualitative information about people's attitudes and beliefs (Dick, 1990).

### Sources of Bias

The formation of qualitative research promotes an unstructured approach which can invariably lead to the misinterpretation of information or researcher bias (Johnson, 1997). Often the misinterpretation of information is subject to primary factors of selective observation and data collection (Malhotra et al., 2006). Qualitative research is often open-ended and reliant on personal views and perspectives and, by its very nature, highly exploratory which can affect how data is interpreted (Johnson, 1997). For aforementioned reasons, specific interviewer strategies of reflexivity (Funder, 2005) and negative scenario sampling (Patton, 2002) were employed to understand and control for researcher bias. In particular, to enhance the clarity of vision, a method of 'critical self reflection' was adopted (Douglas & Moustakas, 1984) which was used as to disconfirm further emerging trends so as to promote the overall validity of the field study data (Kvale, 1989; Onwuegbuzie, 2003). More so, this enabled the researcher to monitor and control their bias and, as such, be highly self-aware of their role in the interview process. Although it is unrealistic to imply that the research process was free of personal judgment and expectations, it did enable the researchers to listen and record responses from the participants of the study (Merrilees & Frazer, 2006). In addition, throughout this process the interviewers were aware that Australian emphases may contrast markedly with overseas experiences as confirmed in previous research (for example, Weaven & Frazer, 2003).

#### Sample

Sample selection was purposive and theory driven (Gubrium & Holstein, 2001) and, subsequently, only Australian born franchise systems were analyzed. The use of Australian franchise systems was deemed appropriate for analysis so as to reduce the extraneous variation and ensure pertinent cases were used in the collation of data (Eisenhardt, 1989). Franchises within the services and retail sectors were viewed as the most suitable cases for the research as more than 80 percent of the Australian franchising sector is situated within this domain (Frazer, Weaven & Wright, 2006). A total of 16 franchise systems were selected for the basis of the

research analysis. The selection of suitable franchisors was based on advice from franchising academics and pre-existing franchisors. Most of the franchisors chosen were either high performing franchisors or active members of the Franchise Council of Australia (inclusive of low, middle and high performing systems). The size of the sample appears consistent with expert recommendations which suggest that fewer than four cases can be problematic (Miles & Huberman, 1994). Along similar lines of that suggested by Yin (2003) and Glaser and Strauss (1967), interviews were conducted until the data reached a point of saturation and there was evidence that no new themes would emerge.

The sample of 16 franchisors resulted in an equal split between retail and service franchise firms. Furthermore, the number of years in operation ranged from 7 to 47 years, with an average of 23 years in operation. Corresponding to this, the number of years franchising extended from 6 to 26, with an average of 15 years franchising experience. Subsequently, this indicates that most franchise firms had been in operation for 8 years before they began franchising their systems. In addition, 60 percent of franchisors utilized company-owned units; however on average they occupied a total of 11 throughout their systems. Ninety percent of franchise system employed multiple-unit franchisees, however typically multiple-unit franchisees accounted for between 2 percent to 30 percent (average of 9.2 percent) of the 16 franchise systems examined. The duration of the interviews was between 45 minutes and one and a half hours. In all cases, the interviews were taped (with the interviewee's permission) and recorded manually. The demographic characteristics of the sample are presented in Table 2.

#### -INSERT TABLE 2 HERE-

### **FINDINGS**

The research findings are categorized into four sub-sections: (1) system growth, (2) system uniformity, (3) local responsiveness and (4) system-wide adaptation; each of which will address the two research questions previously stated.

### System Growth.

Research question 1:

Findings 1: Factors found to enable system growth when employing a multiple-unit franchising strategy. In relation to system growth, ten respondents indicated that the best ways to achieve system growth when pursuing a MUF 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 16 respondents, 11 stated that this strategy had to be incorporated in the vision and mission of the system. Example statements from respondents are provided below.

It is the ability to attract appropriate franchisees that are interested in growing unit holdings from the outset and,

You have to fundamentally have a good business model that shows potential multisite 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.

Findings 2: Factors found to hinder system growth when employing a multiple-unit franchising strategy. Interestingly, most of the franchisors interviewed indicated that the primary factor considered to hinder unit growth was a perceived lack of system innovation (for example, new product development initiated by either franchisor/franchisee, multi-media tools such as Face book for franchisors to communicate with franchisees and customers, highly

developed intranet communication systems between franchisor/franchisee) 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 these days and,

...having the wrong franchisees, not innovative.

This leads to the following proposition:

*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.

Research question 2:

Finding 3: Which of the multiple-unit forms are better equipped to realize the strategic imperative of system growth?

Research suggests that franchisors favouring unit addition as a strategic imperative should prefer enacting area development arrangements over other forms of MUF (for example, master franchising) (Garg et al., 2005; Kaufmann & Kim, 1995). Both Garg et al. (2005) and Kaufmann and Kim (1995) suggest that the key objective of an area development arrangement is to enhance rapid system growth as the role of an area developer is to set up a prearranged number of units within a set time frame. Contrary to the literature and, in all interviews, franchisors emphasized that master franchising is a more effective model better equipped to ensure system growth. Most of the franchisors believed that master franchising arrangements, whilst offering an additional level of management; do enable the system to expand with less disruption than other forms of MUF arrangements. Common explanations among the franchisors as to why master franchising is preferred was based on the fact that the master franchisee, in part, acts as a subfranchisor; some one in control and able to communicate with franchisees ensuring greater transferability of the franchise concept. For example,

I would say master franchising because as the system grows, there is still control through the system because the master helps the franchisor which ensures that the system can add more units without stress on the units already in the system or at least less stress.

#### Moreover.

The safe way to add units is to emplace master franchise arrangements because these people already have a solid background of the system and how it operates.

The above discussion supports the following propositions:

P3: Franchisors favouring unit addition as a strategic imperative will prefer enacting master franchising arrangements over other forms of MUF.

*P4:* Master franchising will enable more rapid system growth rates over incremental franchising, area development arrangements and area representative arrangements.

#### Uniformity.

Finding 1: Factors found to enable system uniformity when employing a multiple-unit franchising strategy. 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 franchise. In particular, chain franchisees required administrative instruction so as to maximise intra-system (operational) economies of scale. In addition, a majority of the franchisors interviewed suggested that regular communication with franchisors assisted the promotion of system uniformity. Examples reported from respondents include:

Well one is training; our multi-site licensees need to feel that they are being given every opportunity to develop professionally. We've found this has helped them follow our vision and ultimately our service standards and,

### Furthermore,

Constant vigilance in terms of support to these franchisees in terms of visits and business development to those sites is necessary...they don't follow every directive. They are entrepreneurs, and need a little guidance otherwise they deviate from our model.

Thus, it is proposed that:

P5: In systems pursuing a multiple-unit growth strategy, system uniformity is facilitated by

ongoing professional development training programs and timely communication with

franchisors.

Findings 2: Factors found to hinder system uniformity when employing a multiple-unit

franchising strategy. In relation to system uniformity, the key factor considered to hinder system

uniformity was a lack of decision-making involvement on part of franchisees in areas such as

new product development, re-branding initiatives and training manual alterations (reported by 8

respondents). Often, a lack of decision-making involvement (by franchisees) was an involuntary

choice born by the franchisor. In other words, the franchisor made decisions under the

assumption that their role was to initiate entrepreneurial ideas as a means to retain control over

the growth and development of the franchise system rather than collaborate with franchisees.

Interestingly, prior research suggests (Kaufmann & Eroglu, 1998) that in order to enhance the

delivery of the business format, inclusion of new products and services through the integration of

all (for example, people and processes) within the franchise system is necessary, a notion

dissimilar to the findings from this study. The finding suggests that the inclusion and

cooperation of all elements of the franchise system, while necessary for uniformity to occur, is

not commonly practiced. For instance,

If they don't feel like they're involved, we've found that they change things for their

local market. In the extreme they're misrepresenting or misusing our brand.

Thus it is proposed that:

P6: 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.

Research question 2:

20

Finding 3: Which of the multiple-unit forms are better equipped to realize the strategic imperative of system uniformity? During the interviews, 11 of the respondents suggested that master franchising is more likely to foster system uniformity; a result inconsistent with previous research (Kaufmann & Kim, 1995). The respondents stated that by enacting master franchisee arrangements ensured that franchisees engaged in continuous training, the initiation of marketing programs and were vigorous in monitoring the adherence of operating, procedural and brand protection (Justis & Judd, 1986; Kalnins, 2005). For example,

Our master franchisees are very stringent. To them (and of course us) the brand and concept is everything. They believe that without consistency in procedures, appearance etc, that the brand will diminish.

#### Moreover,

It's training, training and training which we embed into the mindset of our master franchisees. We both agree that this will ensure that we maintain the brand and system as we desire.

Interestingly, the remaining five respondents stated that area development arrangements were better equipped to realize system uniformity. This appears consistent with the findings of Bradach (1995) where area development arrangements were more likely to exhibit uniformity in comparison to other MUF forms (such as, incremental franchising). The franchisors often expressed that the role of the area developer dictates that they set up a predetermined number of units. Therefore, the franchisors stated that given that area developers own and oversee their own territory, they are more likely to retain control over the units within the territory. On more than one occasion, the franchisor did emphasize that the initial cost and time involved in establishing area development arrangements, often ensures that the area developer is more connected with the system because they are more willing to ensure the viability and security of their investment. For example,

By their very nature and partly the reason why we use area development contracts is that we are able to sell one territory to one party and this not only ensures that we grow but also ensures that we maintain a level of consistency through having one owner manager rather than having to monitor several franchisees.

Furthermore,

I do believe that given the cost and effort involved in establishing area development agreements; that the actual area developer does want to secure the outlay involved in being granted such an arrangement...they are likely to adhere to our processes and operating procedures.

The above discussion supports the following propositions:

P7: Franchisors favouring system uniformity as a strategic imperative will prefer enacting master franchising arrangements and area developments arrangements over other forms of MUF.

*P8:* Master franchising and area development arrangements will enable greater system uniformity over incremental franchising and area representative arrangements.

### Local Responsiveness.

Findings 1: Factors found to enable local responsiveness when employing a multiple-unit franchising strategy. 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 (for example, networking). For example,

Our larger franchisees often develop marketing campaigns in their areas that reinforce and assist our brand awareness initiatives...we learn a lot from them.

Moreover,

Our best multi-site franchisees are the ones that are active, looking after people...knows everyone...involved in community groups, sporting groups and the like.

Thus it is proposed that:

*P9:* In systems pursuing a multiple-unit growth strategy, system local responsiveness is facilitated by granting chain franchisees some informal flexibility to develop local marketing initiatives in contiguous areas.

Findings 2: Factors found to hinder local responsiveness when employing a multiple-unit franchising strategy. Slightly more than half of the respondents reported that the key factor inhibiting local responsiveness was the mind-set of franchisees (that is, some franchisees lack the confidence to apply new ideas relevant to their local area) and difficulties in communicating the informal flexibility inherent within the franchising contract. For example,

Some (multiple-unit) franchisees don't get it. I think it is their mind-set...they aren't confident enough to believe that they are allowed to do it.

### Furthermore,

All I can say is that we as a franchisor try to do a good job here but sometimes it falls apart. 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 it is proposed that:

*P10:* In systems pursuing a multiple-unit growth strategy, system local responsiveness is hindered by the persona of the franchisee and difficulties associated with communicating informal provisions in the franchise agreement.

#### Research question 2:

Finding 3: Which of the multiple-unit forms are better equipped to realize the strategic imperative of local responsiveness?

Unlike the previous findings from the study, the relationship between local market responsiveness and MUF did not receive majority support. In particular, and along similar lines to past studies (for example, Bradach, 1995; Weaven & Frazer, 2007), most respondents believed that MUF arrangements were less effective in realizing the strategic imperative of local responsiveness. Respondents quite often attributed the lack of being locally innovative to a deficiency in time. For instance,

Whilst we would like to monitor every territory, much of our time is directed towards managing and monitoring our units...ensuring adherence to the system processes and providing support. We have belief that our product through the

extensive time and effort we have out into it, is differentiated enough to other competitor offerings...that it does meet the needs of our franchisees local areas...

Some franchisor respondents believed that multiple-unit owners are often pre-occupied with managing the multiple-unit sites; where their focus is on successfully running the additional units, thereby focusing on the internal aspects of the units as opposed to any external factors inhibiting overall unit performance. Furthermore, quite often respondents revealed that whilst multiple-unit franchisees may try and accommodate local market demands, local idiosyncrasies in local markets may provide little value to those operating in other areas within the territory. For example,

I believe they just take it in their stride, well some. They believe they have bought into a system and because they pay a royalty for marketing, that we should know everything. We do try and encourage our franchisees to be innovative and help with new product development and ideas, but they are not are always practical to implement nationally.

However, whilst the results support previous studies (for example, Bradach, 1995; Weaven & Frazer, 2007), two respondents stated that of the MUF forms, master franchising may be better equipped to address local market demands. The two franchisors suggested that because the introduction of a master franchisee often gives rise to an additional level of management (that is, sub-franchisor), they may have greater ability to not only monitor individual units within the territory but also the external environment (for example, competitors). For example,

...master franchise arrangements may be more likely to accommodate local market needs because the master franchisee is responsible for monitoring and contracting franchisees within a given territory. Therefore we assume that they would have some level of self-interest in which they would like to ensure that they are placed well within the market and aware of what others may be doing in that market and, if need be, at least identify system changes.

The above discussion supports the following propositions:

*P11:* There is a negative relationship between local responsiveness and multiple-unit franchising forms.

*P12:* Of the MUF franchising forms, master franchising may better enable the application of local market conditions over incremental franchising, area development arrangements and area representative arrangements.

### **System-Wide Adaptation.**

Finding 1: Factors found to enable system-wide adaptation when employing a multiple-unit franchising strategy. 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 (Bradach, 1997; Dant & Nasr, 1998). 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:

*P13:* 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.

Findings 2: Factors found to hinder system-wide adaptation when employing a multiple-unit franchising strategy. 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.

*P14:* 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.

### Research question 2:

Finding 3: Which of the multiple-unit forms are better equipped to realize the strategic imperative of system-wide adaptation? Interestingly, there was strong support from the majority of respondents, in which they believed that all four MUF forms would be well equipped to realize the strategic imperative of system-wide adaptation. This finding is contrary to previous studies (Weaven & Frazer, 2007) in which system-wide adaptation was found to yield no significant relationship from a multiple-unit perspective. Interestingly, the respondents revealed that the application of system changes may largely be influenced by the role that each MUF performs. For example, a common response from franchisors was that whilst different forms of MUF exist, essentially each form undertakes some level of management. Subsequently, the transferability and application of system changes are greater when an additional level of management is present and capable of monitoring adaptations. More so, the majority of respondents suggested that the need for changes (based on the requisite of the franchisor) may be more likely because the franchisees are likely to see the franchisor working on behalf of their interests. Similarly, some respondents also believed that because multiple-unit owners have vested a lot of time and money into the brand (i.e., operation and ownership of more than one unit); that they may be more willing to introduce new practices/products if it was likely to enhance the overall productivity of their franchise units (for example, Sen, 2001). For example,

We believe that we have a strong relationship with our franchisees and because we have open communication and have built a strong sense of rapport with our franchisees; they are our family, they do see and support our decisions to make changes because they see that we are there to better the system and help them grow and prosper. I truly believe that they believe that in order to stay ahead, we have to adapt to market conditions.

However, two respondents, although collectively they agreed that system-wide adaptation was often better realized in MUF forms, they did suggest that the implementation of a system change can be prolonged if it requires financial input from the multiple-unit operator. For instance,

...in some cases, the multiple-unit operator may be financially stretched because they have vested into another unit(s), their willingness to implement changes can be fraught with some resistance.

The above discussion supports the following proposition:

*P15:* There is a positive relationship between system-wide adaptation and master franchising, incremental franchising, area development arrangements and area representative arrangements. Please refer to table 3.

#### -INSERT TABLE 3 HERE-

#### DISCUSSIONS AND CONCLUSIONS

The purpose of this research was twofold. Firstly, the rationale of this research was 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 MUF strategy. Secondly, the aim of this research was to explore which of the four multiple-unit forms were better equipped to realize the four strategic imperatives. Although the purpose of this research was to explore the two primary research questions from the perspective of dependency theory; the research was also undertaken to provide some descriptive literature on the subject. More so, this study extends the research conducted by Bradach (1995, 1997) and, in doing so, applies the four franchising challenges (i.e., imperatives) across different multiple-unit organizational structures, as opposed to a comparison between single-unit and multiple-unit operations (Bradach, 1995).

In relation to research question one, this study found that MUF is beneficial in meeting the four franchising imperatives. Firstly, the results revealed that franchisors pursuing a MUF 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 Thirdly, franchisors employing strategies to promote local operational compliance. 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 franchisors 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). Based on the results, the following section will provide discussion in relation to the four strategic imperatives (unit growth, system uniformity, local responsiveness and system-wide adaptation) and the four MUF forms and, in doing so, address research question two.

### **Unit Growth**

This research found that the four strategic imperatives present differently across the four MUF forms. Firstly, of the four MUF forms, master franchising was better equipped to realize the strategic imperative of unit growth. This result is consistent with previous research suggesting that master franchising is one of the most widely used franchise expansionary strategies in both Australia and the United States (Frazer et al., 2006; Roh & Andrew, 1997; Zietlow & Hennart, 1996). For example, Zietlow and Hennart (1996) and Walker (1989) found that master

franchising has become the most popular governance form for United States franchisors extending their franchise networks into foreign markets (Zietlow & Hennart, 1996). Similarly, Frazer (2000) suggests that master franchising was the principle mode of expansion employed by Australian franchise systems (Frazer et al., 2008).

However, the results suggest that area development, area representative and incremental franchising do not realize the strategic imperative of unit growth. In relation to area development arrangements, this finding was contrary to the literature pertaining to area development arrangements and growth. Several prominent studies including Garg et al. (2005) and Kaufmann and Kim (1995) found that the key objective of area development arrangements is to enhance rapid system growth. However, explanation may be found through Kaufmann and Kim (1995), whom suggest that area development arrangements are more involved (i.e., time) and therefore, may require greater training both in management and operation of the system on part of the area developer. In addition, the employment of an area developer may become more challenging should the area developer be unfamiliar with the assigned franchise system or have limited understanding of the franchise sector. Subsequently, this may restrict the system from growing any faster than ones characterized by single unit franchisees. Not surprising and consistent with the literature, area representatives were not found to influence the strategic imperative of unit growth. Often, the primary role of the area representative is to oversee an assigned territory and are, therefore, unable to engage in contracts with potential franchisees (Lowell, 1991), thereby limiting the growth of units within the system. Inconsistent with previous research (Bradach, 1995), incremental franchising was not found to influence unit growth. This was an interesting finding given that incremental franchising is seen as a key source of unit growth (Bradach, 1995; Garg et al, 2005). The rationale behind this finding may be attributed to the fact that incremental franchising may be subject to agency concerns of adverse selection whereby the franchisor may be limited to the depth of franchisees available for recruitment and selection within their system.

More so, the franchisors may have concerns over the franchisees ability to own and operate more than one unit; a strategy not sought initially from outset by the franchisee.

### **System Uniformity**

In relation to system uniformity, the results revealed that both master franchising and area development arrangements were better equipped to realize this imperative. Although the extant literature suggests that master franchisees are less likely to achieve system uniformity across units within their assigned territories (Bradach, 1995; Kaufmann & Kim, 1995; Stern & El-Ansary, 1988), the results appear inconsistent with previous research. The literature only suggests that master franchisees are to a *lesser* extant able to sustain system uniformity across independent units within their assigned territories, not that it is improbable (Kaufmann & Kim, 1995). This may indicate that master franchisees are more proactive in their role than first assumed as they are responsible for providing initial and ongoing training and support, the initiation of marketing programs and monitoring the adherence of operating, procedural and brand protection (Justis & Judd, 1986; Kalnins, 2005).

From an area development perspective, maintaining uniformity appears to require a distinctive set of management expertise than that of a single unit franchisee assumes (Kaufmann & Dant, 1996; Grünhagen & Mittelstaedt, 2002; Sen, 2001). However, the role of an area developer is to acquire a certain number of units upfront and, therefore, they are assumed to have the multiple-unit skills (for example, human resource capabilities and resources) to accommodate a multiple-unit arrangement, including addressing system standards of uniformity. Similarly, Bodipo-Memba and Lee (1997) suggest that area development arrangements overcome agency concerns of inefficient investments. For example, area developers are aware of the administrative and management tasks involved in operating multiple units. Furthermore, area developers are more willing to invest in additional resources (for example, managerial and

physical) to assist in the achievement of uniformity and further development of their territories/units (Garg et al., 2005).

The findings revealed that both area representative arrangements and incremental franchisees were less likely to realize system uniformity. Area representative arrangements may be more unlikely to influence system uniformity as a result of monitoring costs. For example, Lafontaine and Slade (1996) suggest that when monitoring costs are high (usually attributed to geographic dispersion of units) firms choose to monitor less frequently. This may explain why area representative arrangements in this study were unlikely to influence system uniformity. Therefore, the high costs attributed to monitoring units geographically distinct to the headquarters (i.e., franchisor), may indicate that compliance with system standards are less probable. As such, Lafontaine and Slade (1996) suggest that to counteract the need for frequent monitoring (adherence of system standards), often franchisors used residual claims to a greater extent to realign the goals of the franchisor to other MUF arrangements.

In relation to incremental franchisees, the results suggest that in systems occupying incremental franchisees, there is less probability that system uniformity will be exhibited throughout the units in which they own and operate. Given that an incremental franchisee originates as a SUF, there may be less ability to maintain uniformity across their units as SUF may lack the ability to transfer operational processes as they do in one unit to more than one unit. More so, incremental franchisees may be more inclined to free ride off the brand or trademark of the franchisor (Bradach, 1995; Combs & Castrogiovanni, 1994; Fladmoe-Lindquist & Jacque, 1995) especially those located in geographically distant markets if they are unable to extend their management skills to more than one unit.

### **Local Responsiveness**

The findings of this research are consistent with the research conducted by Bradach (1995), which found that MUF was less effective in addressing the challenges associated with meeting

local market conditions. However, the results did also reveal that although less probable, master franchising may be one MUF arrangement which may have some capability of realizing the strategic imperative of local responsiveness. Specifically, a direct limitation of administering a master franchisee to a franchise system is the additional cost, in relation to issues involving management and control (Kaufmann & Kim, 1992). In other words, the introduction of master franchisees often gives rise to an additional level of management (i.e., sub-franchisor) and, therefore, it may be less likely that the master franchisee observes all independent franchise units within their assigned territory at the individual store level, rather, at a 'middle' management level overseeing the assigned territory holistically. However, previous studies (for example, Minkler, 1992) argue that local markets rely on local level decision makers who understand local market tastes and preferences (i.e., master franchisees) and, therefore, have the knowledge to be locally responsive. More so, under contractual terms and becoming more prominent within franchise systems, master franchisees are often required to develop one or more units prior to selling franchises or acquiring the role as the master franchisee for a region (Roh & Andrew, 1997). This enables the master franchisee and franchisor to accommodate local needs and preferences prior to growing the system (i.e., addition of many units at once).

In comparison, the results suggest that area development arrangements, area representative arrangements and incremental franchising are less likely to realize the strategic imperative of local responsiveness. In particular, the finding in relation to area development arrangements support Bradach (1995) who suggests that because hired managers are likely to move positions more often than would owner-operators, they would acquire less knowledge and experience in the local market. For example, Darr, Argote and Epple (1995) found that managerial turnover accounted for more than 50 percent in their study exploring productivity in franchise organizations. In addition, hired managers may shirk (i.e., reduced effort) the system as they are not residual claimants and, subsequently, receive fixed salaries (Garg et al., 2005;

Lafontaine, 1992). Therefore, hired managers are less inclined to actively pursue local market opportunities (for example, networking with local businesses) on behalf of the owner-operator (for example, area developer).

The lack of application of area representatives to local market innovation may be attributed to the role of an area representative, whereby they are required to oversee an assigned territory(s) on behalf of the franchisor. In particular, this requires the area representative to monitor the behaviour of franchisees and to ensure that franchisees are complying with the franchise concept and format. Based on the fact that an area representative's function is to monitor and recruit potential franchisees, their role (i.e., function) does not require them to ensure that franchisees are responding to local market needs (For example, networking, modifying the product concept), hence, being locally responsive.

Finally, the results also suggest that incremental franchising was less likely to realize the strategic imperative of local responsiveness. This may align with previous studies, whereby Bradach (1995) suggests that as single-unit franchisees grow in size (i.e., become incremental franchisees), their ability to respond effectively to the local market decreases. In addition, given that an incremental franchisee began as a single-unit operator, their initial intentions when entering into the contractual arrangement with the franchisor may not include the addition of further units. Therefore, if the single-unit franchisee (in agreement with the franchisor) is granted the right to additional units, they may lack the necessary experience (for example, being locally responsive) to operate multiple-units.

### **System-Wide Adaptation**

The results revealed that system-wide adaptation was better equipped to realize all four MUF forms. In particular, Bradach (1995) suggests that for a franchise system to be sustainable (i.e., grow and survive) it must be able to evolve with changes that occur in the marketplace. Although, adaptations can become difficult especially for those systems which have many

geographically dispersed units (Bradach, 1997), the findings suggest that multiple-unit operators may be more willing to implement system changes because they possess similar management issues to that of a franchisor (Dant & Gundlach, 1998). For example, from a multiple-unit perspective, both a master franchisee and area developer operate as a sub-franchisor; however, they are responsible for overseeing (for example, recruit, monitor etc.) one territory as opposed to the entire franchise system. In support of this, Sen (2001) suggests that this is apparent in the master franchise arrangement because master franchisees have access to downstream information (for example, franchisees). As such, this enables master franchisees to observe independent franchisees in their territory and, where necessary, take timely action. Therefore, because they are within close proximity to the franchisees, master franchisees can supervise more effectively (Sen, 2001) and ensure system compliance (including system changes).

Similarly, the role of an area representative is to monitor the behaviour and performance of franchisees within an assigned geographic region; thereby, mimicking the role of a franchisor on a small scale. Subsequently, regular communication and contact by area representatives may ensure that the generation of new ideas or franchisee concerns is regularly attended to ensuring a proactive and open relationship between the franchisor and franchisee. As such, the need for changes (based on the requisite of the franchisor) may be more likely because the franchisees are likely to see the franchisor working on behalf of their interests.

In relation to incremental franchisees, the granting of additional units may indicate that as their units grow in number, they operate more from a management role in order to govern more than one single unit. The findings of this study substantiate the research conducted by Bradach (1995). For example, the purpose of granting an additional unit to an incremental franchisee is, in part, based on their success (that is, performance) attributed to their knowledge and experience within their local market. Therefore, if franchisors implement adaptations that align with local

markets, however, are adaptable across regions, multiple-unit operators such as incremental franchisees would be more willing to adhere to system changes.

### IMPLICATIONS AND FUTURE RESEARCH

The findings of this study provide insight into the common multiple-unit organizational structures employed by Australian franchisors. More so, this research does confirm previous studies (for example, Frazer & Weaven, 2007; Frazer et al., 2008; Grünhagen et al., 2005) suggesting that MUF is a common strategy employed by franchise systems. Whilst MUF is becoming an increasingly popular expansion strategy, there has been limited research on what mode of MUF expansionary strategy is more effective in terms of realizing the four franchising imperatives. More so, whilst previous research (Bradach, 1995) has acknowledged the value of the four strategic imperatives on franchise system performance (no prior study has explored the factors incumbent within each imperative). This is particularly important as previous studies (for example, Bradach, 1995; Garg et al., 2005) suggest that the four franchising imperatives of unit growth, system uniformity, local responsiveness and system-wide adaptation are fundamental to the operations and longevity of a franchise system. Subsequently, this study provides a preliminary investigation into the critical factors that enable and hinder the achievement of the four strategic imperatives (which can be used in future research) and, the influence the four strategic imperatives have across the four multi-unit organizational forms.

The findings of this study suggest that each of the four franchising imperatives are better equipped to realize different multiple-unit organizational forms. Although some may argue that MUF arrangements may be more likely to convey independence as opposed to dependence, we suggest that this view may be reliant on the form of MUF arrangement. For example, these findings do extend the exploratory work of Bradach (1995) and, subsequently, provide more insight into the importance of unit growth by exploring each multiple-unit mode (for example, master franchising) rather than a direct comparison between single-unit and multiple-unit

franchising. In addition, the findings suggest that system uniformity is better equipped to realize master franchising and area development franchising. Subsequently, the findings validate previous research (Garg et al., 2005) by confirming that area development arrangements enable system uniformity. However, interestingly, the findings also highlight that master franchising also facilitates system uniformity, a finding contrary to previous research (Bradach, 1995; Kaufmann & Kim, 1995). This may reconfirm the argument that although master franchising occupies an additional level of management (i.e., they act as a sub-franchisor), that management are not only concerned with growth within their territories but also recognize the importance of ensuring individual units within the assigned territory are working cooperatively and, are subsequently, upholding the franchise concept (Justis & Judd, 1986; Kalnins, 2005). This may provide further confirmation to the research of Dant and Nasr (1998) who suggest that multiple-unit franchisees employ similar strategies to the franchisor (for example, unit growth, system uniformity) to ensure brand equity and, therefore, are highly dependent on franchisors.

Furthermore, the research findings infer that not all four franchising imperatives are better equipped to realize the different multiple-unit organizational structures. For example, the results of this study found that across three multiple-unit organizational forms (i.e., area development, area representative and incremental franchising), local responsiveness yielded a non-significant finding. This suggests that whilst local responsiveness is considered an important factor to facilitate the performance of franchise firms (Bradach, 1995) it may have no direct influence from a multiple-unit perspective (Bradach, 1995). In addition, unlike system uniformity and unit/system growth which occur at a system level, local responsiveness appears to be an independent construct reliant on the efforts (i.e., time, experience etc.) at a franchisee level as opposed to the system (including the franchisor). Therefore, the inclusion of local responsiveness as one of the four franchising imperatives may be unnecessary. Finally, the results substantiate the relevance of maintaining franchise system innovation. More importantly,

the findings infer that the application of system-wide changes is important to the operational performance of franchise systems across all multiple-unit organizational forms (i.e., master franchising, area development franchising, area representative franchising and incremental franchising). This suggests that irrespective of the multiple-unit organizational structure utilized; that in order to ensure the transition of changes throughout a franchise system that changes are dependent and need to be applied across all units unequivocally. This finding is particularly important as there have been very few studies that have examined the influence of system-wide changes from the franchise realm in general (for example, Sorenson & Sorenson, 2001) or from a MUF perspective (for example, Bradach, 1995).

This research also presents several implications for management practice. Although the propositions reveal that a number of the relationships between the four strategic imperatives and the four multiple-unit organizational forms were confirmed through past research (for example, Garg et al., 2005), the results also suggest that managers may be influenced by other factors than has been identified in the literature (i.e., Bradach, 1995; Garg et al., 2005). For example, although the four franchising imperatives proposed by Bradach (1995) did confirm or provide insight into *which* of the four franchising imperatives may be better equipped to realize the four key multiple-unit organizational structures, the findings also infer that the franchising imperative of local responsiveness was particularly limited across all multiple-unit organizational structures, yielding only minimal support in relation to master franchising. Subsequently, such a finding questions the relevance of managers (and franchisors) utilizing this imperative as an indicator to substantiate the performance of a franchise system.

In addition, the findings of this study also provide greater insight into the factors found to define each of the strategic imperatives. For example, system uniformity is facilitated by ongoing professional development through training programs and timely communication with franchisors. Such findings assist managers (and franchisors) in the implementation of effective

strategies. In particular, transparency of the core factors driving each strategic imperative will assist systems where the key objective is to achieve system uniformity. Furthermore, the findings revealed factors which are likely to hinder the application of the strategic imperatives. Subsequently, such findings enable both managers and franchisor the ability to strategically identify factors which may obstruct systems from achieving certain strategic outcomes. For example, for those systems in which system uniformity is a key imperative, a lack of intrasystem involvement, re-branding initiatives and training may reduce the ability to achieve adherence of system processes and procedures.

Not uncommon within the literature, multiple-unit franchising is conceptually viewed as different to single-unit franchising (Lafontaine, 2004). For example, multiple-unit franchising can offer franchise systems scale economies (for example, Grünhagen & Mittelstaedt, 2002, 2005) and rapid expansion (for example, Combs & Castrogiovanni, 1994). Although the findings of this study are, in some cases, contrary to previous research, this research may be useful for franchisors in providing some preliminary answers as to *which* multiple-unit expansionary strategy to adopt. Moreover, the findings of this study may provide greater clarity to managers (and franchisors) occupying multiple-unit chains of which strategic imperatives are better able to realize each multiple-unit organizational form. For example, system growth is better realized through the multiple-unit arrangement of master franchising as opposed to area development arrangements, which previous literature confirms (Garg et al., 2005).

#### **Future Research**

The purpose of this study was to provide a preliminary exploration into (1) the critical factors incumbent with the four franchising imperatives and, (2) identify which of the four multiple-unit organizational forms were better equipped to realize the four strategic imperatives. Subsequently, to substantiate the findings of this study, an empirical investigation could validate the 15 propositions proposed. In particular, future research could empirical test the items

identified as characteristic of each of the four strategic imperatives proposed by Bradach (1995); however, further explored through this study. In doing so, the construction of a psychometrically sound instrument characteristic of the strategic imperatives could be developed. Finally, to validate the findings of this study, an empirical investigation could be undertaken in relation to the four strategic imperatives across the four multiple-unit organizational forms to determine the operational performance of a franchise system.

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**TABLE 1. Summation of the Four Types of MUF arrangements** 

	Master	Incremental	Area Development	Area
	Franchising	Franchising	•	Representative
Contractual	✓	✓	✓	
agreement with				
franchisor				
Contractual	✓			
agreement with				
franchisees				
Governs a specified	✓	•	✓	$\checkmark$
territory(s)				
Required to	•		✓	
establish more than				
one unit initially				
Required to	✓		•	
establish multiple				
units overtime				
Own more than one		✓		
unit overtime				
(optional)				
Works on behalf of	✓			✓
the franchisor				
Recruits, selects	✓			✓
and qualify				
potential				
franchisees				
Provides initial and	✓			✓
ongoing				
support/training				
Receives royalties	✓			
Receives				$\checkmark$
commissions				

<sup>•</sup> Indicates that it may occur in some tranchise systems which employ such MUF strategies

✓ Indicates that this is undertaken in franchise systems employing such MUF strategies Indicates that it may occur in some franchise systems which employ such MUF strategies

**TABLE 2. Demographic characteristics of the sample** 

C a s e	Industry	No. years operati ng	No. years franchising	Number of company owned units (c=) and franchise units (F=)	Total number of units	Number of multiple- unit franchisee s	How many single-unit franchisee s	Annual Turnove r A\$'000
A	Personal and other services	47	18	C=0 F=2600	2600	0	2600	200,000
В	Property and business services	10	10	C=1 F=499	500	10	479	10,000
С	Accommo dation, cafes and restaurants	28	25	C=12 F=723	735	49	593	240,000
D	Finance and insurance	15	13	C=0 F=435	435	80	300	141,000
Е	Communic ations services	24	22	C=5 F=1495	1500	150	1195	315,000
F	Retail trade food (includes fast food)	49	26	C=2 F=44	46	1	42	17,000
G	Manufactu	10	10	C=0 F=1500	1500	300	897	300,000
Н	Personal and other services	24	23	C=7 F=977	984	300	254	500,000
I	Retail trade food (includes fast food)	7	6	C=40 F=138	178	4	130	100,000
J	Personal and other services	16	15	C=0 F=179	179	5	174	11,000
K	Education	30	20	C=11 F=180	191	12	168	10,000
L	Retail trade food (includes fast food)	11	8	C=0 F=8	8	0	8	3,000
M	Retail trade food (includes fast food)	21	11	C=6 F=82	88	7	74	12,000
N	Manufactu ring and Printing	10	10	C=0 F=220	220	23	166	2,500
o	Personal	24	17	C=0 F=128	128	4	112	2,000

0.04774.000				

TABLE 3. Proposed relationships between the four imperatives and hybridized governance models (franchising)

	Incremental	Master	Area Development	Area Representative
Growth		$\sqrt{}$		
Uniformity		$\sqrt{}$	V	
Local		√		
Representativeness				
System-wide	<b>V</b> V	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$
Adaptation				

<sup>√√</sup> Strong relationship
√ Moderate relationship