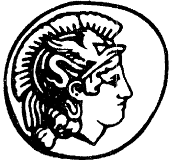

Pergamon

Journal of Retailing 79 (2003) 63–75

Journal of Retailing

Structural and strategic dynamics in franchising

Rajiv P. Dant[a,*], Patrick J. Kaufmann[b]

[a] School of Business, Clarkson University, P.O. Box 5795, Potsdam, NY 13699-5795, USA
[b] School of Management, Boston University, 595 Commonwealth Avenue, Boston, MA 02215, USA

Accepted 12 February 2003

Abstract

In this paper we examine the changes in ownership patterns of franchise systems as they mature. We compare the predictions made by three alternative theories within the context of the fast food industry. Signaling theory predicts that franchise systems will move toward a greater reliance on franchised outlets as systems mature, while resource acquisition theory (or as it is sometimes known, ownership redirection thesis) predicts a tendency in the opposite direction. A third theoretical perspective, tapered integration or plural forms, suggests a tendency toward maintaining a steady state of mixed distribution. Results indicate that although franchisors value the benefits of the mix of ownership types and do maintain that mix over time, there is some evidence of a greater tendency to permanently convert existing franchised outlets to company-owned outlets as fast food systems mature and gain greater access to resources.
© 2003 by New York University. Published by Elsevier Science. All rights reserved.

Keywords: Franchise systems; Fast food industry; Signaling theory; Resource acquisition; Company ownership; Plural form; Ownership redirection

Introduction

Franchising has literally reshaped the retail landscape since its infancy in the 1950s. By most estimates, franchising now accounts for $1 trillion in annual retail sales from approximately 320,000 businesses in 75 industries and employs more than 8 million people. In the U.S., franchising accounts for more than 40% of all retail sales and 1 out of 12 retail establishments (International Franchise Association, 2002). Franchising has also been cited as one of the fastest growing U.S. exports to the world (House Committee on Small Business, 1990).

Not surprisingly, therefore, franchising has attracted research attention from diverse disciplines including management, law, economics, marketing, and finance. Within much of this literature (including marketing), ownership issues surrounding franchises (principally, understanding how firms make organizational form choices) have been an important topic of inquiry. Initially, most academic research focused on the determinants of a preference for either franchised or company ownership (Caves & Murphy, 1976; Oxenfeldt & Kelly, 1968; Rubin, 1978). More recently, the concept of tapered integration (Harrigan, 1984) has been added to this stream of literature to understand the strategic choice to maintain a mix of both company-owned and franchisee-owned outlets within the same system (Bradach, 1997). Research into organizational choice in franchising can be further divided into unit level arguments and strategic firm level arguments. Agency theory, for example, has been the primary tool of analysis regarding unit level choices based on the comparison of incentive alignment and monitoring costs (Brickley & Dark, 1987). When agency theory is employed to explain combinations of company-owned and franchised outlets within a system, it is based on the assumption of heterogeneous outlets, that is, differences among units on variables such as distance from headquarters, size, and potential profitability (Lafontaine, 1992).

In this paper, we initially compare two contradictory, strategic firm-level explanations for the choice of franchising as an organizational form, namely, those of signaling and resource acquisition accounts. These two theories form a particularly interesting contrast in that they predict diametrically opposed dynamic effects as franchise systems mature. Stated simply, signaling theory would suggest an initial preference for company-owned outlets with a subsequent tendency toward franchising whereas resource acquisition would suggest an initial preference for franchise ownership with a subsequent tendency toward company ownership. It

* Corresponding author. Tel.: +1-315-268-6434; fax: +1-315-268-3810.
E-mail address: dant@clarkson.edu (R.P. Dant).

0022-4359/03/$ – see front matter © 2003 by New York University. Published by Elsevier Science. All rights reserved.
doi:10.1016/S0022-4359(03)00011-3

should be noted that these shifts can both be expressed as general strategic tendencies rather than the specific unit level choices that are typically the subject of agency theory analysis (Bradach & Eccles, 1989; Brickley & Dark, 1987).

A secondary goal of the paper is to empirically evaluate the emergence of a series of motivations hypothesized to underlie the choice of plural forms as a stable organizational form. Although the premise of stable plural forms appears to be gaining research attention, many of its arguments currently lack empirical grounding. We include in our analysis of franchise system dynamics, therefore, the impact of a preference for plural form organization. In other words, we examine the circumstances under which a system would not demonstrate tendencies toward either a more fully company-owned or franchised profile. Rather these systems would seek to maintain some form of balance of company-owned and franchised outlets.

We begin this paper with a brief review of the theoretical and conceptual arguments surrounding resource acquisition, signaling and plural form. In particular, we examine the dynamic implications of these alternate theories of franchising and demonstrate how they suggest differing strategic tendencies for the entire chain. Next, the methodology of an empirical study within the fast food industry is described; in turn, followed by a report of our findings. The final section contains a discussion of the implications of those results.

Resource acquisition account of franchising

Though introduced to the franchising context by Oxenfeldt and Kelly (1968), the resource acquisitions perspective of organizational strategy has impressive lineage. Its pedigree has been traced to at least six well-delineated schools of thought (Hunt, 1999). Its most obvious linkages can be tracked to the resource-based view of the firm (Penrose, 1959; Wernerfelt, 1984) and resource dependence theory (Pfeffer & Salancik, 1978). In general the latter frameworks conceive strategic organizational choices and interfirm governance as a coping response to the forces of environmental uncertainty and limited firm-specific resources. That is, confronted by resource limitations, firms are predicted to opt for strategic organizational and interorganizational governance choices that ensure the availability of resources critical for the furtherance of their business.

Within the franchising context, Oxenfeldt and Kelly (1968), Caves and Murphy (1976), Norton (1988), and Gilman (1990) have argued that entrepreneurs use franchising to gain access to significant resources that are in short supply in the early stages of the development of their chains. These growth-minded but resource-constrained entrepreneurs have two realistic options available for securing external resources: (1) selling equity and (2) selling franchises. Debt options are often not realistic because growing chains are seldom able to furnish requisite collateral to qualify for the level of loans needed, a problem exacerbated by the novelty of many franchise concepts at the time they are introduced (e.g., leak detection, cookies in a mall). Selling equity secures access to only financial capital. Franchising, however, represents an efficient bundled source for all three critical capitals (i.e., financial, managerial, and informational; cf. Norton, 1988). Moreover, though subject to some discussion (Rubin, 1978), there is an indication that franchisees may be attracted with a lower rate of return than investors, making franchising the less expensive option (see Caves & Murphy, 1976; Dant, 1995; Hunt, 1973; Lafontaine, 1992; Oxenfeldt & Thompson, 1969; Ozanne & Hunt, 1971 for a dialogue on this theme). Under the resource acquisition view, therefore, franchisees are portrayed as expedient, willing, and efficient suppliers of three primary critical capitals: financial resources, managerial resources, and informational resources.

However, franchisees are also portrayed as particularly hard to manage. As Oxenfeldt and Kelly (1968) put it "The frustrations and difficulties involved in operating a franchise system are powerful pressures toward ownership which permit[s] far greater control." Interestingly, their description of the franchisor's "conflicts of interest with independent businessmen" appears to indicate that the primary source of these difficulties is misdirected effort on the part of franchisees rather than sub-optimal effort. Franchisees may try hard, but they may try hard at the wrong things, at least according to the franchisor. This is consistent with Shane's (1996) argument that the incentives created by granting franchisees residual claims are capable of solving sub-optimal effort, but that misdirected effort is better solved through monitoring mechanisms within company-owned chains. Thus, the resource acquisition argument assumes that franchisors would always prefer to manage company units to franchised units, but that sometimes that option is unavailable due to lack of resources. Franchising is only attractive when resources are constrained or when the units are so marginal as to make them unworthy of company investment even with company management.

Hunt (1973) was first to document franchisors' preference for growth through company-owned units. He discovered that the proportion of company-owned outlets in the fast food restaurant franchises had jumped from 1.2% in 1960 to 11.3% in 1971; moreover, the desired level of company-ownership (by franchisors) was found to be 42%. Oxenfeldt and Kelly (1968) viewed these changes in the choice of ownership as a dynamic process. Franchising was seen as an initial stage in the life cycle of these retailing firms, one that would be replaced by company ownership as the firm came to have access to the funds to acquire the franchised units. Although this ownership redirection might sometimes be the result of franchisor opportunism (Dant, Kaufmann, & Paswan, 1992), it was also predicted to be consistent with the franchisees' natural desire to eventually sell their investments and retire. The link between the maturation of systems and changes in the choices made regarding ownership of outlets, therefore, was clearly embedded in this framework and spawned a stream of research

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات