MOTIVATIONS FOR ASPIRING MULTIPLE UNIT FRANCHISEES IN AUSTRALIA

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Abstract

Most conceptual, exploratory and explanatory investigations into the motivations to enter franchising arrangements have taken only the situation of a traditional single unit owner-operator into account. Presumably, franchisees are attracted to these contractual vertical marketing networks as they become part of a larger, established system with a proven brand and consumer following, while retaining some independence and receiving financial support, and initial and ongoing operational assistance. However, multiple unit franchisees may differ from their single unit counterparts in terms of their experience, philosophical orientations and expectancies. Therefore, a single theoretical model of franchisee motivations that postulates symmetry of motives would be unrealistic and untenable. Instead this research aims to build theory through the presentation of a set of propositions that explains multiple unit franchising as a function of an individual’s need for empowerment, anticipation of future scale economies, available financial liquidity, entrepreneurial orientation and desire to minimise future intra-system conflict. Overall, the qualitative findings clarified and confirmed the validity of the general propositions in preparation for future empirical testing.

Introduction

In comparison to the breadth of research advocating benefits of franchising from the franchisor’s perspective, there has been little theoretical and empirical examination into the reasons why individuals choose to own and operate franchised units (Grunhagen & Mittelstaedt 2001; Weaven & Frazer 2003). This is odd given that researchers and practitioners espouse the financial benefits associated with the recruitment of suitable franchisee candidates that will operationalise the franchisor’s goals (Hough 1986; Phan, Butler & Lee 1996; Frazer & Weaven 2002). Through understanding franchisee motivations, franchisors should be better able to attract and qualify suitable potential incumbents and select those individuals that will add value to their network by reducing the coordination and adaptation costs associated with ongoing compliance within the franchise system (Achrol 1996; Jambulingham & Nevin 1999).

This paper examines the relatively unexplored issues surrounding multiple unit adoption by franchisees. Multiple unit franchising refers to an organisational arrangement in which franchisees are permitted to own more than one unit in the same franchise system (Laurie 1995). In the next section, the research problem is defined within the context of the existing single unit franchising literature. Then, the methodology used to conduct the study and its findings are described. Finally, implications for theory and practice are considered.
Literature Review

Early research explains an individual’s choice of the franchising form in terms of the economic advantages inherent within the business format (Stanworth & Curran 1999). Individuals are said to be attracted to franchising as they perceive residual claimancy as a method of maximising their future financial returns (Rubin 1978; Vaughn 1979). However, as franchisees are generally individuals rather than corporations (Oxenfeldt & Kelly 1968), their expectations are ‘…more varied and complex than being simply an expression of profit maximisation…’ (Stanworth & Curran 1999, p.338). In light of this, later research identified the nature and role of intrinsic franchisee motivations (for example, Peterson & Dant 1990; Kaufmann & Stanworth 1995).

Generally, an individual’s motivation to join a franchise system is explained by comparing the advantages of franchising with salaried employment and independent small business ownership. Presumably, franchising is successful as it affords satisfactory levels of independence, together with training and support that (arguably) reduces risk relative to entering a fully independent enterprise (Withane 1991; Bates 1995; Kaufmann 1999). Franchising offers greater choice and an easier mode of transition into self-employment by providing a means of overcoming experiential and capital barriers to entry (Stanworth 1977; Kaufmann & Stanworth 1995; Stanworth & Kaufmann 1996). While these factors may help in explaining a prospective franchisee’s motivation to become a franchisee, they do not adequately explain why individuals choose to own and operate multiple units within a single franchise system.

Single unit analyses. Overall, previous conceptual, exploratory and explanatory studies have focused upon identifying the importance franchisees place upon many of the economic and social advantages associated with the traditional single unit franchising model. Research in the United Kingdom identified affiliation with a nationally known trademark as the most important advantage of franchising (Stanworth 1977). Another study found that franchisees believed that a known trade name, operational independence and increased levels of job satisfaction were associated with the franchising form (Knight 1986). Other researchers identified the importance of ongoing franchisor support and a proven concept in minimising the potential risk associated with the franchising decision (Baron & Schmidt 1991). A United States study found established name and lower development cost as the most important features of franchising and showed that franchisees’ experiences influence their desires and future expectations (Peterson & Dant 1990). Specifically, previously self-employed franchisees believed ‘greater independence’ and ‘training’ to be the most salient features of franchising (Peterson & Dant 1990, p.58). Although these studies provide valuable information as to the benefits associated with franchising, they do not examine motivations from a multiple unit context. Therefore this research addresses gaps in the literature by investigating the research question:

What are the factors that influence franchisees to adopt multiple unit franchising arrangements?

Motivational Incentives from the Perspective of the Multiple Unit Franchisee
**Empowerment.** Although single-unit franchisees are often encouraged to perceive themselves as entrepreneurs capable of identifying and acting upon local market opportunities, their autonomy is often limited by the franchisor’s desire to maintain brand value through ensuring system-wide uniformity, consistency and control (Dant & Gundlach 1998). As such, many franchisees operate in an environment of quasi-independence which may not necessarily accord with their original perceptions of being in business for themselves, not by themselves (International Franchise Association 1988). In recognition of this unbalanced power structure, many franchisees have joined collectively in order to promote their interests at both the organisational and sectoral levels (Harris & France 1997). The channel marketing concept of countervailing power (Galbraith 1956) may provide a theoretical explanation as to the emergence and increasing popularity of franchisee member organisations and multiple unit ownership as methods of increasing the power position of franchisees and reducing their dependence upon franchisors. Although the previous research into expected power relationships is mixed (for example, Kaufmann & Lafontaine 1994; Bradach 1997; Dant & Gundlach 1998; Dant & Nasr 1998) the following proposition has received preliminary qualitative support in the United States. However, this has not been investigated within Australia. Therefore, based upon the above discussion it is theorised that:

**P1. At the time of the purchasing decision, multiple unit franchisees value anticipated decision making involvement in franchising operations more than single unit franchisees.**

**Economies of scale.** Potential franchisees may see an advantage in acquiring multiple units due to anticipated scale economies arising from the centralisation of functions at the subsystem level. The collective size of franchise systems allow franchisors to realise economies from their increased purchasing power, the specialisation and application of executive functions throughout the network, the opportunity to gain learning economies from existing outlets, and the effective use of advertising media (Carney & Gedajlovic 1991; Cherkasky 1996; Bradach 1997). That is, scale efficiencies allow franchisors to ‘...spread the fixed costs of management, procurement and marketing over the number of service units delivered’ (Kaufmann 1992, p. 56). Research suggests that, up to some size, the specialisation and centralisation of self performed franchisee tasks should afford franchisees some economies of scale (Kalnins & Lafontaine 1997; Bradach 1997). That is, multiple unit franchisees may find benefits in realising small scale local economies particularly through spreading fixed cost self performed tasks of management and supply procurement over the mini-chain units (Kaufmann 1990). This has some anecdotal support. In particular, Geoff Manson, a multiple unit franchisee within the Hungry Jack’s fast food chain, says that ‘...there are economies of scale as the number of franchises grows. The cost of employing excellent management staff and other labour can be partly shared across the board’ (Franchising and Own Your Own Business 2001, p.78). Although this proposition has shown preliminary qualitative support overseas (Grunhagen & Mittelstaedt 2002), it has not been assessed within the Australian franchising sector. Thus:

**P2. At the time of the purchasing decision, multiple unit franchisees value anticipated economies of scale at the subsystem franchising level more than single unit franchisees.**
Capital availability and risk indifference. Most often, studies of franchisee motivations discount or exclude the role of financial factors in their analyses (Kaufmann 1999). However research suggests that franchisees with greater financial resources will be attracted to the franchising form over independent small business ownership (Williams 1998). While franchising may reduce risk through minimising product specific demand uncertainty in comparison to independent business ownership (Williams 1998), multiple unit franchisees put significantly more investment capital at risk than single unit operators (Kaufmann & Dant 1998). While this may seem illogical in the face of competing investment alternatives, one possible explanation is that franchisees may become risk indifferent and purchase multiple units due largely because they have more money to invest (Grunhagen & Mittelstaedt 2000). Thus it is proposed that:

P3. Multiple unit franchising and franchisee capital availability are positively related.

Entrepreneurial orientation. Although franchisors are often viewed as entrepreneurial (for example, Vesper 1990), research investigating the entrepreneurial nature of franchisees has presented conflicting results (for example, Anderson, Condon & Dunkelberg 1992; Stanworth 1995). Some research suggests that franchisees are characterised by an aversion towards risk, have little supervisory ability, initiative or achievement motivation and enter franchising as a means of buying a secure job (Anderson et al. 1992). They appear to have a need for security and use franchising as a method of reducing some product-specific demand uncertainty through association with a proven brand name (Williams 1998). Alternatively, other research views franchising as an entrepreneurial endeavour (Kaufmann & Dant 1998) in recognising that franchisees are often encouraged to innovate in areas such as local marketing and new product development (Stanworth & Curran 1999). Although they operate in an environment of ‘constrained independence’ (Felstead 1991, p. 39) they share similar experiences and orientations to entrepreneurs who start their own business (Peterson & Dant 1990; Kaufmann & Stanworth 1995). Therefore, there does not appear to be consensus within the literature as to the classification of franchisees as entrepreneurs.

While many single unit franchisees join systems without intending to purchase more units in the future, multiple unit franchisees appear to be motivated to rapidly grow their unit holdings, at least up to a certain ownership level (Kaufmann & Dant 1996). These larger franchisees are opinion leaders that have greater decision-making power and influence in franchising systems (Stanworth 1995) which may enable them to coerce concessions from franchisors, particularly in areas of operational independence and innovation at the local market and subsystem levels. Therefore, to extend other single unit research recommendations (Phan et al. 1996), multiple unit franchisees could be viewed as entrepreneurial as they learn from their local competitive environments, engage in strategic decision-making and add value to the franchising system through creating value within their own subsystems. In particular, sequential multiple unit franchisees perceive new market opportunities and grow their holdings on a case-by-case basis and as such may be viewed as being driven by an entrepreneurial philosophical orientation. Therefore it is proposed that:
Multiple unit franchisees are driven by an entrepreneurial motivation more than single unit franchisees.

Pre-empt future intra-system competition through the purchase of contiguous units. Franchisees may purchase additional units within their system in an attempt to minimise future intra-system competition and increase their market power relative to single unit holders. In particular, franchisees may attempt to purchase contiguous territories in order to minimise future competition at the local market level with other franchisees within their system. This is supported by research that shows that individually owned franchised units will compete with neighbouring units in the same chain (Kalnins & Lafontaine 1997). That is, competing franchised units within close proximity will have an incentive to invest in local area marketing (for example, offer smaller local market incentives such as discounts) to attract customers from competing franchised units. Conversely, franchisees that own contiguous units are more likely to raise prices above the levels that single unit operators would set (Levy & Reitzes 1992). Therefore, a multiple unit strategy may be particularly beneficial when franchisees do not operate within protected territories. Thus it is posited that:

P5. There is a positive relationship between a multiple unit franchisee’s purchase of multiple units and the desire to pre-empt future intra-firm competition.

Methodology

This research was exploratory in order to gain insights into the phenomenon and to improve understanding of the issue (Parkhe 1993, Malhotra, Hall, Shaw and Oppenheim, 2002). Confidential telephone interviews were held with six single unit and six multiple unit franchisees from a well known retail service chain from the fast-food industry in Australia. A convergent interviewing approach was used and each interview lasted for between 15 and 50 minutes duration. This approach allowed the researcher to gain an in-depth understanding of franchisee motivations governing franchising behaviour (Rubin & Rubin 1995) through obtaining ‘rich’, ‘deep’ and ‘real’ information (Deshpande 1983, p. 103). Convergent interviewing is an unstructured process that is not respondent driven, allowing the researcher to concentrate on information evaluation and analysis. In addition, the interview process is cyclic in nature, enabling the research issues to be continuously narrowed down (Dick 1990). Hence, interpretation of the data gradually converged, allowing the formation of a picture of the salient issues pertinent to the level of multiple unit adoption (Woodward 1997, Carson, Gilmore, Perry & Gronhaug 2001).

Analysis of Research Findings

Single unit franchisee respondents. All franchisees agreed that the established reputation of the brand constituted the most salient advantage of franchising. Most ranked the proven concept as the next most important motivation to enter the system, followed closely by anticipated financial returns, and security associated with ongoing training and support. Only two respondents indicated that future risk reduction was unrelated to the decision to enter the franchise system. Consistent with overseas studies, previously self-employed franchisees ranked financial security ahead of
operational autonomy, while franchisees that had previously worked in salaried employment nominated independence and lifestyle before that of financial security. In addition, three franchisees suggested that they wanted to enter their own business because their families had been involved in small business lending support to a previous study conducted in the United Kingdom (Stanworth 1984). Only one franchisee believed that franchising offered a secure way of working with other family members which seems consistent with previous findings (Kaufmann & Stanworth 1995). All franchisees self-identified that their perceptions of trust as to the future behaviour of franchisors was an important determinant of their decision to purchase a franchised outlet.

Multiple unit franchisee respondents. Most propositions were supported, albeit to varying degrees. Fewer than half of the respondents supported the contention that multiple unit franchisees made the decision to own more than one store in an effort to occupy a more powerful position within the system compared to single unit holders. Most agreed that the size of individual franchisee holdings mattered little in the collective decision making process, as each franchisee was entitled to one vote, regardless of whether they owned one or multiple outlets. Thus proposition 1 was not supported. In addition, most franchisee respondents believed that the availability of sources of capital, either through financial intermediaries or from the franchisor was an important determinant of the decision to purchase additional units. Hence proposition 2 was received strong support. In particular, eight franchisees believed that the ability to share their managerial expertise across multiple units was an important motivating factor to become multiple unit holders. However, two of these respondents indicated that significant economies of scale were only achievable in mini-chains that held three or more units.

Proposition 3 was supported by most respondents. However, no relationship was shown to exist between capital accessibility and risk indifference among multiple unit franchisees. Instead, those individuals that had access to sufficient amounts of capital to expand their holdings into other units emphasised that their previous experiences were an important determinant of their future investment strategies. Most multiple unit franchisees indicated that they were more entrepreneurial than their single unit counterparts, although many did not explicitly agree with this proposition when prompted. Instead, these franchisees indicated a drive to expand, willingness to take risks and achieve, and a desire to satisfy an unfulfilled need. Hence proposition 4 was strongly supported. In contrast, the majority of single unit franchisees believed that they the desire to innovate and exploit new opportunities was not a dominant motivation to enter franchising arrangements. Instead they agreed that franchising was a method of reducing risk associated with potential demand uncertainty in the Australian retail sector. All franchisees confirmed that they had purchased units in an attempt to restrict local competition and share local marketing initiatives between geographically contiguous units. Therefore, proposition 5 received strong support from the franchisee interviewees throughout the convergent interview process.

Conclusion and Recommendation for Future Research

Overall, the qualitative findings of this research confirmed the appropriateness of the proposed theoretical relationships between identified constructs. However, the findings in this exploratory stage are tentative in nature and will form the basis for
more conclusive explanatory research. In particular, future research should sample a larger number of franchisees from industries of different sizes and types. To this end, it is anticipated that the propositions will be empirically tested in a large-scale survey of franchisees in the near future.

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