Journal of Retailing 87 (3, 2011) 253–268

Journal of Retailing

Franchising Research Frontiers for the Twenty-First Century

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Abstract

About four decades ago, during the formative years of the franchising industry, visionary authors like Oxenfeldt and Kelly (1968) and Ozanne and Hunt (1971) proposed a rich slate of research agenda which still continues to guide some of the contemporary scholarship in the franchising domain. This article (1) explicates some of the unique features of the franchising context that presumably inspired these pioneering authors, (2) discusses four established elements of ontology unique to franchising and isolates the remaining research gaps therein, (3) specifies a new slate of more contemporary research agenda for future scholarship, and (4) concludes with a brief discussion of the ten articles featured in this Special Issue of the *Journal of Retailing* dedicated to the theme of *Franchising and Retailing*.
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Keywords: Franchising Research Agenda; Research Frontiers; Mixed Motives Context; Asymmetrical Power Setting; Twenty-First Century

Introduction

Modern franchising in USA dates back to at least the 1850s when Isaac Singer attempted to increase the distribution of his sewing machines by establishing a franchise system. Other examples of early American franchising include the franchising of soft-drink bottlers, automobile and truck dealerships and gasoline service stations. These latter sectors constitute what has been labeled as "product trade-name" or "traditional" franchising to distinguish it from the more recent emergent "business format" franchising (Baker and Dant 2008). The key differences lie in the complexity of relationships between franchisors and franchisees, and the modes of payments from franchisees to franchisors. In the product trade-name franchises, the franchisee functions virtually like an authorized dealer with some territorial exclusivity (e.g., Ford dealership, Shell Gas Station), and generally pays the franchisor based on gross margins realized from the sale of the branded merchandise. In business format franchises (e.g., Dunkin Donuts, Marriott's), on the other hand, the franchisee is expected to strictly follow a detailed operational regimen specified by the franchisor through an operations manual and pays franchisors through a variety of royalties and fees. The 1930s witnessed a period of rapid growth in business format franchising in the United States. During this time early American franchisors such as Howard Deering Johnson and Reginald Sprague began franchising their restaurant chains. The 1950s again saw a boom in franchising as massive numbers of fast food restaurants, diners and motel franchises opened up along the newly constructed interstate highway system. Some of the well-known franchises (and their inaugural years) include Kentucky Fried Chicken (1930), Dunkin Donuts (1950), Burger King (1954), and McDonald's (1955).

Today, franchising is big business, and there are over 3,000 franchise systems in the USA (Franchise Facts 2011). This count represents 901,093 franchisees employing approximately 18 million people, in turn generating an economic output of over $2.1 trillion which equals about 40.9% of the U.S. retailing sector (see Table 2 and Appendix B discussed later). It is also an American invention that has been cited as one of the fastest growing U.S. exports to the world (House Committee on Small Business 1990); and it is arguably the fastest growing form of retailing in the world (Dant, Perrigot, and Cliquet 2008). Franchising is also somewhat unique from a public policy perspective in that it is a net net-foreign exchange earner. And since the franchisors' earnings are based on royalties (typically expressed as a percent of franchisees' sales) the franchising sector does not create future foreign competitors over time that come

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0022-4359/$ – see front matter © 2011 Published by Elsevier Inc on behalf of New York University.
doi:10.1016/j.jretai.2011.08.002

back to compete in the domestic economies à la the international product life cycle (IPLC)[3] phenomenon (Gillespie, Jeannet, and Hennessey 2007).

The rest of this paper is organized as follows. We begin with asserting certain self-evident characteristics of the franchising context. This is followed by a discussion of four well-known exemplars of ontology unique to the franchising context. Next we attempt to take a peek at the crystal ball and specify other research topics we fervently wish future franchising scholars will pursue. Finally, we briefly discuss the ten articles published in this Special Issue of *Journal of Retailing* dedicated to the theme of *Franchising and Retailing*.

Characteristics of the Franchising Context

Behaviorally the franchising industry represents a unique context for investigating inter-organizational precepts and phenomena. Not only does it exemplify an asymmetrical power setting within markets, it also symbolizes a mixed motive context where the franchisors (that usually also function as suppliers to their franchisees) directly compete with their own franchisees through the company-owned and operated units, making it an ideal setting for investigating constructs like power, dependence, conflict and relational bonding. Further the existence of varied governance formats (e.g., company-owned vs. franchised units, single-unit vs. multi-unit franchisees, area developers, master franchisees, passive ownership arrangements) within the franchising industry provides rich opportunities to explore myriad governance formats including nested hierarchical structures and the phenomenon of chains within chains, and a plethora of ensuing agency issues. Franchising scholars have attempted to investigate some of these issues principally using the lenses of (1) resource constraints or resource acquisition theory (cf. Oxenfeldt and Kelly 1968) with its roots in the resource-based view of the firm (Penrose 1959; Wernerfelt 1984) and resource dependence theory (Pfeffer and Salancik 1978), (2) agency theory (cf. Fama and Jensen 1983a,b), (3) transaction cost analysis (cf. Williamson 1985), (4) signaling theory (cf. Beggs 1992; Gallini and Lutz 1992; Gallini and Wright 1990), and (5) property rights theory (cf. Demsetz 1966; Hart and Moore 1990; Hart 1995; Maness 1996).

Franchises also differ in terms of the level of uniformity exacted by the franchisors from their franchisee partners, their receptivity to new product/service suggestions coming from their franchisees, and their practices associated with apportioning of territorial exclusivity, thereby making franchising an excellent setting for investigating a variety of issues including diffusion of innovations, knowledge transfer mechanisms, entrepreneurial orientation, turf issues, inter-organizational interdependencies and autonomy, loosely coupled inter-organizational formats and issues associated with exclusive dealing and territorial encroachment.

Further, the definition of business failure takes on a unique meaning within a franchising context since an outlet's de facto failure can be disguised by strategies like reacquisition of the dysfunctional unit by the franchisor and its subsequent sale to another party. In fact, this led Holmberg and Morgan (2003) to argue against the need to define franchise failure definitively, but rather to view the process comprehensively through their eight-step franchise failure model. Since franchisees are often compared and contrasted to independent entrepreneurial initiatives in terms of their survivability and rates of success, this contextual complexity makes such comparisons especially challenging. Hence, metaphorically, the franchising context can be fruitfully utilized to investigate the fundamental notions of business success and failure in all sorts of agency relationships.

Finally, we echo Dant (2008) in recognizing that franchising enterprise involves a trichotomy of domain actors comprised of the franchisors, the franchisees and their consumers. And yet the bulk of the franchising literature until recently was focused on franchisor-based studies. More recently there has been an emergent trend of franchisee-based studies. However, there continues to be a virtual absence of examining the franchising phenomenon from the perspective of its customers even though the franchising industry is accused of fostering homogenized tastes (e.g., Luxenberg 1985), thereby curbing local cultural diversity, a charge especially relevant in international contexts where chains like McDonald's have been accused of playing the role of a Trojan horse for American cultural imperialism. On the other hand we have some preliminary evidence that brands like McDonald's are fast getting assimilated in traditional societies like China (Grünhagen, Dant, and Zhu forthcoming). Hence, the net reality is that, to date, we have only anecdotal evidence of how the customers judge the value-added aspects of franchising and the trade-offs involved between guaranteed standardized quality and service and erosion of choices. Hence, from a distal macro perspective, the franchising context can be used to bridge the great divide between B2B and B2C scholarship which will permit us to view business enterprises from a holistic perspective.

Not surprisingly, then, this complex and unique inter-organizational form has generated a very large amount of multi-disciplinary research on franchising topics. Unfortunately, even though some of the foundational initial scholarly work in franchising was crafted within marketing (e.g., Oxenfeldt and Kelly 1968; Ozanne and Hunt 1971; Hunt 1972, 1973), in mainstream marketing journals, franchising has been used more as a context of empirical sampling (e.g., Anand and Stern 1985; Antia and Frazier 2001; Brown, Dev, and Lee 2000; Dant and Schul 1992; Mishra, Heide, and Cort 1998) and the theoretical issues or the ontology unique to this fascinating B2B inter-organizational structure have often been relegated to other

[3] As detailed in Dant et al. (forthcoming-a) and Dant, Weaven, and Baker (forthcoming-b), "The notion of IPLC describes an internationalization process wherein a local manufacturer in an advanced country (e.g., USA) commences with selling a new, technologically advanced product in its market, but over time, ends up with becoming a net importer of the product as this product is produced at a lower cost either by competitors in lesser developed countries or, if the innovator has developed into a multinational manufacturer, by its foreign-based production facilities. Since franchising revenues are based on contractually vested royalty remittals, there is no danger of franchise systems becoming victims of IPLC."

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