

## **How can suitable franchisees be more successfully recruited?**

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### **Abstract**

A shortage of suitable franchisee applicants has been identified by franchisors as a major hindrance to franchise sector growth in Australia. However, there has been little investigation into this issue within the organisational choice literature. This represents an *important gap in the literature*. In order to explore this issue it was first necessary to determine the expectations of franchisors regarding suitable franchisee prospects. Hence, this research explores desirable franchisee attributes and the factors that influence franchisee recruitment, together with suggestions on how franchisors may improve promotion of themselves to potential franchisees. A convenience sample of 12 franchisors was selected for participation. Respondents were interviewed about their current recruitment practices and the qualities they sought in franchisees. Findings suggest that while there is a core set of generic franchisee attributes, franchisors also need to determine a sub-set of additional attributes that are consistent with their own system requirements.

Keywords: attributes, franchisee, recruitment

### **Background**

The social and economic contribution of franchising to most western economies is widely reported (Alon 2004). Franchising is a business model, in which a franchisee is granted the right to engage in offering, selling, or distributing goods or services under a marketing system which is designed by the franchisor (Justis and Judd, 2002). The franchisor permits the franchisee to use the franchisor's trademark, name and advertising (Kostecka, 1987). The Australian franchising sector has achieved consistent growth since the 1980s and franchising activity currently accounts for some 12 percent of the country's GDP (IBIS 2006). However, recent Australian research indicates that franchising systems may be unable to expand at the rate they desire (Weaven and Frazer, 2005). Factors inhibiting growth include business competition, difficulty in obtaining franchisee finance and a shortage of suitable applicants (Frazer and Weaven, 2004).

Previous studies have demonstrated that the shortage of suitable franchisees is not recent phenomenon (McGuire, 1971; Knight, 1986), and may be reliant upon how franchisors classify attributes that are desirable in potential incumbent franchisees (Frazer and McCosker, 1999; Michael, 2000; Hedricks and Kiefer, 2005). However, there appears to be a gap in existing knowledge on how these impediments to franchise growth may be overcome. Consequently, a thorough enquiry into possible solutions to the problem of shortage of suitable franchisees, and explanation of desirable franchisee attributes, is warranted. Hence, the research questions recognise a practical shortcoming and gap in the literature.

*What are franchisor expectations of franchisees and what factors influence recruitment?*

### **Literature review**

*Resource scarcity* theory suggests that franchising is favoured as an expansion strategy to overcome scarcity in capital, managerial talent or local market knowledge (Combs and

Castrogiovanni, 1994). Franchising is said to provide organisations with the resources needed to accelerate growth to reach a minimum efficient scale of operation, and to build brand name capital (Caves and Murphy 1976; Martin 1988; Oxenfeldt and Kelly, 1968-69). However, in this study, the inability of some franchisors to attract sufficient franchisees has compounded capital constraint problems which may account for the small size of many systems operating within Australia (Frazer & Weaven 2004). Without sufficient resources to effectively market themselves these organisations may be ineffective in attracting suitable numbers of franchisee recruits and in economising on agency related expenses (Shane, 1996).

*Agency theory* defines the franchising relationship in terms of one party (the principal) delegating work to another (the agent), who owns and operates the said business (Jensen and Meckling, 1976). However, agency relationships have two distinct limitations. The first centres on the issue of *information asymmetry* (hidden information) in which the principal is not cognisant of whether a prospective franchisee has the desired characteristics that the principal is seeking (Axelrad and Rudnick, 1987; Spake, *et al* 1999). The second issue of *moral hazard* (hidden action) occurs post contractually when a franchisee does not expend the effort necessary to perform at the agreed level (Rubin, 1978; Eisenhardt, 1989; Thomas, O'Hara, and Musgrave, 1990).

Franchisors attempt to overcome these problems by implementing incentive based contracts (Lafontaine and Slade, 1998). The two main incentives are proportion of risk and the ability of the franchisee to claim residual profits (Fama and Jensen, 1983). In franchising, the franchisor is risk neutral and less concerned with risk than franchisees, as risk is spread across the entire franchise network. Proportionally, a franchisee takes a far greater risk because most, if not all, of his/her capital is tied up in the franchise, so there is a major incentive to protect and enhance the investment (Demski and Feltham, 1978; MacCrimmon and Wehrung, 1986). By being a residual claimant, the franchisee (agent) is motivated to maximise both profits and the present value of the franchise unit (Combs and Castrogiovanni, 1994).

Agency relationships and their control mechanisms compliment capital constraint issues in the franchising model. Together they provide a capital and a management methodology. From the franchisee's perspective franchising offers the potent advantage of belonging to a large chain, while at the same time retaining some degree of independence (Hunt, 1977). Other issues identified in the literature include initial and ongoing training, assistance, an established brand image, national promotion, and reduced risk in comparison to fully independent business ownership (Mendelsohn, 2004). However, limited academic attention has been given to what franchisors consider are important qualities of prospective incumbent franchisees (Jambulingam and Nevin, 1999).

## **Methodology and analysis**

### **Methodology and data collection**

As little is known about this issue, an exploratory qualitative approach using convergent interviewing was considered suitable. This approach is most valuable when there is some doubt about the information to be collected (Dick, 1998). It consists of a cyclic series of in-depth interviews that allows the researcher to refine the questions after each interview, to converge on the issues in a topic area, specifically, arising from a continuous refinement of method and content (Carson *et al*, 2001; Rao and Perry, 2003). However, there are some restrictions associated with convergent interviewing as identified by Woodward, (1996).

Firstly, there is a potential for interviewer bias. In this research reflexivity and negative case sampling were used to maximise the validity of results (Johnson 1997). Secondly, Woodward (1996) contends that researchers need prior knowledge of the research subject, enabling them to contribute meaningful information to the exploratory research. As the authors have extensive experience in franchising, he was able to derive meaningful information from the interviews.

A sample of 12 franchisors was selected by accessing the Franchising 2006 Yearbook and directory. Franchisors were selected for the convenience of their close proximity, (South East Queensland) and some were known prior to this research by the research team. The sample ranged across a number of industries including retail food and non-food, finance/insurance, and personal and other services. The franchisors had been franchising from between 2 to 36 years, providing a balance of new and experienced operators. Total start up costs, encompassing fit outs, stock and initial training varied from AUD\$6,000 in a relatively simple mobile system to \$1,000,000 in a large retail operation. Initially, two pilot interviews were conducted by the chief researcher over the phone before converting to face-to-face interviews, because they offered multiple verbal and non-verbal cues, which were lacking in the phone interviews, including words, postures, facial expressions, gestures and intonations.

Interviews were continued until thematic convergence was reached (Lincoln and Guba, 1985), which was determined when saturation became apparent, as no new information or themes were observed in the collected data (Guest, Bunce and Johnson, 2006). The interviews were conducted using a funnelling technique, whereby hazy information was refined, through initially asking the respondents open-ended questions and then probing their answers to elicit more detail. Examples of open-ended-questions used in this research include *'What do you think prospective franchisees are looking for?'* and *'How do you think your system satisfies those needs?'*. The questions were designed to encourage full, meaningful answers using the respondents' own knowledge and or feelings (Media college, 2006), and typically began with the words "how" and "why", or phrases such as "tell me in your own words".

## Findings

Manual analysis of the data revealed eight major themes that were investigated following issues identified in the literature review (Table 1). To maintain confidentiality respondents names have been coded with a single letter, for example (A). The quotations have been used to provide evidence of patterns being found in the data.

The results show that there appear to be a number of widely accepted attributes that are desirable in franchisees. For example the need to have passion/drive was expressed by most of the respondents: *'People that are wildly keen about the whole idea that want to move and are motivated, excited and want to bring that emotional energy to the business.'* (A). With respect to gender, most respondents were neutral. Similarly, franchisors were not influenced by age, as illustrated by: *'Whilst we are not ageists, I think that we would carefully consider anyone that is past general working age...it can be physically demanding on people...we would not want to see unnecessary strain on people...'* (L). Indeed, physical fitness was seen as being important to the extent that franchisees had to be able to do the work entailed in the franchise.

All franchisors believed that they had a good understanding of what franchisees were seeking from franchisors and how they provided for those needs, as shown in the following

quotations: *‘The system is really geared towards allowing our people to make money and be profitable. We structure it in such a way that we supply them with the guidelines on how to make money’* (L). Additionally, how franchisee needs are provided for, is exemplified in: *‘We have excellent training, both initial for franchisees as well as ongoing training systems...you don’t necessarily have to be experienced or come from the industry’* (E).

Table I Major themes investigated

<b>Major Themes</b>	
<b>Themes</b>	<b>Patterns within themes</b>
<b>Desirable franchisee attributes</b>	Ability to raise the purchase price Passion/drive & determination Customer relations ability, honesty and integrity Business acumen, industry experience/ academic qualifications Entrepreneurial seeking challenge & growth opportunities
<b>Personal characteristics that may influence recruitment</b>	Gender Age; and Physical fitness
<b>Attributes franchisors believe franchisees are seeking in franchisors</b>	Professionalism and return on investment system with growth opportunities, providing a competitive edge Support in running their own business, security Being their own boss, life style
<b>How franchisors provided those attributes</b>	A proven system that provides good earnings opportunities Providing training and support both initial & ongoing By continually improving the system
<b>Sources of recruitment</b>	Trade shows and industry specific/trade magazines Franchisor websites & Franchise Council of Australia website Franchising magazines and newspapers/local, state & national Television/ ‘Inside franchising’ Recruiting firm and Public relations specialists
<b>Success in recruitment</b>	Low Medium Excellent
<b>Additional selection processes used by larger franchise systems</b>	Use of recruitment firms Use of individual profiling/ to determine if potential franchisee personality align with characteristics desired by the franchisor
<b>Alternative growth methods currently used</b>	Multi unit ownership Conversion/ converting a similar business to become one of the franchise systems units Acquisition / purchasing another business

Sources of recruitment were common among most respondents. However, not all respondents were pleased with the results that they achieved. For example, inquiries made to franchisor websites made it extremely difficult to determine the original source of inquiries, as illustrated by: *‘it is more difficult nowadays to know where your leads are coming from, because no matter where you advertise, whether it’s a newspaper or a franchising magazine, anything that is in print or on the media points people to a web site’* (H). Similarly, results from advertising in franchising magazines were viewed by most franchisors as disappointing and costly, but it was believed that a continued presence in this medium was seen as being obligatory for building and maintaining brand awareness: *‘They have been a disappointment ...the cost of it, but again some would say that it’s a branding and profiling necessity’* (J). Alternatively, participating in the television show ‘Inside Franchising’ was seen as by most franchisors as providing a good return, as shown by this comment: *‘the best one has been*

*appearing on Inside Franchising (a television program) ...that really blew things out of the water' (J).*

Respondents achieved recruitments of between 0.5 to 10 percent. Larger franchisors mentioned that they had had great success in using personality profiling, as part of their selection process methods. This is where an individual's personality characteristics are matched against work requirements (Holland, 1985). It can also incorporate matching individuals to organisations (Judge and Cable, 1997). *'Yes we do, ... really good in the franchisee recruiting side of the group... we also use it internally as part of our corporate interviewing process...our guys go through a panel review, where three executives will do the interview as well as run a profile' (K).* These systems also noted that public relations specialists were seen as one of the most rewarding methods of recruitment because they built brand awareness: *'the main reason for going into public relations is that you get more bang for your buck and you can convey more about yourself in a story than you can in an ad...particularly when you understand that the process of attracting people to franchising can be protracted, it can last years' (A).*

Alternative methods of recruitment included multiple unit ownership by current franchisees, conversions of franchisees in competitors' systems and acquisitions of independent businesses. Multiple unit ownership was supported and encouraged by most systems because it was seen as being mutually beneficial to both franchisors and franchisees: *'Yes, we are a big fan of it, we are very skewed that way...at this stage probably around 15 percent of our franchisees own 40 percent of the network' (K).* This statement may indicate that this particular franchisor is resolving its recruitment problem by internal growth rather than by infusion of new franchisees. Generally conversions and acquisitions were not seen as important by a majority of respondents unless synergies could be achieved with the system.

### **Discussion and managerial lessons**

The findings of this research have implications for franchisors, as well as individuals and organisations seeking to enter franchising. Larger systems did not appear to have difficulty in recruitment, probably due to their experience and size. However, the generally low conversion rates of inquiry to sales by some of the smaller systems may be indicative of poor recruitment methods in targeting suitable franchisee candidates. Overall, the results indicate that there appears to be an emphasis by franchisors on presenting the franchising model, rather than the actual business opportunity.

The results suggest that, in order to differentiate themselves, franchisors need to develop their own unique profiles of what their system does, as well as what are desirable franchisee attributes for their system. The first profile should be for potential franchisees to be informed about the business opportunities, both now and in the future. The second profile should inform potential franchisees of the attributes necessary to achieve that success. Smaller systems may also benefit from using the larger more successful systems as benchmarks, by retaining a public relations firm at their earliest opportunity to increase their overall exposure, and by using profiling, to ensure the best possible selection of suitable franchisees.

Future research will extend the current study by interviewing a sample of franchisees attached to the franchise systems reported here. The franchisee perspective is an important element in the relationship and will offer a more holistic view of desirous franchisee characteristics and effective franchisee recruitment.

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