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Expansion Through Multiple Unit Franchising

Australian Franchisors Reveal their Motivations

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In this article we explore strategic reasons justifying the recent emergence of multiple unit franchising arrangements within Australia from the perspective of the franchisor. Extending resource constraints, efficiency and agency rationales explaining organizational choice, the present study suggests that franchisors encourage franchisee subsystem development as it affords strategic, operational and performance advantages. Dimensions including agency cost minimization, system-wide uniformity, franchise system brand value, reward strategies, and subsystem unit (geographical) proximity and intra-system competition, were found to be important. Less important elements included ownership redirection, system adaptability, local market innovation and franchisee opportunism motives. Given the exploratory nature of this research, in-depth interviews with 23 franchisors were used to collect data. The preliminary research evidence has important implications for franchising theorists and practitioners and, in addition, provides a platform on which future research can be developed to further understand multiple unit franchising arrangements.

KEYWORDS: agency costs; Australia; expansion; multiple unit franchising; opportunism; rewards; system uniformity

Introduction

The economic importance of franchising in service provision, job creation and self employment opportunities is widely reported (Business Development Research Consultants, 2004; PricewaterhouseCoopers, 2004; Spinelli et al., 2004). However, many of the arguments justifying the motivational incentives for entrepreneurs to elect the franchising channel of distribution are couched in theory developed around the prototypical single unit franchising model (Kaufmann, 1996). Within

this perspective, more complex multiple unit arrangements (in which franchisees own more than one unit within the same franchise system) appear to represent suboptimal alternatives to traditional dyadic revenue-sharing arrangements in which remuneration is tied to unit performance (Grunhagen and Mittelstaedt, 2005). Recent research in the USA justifies the creation of franchisee-owned mini-chains as an efficient method of securing both rapid system growth and system-wide adaptation to competition (Kaufmann and Dant, 1996; Sen, 2001). However, this conventional wisdom may not capture the full range of incentives driving multiple unit franchising adoption in Australia.

Although research suggests that Australian franchising closely follows 'American lines' (Pizanti and Lerner, 2003: 133), the Australian franchising sector differs from the USA in two main areas. First, Australia has a larger penetration of franchise systems per capita (Giles, 2004), although they are smaller networks constrained by growth due to a smaller population. Second, Australian franchisors, like their UK counterparts, tend to favour single unit growth strategies (Stanworth and Purdy, 2000) with multiple unit franchising only gaining recent acceptance (Weaven and Frazer, 2006). In comparison, multiple unit franchising is the 'modal form' (Kaufmann and Dant, 1996: 343) of franchising expansion in the more mature US sector, with over half of all franchise units owned by multiple unit operators (IFA Educational Foundation, 2002). Considering that Australian franchisors cite difficulty in attracting new candidates (Frazer and Weaven, 2002), Australian franchisors may need to emphasize multiple unit strategies in order to grow and survive.

As the Australian franchising sector has received limited academic attention (Chow and Frazer, 2003), and historically produces results that are incongruent with overseas findings (Frazer, 2001; Frazer and Perry, 1998; Weaven, 2006; Welsh, 1996), an exploratory approach was adopted in this research (Dant, 1995; Gauzente, 2002; Kaufmann, 1996). In addition to gaining valuable insights into current managerial practice, the purpose of this research is to support informed decision-making in the future through an investigation of the fundamental and under-researched question of 'why franchisors choose to grow and expand through multiple unit arrangements'. This research will make a significant contribution to theory and present important implications for practice by integrating known concepts with newly identified motivational incentives that drive or inhibit the adoption of this organizational arrangement. In particular, multiple unit franchising is described as a function of strategic factors including agency costs, system uniformity, franchise system brand value, geographical contiguity of subsystem units and system reward strategies.

This article is organized as follows. Following a review of the franchising organizational choice literature, general propositions explaining the strategic reasons influencing multiple unit franchising adoption from the franchisor's perspective, are presented. Next, the research design used to examine the proposed relationships between franchisor strategy and multiple unit franchising is described, prior to reporting the results and discussing the findings. Finally theoretical and practical implications for franchisors and academicians are extracted from the results and recommendations are made for future research opportunities.

Franchising Literature

The organizational choice literature explains an entrepreneur's choice of the franchising channel of distribution as a method of promoting system growth through acquiring scarce resources, promoting efficiency and minimizing agency-related expenses (Michael, 1996). Resource constraints, efficiency and agency rationales have evolved from discussions centring upon advantages associated with company-owned and franchising expansion. As multiple unit franchising arrangements represent a hybrid mix of franchising and company ownership, consideration of these rationales for organizational choice provides a valuable context from which to develop this study.

The hypothesis that franchising is motivated by the franchisor's lack of financial capital is among the earliest explanations for franchising (Oxenfeldt and Kelly, 1968–9; Ozanne and Hunt, 1971). According to this capital market imperfection argument the franchisor is able to reduce risk and secure capital at lower cost by enlisting franchisees than through eliciting investment from other sources. Franchising is viewed as a temporary growth strategy, with franchisors favouring company expansion once they have access to sufficient amounts of capital (Carney and Gedajlovic, 1991; Oxenfeldt and Kelly, 1968–9). This 'ownership redirection' strategy posits that franchisors will only allow franchisees to retain less profitable or geographically remote units due to monitoring concerns (Caves and Murphy, 1976).

Research in the USA has provided varying levels of empirical support for the resource constraints rationale (Castrogiovanni et al., 2006). While early research showed an aggregate trend toward company-controlled units in more mature franchise systems, these studies have been criticized for not showing causation, or taking into account the impact of new unit development (Anderson, 1984; Caves and Murphy, 1976; Hunt, 1973). Later research shows a growth in company ownership in maturing systems (Thomas et al., 1990), and indicates the importance of capital acquisition in newly established franchises (Sen, 1993), but does not offer a concrete justification for franchising adoption given the availability of cheaper sources of capital (Rubin, 1978). Consequently, other research suggests that franchising is more aptly perceived as an efficient method of accessing scale economies while minimizing agency-related problems (Brickley and Dark, 1987; Lafontaine, 1992).

'Efficiency arguments' suggest that franchising networks are efficient governance structures promoting scale economies of production, coordination and promotion (Caves and Murphy, 1976). Franchisors attempt to realize these economies by encouraging franchisees to buy products from them on the basis of quality and competitive pricing. Promotional economies result from the centralization of regional and national advertising functions promoting the franchise system brand name (Mathewson and Winter, 1985). In addition, coordination or operational efficiencies are promoted in franchising due to the linkage between a franchisee's remuneration and unit level performance. This minimizes shirking (Shane, 1996), although some monitoring and supervision is necessary to curb free-riding behaviours (Norton, 1988a). 'Agency theory' offers a conceptual framework that is less controversial than resource scarcity arguments and builds upon efficiency justifications (Rubin, 1978). Within the context of this theory, franchisors are said to adopt franchising

arrangements once the marginal costs of monitoring company-owned stores exceed the marginal costs of utilizing franchising agreements (Norton, 1988b).

Franchising allows franchisors to meet the need of maintaining consistent system-wide product quality (Rubin, 1978) while minimizing monitoring costs (McGuire and Matta, 2003). However, franchising is not an entirely efficient method of distribution. Costs deriving from free-riding franchisees, quasi-rent appropriations and under-investing franchisees reduce the agency benefits associated with franchising agreements (Brickley and Dark, 1987; Combs and Castrogiovanni, 1994; Kreuger, 1991). Therefore, franchisors must weigh the 'cost drivers' associated with monitoring employee behaviours, against the costs associated with franchising (Combs and Castrogiovanni, 1994).

Thus, agency theorists suggest that the decision to franchise is motivated by advantages gained by the superior service and operational performance of the franchisee rather than by the desire to gain capital through expansion. This rationale has received wide conceptual and empirical support (Brickley and Dark, 1987; Kreuger, 1991; Shane, 1998; Shelton, 1967), but has been criticized for the inappropriateness of a number of its key assumptions (for example Stanworth and Dandridge, 1994). In particular, not all firms have achieved significant brand value or uniform product quality as assumed by agency theorists (Carney and Gedajlovic, 1991). In addition, research suggests that agency theory neglects positive aspects of franchisee behaviour such as creative problem solving and innovation, focusing mainly upon minimizing dysfunctional franchisee behaviours (Carney and Gedajlovic, 1991). Also, agency theory assumes that the principal has unilateral control over the agent, which may not reflect the current power-sharing arrangements that we observe in many systems, particularly ones characterized by multiple unit ownership (Alon, 2001; Grunhagen and Mittelstaedt, 2002).

In an attempt to meet these criticisms and promote an explanatory synthesis of approaches, researchers have suggested the need to integrate resource scarcity, efficiency and agency rationales in explaining an entrepreneur's motivation to adopt single and multiple unit franchising arrangements (Carney and Gedajlovic, 1991; Combs and Castrogiovanni, 1994; Combs and Ketchen, 1999; Kaufmann and Dant, 1996). It appears that no one theory adequately explains the existence of multiple unit franchising, given its conceptual suboptimality in relation to efficient unit level monitoring, as managerial remuneration is not tied to unit performance (Garg et al., 2005). A review of the multiple unit franchising literature is now discussed.

Multiple Unit Franchising

The main empirical studies of the last 10 years borrow from resource constraint and agency arguments in finding that franchisee-owned mini chains are positively associated with rapid system-wide growth and adaptation necessitated by changes in the competitive marketplace (Bradach, 1995; Grunhagen and Mittelstaedt, 2002; Kaufmann and Stanworth, 1995). Early exploratory research suggested that this type of expansion was favoured by older and more experienced franchisors seeking operational advantages through minimizing free-riding behaviours, and reducing recruitment and training expenses (Kaufmann, 1992; Robicheaux et al., 1994). Although the growth in unit holdings may promote unit level performance decay

and hamper unit-level innovation, franchisors are said to perceive greater future gains from subsystem economies rather than unit-level efficiencies (Bradach, 1995; Kaufmann, 1992). However, as later empirical studies confirm, capital acquisition may override or at least shoulder agency considerations (Kaufmann and Dant, 1996).

Apart from capital, efficiency and agency arguments, research in the USA suggests that multiple unit franchising may be used by franchisors as a strategic competitive device. In particular, the sale of contiguous units to franchisees may make franchisors 'soft' to their rivals through delegating price decisions to franchisees and reducing resultant upstream price competition (Kalnins and Lafontaine, 1999; Kusa, 1989). While this research offers an additional (system-level) strategic dimension to franchising analysis, it appears to be inconsistent with what is observed in practice. For example, some franchisors discourage the ownership of units in neighbouring territories as this reduces intra-system competition between franchisees (Bolton, 2002). Thus, previous research may not be entirely suited to the peculiarities of the Australian franchising environment, which has some prior justification in the literature (Frazer, 2000). For example, the relatively small Australian population of 20m supports some 850 business format franchise systems (Frazer and Weaven, 2004), which is a much greater density of franchising than both the more mature US and UK sectors. Australian franchising is also regulated at a federal government level, making the sector unique. Keeping these distinct characteristics in mind, the discussion nevertheless provides a basis for examining the strategic motives for multiple unit franchising adoption from the perspective of the franchisor. General propositions are presented next.

Proposition Development

Ownership Redirection

Although there is empirical justification of the capital redirection hypothesis within the single unit framework, no consensus of opinion exists within the scope of franchisee-owned chain organizations. Resource scarcity researchers postulate that only less profitable franchised units will remain independent of the franchisor's control after the firm has sufficient available resources. While there is some evidence that institutional investors such as Pepsico Ltd sought an advantage in extending company ownership through the ownership of Pizza Hut franchises in Australia, a recent strategy reversal (Rudnitsky, 1995) supports capital acquisition (and retention) arguments, but not the capital redirection hypothesis. Although conceptually one could presume that the transitional costs of converting mini-chain units to company ownership would be less than those associated with the conversion of a number of single units, the empirical evidence is unclear as to the validity of this presumption. While many mature systems encourage multiple unit ownership (Robicheaux et al., 1994), anecdotal comment supports the reacquisition of profitable units in at least some local systems (Meij, 2002). Although this issue has not been directly addressed, some earlier work asserts that master franchising systems may provide opportunities for company buy-backs (Zeller et al., 1980). Thus it is proposed that:

P1: There is a positive relationship between multiple unit franchising and a franchisor's perception of the future buy-back potential of profitable units.

Agency Cost Minimization

While the repurchase of chain groups may offer the franchisor future economic advantages, a franchisor's adoption of multiple unit arrangements may be driven by additional agency cost motivational incentives. While single unit owner-operators may have an incentive to free ride on the firm's brand name value, chain franchisees should have a disincentive to compromise product and service quality, as it would damage the value inherent within their own subsystem (Dant and Gundlach, 1998; Gal-Or, 1995). Chain franchisees are typically more sophisticated businesspeople (Szabo, 1999) that may add value to the franchise system through leveraging their existing knowledge in areas such as staff recruitment and unit level supervision.

However, within the context of the single unit franchising literature, suboptimal behaviours in systems characterized by physically dispersed units are said to be most effectively minimized by ensuring ownership attention at the unit level (for example Brickley and Dark, 1987; Combs and Ketchen, 2003). As franchisee-owned mini-chains require employee managers, one would assume that these organizational forms would incur higher monitoring expenses. From a transaction cost economics perspective, this would equate to higher *ex post* costs. However, *ex ante* costs linked to franchisee selection should be minimized. As franchisors in Australia and the USA favour granting multiple unit contracts to franchisees that have demonstrated satisfactory single unit operation in the system (Bercovitz, 2004a; Frazer and Weaven, 2004; Gonzalez, 1995) recruitment and ongoing training expenses should be minimized. Furthermore, this strategy should encourage the selection of highly competent managers, further reducing the costs associated with ongoing unit-level monitoring. Therefore, providing that past competencies are an accurate measure of future performance, franchisors may be able to use multiple unit franchising as a method of minimizing both *ex ante* and *ex post* agency costs. However, this contention has not receive unanimous support in the literature (Bercovitz, 2004b; Kaufmann and Dant, 1996) and has not been investigated within the Australian context. Therefore, the following proposition is posed.

P2: There is a positive relationship between multiple unit franchising and a franchisor's perception of future agency cost minimization.

System-wide Adaptation

In order for a franchise network to grow and survive, it must adapt to competitive changes in the marketplace (Bradach, 1995). This is an increasingly difficult task in systems characterized by many geographically dispersed units (Bradach, 1997). However, chain franchisees may be more willing to concede to franchisor demands as their management issues resemble those of the franchisor (Dant and Gundlach, 1998). Operational consistency throughout the franchise system is necessary to promote the successful implementation and evaluation of new products and product extensions (Kaufmann and Ergolu, 1998).

Perhaps the ease and speed at which franchisors can institute new product and service deliverables impacts upon their decision to encourage chain ownership. In particular, multiple unit arrangements allow franchisors to economize on management costs associated with the implementation of adaptations (Bradach, 1995).

Although franchisors often have contractual rights to impose an adaptation upon franchisees, franchisees are generally invited to individually or collectively accept a proposed adaptation (Gassenheimer et al., 1996; Sorenson and Sorenson, 2001). The number of relationships that are managed by the parent franchisor during this process should be minimized with multiple unit ownership.

An additional advantage in dealing with larger franchisees may be in the financial capability of these multiple unit operators. Greater access to financial resources may allow franchisors to institute changes more readily, facilitating a proactive approach to changes in environments often characterized by diverse and dispersed market demand (Kaufmann and Ergolu, 1998). While the relationship between system-wide adaptation and multiple unit franchising has been examined within an exploratory study of five fast-food systems within the USA (Bradach, 1995), no examination has been conducted within Australia. In addition, the smaller size and age of local franchise systems (Frazer and Weaven, 2002) may inhibit agent and principal goal alignment and system uniformity (Baucus et al., 1996) necessary in ensuring the efficient execution of new product and service adaptations. Therefore it is proposed:

P3: There is a positive relationship between multiple unit franchising and system-wide adaptation to changes in the marketplace.

System Uniformity

Research in the USA suggests that the governance structure of franchisee-owned mini-chains tends to mimic franchisor operations (Dant and Nasr, 1998). Chain franchisees have higher levels of motivational investment in relationships with their principals and show strong levels of dependence upon the franchisor (Kaufmann and Dant, 1998). As franchisee holdings grow, multiple unit franchisees tend to act as small franchisors, spending less time in day-to-day operations, focusing instead upon strategic factors such as planning, coordination and building their subsystem brand (Dant and Nasr, 1998). While more powerful multiple unit franchisees may be given greater informal flexibility in the franchising partnership than single unit holders, they are unlikely to deviate from prescribed procedures as they appreciate the need for standardization within the franchising context (Garg et al., 2005).

Franchisors may view multiple unit franchising as a method of promoting goal alignment and consistency in production and distribution. Larger and more financial chain franchisees are more likely to concede to franchisor demands as their management issues and challenges are closer to the franchisor than single unit holders in the system. Compliance and continued franchisee investment from multiple unit holders may be perceived as a method of avoiding long-term concept degradation (Weaven, 2004). Although overseas research shows that multiple unit holders are more likely to conform to accepted protocols because they are less autonomous than their single unit counterparts (Dant and Nasr, 1998), smaller multiple unit holders in Australia may not invest in the control, performance evaluation and operations reporting schemes necessary for maintaining uniformity. In addition, there is evidence that some franchise systems limit multiple unit ownership due to concerns that larger franchisees will deviate from expected practices (Kaufmann

and Lafontaine, 1994). Due to the lack of consensus in the literature, the following proposition is presented.

P4: There is a positive relationship between multiple unit franchising and system uniformity.

Local Market Innovation

A fundamental tenet of franchising is that local market innovation (necessary to ensure survival in a dynamic economic environment) is supported through the co-location of knowledge and decision rights at the unit level (Jensen and Meckling, 1976). Franchisees possess an intimate knowledge of their market and are often encouraged to innovate in areas such as the creation and execution of local marketing initiatives and new product developments designed to support the system brand (Baucus et al., 1996). Although their operational independence is constrained by contractual provisions, many are nevertheless able to instigate strategies that are consistent with their preferences as contracts cannot cover all future contingencies (Clarkin and Rosa, 2005; Phan et al., 1996).

However, while multiple unit franchising may facilitate system standardization, research suggests that it may impede local market innovation and responsiveness (Bradach, 1998; Ingram, 1996). This is because franchisees become less familiar with local idiosyncratic demands of the market once their unit ownership levels grow (Kaufmann, 1992; Kaufmann and Dant, 1996). Specifically, employee innovative responsiveness may be constrained by the formalization of work practices (Kaufmann and Dant, 1998) and difficulties in structuring and supporting innovative activities (Block and MacMillan, 1993). This, in turn, may have a deleterious effect upon firm survival (Miller and Friesen, 1984). However, there is some evidence that multiple unit franchising may support intra-system communication, the speed of decision-making and local market responsiveness (Yin and Zajac, 2004). In addition, some franchisors will seek out entrepreneurial partners by enlisting multiple unit franchisees (Kaufmann and Dant, 1998). Furthermore, many franchisors within Australia actively recruit entrepreneurial franchisees so as to support local market innovation and adaptation (Franchising, 2001). Given the above disparity, it is proposed:

P5: There is a positive relationship between multiple unit franchising and local market innovation.

Franchisee Opportunism

The potential for franchisee opportunistic behaviours may be viewed by franchisors as a cost to future operational efficiency and profitability (Jambulingam and Nevin, 1999; Williamson, 1995). Researchers suggest that a franchisor's level of power is reduced as franchisees purchase additional units in the system (Grunhagen and Mittelstaedt, 2002; Lafontaine and Kaufmann, 1994). Should this increase in franchisee power have a negative effect upon the long-term management of the franchising system (such as mitigating a franchisor's ability to institute system-wide change) operational inefficiencies will result. Recent research suggests that some franchisees actively seek to grow their holdings so as to take advantage of a

countervailing power effect and improve their decision-making involvement in the franchise system (Grunhagen and Mittelstaedt, 2002). In support of this, anecdotal comment in the US reports that some large multiple unit franchisees are coercing franchisors to encourage smaller (existing) franchisees to sell their holdings to chain franchisees at prices that are below market value (Zarco and Einhorn, 1999). Apart from obvious public policy implications, this behaviour may be viewed as a divergence of single unit franchisee and parent franchisor goals resulting in potential franchisee dissatisfaction.

Hence, the level of chain franchisee power may have an adverse impact upon the management of the franchising relationship. Although research suggests that franchisors should ensure that powerful multiple unit franchisees do not use their influence to leverage their local market knowledge to damage the system through encouraging participation in guiding the corporate vision and strategic direction of the brand (Young, 2001), little is known about a franchisor's perception of the likelihood for franchisee opportunism as unit holdings increase. It is proposed that:

P6: There is a positive relationship between multiple unit franchising and a franchisor's perception of future chain franchisee opportunism.

Brand Value

Organizational brands are an integral part of a firm's marketing strategy and are valuable sources of differentiation (Keller, 1998; O'Cass and Grace, 2003). Research suggests that the value of a franchise system's brand is largely dependent upon the franchisor's ability to enforce contractual provisions that encourage the maintenance of uniform product and service standards (Pitt et al., 2003). This becomes increasingly difficult in systems characterized by widely dispersed geographic units (Azevedo and Silva, 2001). Previous research postulates that systems with higher valued brand names are more likely to encourage company ownership as this provides greater control over the final products and services (Combs et al., 2004; Lafontaine and Shaw, 2001). As the governance of multiple unit operations conceptually mirrors company ownership, franchisors may perceive franchisee subsystem growth as an efficient method of supporting the value of the system brand. Thus it is proposed that:

P7: There is a positive relationship between multiple unit franchising and the value of the franchise system brand.

Geographic Contiguity of Units

As many franchising systems incorporate a pool of both franchised and company-owned units, franchisors have already shown an ability to effectively utilize both input and output controls in minimizing agency-related expenses. While this is not achievable in pure residual claimancy models, its continued success will be dependent upon the spatial nature of the units within the system. One would assume that even if a multiple unit franchisee's goals were perfectly aligned with that of the franchisor, at some level of organizational complexity (geographic dispersion) (Hall, 1977), monitoring information would become inaccurate (Brickley and Dark, 1987). Therefore, assuming site availability, a franchisor would most likely favour sales

of contiguous units to a multiple unit franchisee. This would promote monitoring economies within the chain organization by reducing the geographical dispersion of franchisee units. Although this has been examined in the USA (Kalnins and Lafontaine, 1999, 2004), anecdotal comment suggests that Australian franchisors may be unwilling to sell units in close proximity due to competition issues (Bolton, 2002). In particular, the Vice President of McDonald's Australia believes that competition from neighbouring units promotes valuable customer service outcomes, further promoting system-wide profitability (Bolton, 2002). This view has some theoretical support in the economics literature (for example Baye et al., 1996). In an attempt to clarify this apparent contradiction in franchisor strategy it is posited that:

P8: There is a positive relationship between multiple unit franchising and the availability of geographically contiguous franchisee units.

Reward Strategy

Perhaps multiple unit arrangements allow franchisors to exert motivational control over franchisees wishing to expand sequentially or through area development agreements. For example, franchisees in Mail Boxes Etc. are only offered additional units or area development contracts after they have demonstrated their ability to successfully operate a single unit (Gonzalez, 1995). This may give franchisors leverage in the control of quality deviations that could result in performance decay and concept deterioration (Bercovitz, 2004a; Kaufmann, 1992; Kaufmann and Kim, 1995). As the franchisor's attainment of large-scale economies (production and promotion) is reliant upon the performance of the chain and single unit franchisee, methods of rewarding performance will have positive flow-on efficiency effects. The importance of this issue is established in recent franchising research which examines the relationships between system rewards, product innovation, entrepreneurial activity and maintaining a sustainable competitive advantage (for example Falbe et al., 1998; Hamel and Prahalad, 1996).

Previous research conducted in Australia posits that the local emphasis on sequential modes of expansion has been attributed to previous unit-level performance issues (Frazer and Weaven, 2002, 2004). For example, the McDonald's franchise favours granting additional units to franchisees who have demonstrated desired levels of accomplishment in service quality, site cleanliness and product delivery (Bolton, 2002). However, other evidence suggests that past performance does not impact on the sale of additional units to existing franchisees, as ' … success in one store does not necessarily equate to an ability to manage two or more outlets' (Wakefield, 2002: 1).

Although a recent survey in the USA identified 'reward for good/selected franchisees' as a primary reason for multiple unit franchising (IFA Educational Foundation, 2002: 12) in the USA, this relationship has not been empirically tested in Australia. However, it is reasonable to assume that the lure of multiple unit ownership would be beneficial in manipulating franchisee commitment to the system. In particular, competitive pressures should entice franchisors to reward able franchisees, in an attempt to promote internal franchisee satisfaction, ensure continual support, and minimize brand switching (Goldberg, 1999). This strategy

contributes to the success of the ongoing franchisor/franchisee relationship as it allows franchisors to pressure franchisees to align chain level incentives with that of the principal. However, recent research suggests that the relative power of this 'lever' will diminish as franchisees become increasingly powerful within the franchise system (Bradach, 1995; Zarco and Einhorn, 1999). Although there is no consensus in what is observed in practice, it is likely that franchisors will allocate multiple unit expansion opportunities to those franchisees that do not act opportunistically (Bercovitz, 2004a). This discussion gives rise to the following proposition.

P9: There is a positive relationship between multiple unit franchising and system reward strategies of granting additional units in the system.

Method

As little was known about multiple unit franchising arrangements in Australia (Weaven, 2006), an inductive (convergent interviewing) approach was adopted in this research to organize observable facts and develop theory that accurately reflects true practice (Adams and Schraneveldt, 1991; Gauzente, 2002; Kaufmann, 1996; Perren and Ram, 2004; Zikmund, 2003). Convergent interviewing is a technique that collects, analyses, and interprets information through the use of a limited number of in-depth interviews with selected experts in the field. Although the content sought from respondents is respondent driven (unstructured), the process itself is structured so as to encourage a 'series of successive approximations' (Bradach, 1995; Dick, 1990: 3) leading to consensus through the development and use of probe questions about important information where interviewee agreement or disagreement is tested.

Sample

Four issues were central in the sample selection process. First, respondents were chosen 'purposively' (Dick, 1990: 24) to provide *relevant* information about multiple unit franchising. Second, due to the sequential nature of this technique, it was particularly important for the researchers to choose an initial interviewee who was able to direct the researchers to other knowledgeable people within the franchising sector. With this in mind, the first person interviewed was from a service franchise network who had been actively involved in professional franchising bodies and private franchise networks (as a multiple unit franchisee and franchisor) for over 25 years. Third, franchisors with differing experience, size and industry were interviewed so as to ensure heterogeneity in the sample (Nair and Reige, 1995). Finally, during the course of the qualitative process a 'chain sampling' (Dick, 1990: 25) technique was employed in which each respondent was asked to direct the researcher to others' franchisors.

Consensus was reached with a sample of 23 respondents. The demographic characteristics of the sample are presented in Tables 1 and 2. Levels of agreement/disagreement with each proposition are detailed in Table 3. The interviewees were drawn from the service and retail sectors including retail food and non-food, accommodation, cafes and restaurants, personal services, property and business

services, manufacturing and printing, transport and storage, finance and insurance and education. The organizations ranged in size from 8 to 214 units and had been in operation between 3 and 19 years. The response rate was 100%, probably due to the importance of the issue and the method of interviewee selection through respondent recommendation. Each interview lasted between one and two-and-a-half hours in duration. The interviews were taped (with the interviewee's permission) and analysed manually.

Table 1. Demographic Statistics on Franchise Systems

Franchisor	*Industry Type*[a]	*Sales Aus$ 2002–2003*	*Total Units*	*Company Units*	*Franchised Units*	*Number of Years Franchising*	*Average Unit Sales Volume Aus$*
A	Personal services	3,230,000	85	2	83	12	57,600
B	Retail – food	54,938,000	73	4	69	10	752,575
C	Retail – non food	24,000,000	100	3	97	15	240,000
D	Property and business services	1,176,000	12	3	9	6	98,000
E	Retail – non food	1,326,000	13	1	12	8	228,000
F	Accommodation, cafes and restaurants	117,000,000	174	2	172	17	672,414
G	Retail – food	94,588,000	214	5	209	19	442,000
H	Retail – food	6,212,400	135	14	121	16	46,018
I	Accommodation, cafes and restaurants	9,000,000	78	4	74	15	115,385
J	Manufacturing and printing	3,455,129	34	3	31	7	101,621
K	Retail – food	1,222,000	24	5	19	9	50,916
L	Communication services	11,432,331	111	31	80	17	102,993
M	Transport and storage	6,200,000	61	13	48	14	101,639
N	Retail – food	121,664,000	196	14	182	19	620,734
O	Finance and insurance	1,700,545	9	2	7	3	188,949
P	Manufacturing and printing	23,000,000	81	12	69	10	283,951
Q	Accommodation, cafes and restaurants	4,233,019	17	3	14	6	249,001
R	Retail trade – food	986,500	8	1	7	5	123,312
S	Education	9,770,000	41	3	38	12	238,292
T	Accommodation, cafes and restaurants	N/A	112	14	98	17	N/A
U	Retail trade – non food	24,000,125	40	29	11	4	600,003
V	Retail trade – food	845,000	9	3	6	3	93,888
W	Retail trade – food	10,000,000	40	12	28	9	250,000

Note: [a]Based on Australian & New Zealand Standard Industry Classification (ANZSIC), Australian Bureau of Statistics, 1993.

Table 2. Demographic Statistics of Franchise Arrangements

Franchisor	*Number of Franchised Units*	*Number of Franchisees*	*Size of Largest Franchisee*	*Number of Single Unit Franchisees*
A	83	66	4	55
B	69	60	2	51
C	97	93	3	89
D	7	3	5	2
E	12	4	8	2
F	172	154	3	144
G	209	180	6	185
H	121	103	4	94
I	74	69	3	67
J	31	26	4	25
K	19	14	4	11
L	80	72	5	68
M	48	45	2	42
N	182	178	2	176
O	7	6	2	5
P	69	58	3	54
Q	14	12	3	11
R	7	3	3	0
S	38	34	2	30
T	98	89	3	85
U	11	10	2	10
V	6	5	2	4
W	28	20	4	16

Results

Ownership Redirection (P1)

P1 (ownership redirection) *did not* receive majority support. Most of the interviewees agreed that they did not endorse a policy of unit re-acquisition except in cases of unit underperformance or at the behest of franchisees wishing to leave the system. For example:

> I wouldn't just endorse a multi-unit policy so I could buy-back the units once they were profitable … that could be seen as unethical behaviour and harm our reputation and get us delisted

and,

> … I don't see how that would send the right message to our licensees. We don't encourage multi-unit ownership just for the short term.

However, two franchisors from the retail food and personal services industries suggested that the repurchase of profitable units was accepted policy in their industry. The following comment is indicative of these responses.

> Master franchising was a good vehicle for us twelve years ago when we entered the Australian market. But with the new disclosure requirements we're buying-back most of the units

> from our 'national masters'. Most of the regional units will remain franchised because it won't necessarily be economically viable for us to run them.

Agency Cost Minimization (P2)

The proposition regarding expected agency cost minimization (P2) was *supported* by most franchisor respondents. Most interviewees indicated that multiple unit franchising afforded cost savings in the creation and management of the franchising relationship. Importantly, during the course of each interview, many respondents indicated that they had expected to accrue these savings and efficiencies prior to first allowing multiple unit ownership in their systems. Most interviewees required franchisees to demonstrate a proven track record of performance in their systems prior to being granted additional franchise units. By encouraging sequential expansion, recruitment and selection, training and site selection costs were minimized. Also, a majority of franchisors identified that multiple unit ownership improved franchisee commitment and performance as they did not have unrealistic or conflicting expectations. For instance:

> It is definitely a cheaper process … that's why we sometimes offer a concession on the franchise fees … we don't have to train them in the ins-and-outs of the business, and they generally have experience in understanding what is required to make the franchises profitable.

However, six franchisors had experienced problems associated with misdirected effort at the unit level, suggesting that operational problems were harder to rectify in multiple unit subsystems than in single unit outlets because of the nature of the power relationship between the chain franchisee and parent franchisor. For instance:

> … they can't control operations as well as a guy who owns one unit … we had one instance where we heard that managers [in a mini-chain] were producing and posting additional recipes in their three stores … it got extremely messy … it wasn't part of our system and it wasn't adding value to their stores or our business. Even though we brought it to the franchisee's attention, he didn't feel that he had to do anything about it. He believed it was our responsibility. In the end we had to send his personnel on a training camp. This fixed the problem …

Furthermore,

> The biggest problem is in ensuring that our multi-unit franchisees don't send mixed messages about our concept in their local community promotions. There is a type of 'marketing-myopia' focusing on their consultancies … rather than our system brand. Our area reps are constantly monitoring their communications to ensure consistent outcomes.

More than half of the franchisor respondents indicated that multi-unit franchisees encouraged the maintenance of system standards and were less likely to engage in free-riding behaviours. For example:

> They [multiple unit franchisees] have more to lose and they know that if they see a reduction in quality, they will damage the brand and more importantly to them, damage their own business.

System-wide Adaptation (P3)

The system-wide adaptation proposition (P3) *was not* supported. All respondents encouraged quick adaptations in response to changes in the competitive environment so as to meet customer needs and maintain the value of their trademark. Just under half of the respondents agreed that multiple unit structures improved communication between franchisees and the franchisor, and that this assisted in facilitating rapid compliance with franchisor-directed system-wide changes. The following comment is indicative of these responses.

> Most of our larger franchisees follow our guidelines and maintain close relationships with our field team and franchise development manager. They also have high levels of communication with their staff, their customers and their suppliers which makes it easier for us to discuss and implement product additions. They don't generally have the 'them and us' mentality and will spend to invest in the concept.

However, a (slight) majority of respondents believed that multiple unit franchising arrangements did not facilitate system-wide adaptations. For example:

> … they talk to us regularly, but that doesn't mean they want to change anything. Most often they are happy with the system and see any change as a cost to their future profitability …

Furthermore,

> … they think they are something special. They don't play by the same rules once they buy another territory. Last month we almost 'came top blows' with our largest franchisee in Queensland. She wouldn't change her letterhead, signage or uniforms on time for our national campaign launch. She just wasn't supportive of our re-branding strategy.

Moreover, one respondent suggested that it is often more difficult to convince multiple unit operators to adopt an adaptation due to the larger financial investment that is required:

> … we instructed all franchisees to repaint our cars … it was the multi-territory operator that proved to be the most difficult because of the expense of re-painting eight cars.

System Uniformity (P4)

P4 received *unanimous* support. In particular, all interviewees felt that multi-unit franchisees maintained higher levels of investment in their units and were more likely to use the same management practices, performance evaluation and operations reporting schemes. This ensured standardization of service and product delivery within their subsystem, which is necessary for future expansion within the system. For example,:

> … even though we assume the compliance role, we found out pretty quickly that our [multiple unit] operators are a lot like us. They copy our established processes and have the financial backing to support changes … this means that when we introduce new services, such as our free computerised … diagnostic system, they introduced these … quickly … this saves us money because it saves us … time.

Local Market Innovation (P5)

However, the relationship between local market innovation and multiple unit franchising (P5) *did not* receive majority support. In particular, most respondents believed that single unit owners were more effective in responding to local conditions, lending support to early agency arguments (for example, Jensen and Meckling, 1976). For instance:

> our [single unit] franchisees have the time to assess changes in our competition's products and pricing, so we don't even have to send around scouts in those areas anymore.

and,

> Multiple unit franchisees are too busy managing their group. They often miss opportunities, like a [competitor's] recent move into generic batteries. If we had known about this earlier, we could have developed supplier and price changes … we may talk a lot more [with multiple unit franchisees], but it's mostly about training and supervision, not local market initiatives.

Some franchisor respondents saw a multiple unit holder's lack of local market knowledge as being responsible for unit-level performance decay. For instance:

> Early on we had a noticeable fall in productivity in some units … the store managers weren't listening to what was being said on the street, or at least they were not telling their [multiple unit] franchisees, so we didn't know about all the regional specials offered by our competitors … now we get our reps to fill that role.

And,

> We're never signing an area development agreement again. He had no idea of how to manage his group. Even though he had experience in the health industry in Sydney, he wasn't good with communicating with his staff and didn't find out how to manage the intricacies of marketing each territory. All of his units are under-performing …

Franchisee Opportunism (P6)

The potential for franchisee opportunism was not seen as a significant consideration by franchisor respondents. Only one franchisor stated that multiple unit owners had acted opportunistically in attempting to coerce the franchisor into selling new territories at a concessional rate. For instance 'Our largest operator did try to pressure us to sell new areas…at a value that was well below the market'. The following comments are indicative of franchisor responses.

> … our multi-site operators don't have a privileged power position in our system. They are entitled to one vote, the same as every other operator.

And,

> I've never heard of it happening. In any case, I don't see how it would be possible given the Code of Conduct provisions, Fair Trading and the terms of the franchise agreement.

Therefore, P6 was *not* supported.

Brand Value (P7)

The proposed relationship between multiple unit franchising and the value of the franchise system brand (P7) received *strong* support. A majority of the interviewees agreed that company ownership, and to a (marginally) lesser extent multiple unit ownership was beneficial in meeting compliance and system standardization needs. For instance:

> We have over 12 multiple unit franchisees that are focused on building their own brand within the units that they manage … their growth supports our company brand. Why wouldn't we encourage that kind of result?

Furthermore,

> We have retained around 10 percent of our units as company-owned. This is important in testing new espresso lines and bakery items which is an integral part of our existing brand equity. Everyone's aware that our brand stands for innovation and consistent quality. Our multi-unit owners follow these same standards better than many of our owner-operators. This … supports the value and sustainability of our brand in food retailing.

However, one respondent reported that he had not engaged in multiple unit franchising because it was perceived as an easier method of supporting or building their brand equity. In particular, this respondent suggested that single unit and multiple unit holders were just as effective in maintaining systems and processes because the concept was tightly regulated by contractual and training manual provisions. However, this respondent suggested that he had a fairly weak brand value due to being a new entrant into the personal services industry. The need for standardization early in the company life cycle was less important. Instead he actively recruited highly autonomous franchisees and encouraged operational flexibility to allow rapid adaptations to changes in the promotional activities of his competitors.

Geographic Contiguity of Units (P8)

The geographical contiguity proposition (P8) was *strongly* supported by the interviewees. Most franchisors favoured granting additional units that were in close proximity to existing franchisee units as it cut travelling time and facilitated the regular management of stores by the multi-unit franchisee. In addition, most respondents suggested that it provided an incentive for multiple unit franchisees to maintain service and quality standards in the chain and was essential in maintaining mini-chain profitability. However, there was no consensus of opinion on what constituted 'close proximity'. Three respondents agreed that multiple unit holders are able to manage units effectively if they reside within the same city. For example:

> They can't manage stores if they aren't there at least twice a week … they need to ensure consistency in delivery and that only happens if they are regularly serving customers and telling their managers what they know … so if they had stores state-wide it wouldn't be deemed as an effective relationship … it has really only worked in the same city …

Furthermore, three respondents suggested that franchisor expansion is only favoured in neighbouring suburbs. In contrast, another respondent favoured granting

additional units to franchisees within smaller territories so as to maintain the existing franchising relationship. For instance:

> We have a number of multi-unit franchisees in the same shopping centres … It makes sense to allow franchisees to expand in their own shopping centres; it's a lot like petrol stations having a protected region of 1000 metres, only we talk about 200 metres or so. It wouldn't work to let others in … we could you know, but it wouldn't promote harmony within the system.

Three respondents raised a strategic motive for not allowing sequential expansion within neighbouring territories. The following comment is indicative of these responses.

> Okay, I'll let a developer take over a large territory, because he's paid me a lot of dollars and is committed to getting his return on investment … that promotes our brand … but if a single operator wants more stores, I won't sell him a store next door, because he won't try as hard … there is no reason to compete with yourself.

Reward Strategy (P9)

The reward strategy proposition (P9) *was* supported by most franchisor respondents. Multiple unit ownership was perceived as a method of gaining leverage over future franchisee performance through allowing or prohibiting franchisee expansion within the system. For instance:

> We always allow our franchisees to buy new units if they show us they are capable … its all about managing our partnership and allowing our team to grow is the best way to ensure franchisee satisfaction.

Similarly, 'although we base each store sale on the same criteria, we are still focused upon the long term expansionary goals of our successful franchisees'. In addition, most interviewees believed that by offering the franchisees the opportunity to expand operations through the granting of additional units in the system, potential multiple unit franchisees would be more inclined to join their franchise. For instance:

> Our strategy is to be seen as offering these advantages to any new entrants … they will only join us if they think that they can expand, grow and prosper … It just doesn't attract the owner-operator who wants another franchise in two years, it brings in the area managers and master franchisees … Apart from anything else it ties them into renewing the franchise agreement in five years' time.

However, one interviewee disagreed, suggesting that:

> We don't just reward performance in one unit … Just because they make money with one, doesn't mean they can make money with two unless they prove to us that they are capable of being a multi-unit operator.

Discussion

The model explaining strategic antecedents to multiple unit franchising adoption (from the franchisor's perspective) comprehensively integrated aspects from the parent disciplines of resource scarcity, efficiency theory and agency theory together

Table 3. Results from Convergent Interviews

	Proposition	Agree (%)	Disagree (%)	Neutral (%)	Support (%)
1	*There is a positive relationship between multiple unit franchising and a franchisor's perception of the future buy-back potential of profitable units.*	8.3	79.2	12.5	×
2	*There is a positive relationship between multiple unit franchising and a franchisor's perception of future agency cost minimisation.*	70.8	25	4.2	✓
3	*There is a positive relationship between multiple unit franchising and system-wide adaptation to changes in the marketplace.*	37.5	50	12.5	×
4	*There is a positive relationship between multiple unit franchising and system uniformity.*	100			✓
5	*There is a positive relationship between multiple unit franchising and local market innovation.*	12.5	79.2	8.3	×
6	*There is a positive relationship between multiple unit franchising and a franchisor's perception of future chain franchisee opportunism.*	4.2	91.6	4.2	×
7	*There is a positive relationship between multiple unit franchising and the value of the franchise system brand.*	87.5	4.2	8.3	✓
8	*There is a positive relationship between multiple unit franchising and the availability of geographically contiguous franchisee units.*	79.2	12.5	8.3	✓
9	*There is a positive relationship between multiple unit franchising and system reward strategies of granting additional units in the system.*	75	4.2	20.8	✓

with exploratory, empirical and conceptual research conducted in the immediate discipline of multiple unit franchising. Five of the propositions were supported in this initial study, as shown in Figure 1, now lending themselves to greater scrutiny. Possible reasons for the results are presented.

The large lack of support shown for the ownership redirection hypothesis (P1) suggests that these franchisors are not using multiple unit arrangements as a strategic method of reacquiring profitable units as earlier research suggests (Zeller et al., 1980). Perhaps multiple unit ownership offers systemic advantages over single unit ownership contributing to higher system growth rates and unit profitability (Kaufmann and Dant, 1996; Shane, 1996). Should a franchisor's profitability be linked to the growth in unit profitability occasioned by contracts containing provisions for variable royalty rates, then the maintenance of these franchising relationships seems feasible and logical (Caves and Murphy, 1976; Pizanti and Lerner, 2003). The

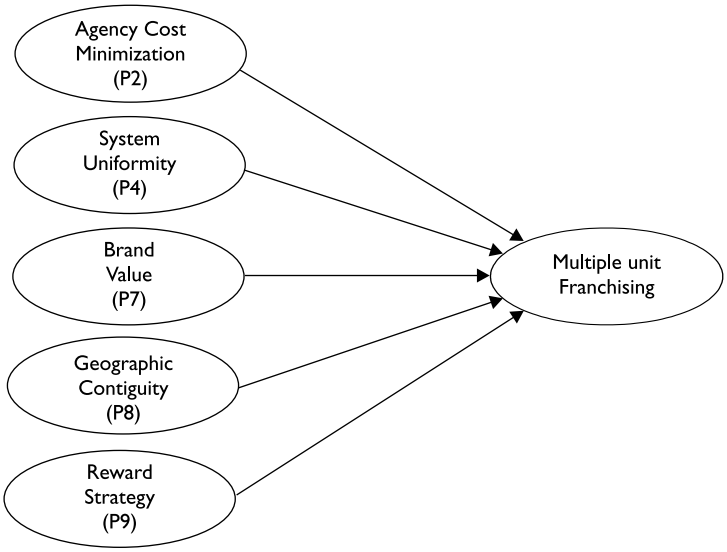

Figure 1. Confirmed Model of Strategic Motivational Incentives to Adopt Multiple Unit Franchising

close incentives alignment of chain franchisee and franchisor may negate the reasoning behind a re-acquisition strategy as this would have minimal impact upon the maintenance of system uniformity and franchise system brand value.

The strong support shown for the agency cost proposition (P2) was not entirely unexpected given that franchisors in Australia favour sequential modes of expansion (Frazer and Weaven, 2004). By converting successful franchisees into multi-unit holders, franchisors were able to leverage existing competencies and minimize the deleterious effects of misdirected and suboptimal effort, and dissatisfaction arising from unrealistic franchisee expectations (that may arise with new entrants into the system). In addition, the opportunity for expansion was used as a method of controlling the future performance of existing franchisees, which appears consistent with overseas findings (Bradach, 1995). In particular, franchisors appear to use the threat of loss of potential downstream rents to minimize franchisee-initiated opportunistic behaviours (Bercovitz, 2004a). Consistent with previous research, there was some evidence that multiple unit franchising promoted unit-level performance decay (Kaufmann, 1992), possibly due to the specific managerial issues faced by the system in question.

The discussions with franchisors suggest that system uniformity (P4), and brand value (P7), are promoted through multiple unit ownership, consistent with previous multiple unit research (Dant and Gundlach, 1998), but inconsistent with agency theoretic arguments explaining franchising choice within the single unit context (Michael, 1999). Chain franchisees appear to face the same managerial challenges faced by their principals, and are therefore more likely to adhere to prescribed systems, standards and practices, as they have a greater motivational investment in the franchising relationship than single unit owners (Garg et al., 2005). However,

the interviews revealed that this alignment of incentives does not necessarily equate with a chain franchisee's willingness to comply with system adaptations (P3), which contrasts with overseas research (Bradach, 1995). Perhaps these Australian franchisors see an advantage in promoting chain ownership as it is an efficient method of building both subsystem and system brand value that is necessary to encourage future investment (African Development Bank, 2002). Although larger franchisees in the USA may use their privileged power position to coerce concessions from their franchisors (Zarco and Einhorn, 1999), this was not evident in the current sample. In fact, franchisors did not perceive any threat of franchisee opportunism (P6) in multiple unit arrangements. However, this may be a size-related issue (Grunhagen and Mittelstaedt, 2002) and the small number of units held within mini-chains in Australia may prohibit such actions.

Consistent with previous findings, franchisors viewed chain franchisees as less innovative and locally responsive (P5) (Bradach, 1995). Similar to company-owned operations, mini-chains were far more suited to maintaining product and service quality, and procedural control rather than intrapreneurial activities centring on local market initiatives. Franchisors suggested that the addition of an extra layer of management imposes informational costs on the enterprise. So, although asymmetric exchange of information is minimized between the chain franchisee and franchisor, it is more likely to be problematic within the chain subsystem itself. These results seem surprising in that the close geographical proximity of franchisee-owned mini-chains should promote communication and the transfer of tacit knowledge throughout the franchisee-owned subsystem (Kalnins and Mayer, 2004).

Generally, franchisors perceived that the loss of local market responsiveness was a cost to the franchise system and most respondents believed that future alterations to governance practices would foster closer relationships between unit-level management, chain franchisees and store managers in the longer term. However, a small minority of respondents indicated that they encouraged franchisees to strictly adhere to head office directives and believed that local market flexibility often resulted in quality deviations and intra-system conflict (Hoy, 1994; Tuunanen and Hyrsky, 2001). Typically, these franchisors owned small systems and perceived multiple unit arrangements as a method of attaining rapid growth and first mover advantages. Commonly, their strategy was to minimize the potential for future conflict through recruiting inexperienced franchisees that were dependent upon the parent franchisor's guidance especially in areas concerning outlet administration and future product and service additions. Competitive pre-emption and knowledge-based advantage has some support in the single unit literature (Michael, 2000, 2003). Future research should investigate these risk reduction strategies in relation to multiple unit operation and system performance (Clarkin and Rosa, 2005).

In this article a positive relationship between the geographic proximity of franchised units and the use of multiple unit franchising strategies was proposed (P8). The results are consistent with previous overseas research (Kalnins and Lafontaine, 2004; Kaufmann and Lafontaine, 1994). Franchisors appear to encourage the sale of geographically contiguous units that share market boundaries and exist within homogeneous demographic contexts. Apart from reducing costs associated with monitoring geographically dispersed units, this strategy may assist in coordinating

local market pricing, advertising and product quality (Kalnins and Lafontaine, 2004). While data concerning issues of reduced intra-system competition with the sale of contiguous units was anticipated (Bolton, 2002), no evidence was provided in support of this contention. Similarly, no consensus was reached as to what constituted 'close proximity of units' suggesting the need for further analysis in this area. Instead the data suggests that franchisors may encourage the ownership of multiple units within areas characterized by similar consumer tastes, preferences and consumer demographics, so as to reduce the costs of monitoring and minimize future vertical agency problems arising from intra-network competition (Combs et al., 2004; Michael, 2000).

A positive relationship between system reward strategies (P9) that involve the granting of additional units and multiple unit franchising received strong qualitative support. The interviews reveal that reward strategies are important motivators of franchisee performance that have positive flow-on effects in product innovation, entrepreneurial activity within the system, and in maintaining a sustainable competitive advantage (Falbe et al., 1998; IFA Educational Foundation, 2002). This result supports the view that multiple unit franchising acts as a self-enforcement mechanism that assists in encouraging compliance through minimizing franchisee opportunism (Bercovitz, 2004a). Furthermore, it was viewed as a mechanism for maximizing unit performance, retaining competent franchisees and signalling available growth potential to new investors wishing to enter the franchise system.

Future Directions

The exploratory nature and design of this study imposed certain limitations. As this study was conducted using a realist paradigm (Perry and Coote, 1994) and qualitative methodology, analytical, and not statistical generalization may be claimed (Johnson, 1997). Future research may provide support for the present study through use of a positivist, deductive approach. In addition, sectoral differences between Australia and the franchising sectors in other countries may be responsible for different rates of multiple unit franchising adoption, making international comparisons difficult. For instance, much of the growth in multiple unit franchising arrangements in the USA is largely attributed to capital accessibility through institutional investment, which is only recently showing signs of acceptance in Australia (Giles and Young, 2001).

Overall, the findings from this exploratory research have important implications for the development of a rigorous theory on strategic motivational incentives (Stanworth et al., 2004) to adopt multiple unit franchising arrangements from the perspective of the franchisor. The propositions developed in this preliminary stage on a small sample of franchisors should be tested on a large sample for confirmation of findings.

Indeed, the paucity of prior research concerned with multiple unit franchising adoption appears at odds with the popularity of this expansionary strategy, and signals that there is a significant potential for future research in this area. This study has effectively used elements of existing capital, efficiency and agency rationales governing a franchisor's choice to endorse growth in franchisee-owned mini-chains.

It is suggested that similar studies could be conducted into the motivational incentives governing the selection of alternative expansionary strategies such as multiple concept arrangements. In addition, factors influencing a franchisee's decision to enter multiple unit and multiple concept arrangements may prove of interest to both theorists and practitioners. Through investigating franchise motivational incentives to enter multiple unit arrangements, franchisors should be able to better adjust promotional marketing campaigns and ongoing management techniques so as minimize systemic costs associated with the lack of franchisee investment and franchising relationship conflict.

Conclusion

In conclusion, this study has contributed to our understanding of multiple unit franchising adoption within the Australian franchising sector. Contrary to what is suggested in the franchising literature, there was no evidence that franchisors were using multiple unit expansion to minimize switching costs associated with an ownership redirection strategy. Instead the motives for encouraging franchisee-owned subsystem development were mainly related to performance issues, and specifically the expected minimization of agency costs associated with the screening and recruitment of external franchisee candidates, compliance, maintenance of system-wide uniformity and unit level monitoring. A common theme was that franchisors equated multiple unit franchising as an effective managerial arrangement that supported the brand name value and profitability of the franchise network.

This research revealed that multiple unit structures were less effective in promoting system-wide adaptations, than single unit arrangements. Specifically, it was often difficult and time consuming for franchisors to convince multiple unit holders to adopt an adaptation. This suggests that franchisor and chain franchisee goals are not perfectly aligned and may signal the possibility that multiple unit ownership may curtail adaptation necessary to maintain the brand value of the franchise in the longer term. Although not explicitly recognized by respondent franchisors, these chain franchisees may be acting opportunistically in using their greater levels of operational autonomy to coerce concessions (in the form of non-compliance with system-wide adaptations) from their principals. More information as to the moderating effects of industry type, subsystem size, the level of financial contribution and the time required to institute adaptations is needed to shed some light in this area.

While subsystem growth was viewed by franchisors as a lever to promote (and reward) operational efficiency, the interviews revealed that even small franchisee-owned subsystems evident within the Australian sector, inhibit local market innovation and responsiveness. Thus multiple unit arrangements are not entirely efficient formats. Perhaps chain franchisees are inexperienced in managing multiple units or are misrepresenting their managerial skills and abilities (Hoffman and Preble, 2003; Shane, 1998). Franchisors may need to provide initiatives that will minimize information asymmetry between chain franchisee and unit level management within the subsystem network. Another consideration may be the speed at which franchisees are permitted to accumulate additional units. If a franchise subsystem grows too quickly, difficulties may be experienced in correctly establishing

set procedures governing the employment of suitable unit-level managers and establishing workable channels of communication (Stanworth and Purdy, 1994; Stanworth et al., 2001). Perhaps the franchisor's willingness to reduce organizational complexity through the sale of contiguous units may promote a closer working relationship between chain franchisees and management. However, a clearer measurement of unit proximity and its relationship to tacit knowledge transfer, local market responsiveness and unit performance is needed.

In summary, this preliminary study used in-depth interviews with franchisors to reveal their motivations for adopting multiple unit franchising arrangements. Such rich and penetrating data is a necessary starting point for exploring such issues and it has provided us with a unique franchisor perspective prior to embarking on a future empirical analysis.

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Expansion à travers le franchisage exclusif multiple

Les franchiseurs australiens révèlent leurs motivations

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Dans cet article nous explorons les raisons stratégiques justifiant l'émergence récente d'accords de concession exclusifs multiples en Australie, du point de vue de franchiseur. Élargissant les limites financières, le rendement et les motifs fondamentaux de l'agence qui expliquent le choix organisationnel, la présente étude suggère que les franchiseurs encouragent le développement du sous-système des franchisés pour la simple raison qu'il offre des avantages en termes stratégiques, opérationnels et de performance. Est soulignée dans cet article l'importance que revêtent les dimensions, au nombre desquelles la minimisation des coûts d'agence, l'uniformité au niveau du système, la valeur de la marque du système de franchisage, les stratégies rémunératoires, et la proximité (géographique) des sous-systèmes et la concurrence entre lesdits systèmes. Quant aux éléments de moindre importance, citons une nouvelle direction de la propriété, l'adaptabilité du système, l'innovation du marché local et les motifs de l'opportunisme des franchisés. Compte tenu de la nature exploratoire de cette étude, nous avons conduit des entrevues approfondies auprès de 23 franchiseurs, ce qui nous a permis de recueillir les informations nécessaires. Les constats préliminaires de cette étude font ressortir des implications précieuses pour les théoriciens et les spécialistes du franchisage, tout en constituant une plate-forme ouverte à de futures recherches pour mieux comprendre les accords de concessions exclusifs multiples.

Mots clés: coûts d'agence; Australie; élargissement; franchisage exclusif multiple; opportunisme; récompense; uniformité du système

Expansión a través de la franquicia múltiple

Los franquiciatarios australianos revelan sus motivaciones

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En este artículo se exploran las razones estratégicas que justifican el surgimiento reciente de los acuerdos de concesión comercial dentro de Australia desde la perspectiva del franquiciatario. Al extender las restricciones de recursos, el rendimiento y las razones fundamentales de la agencia que explican la elección organizativa, el presente estudio indica que los franquiciatarios fomentan el desarrollo del subsistema de franquiciadores ya que ofrece ventajas estratégicas, operacionales y de ejecución. Se demostró la importancia de las dimensiones, entre las que se incluyen la minimización de los gastos de agencia, uniformidad a nivel de sistema, valor de la marca del sistema de franquicia, estrategias remunerativas, proximidad (geográfica) de los subsistemas y competición entre sistemas. Los elementos menos importantes incluyen una nueva dirección de la propiedad, adaptabilidad del sistema, innovación del mercado local y los motivos de oportunismo de los franquiciadores. Dada la naturaleza exploratoria de esta investigación se llevaron a cabo entrevistas en profundidad con 23 franquiciatarios para recopilar datos. Las indicaciones preliminares de la investigación ofrecen conclusiones

importante para los teóricos y practicantes de la franquicia y, proporcionan, además, una plataforma para el desarrollo de futuras investigaciones para el mejor entendimiento de los acuerdos de franquicia múltiple.

Palabras clave: gastos de agencia; Australia; expansión; franquicia múltiple; oportunismo; remuneraciones; uniformidad del sistema

Expansion durch Mehrfach-Franchising

Australische Franchisegeber erklären ihre Motivationen

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In diesem Artikel erkunden wir die strategischen Gründe aus Sicht der Franchisegeber für das Mehrfach-Franchising, das in letzter Zeit in Australien in Erscheinung getreten ist. Zusätzlich zu den Grundprinzipien wie Ressourcenbeschränkungen, Effizienz und das Filial-System, die Unternehmensentscheidungen erklären, verweist die vorliegende Studie darauf, dass Franchisegeber die Entwicklung eines Franchisenehmer-Subsystems unterstützen, da es strategische, betriebliche und leistungsorientierte Vorteile bietet. Aspekte wie die Kostenminimierung für Filialen, systemweite Einheitlichkeit, Markenwert des Franchise-Systems, Belohnungsstrategien, geografische Nähe der einzelnen Einheiten im System sowie der Wettbewerb innerhalb des Systems wurden als wichtige Faktoren eingestuft. Weniger wichtige Elemente waren die Eigentümer-Neuausrichtung, Systemanpassungsfähigkeit, regionale Marktinnovationen und der Opportunismus der Franchisenehmer. Für diese Erkundungsstudie wurden Daten aus Tiefeninterviews mit 23 Franchisegebern gesammelt. Die vorläufigen Forschungsergebnisse bieten wichtige Schlussfolgerungen für Franchising-Theoretiker und -Fachleute, und sind außerdem eine Plattform, auf die zukünftige Studien aufbauen können, um Mehrfach-Franchising-Systeme besser verstehen zu können.

Schüsselwörter: Filialkosten; Australien; Expansion; Mehrfach-Franchising; Opportunismus; Belohnungen; Einheitlichkeit des Systems

通过多元特许经营进行扩张
——澳大利亚特许经营授权人的动机揭示

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在这篇文章中，我们从特许经营授权人的角度考察近期在澳大利亚出现的多元特许安排的战略原因。研究表明，只要特许经营商能提供战略、经营和绩效的有利条件，如突破资源约束、效率和代理理性解释的组织选择，特许经营授权人就会鼓励特许经营商子系统

的发展。有些因素如代理成本最小化、系统范围的一致性、特许系统的品牌价值、回报策略及子系统单元的（地理上）接近和系统内的竞争被发现很重要。不重要的因素包括：所有权的重新指定、系统的适应性、当地市场创新及特许经营商的机会主义动机。考虑到本研究的探索性质，与23位特许经营授权人的深度访谈数据被收集。初步的研究结果对特许经营理论者和实践者有重要的意义，而且，为未来进一步研究和理解多元特许安排提供了理论平台。

关键词：代理成本；澳大利亚；扩张；多元特许经营；机会主义；报酬；系统一致性