

FRANCHISOR'S TENDENCY TO USE MULTI-UNIT FRANCHISING: A CONCEPTUAL MODEL

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ABSTRACT

Franchising is the fastest growing form of retailing and almost half of the good in USA are distributed through franchise systems. A multi-unit franchisee can be defined as a person or a firm that owns two or more franchised outlets in the same franchise system. The prominent researchers in franchising argue that the recent growth in franchising business can be attributed to the emergence of multi-unit franchising. Existing empirical research shows that more than a half of the total franchised outlets in USA are being operated by multi-unit franchisees. It is argued that the major focus of franchising research has been the single-unit franchising and that the single franchising is the exception, not the rule. Therefore, the research gap requires the investigations that distinguish between the multi-unit franchising and single-unit franchising.

Only a few studies have been published on multi-unit franchising in the past. However, the main emphasis of these studies has been to investigate the motivations of franchisees and franchisors to enter such type of franchising arrangement. It has also been empirically verified that the multi-unit franchising helps franchisors to cope with a number of agency problems and that the system with geographically dispersed units use a higher proportion of multi-unit franchising. The significant positive relationship between system growth rate and multi-unit franchising has also been evidenced. An early study on multi-unit franchising in mid 1990s revealed that such type of franchising arrangement may perform better in the terms of local responsiveness, system-wide adoptability, and system uniformity. The multi-unit franchising reduces the risk of failure and the systems with higher proportion of multi-unit franchise enjoy a lower rate of franchise contract termination. Multi-unit franchisee see their venture as an investment opportunity and the business concept, potential for expansion, ongoing training and involvement in decision making are the important factors that influence their decision to enter such type of franchise agreement. On the other hand, single-unit franchisees are generally motivated by their entrepreneurial ambition and they consider the franchisor's brand name strength, opportunities to employ family members and initial training days as important factors while assessing the franchise opportunity.

However, none of the existing studies investigates the effect of environmental uncertainty, specific investments, behavioral uncertainty, importance of local market know how and system specific assets on the franchisor's decision to adopt multi-unit franchising. In this paper I attempt to address this research gap and develop a model comprising of six propositions to explain the franchisor's choice between single-unit and multi-unit franchising. The model proposes a relationship of franchisor's adoption of multi-unit franchising with franchisee's specific investment, market uncertainty, franchisee's behavioral uncertainty, franchisor's financial resources scarcity, importance of local market know how for the success of the business, and importance of system specific assets for success of business. I propose that franchisee specific investments are positively related with adoption of multi-unit franchising because multi-unit franchisees make higher investments compared to single-unit franchisees and that creates a bonding effect hence multi-unit franchisees are better motivated to cooperate with the franchisor. In a highly uncertain environment or in a market where local market know how is very much important for the success of the business, the franchisors are probable to use lower proportion of multi-unit franchising. In case of franchisee's behavioral uncertainty which generally results in higher monitoring costs the franchisors are likely to use higher proportion of multi-unit franchising because in such a case they can delegate some of the monitoring and coordination tasks to the multi-unit franchisees. The multi-unit franchisee are the larger partners with a higher access to capital, therefore they are in a better position to finance the system growth and the franchisor's financial resources scarcity, therefore a positive relationship between multi-unit franchising and franchisor's financial resources scarcity is proposed. Multi-unit franchisees are the partner with higher organizational capabilities and they are more likely to replicate the procedures and routines of franchisor, in addition they can perform better in terms of system uniformity. If the system specific assets are more important for the success of the business, it is more likely that the franchisor is going to use higher proportion of multi-unit franchising.

The proposed model will be empirically tested in near future and the supported model would contribute toward the franchising literature by addressing the current research gap. In addition, the proposed model would have managerial implications as well and would provide the guidelines to business executives to use multi-unit franchising as an ownership strategy for the distribution network.

References available upon request