

**THE STRATEGIC OR NOT-SO STRATEGIC EVOLUTION OF FRANCHISE
OWNERSHIP PATTERNS – A STUDY OF OPTIMAL PROPORTIONS**

A Dissertation
Submitted to the
Temple University Graduate Board

In Partial Fulfillment
of the Requirements for the Degree
DOCTOR OF BUSINESS ADMINISTRATION

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Diploma Date May 2019

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ABSTRACT

Throughout the last fifty years, scholars have explained franchising primarily through two limited means: agency theory and resource constraints theory. This paper investigates the proportions of company owned stores vs franchisee owned stores. Hypotheses are presented about the proportions of franchisee owned outlets among all industries and then among eight of the largest franchised industries within the US. The findings generally support that most firms use a mixed-method approach when determining their franchising mix but rely mostly on agency theory for most of that mix. The study also finds that the initial investment/asset requirement is the key mechanism to controlling the appropriate franchise proportions.

Keywords: Franchising, Agency Theory, Resource Constraint Theory, Franchisor, Franchisee

INTRODUCTION

The following is a two-part study, which explores the current literature surrounding the main two driving forces behind franchising: agency theory and resource constraint theory. In Chapter One, we conduct an analysis of five hundred franchise firms across different industries, while Chapter Two, we individually examine the eight largest franchise industries. The objective of the study is to gain a fuller understanding of the factors contributing to the corporate decision to 1) open a new franchise location or assume ownership of existing franchises, or 2) expand through adding more franchisee-owned units. Both agency theory and resource constraint theory have been used as theoretical underpinnings in most of the literature. These two theories provide somewhat different views of the risks and benefits of franchising, and while most studies have argued exclusively for one or the other, neither alone may sufficiently account for the costs as well as the advantages of growing through franchising. To address the concern that these theories independently do not adequately explain corporate franchising, we propose a hybrid theory containing elements of both resource constraint and agency theory. This hybrid theory aims to provide a better theoretical foundation for the factors influencing the choice between additional growth through franchising versus consolidation through corporate ownership.

In these studies, we make two important theoretical contributions. First, we provide a fuller understanding of the risks and benefits of franchising using the proposed hybrid theory. More importantly, in the second study, we analyze the eight largest franchising industries individually to determine if franchising variables have varied impact dependent upon their industry, which to our knowledge is the first study of its

kind. Our results have relevant implications for franchising company managers and new entrepreneurial franchisors who make strategic decisions on when, and how rapidly, to expand through adding franchised locations.

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CHAPTER 1: FRANCHISING ACROSS INDUSTRIES

Franchising is an organizational structure that emerges from a contractual agreement between the franchisor (parent company) and the franchisee (company or individual granted a license to use the parent company's intellectual property). Typically, the franchisor grants the franchisee the license in return of a yearly flat fee and royalties or sales commissions (Shane, 1996). Franchising has become so popular that in the U.S. alone, it accounts for an estimated \$800 billion in gross sales while representing forty-percent of retail trade (Swartz, 2001). Furthermore, it has reached market saturation in the US, Canada and parts of Western Europe (Welsh, 2006).

Regardless of franchising's saturation, global expansion and years of existence, a key strategic management question remains. How do franchisors determine and maintain the appropriate level of company-owned stores in relation to franchised units? In 1968 Oxenfeldt and Kelly paved the way in franchising research arguing that the resource constraint theory was the underlying premise for franchising. Twenty-one years later in 1987, Brickley and Dant paved the way for agency theory research as the premise for franchising. Then in 1992, Lafontaine and Kauffman reintroduced the notion of franchise lifecycle theory in a novel manner as they studied time-series actions of franchisors. And, finally in 1998 Scott Shane contributed to the prior literature by focusing on the distribution of franchised and company owned outlets in franchise systems.

This specific study adds numerous novel contributions to the franchising literature and uses the well-known and respected Franchise 500 data. First, we propose a new theory positing that both agency theory and resource constraint theory have the same

linear effects until a specific point of divergence wherein firms will choose which method to pursue. Second, in the first part of this study, we analyze the proportion of franchised outlets across all 500 franchises listed in the dataset in relation to numerous dependent variables to test which have the most significance on the percentage of franchised outlets.

The results of the findings will pave the way for future research that will not only contribute to the literature but will more importantly highlight managerial impact. For example, the conclusions of this study are expected to showcase the appropriate company distribution a firm should aim for dependent upon which industry they are in, which factors can be tweaked to achieve the optimal distribution, which of the above two methods is (subconsciously) being used as the theoretical foundation of their industry, and why.

Literature Review

The definition of franchising continues to evolve. Brown (1973) and Spencer (2013) acknowledged the difficulties in defining the franchising phenomenon, and it continues to spark a myriad of interpretations. Stanworth and Curran (1999) developed a theoretical model of franchising that encompasses the interdisciplinary components of the business practice. The model views franchising from three levels:

- The macro-level: Economies with a high proportion of tertiary activities, and economics, with a free-thinking society which values small independent business and economic individualism will favor the franchise model.
- The organizational level: When the initiating organization seeks to achieve economies of scale and rapid market penetration over a wide geographic area,

franchising will be common due to relevant factors including but not limited to age of the system, quality of franchisees, prior experience, sector and niche.

- The individual level: Employees who value autonomy, independence and innovation can find the opportunity to transition from employee to self-employed entrepreneur through the franchise model.

Various disciplines characterize franchising in different ways: it can be understood as an organization form, a distribution channel, a marketing channel, a license, a means to exploit intellectual property (IP), and a type of monopolistic conduct (Stanworth & Curran, 1999; Schul et. al, 1983; Castrogiovanni & Justis, 1998).

From a legal perspective, franchising is a contractual relationship among natural or artificial persons. In this way, it is a type of license that captures elements of other legal relationships including agency, joint venture, distributorship, investment, employment, and customer relations (Spencer, 2013). For example, as a trade-name franchise is an arrangement where the franchisee purchases the right to operate the name of the franchisor (Zimmer & Scarborough, 1994; Erceg & Icic, 2013). In this type of arrangement, the franchisor acts as source of centralized purchasing for the franchisee and promotes the trade name to provide brand recognition to an otherwise unknown small business (Litz & Stewart, 1999). The franchise agreement is often only one element of a suite of contracts that, together, form the franchise arrangement (Spencer, 2013).

Research shows that the advantages and disadvantages of franchise agreement operations are distinct from the decision whether to pursue a franchise business model. (Michael, 1996)

From an entrepreneurship perspective, franchising is a prominent part of the economy and a growing phenomenon (Michael, 2003). Practitioners often recommend franchising as a way for entrepreneurs (potential franchisors) to assemble the resources necessary to create large chains of supply rapidly (Michael, 2003). According to this argument, the essence of franchising is to capitalize on both the economies of scale associated with large systems and the benefits derived from small, localized operations (Kaufmann & Eroglu, 1998). The franchise entrepreneur, as the creator, builder and guardian of a unique business format, is responsible for efficiently managing a complex system of independent business owners (Kaufmann & Eroglu, 1998).

Decision to Franchise: Weighing the Advantages and Challenges

Several factors should be weighed before making the decision to franchise. Michael (1996) found that the franchise's industry and the average labor rate in the industry are important factors in the decision to franchise. One reason to opt to franchise, from both parties' points of view, is to leverage knowledge to promote efficiencies. The franchise system is designed to benefit both parties. Franchisors receive royalties from franchisees' sales, and franchisees receive knowledge about best business practices and possibly rapid market penetration, along with residual profits. According to Combs (2009), when franchisors are motivated to franchise, it may decrease their "internal inertia."

Hoffman and Preble (1991) identify additional advantages to franchisees such as access to capital, cost sharing, rapid market penetration, and advantages to franchisors include leveraging the motivation of the entrepreneur. From the entrepreneurial perspective, advantages to the franchisee include access to the experience of the

franchisor, training, purchasing power, advertising, research and development, and business synergy.

However, there can be disadvantages to the franchise system. Because the franchisee and franchisor are inseparable in the public eye, problems may arise when one of the parties does not act in accordance with the company mission. Further challenges to the franchisee include the risk of conformity, compromise, and unrealistic expectations. Knowledge and efficiency synergies can also be disadvantages because a franchisee is restricted to using only the business practices of the franchisor, which effectively eliminates advantages the entrepreneur brings to the business through local knowledge, business acumen, and creativity. Accordingly, these limitations to franchisees can decrease earnings which affects the level of return the franchisor receives (Hoffman & Preble, 1991). Figure 1 provides a SWOT analysis of franchising which captures the following advantages and challenges.

Advantages

1. **The Experience of the Franchisor:** In any new business, much time and money are spent in trial and error. A proven franchise may eliminate many of the start-up problems. Franchising permits an individual to open a business with little or no previous experience in a given industry because the entrepreneur gains immediate access to the franchisor's tacit and explicit knowledge developed over hundreds of years of collective experience. One franchisee expressed, "What I have learned from the franchisor was worth ten times what I paid for the franchise"

(Franchising World, 2017).

2. Training: A franchise system will provide training for the new franchisee (*Franchising World*, 2017).
3. Buying and Advertising: Small business owners have a limited capacity to purchase and store large inventories or conduct extensive advertising campaigns. Most franchise systems give the franchisee access to organizational purchasing power, while allowing them to leverage its national or large-scale advertising. Furthermore, as the number of franchisees increases, so does public awareness of the franchise, another tremendous marketing advantage. Franchisees located near one another can also leverage cost sharing opportunities (*Franchising World*, 2017).
4. Ongoing Advice, Research and Development: Franchisees need assistance throughout the term of their business endeavors. The franchise system's staff of experts can give this much-needed help in all aspects of the business. The franchisor is also able to provide on-going research and development, bringing new products and services to the attention of the franchisee (*Franchising World*, 2017).
5. Business Synergy: Franchising promotes synergy. Those who purchase a franchise become part of a "family" where all members work together for the good of the whole. Often, some of the most effective ideas come from franchisees, who in turn share their ideas with the franchisor and other franchisees (*Franchising World*, 2017).

Challenges

1. **Conformity and Compromise:** Conformity to the franchise system is critical if consistency among franchises is to be maintained. People who have difficulty following directions or who dislike working within a system may find franchising extremely frustrating. (*Franchising World, 2017*).
2. **The Risk:** While it is true that purchasing a franchise has less risk than starting an independent business, there still are risks. To a great extent, the franchisee, determines the success of the venture. Notably, although the franchisor may have a great program and a respected name, much of the risk, reputational, monetary or otherwise is in the hands of the franchisee (*Franchising World, 2017*).
3. **False or Unrealistic Expectations:** Some people enter franchising expecting instant success, but franchising, like any other business, requires tremendous time, initiative and industry. The franchisee should visit the corporate headquarters to understand how smoothly the business operates and to meet the staff. He/she should also talk to other franchisees and learn about their experiences with the franchisor. It is important to obtain a realistic picture of what is required in operating a particular franchise (*Franchising World, 2017*).
4. **Managing the Business:** Some individuals are more prepared than others to manage a business. Without business experience, teamwork and interpersonal skills, a franchisee may find it difficult to manage a franchise. (*Franchising World, 2017*).

Figure 1. SWOT Analysis of Franchising (Salar, 2014)
5.

Franchising SWOT Analysis	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Brand Recognition 	<ul style="list-style-type: none"> • High Cost
<ul style="list-style-type: none"> • Lower Risks of Failure 	<ul style="list-style-type: none"> • Initial cost
<ul style="list-style-type: none"> • Easy Setup 	<ul style="list-style-type: none"> • Ongoing costs
<ul style="list-style-type: none"> • Ready Customer Portfolio 	<ul style="list-style-type: none"> • Dependency
<ul style="list-style-type: none"> • Easy to Find Financial Support 	<ul style="list-style-type: none"> • Strict Rules
Opportunities	Threats
<ul style="list-style-type: none"> • Entrepreneurs have chance to become their own boss 	<ul style="list-style-type: none"> • Continuing growth of existing franchised competitors
<ul style="list-style-type: none"> • Market opportunities like discovery & exploitation 	<ul style="list-style-type: none"> • Other new franchise competitors entering market place
	<ul style="list-style-type: none"> • The decline of branding in market
	<ul style="list-style-type: none"> • The publication of new business models

Franchisor Success and Failure

Shane (1997) identified many factors that contribute to the success or failure of the franchisor. Success and rapid growth of the franchise can be attributed to the franchising model employed and services offered to franchisees. Productive new franchisors were 22% less likely to use “master franchising.” Additionally, new franchisors provide significantly fewer support services than non-surviving franchisors and consider establishing credibility and a brand name vitally important in their efforts to recruit franchisees. Successful franchisors maintain a relatively stable number of company owned outlets over time, and they expand overseas. Shane also points out that a minimum efficient scale must be reached quickly in order to cover costs and compared with other sectors, franchisors failed faster in the food industry (particularly in food services).

Lafontaine and Shaw (1998) discuss the reasons that companies exit from the franchising model at a very high rate. The authors tested a regression model and likelihood estimates for a franchising systems viability beyond five years and found that two factors had a significant effect on the long-term sustainability of a franchise system: 1) the number of years of experience of the franchisor prior to franchising and 2) the year in which they began to franchise. They found that franchisors that started franchising just prior to a recession are more likely to exit within their first few years in business than franchisors who enter at the beginning of a long period of economic growth. The study also suggested that franchisors who spend more time developing their prototype and their operating procedures and documentation are more likely to succeed in franchising.

Dant and Kaufmann (2003) use signaling theory, resource acquisition theory and tapered integration to understand how and why fast food franchises change ownership to company-owned over time. They tested 8-year-old franchise operations for three ownership strategies: (1) greater company ownership, (2) greater franchisee ownership, and (3) a mixed strategy of dual distribution and found that the larger and older systems appear to be more likely to operate as company-owned outlets instead of franchises.

Similarly, Dante et al (2011) conducted an historical analysis of the evolution of franchise law and the organizational structure of the franchise. The authors debunk Oxenfedlt and Kelly 1968, who proposed that most, if not all franchises eventually fall prey to company-owned organizational take over.

Franchising Expansion Strategies

There are two primary ways franchises expand to international markets: (1) Direct Investment, where the franchisor opens and operates a company-owned store(s) or (2) Indirect investment, which historically comes in two forms “traditional franchising” and “business format franchising” (Blair & Lafontaine, 2005). This paper focuses on indirect investment, which is typically the preferred method for global expansion because of the lower cost and reduced risk.

The first form of indirect investment is “traditional franchising” which is also known as product format franchising. This is franchising in its simplest form and offers the least commitment between the two parties. These traditional franchisees do not pay running royalties on their sales, they are merely granted exclusive rights, otherwise known as a license, to sell or distribute from the franchisor. The franchisor's product is sold to the franchisee and the profit for the franchisor comes from the markup earned by dealers (Lafontaine & Blair, 2003). The best examples of these type of franchises are automobile dealers, gas stations and soft-drink bottlers.

The second form of indirect investment is business format franchising which is the most common. In this form of franchising, the franchisee not only uses the product, service and trademark but also the complete method to conduct business, including appropriate marketing plans and operating manuals (International Franchise Association, 2013). Under this form of franchising, franchisees typically pay initial fees at the beginning, along with running royalties which are traditionally a fixed percentage of sales revenue. There can sometimes be other fees such as advertising fees as well. Examples

of business format franchising are predominantly present in the fast-food, hospitality, and retail industries.

Business format franchising has a popular subcategory used for global expansion, otherwise known as Master Franchising. Master Franchising is where the master franchisee is granted exclusive rights over a specific territory where they can then develop sub-franchisees in a specific territory or throughout the country. This is the most common form used by international firms entering emerging markets (Welsh, 2006). This is because the Master Franchising model offers numerous benefits such as knowledge of the local market, access to resources, faster adaptation, and faster development of selling prospective franchisees (Nair, 2001).

McDonald's being the largest global fast-food franchise is a great example of these various approaches. McDonald's restaurants are owned and operated under three different structures (McDonald's, Annual Report, 2015). Those structures fall into two main categories which McDonalds uses to expand into international markets (Kelepouris et al, 2017). First, they begin with a direct investment, opening and operating a company-owned store. McDonald's defines this as the conventional franchise approach. Second, McDonald's invests indirectly by offering the developmental license approach or the affiliate approach. Their main indirect investment approach is the developmental license approach wherein they choose a Master Franchisee who can develop sub-franchisees in a specific territory or throughout a country (Kelepouris et al, 2017). Often, a direct approach is used to develop the necessary tacit knowledge in order to transition to a direct licensing approach under a master franchise agreement or affiliate agreement.

Why Firms Franchise

Two dominant theories have competed against one another to explain why firms franchise: Resource Constraints and Agency-Theory, otherwise known as incentive issues (Lafontaine, F., & Kaufmann, P. J. (1994). These same two theories have also been used to explain the distribution of franchised and company-owned stores in franchise systems (Scott, 1995).

Resource Constraints

In 1968, Oxenfeldt and Kelly (1968) paved the way with two original contributions that would pave the way for franchising research. First, they introduced the resource constraint argument in the sphere of franchising, which is the notion that firms franchise to overcome specific constraints and gain access to resources to which they would otherwise not have access (Oxenfeldt & Kelly (1968). Secondly, they introduced the notion of the life-cycle effects of resource scarcity.

The resource constraint argument revolves around resources in the form of financial capital, human capital, and managerial talent in the form of local market knowledge, among others (Lafontaine & Kaufmann (1994). Two of the resources have received the greatest attention in the franchising literature: financial capital and managerial talent in the form of local market knowledge. Gaining access to both financial capital and managerial talent is available through franchising as noted by Norton (1988). The availability of the resources through franchising results in larger economies of scale and expansion at rate beyond what was possible using internal resources (Combs, et. al. (2004). When a firm is young it may not have the requisite capital or internal managerial

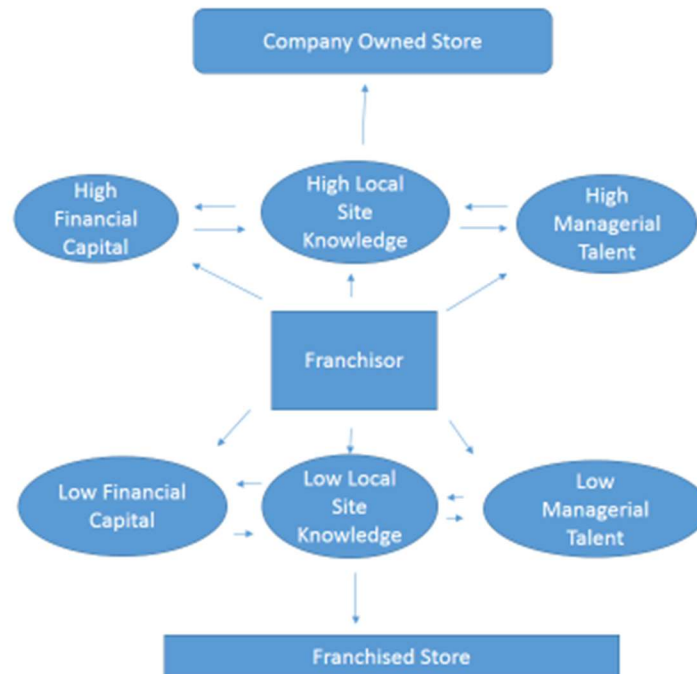
resources to support an increased infrastructure. Selling franchises gives the seller access to requisite upfront fees paid by franchisees known as franchise fees which will help support the growth of the franchisor's internal infrastructure. Franchisees will also typically provide local expertise and a fixed investment to cover the required real estate, equipment, human capital and other requisite operational requirements (Lafontaine & Kaufmann, 1994). Critically, Lafontaine's survey research conclusively found that franchisor's perceive growth as an important reason to sell franchises (Lafontaine, 1992). The resource constraint theory thus revolves around the assumption that franchisors can raise money more effectively than any alternative method and thus will stimulate growth and capture managerial talent (Morrison, 1995).

While the aforementioned arguments support the resource constraint argument, several contrary theories undermine the resource constraint argument. According to Lafontaine (1992) there are three important arguments which undermine the resource constraint argument. First, several franchisors provide financing to their franchisees, approximately twenty percent at the time of their study in 1992. Second, the notion that access to capital is cheaper through franchising is not necessarily true according to Ruben (1978) because franchisors could raise funds from investors by offering shares in all the outlets as opposed franchising individual outlets (Lafontaine, 1992). Third and most important, the theory implies that as a franchisor matures and gains access to more capital a trend of more company operated stores and re-purchasing franchisees should be observed. This theory aligns with Oxenfeldt's hypothesis that franchisors will eventually become wholly owned chains. This observation was noted in developing franchises who

need to raise capital and become familiar with foreign local market conditions (Caves and Murphy 1976; Minkler 1990).

In summary, while it may appear *prima facie* that these three contradictory theories undermine the resource constraints argument, they do not. They merely highlight Oxenfeldt's hypothesis that resource constraints go through a life-cycle ie. franchisor's needs change. As Dant (1992) wrote, "Franchisors seek franchisees because they represent an expedient source of the critical resources of capital, site knowledge, and managerial talent in the early stages of the organizational life cycle." Specifically, the fact that some franchisors provide financing and that capital may be cheaper elsewhere indicates that although the resource constraint argument may initially explain why firms franchise it does not explain what optimal proportion of company owned stores to franchised stores.

Figure 2: Franchisor decision model.



Agency Theory

Typically, in franchise agreements the franchisee purchases the rights to use the trademark and operating procedures of the franchisor. Albeit, the franchisee maintains various decision powers such as hiring personnel and advertising. These rights are preceded by the relationship which is formed through the franchising contract and includes the initial investment (upfront fee), and ongoing sales royalty and advertising fee. As for the franchisor, they provide training, assistance and maintain the right to monitor the quality of the agent as it relates to the value of their trademark (Brickley, et. al., 1991).

Agency theory is an intellectual framework that explains the optimal organizational arrangement to control for the aforementioned in pursuit of maximum performance (Shane, 1998). The theory is premised on the notion that agents are self-interested and possess goals that diverge from the principals and may have different risk tolerances which in return requires the principal to expend resources to monitor their agents which may be costly or even not practical

Divergent goal and risk tolerances combined with conditions of uncertainty and incomplete information create numerous agency problems: (Shane, 1998).

1. Monitoring costs – The following are issues noted in previous franchising literature that increase monitoring costs or cause monitoring issues:
 - a. Geographic Dispersion – as a firm enters geographic markets far removed from their headquarters the cost of monitoring either company owned stores or franchisees increases due to the number of monitoring personnel and travel/expenses (Brickley & Dark 1987).
 - b. Moral Hazard – the difficulty for principals to motivate and ensure the agent exerts the appropriate amount of effort to make the business a

success while acting the principal's best interest. (Shane, 1998; Lafontaine, 1994).

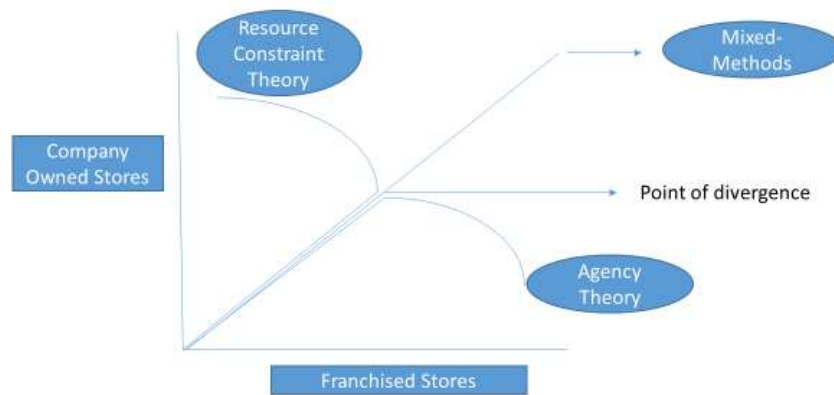
- c. Quality Assurance – The difficulty for the principal to measure the agent's quality level (Shane, 1998).
 - d. Free Riding – franchisees who produce an inferior product to cut costs (Morrison, 1995).
2. Hold-Up – where one of the parties will act opportunistically to re-negotiate the agreement after a relationship-specific investment has been made.
 3. Inefficient Investment by franchisee – aside from the contractual requirements franchisees should not be reluctant to invest in other marginal investments to increase their investment return. For example, purchasing local advertising would benefit the franchisee and have spillover effects into the brand (Morrison, 1995).
 4. Quasi Rent Appropriation – where the value of the required initial investment is higher than its salvage value (Morrison, 1995).

Even though the list of agency related problems seems exhaustive, prior literature has shown that they can easily be solved by providing the franchisee a large enough stake in the profits so that they prioritize their efforts in ensuring the outlets success through maximum profits. (Lafontaine, 1994; Rubin, 1978). This simple argument of increasing franchisee incentives undercuts the notion of the resource constraints argument. Being that when the franchisor's and franchisee's interests are aligned and agreed upon in the franchise agreement, the outcome is a more efficient outcome than could be achieved through vertical integration and internal controls i.e. Company owned stores, and at a lower cost/risk to the franchisor (Lafontaine, 1994).

In conclusion, agency theory issues are resolved by equipping the agent with enough incentives which create a natural solution of the inherent problems observed. Therefore, it seems that franchising should be the preferred organizational form of

franchisors ie. reducing the number of company owned stores and increasing franchisees (Lafontaine, 1994). While the previous literature has placed agency-theory as a competing theory to resource constraint theory is necessary isn't at least at the beginning of the franchise's lifecycle. While the theories are different the outcomes are the same until the point of divergence which is when as stated by Dant (1992) "Once the resources of capital, site knowledge, and managerial talent become more easily and directly accessible to franchisors in the later stages of the organizational life cycle, ownership redirection will occur; only marginal sites will continue to be franchised."

Figure 3: Theoretical Model of Franchising Theories.



Consolidating theories through mixed ownership

The previous paragraphs have shown that according to the literature, once a firm has reached the point of (adequate capital) the resource constraint theory favors company ownership, while the incentives argument (aimed at solving problems related to agency

theory) favors franchising outlets. Consolidating these theories may be possible by employing the notion that franchise systems employ a dual distribution strategy because of the different benefits each type of ownership provides. For example, company owned stores may be used as pilot stores to test new products and maintain insight into first hand operational issues. In contrast, franchised locations provide the benefit of innovation and managerial insights that may remain unchallenged in a company owned environment. (See Dant et al, 1992 for more examples). Furthermore, depending upon geographic dispersion and other circumstances, some locations may be better suited for one type of ownership than another (Lafontaine, 1994; Bradach & Eccles, 1989). The benefits of mixed ownership can only be known through ongoing management and tempering of the proportion of company owned stores until an optimal proportion is found which leverages the synergies of both resource constraint theory and incentives.

Specifically, we examined:

H1: A franchisor's international presence increases the proportion of franchised owned outlets.

International Geographic Dispersion: Do the firms have international locations? If so, the cost of monitoring increases significantly and the firm is more likely to franchisee outlets (Shane, 1998).

H2: A positive growth rate is correlated with significantly more franchised outlets than company owned outlets.

Growth Rates (past three years): Being that both resource constraint theory and agency theory have the same outcome until the point of divergence I expect that

franchisors with an aggressive rate of growth will have significantly more franchised outlets than company owned outlets.

H3: The proportion of franchised outlets significantly decreases as royalty rates rise.

Royalty Rates: Royalties are the percentage of gross sales paid to the franchisor. The main issue when determining the royalty rate is how to choose a rate that will eliminate one-sided incentive issues. When the royalty rate is too low, increasing the rate should be positively associated with the proportion of outlets franchised. The higher the rate the greater the return as opposed to owning a company-owned stores (Shane, 1998). On the other hand, if the royalty rate becomes too high potential franchisees are not likely to pursue a franchising agreement (Shane, 1998). Therefore, the proportion of franchised outlets in a franchise system should significantly decrease as royalty rates rise.

H4: As franchisors grow in age there is a significant increase in company owned outlets.

Franchisor Size: As aforementioned, once the resource constraint theory and agency theory have the same outcomes until the point of divergence which is when the resources of capital, site knowledge, and managerial talent become more easily and directly accessible (Dant, 1992). Therefore, even if a franchisor adopts a dual distribution strategy, we still expect to see a significant decrease in franchised stores as a franchisor grows.

H5: The proportion of franchised outlets decreases as the franchise fee increases.

Franchise Fee: The franchise fee is an upfront fee paid to the franchisor to gain access to the franchisor's specific assets trademarks and licenses. (Brickley & Dark 1987). The value of these assets is based upon the franchising arrangement therefore, the franchise fee is an investment in quasi-rent producing assets. Typically, the franchisor can appropriate these quasi-rents through termination (Brickley & Dark 1987). As this cost increases, so too does the cost of franchising; in other words, we should see the same outcome as we do in the royalty rate. Thus, the proportion of franchised outlets in franchise systems with low franchisor fees should be significantly higher than those in franchise systems with high franchisee fees.

H6: The proportion of franchised outlets significantly decrease as the initial investment/asset requirement increases.

Initial Investment/Asset requirements: The initial investment includes any startup expenses which may include real estate, equipment, supplies, working-capital etc. Being that it is a large up-front cost prior to the commencement of business we expect the same outcome as above being that the proportion of franchised outlets in franchise systems with lower initial investments should be significantly higher than those in franchise systems with high franchisee fees. Albeit, the key distinction between the initial investment/asset requirement and other upfront costs such as the franchise fee is that these costs can be viewed as leveraged or mitigated risk. With the franchise fee, if the venture fails that fee is non-refundable. Yet, any initial investment or asset acquired in the form of real estate, equipment, or supplies could be liquidated in the event of a business failure, hence allowing the franchisee to recoup some of his investment ie. the notion of mitigated risk.

H7: As franchisors grow in size (ie total number of stores) there is a significant increase in franchised outlets.

This hypothesis is inline with agency theory, but even under resource constraint theory, firms that are continuously growing will not be able to maintain the requisite capital to continue to buyback or repurchase existing stores due to the resource requirements required to grow as a franchise unit and buy back. Therefore, even under a mixed-method approach we still expect to see more franchised outlets as franchisors grow in size.

Methodology & Data

The data for this study comes solely from the 2017 Franchise 500 results published by Entrepreneur Magazine. The Franchise 500 dataset has been employed in academic studies of franchise firms for several years (Clarkin and Hasbrouck, 2007). Essential franchise information is available about each of the 500 listed franchises in each of the industries listed by the Franchise 500 in Figure 3. The included information is the year the franchise was founded, how long they have been franchising, domestic/international units (10-year period), financial requirements, ongoing fees, and financing options.

Dependent Variable

There is one dependent variable used in this study: Percentage of Franchised Stores.

Table 1: All Firms Dependent Variable				
<i>Dependent Variable</i>	Sample Size	Mean	Standard Deviation	Coefficient of Variation
Percentage of Stores Franchised (2017)	500	90.347	19.98	.221

Independent Variables: There are six independent variables used in this study.

Table 2: All Firms Independent Variables				
<i>Independent Variables</i>	Sample Size	Mean	Std. Deviation	Coefficient of Variation
International Presence	499	.58	0.49	.844
Years Franchising	500	22.384	14.61	.652
Franchise Fee	498	\$38,120.18	28,351.66	.743
Royalty Fee	440	.09	0.45	5.000
Initial Investment	499	\$1,073,196.42	5139786.89	4.789
3 Year Growth Rate	500	341.650	5530.85	16.188
Total Number of Stores	500	1,037.62	4,298.12	4.142

Results & Discussion

Descriptive Information

Linear Regression was used to evaluate the following:

The F value (6.557) and P value .000 of the overall model is significant at the 1% level.

R Squared = .038

Table 3: All Firms Significance Independent Variables	<i>Percentage of Stores Franchised 2017 (Dependent Variable)</i>		
	<i>Coefficients</i>	<i>Significance</i>	<i>Analysis</i>
International Presence	5.750	0.002	Significant at the 1% Level
Years Franchising	-0.123	0.045	Significant at the 5% Level
Initial Investment	-4.654	0.006	Significant at the 1% Level

H1: A franchisor's international presence significantly increases the proportion of franchised owned outlets.

This hypothesis is supported by the data analyzed at the 1% significance level and is consistent with the literature and conceptual model regarding both agency theory and resource constraint theory. This finding comes as no surprise as the cost of monitoring increases significantly when there is a large geographic dispersion from the franchisor's headquarters (Shane, 1998). Franchisor satellite offices and personal traveling abroad to monitor is not only expensive but, in some cases, not feasible. Being that the US franchise market has already hit saturation firms are forced to go abroad in the pursuit of expansion and higher profits therefore succumbing to agency theory and expanding through franchisee owned outlets is not only commonsensical but also the most widely accepted form of international expansion strategy.

H6: The proportion of franchised outlets significantly decreases as the initial investment/asset requirement increases.

This hypothesis is supported by the data analyzed at the 1% level and is consistent with the literature and conceptual model regarding both agency theory and resource constraint theory.

H4: As franchisors grow in age there is a significant decrease in the percentage of franchised outlets.

This hypothesis was not supported by the data analyzed. In fact, the opposite was found at the 10% significance level which supports the argument that a significant

proportion of franchise systems use agency theory for strategic long-term decisions as the firm ages as opposed to the resource constraint theory.

H2: A positive growth rate is correlated with significantly more franchised outlets than company owned outlets; H3: The proportion of franchised outlets significantly decreases as royalty rates rise, H5: The proportion of franchised outlets significantly decreases as the franchise fee increases and H7: As franchisors grow in size (ie total number of stores) there is a significant increase in franchised outlets.

These hypotheses were not supported by the data and the analysis deemed their outcomes insignificant. The fact that these hypotheses were not supported may seem counter intuitive as one likely expects a rise in royalty rates or franchise fees would drastically change the demand for new franchisees or the renewal of the franchise agreement. On the contrary, these results showed that the initial investment/asset requirement is the key driver effecting the franchising mix.

Overall, three of the hypotheses in the study tested were supported, notably those that were backed by supporting literature. One additional hypothesis was supported that was not seen in the literature, providing a surprising new result. This is study was the largest known of its kind looking at five hundred different franchisors.

It is important to note the limitations of the data which included only US franchisors among all industries. Further studies should analyze franchise industries individually to determine if the outcomes are different while also looking at firms based in other countries. Eliminating these limitations will give a better overview of the global franchising systems and operations mix.

Conclusion & Managerial Implications

The first key take away for franchisors is that the initial investment/asset requirement must be tempered to find the appropriate mix of company owned vs franchise outlets. Franchisors can use the initial investment amount as a tool to either attract or detract franchisees (ie. As control mechanism for the franchising mix). The second key take away is that managers should not shy away from using franchised outlets as a means for international expansion. Thirdly, this study suggests that as a franchisor ages and passes the conceptual (monetary) point of divergence they seem to fall in line with the agency theory perspective of franchising more outlets albeit while still using a mixed theoretical approach.

Limitations & Future Studies

This study was limited by only analyzing US franchise firms. The independent variable (international presence) was also general in nature because it was binary. Having even one location abroad in Canada was deemed to be an international presence. In future studies, we would want to determine the specific number of countries the franchise system is present in or percent of international stores so that we generate a better understanding of how international presence truly affects franchise systems.

Thus far, there have been no more than two dozen empirical studies trying to determine the optimal proportions of franchised firms. Yet the problem with these studies are the small sample sizes or lack of insights due to the inability to generalize across firms based in different industries. Therefore, for my next study, we will consolidate franchises by Industry Sectors so that we can understand the different

franchising proportion in different industries in hopes that we can determine what facet of those industry drives those proportions and whether the nature of the industry forces the firms to bow to the resource constraint theory or the incentives theory.

CHAPTER 2: FRANCHISING IN SELECT INDUSTRIES

This chapter is a micro-view of franchising in relation to the chapter one. Chapter one looked at the top five hundred franchises as a whole while this chapter looks at the eight largest industries in franchising. While the tenants of the literature remain the same, this chapter is an exploratory study, therefore we make one propositions per independent variable and then compare the results of each industry to draw conclusions.

Our first general proposition is that international presence of franchising brands will be greatest among the food industry, specifically in our study the quick service food industry followed by the specialty foods industry, this speculation is based upon consumers knowledge of mostly food franchises globally. Second, regarding the oldest franchise industries we believe the food industry, once again being both quick service and specialty foods along with auto care will have the oldest franchises on average. Third, firms with lower initial investment cost will have higher franchising fees. The lower initial investment cost appeals to a wider potential franchisee base allowing the franchisor to charge higher franchising fees. Fourth, service-oriented franchise industries will have higher royalty rates as opposed to product-oriented industries. The service industries typically have larger profit margins due to the lower cost of goods sold allowing the franchisor to capture a larger percentage. Fifth, initial investment will be highest in industries requiring large upfront capital investments for real estate, land and equipment such as the quick service, specialty foods and auto care industry which all require a large real estate presence typically in high traffic urban areas where real estate is premium. Sixth, the three-year growth will be higher in industries with lower initial investment,

predominately, service industries such as residential / commercial services, and business solutions/services.

Data & Methodology

This study will be using the well-known and respected Franchise 500 data (Clarkin and Hasbrouck, 2007). We categorized the 500 franchising firms into seventeen different industries based upon the products/services sold. Due to the sample size, this was further narrowed down to eight industries consisting of 358 franchises. The other eleven industries composed of the remaining one hundred and forty-two franchises will not be analyzed due to the extremely small sample size among each industry wherein no statistical significance can be reached.

<u>Industries</u>	<u>Number of Franchises</u>
Residential/Commercial Services	97
Quick Serve Food	64
Education/Sport Lessons	52
Business Solutions/Services	39
Specialty Foods	38
Auto Care	24
Salon/Body Care	22
Home Care	22

As an exploratory study, we run a linear regression analysis on eight different franchising industries. For this study, we use one dependent variable: Percentage of stores franchised in 2017 and six independent variables: Years Franchising, International Presence, Franchise Fee, Three Year Growth Rate, Royalty Fee, and Initial Investment. We then compare the results to determine what type of relationships we can find. By studying each industry individually, we will be able to determine which independent

variables have the most significant impact in each industry. We will also be able to determine which theory is dominant in each industry among either resource constraint theory or agency theory.

Results & Discussion

Residential/Commercial Services

Table 5: Residential/Commercial Services Dependent Variable				
<i>Dependent Variable</i>	Sample Size	Mean	Standard Deviation	Coefficient of Variation
Percentage of Stores Franchised (2017)	97	96.78	8.02	.082

Table 6: Residential/Commercial Services Independent Variables				
<i>Independent Variables</i>	Sample Size	Mean	Std. Deviation	Coefficient of Variation
International Presence	97	.60	0.49	.816
Years Franchising	97	23.57	14.61	.556
Franchise Fee	97	\$41,802.38	\$28,351.66	.569
Royalty Fee	83	12.37%	0.45%	4.158
Initial Investment	97	\$ 137,283.84	\$5,139,786.89	.579
3 Year Growth Rate	97	1,646.39%	13,555.97%	8.233

Descriptive Information

The F value (.227) and P value .967 of the overall model is not significant. R Square = .018

Residential/Commercial Services is the largest firm in the analysis consisting of 97 different franchises. In this study, non-of the independent variables help determine the percentage of stores franchised. This industry is diverse due to the nature of offerings among the industry when compared to another such as quick service food. In the quick service food industry, all franchisors are required to buy or lease land and buildout the

specific restaurant according to the franchisors specs, purchase equipment, and hire a minimum number of employees among other things.

In the Residential/Commercial services space the unique nature of each franchise is different even though are functioning within the same industry. For example, firms within the industry are maid services, janitorial services, plumbing services, mosquito control, building inspections, lawn care, electricians, and painting. Start-up cost and numerous ongoing costs of these specific entities are very different amongst themselves. A franchisor who is a provider of maid services requires no physical office space location and can function merely with employees, cleaning supplies and viable transportation albeit public or private. Contrary, entering the plumbing or electrician market requires employees with appropriate certifications, and costly tools and equipment.

Aside from the aforementioned example, there is a high standard deviation for initial investment which is \$5,139,86.89 exemplifying the huge disparity and differences amongst start-up costs for this broad industry. The three-year growth rate of this industry, 1,646.39%, also corroborates this proposition. This type of growth is unprecedented in a specific industry by function due to the saturation of franchising. But, the diverse nature of this industry allows this type of growth because anyone providing a residential or commercial service is included. Condensing the industry down further into the specific services offered by each entity would provide the best possible analysis although due to the limited size of each franchisor in each specific business function the results would be insignificant.

Quick Service Food

Table 7: Quick Service Food Dependent Variable				
<i>Dependent Variable</i>	Sample Size	Mean	Standard Deviation	Coefficient of Variation
Percentage of Stores Franchised (2017)	64	88.111	18.199	.206

Table 8: Quick Service Food Independent Variables				
<i>Independent Variables</i>	Sample Size	Mean	Std. Deviation	Coefficient of Variation
International Presence	64	.51	0.504	.816
Years Franchising	63	28.25	16.03	.556
Franchise Fee	64	\$31,369.61	\$10,005.43	.569
Royalty Fee	59	5.37%	0.98%	.182
Initial Investment	64	\$759,270.22	\$602,241.35	.793
3 Year Growth Rate	64	60.92%	184.16%	3.022

Descriptive Information

The F value (9.042) and P value .004 of the overall model is significant at the 1% level.

R Square = .127

<i>Independent Variables</i>	<i>Percentage of Stores Franchised 2017 (Dependent Variable)</i>		
	<i>U. Coefficients</i>	<i>Significance</i>	<i>Analysis</i>
Initial Investment	-1.199	0.002	Significant at the 1% level

Quick Service Food is the second largest industry and the one most consumers typically think about when they hear the words franchise or franchising. Here, the independent variable: initial investment is significant at the 1% level regarding its effect on the number of stores being franchised. Amongst all industries, quick services restaurants have some of the highest upfront costs, on average \$759,270.22 with a standard deviation of \$602,241.35. On average around 88% of the stores are franchised.

This is in-line with the prior literature on agency theory such as Dant (1992) who stated: “Franchisors seek franchisees because they represent an expedient source of the critical resources of capital, site knowledge, and managerial talent.”

Prior literature would leave one to assume that the firm merely has not reached the breakeven point in the conceptual model discussed in chapter one. But, it is important to consider that a firm’s location in the conceptual model is not static. For example, McDonalds is an extremely successful high net worth franchisor. But with 85% of their stores being franchised they would not have the excess capital to repurchase all their stores in cash. Using debt to repurchase their franchisees would defeat the purpose under resource constraint theory as this would tie up their monthly cashflow. Even if McDonald’s had the cash to repurchase 50% of the stores. They would then move to the left on the conceptual model once again coming under the breakeven point meaning they would have to franchise more stores to then again become more profitable to eventually once again surpass the break-even point of capital. But then again, when a franchisor owns a large percentage of their stores it increases other costs such as monitoring, and training among others. The high initial investment is in line with agency theory. The mixed method approach is beneficial in the quick service industry because franchisors use their company stores for pilot testing of new menu items and operational changes so that they may be tested researched and finely tuned before being rolled out to other franchise locations throughout the nation or globe.

Education/Sports Lessons

Table 10: Education/Sports Dependent Variable				
<i>Dependent Variable</i>	Sample Size	Mean	Standard Deviation	Coefficient of Variation
Percentage of Stores Franchised (2017)	52	94.69	9.75	.102

Table 11: Education/Sports Independent Variables				
<i>Independent Variables</i>	Sample Size	Mean	Std. Deviation	Coefficient of Variation
International Presence	52	.57	0.500	.877
Years Franchising	52	15.32	9.180	.599
Franchise Fee	52	\$42,774.98	\$26,219.21	.612
Royalty Fee	48	7.63%	2.99%	.391
Initial Investment	52	\$509,326.09	\$812,591.50 1.595	
3 Year Growth Rate	51	77.13%	95.74%	1.24

Descriptive Information

The F value (4.918) and P value .002 of the overall model is significant at the 1% level.

R Square = .319

Table 12: Education/Sports Lessons Significance	<i>Percentage of Stores Franchised 2017 (Dependent Variable)</i>		
	<i>U. Coefficients</i>	<i>Significance</i>	<i>Analysis</i>
Independent Variables			
International Presence	8.553	0.003	Significant at the 1% level
Years Franchising	.601	0.003	Significant at the 1% level
Royalty Fee	-.511	0.329	Not significant
3 Year Growth Rate	.043	0.013	Significant at the 5% level

Education/Sport Lessons is the third largest industry in the study. The industry categorization is composed of educational tutoring centers, art centers, and sport lessons such as soccer or swim lessons. Large gym franchises such as planet fitness were not included in this industry even though they may offer courses, their core business industry was categorized under fitness industry operations. The key difference among the two industry is customer interaction and startup costs, these differences were distinct enough to warrant keeping them separate.

For this industry, three independent variables directly affect the percentage of stores franchises. The independent variables being international presence, years franchising and three-year growth rate. This is in accordance with prior literature and the findings of chapter one. First, fifty-seven percent of these franchisors have an international presence. As aforementioned in the literature and findings of chapter one as firms expand abroad the cost of monitoring increases significantly and the firm is more likely to franchisee outlets (Shane, 1998). Second, the average age of the franchisors in this industry is around fifteen years old, this is in accordance with our finding in chapter one which we did not initially expect because we were operating under resource constrain theory. But, the findings in chapter one showed that firms use agency theory for strategic long-term decisions as the firm ages as opposed to the resource constraint theory. Third, the growth rate on average in this industry is 77%. This is in accordance with the conceptual model which shows that both resource constraint theory and agency theory have the same outcome until the point of divergence which is that we expect franchisors with an aggressive rate of growth will have significantly more franchised outlets than company owned outlets, due to the overall resources required for fast growth.

Business Solution Services

Table 13: Business Solution Services Dependent Variable				
<i>Dependent Variable</i>	Sample Size	Mean	Standard Deviation	Coefficient of Variation
Percentage of Stores Franchised (2017)	39	93.94	12.84	.136

Table 14: Business Solution Services Independent Variables				
<i>Independent Variables</i>	Sample Size	Mean	Std. Deviation	Coefficient of Variation
International Presence	39	.50	0.509	1.018
Years Franchising	39	20.20	15.38	.761
Franchise Fee	39	\$34,802.50	\$13,954.13	.400
Royalty Fee	30	8.71%	6.69%	.768
Initial Investment	39	\$126,059.80	\$99,871.64	.792
3 Year Growth Rate	39	102.40%	185.53%	1.811

Descriptive Information

The F value (4.943) and P value .003 of the overall model is significant at the 1% level.

R Square = .507

Table 15: Business Solution Services Significance	<i>Percentage of Stores Franchised 2017 (Dependent Variable)</i>		
	<i>U. Coefficients</i>	<i>Significance</i>	<i>Analysis</i>
International Presence	6.915	0.118	Not significant
Years Franchising	-.276	0.065	Significant at the 10% level
Royalty Fee	-1.195	0.001	Significant at the 1% level
Initial Investment	-3.406	0.087	Significant at the 1% level
3 Year Growth Rate	-.016	0.166	Not significant

Business Solution Services is the fourth largest industry in the study. The industry categorization is composed of realty firms, business consultations, marketing firms, staffing companies, etc.

For this industry, three independent variables directly affect the percentage of stores franchises. The independent variables being international presence, years franchising and initial investment. The first two independent variables international presence and years franchising follow the analysis from the previous industry in Education/Sports lessons. Fifty percent of these franchisors in this industry have an international presence and the average age of the franchisors in this industry is around twenty years. Therefore, in accordance with the discussion in the previous industry these findings are in line with literature and findings throughout chapter one and the Education/Sports Lessons Industry. The third independent variable of significance is initial investment which we discussed in chapter one and in the Quick Service Industry analysis. The reasons apply as to why it would have an impact in this industry as well and is in line with agency theory.

Specialty Foods

Table 16: Specialty Foods Dependent Variable				
<i>Dependent Variable</i>	Sample Size	Mean	Standard Deviation	Coefficient of Variation
Percentage of Stores Franchised (2017)	38	88.34	22.68	.256

Table 17: Specialty Foods Independent Variables				
<i>Independent Variables</i>	Sample Size	Mean	Std. Deviation	Coefficient of Variation
International Presence	38	.58	0.502	.865
Years Franchising	38	25.61	17.452	.681
Franchise Fee	38	\$31,580.30	\$9,382.13	.297
Royalty Fee	33	5.64%	0.840%	.148
Initial Investment	38	\$403,804.15	\$219,685.80	.544
3 Year Growth Rate	38	54.36%	109.32%	2.011

Descriptive Information

The F value (.835) and P value .554 of the overall model is not significant. R Square = .162

Specialty Foods is the fifth largest industry in the study. Non-of the independent variables help determine the percentage of stores franchised. This analysis is akin to the Resident/Commercial Services Industry. The franchises which compose this industry are diverse in nature regarding their customer, product offerings and capital expenditure requirements. For example, this industry consists of firms such as: Krispy Kreme, Ben and Jerrey's, Honey Baked Ham, Cinnabon, Wetzel's Pretzels, Bigby Coffee, Dunkin Donuts, etc. While all these firms are in the specialty food industry their resource

requirements vastly differ, which is evident by the coefficient variation of 54.4% regarding initial investment required. The operations of a Bigby Coffee or Dunkin Donuts requires a larger location and overhead then operating a kiosk location of Cinnabon, Wetzel’s Pretzels or Kona Ice. The differences in real estate requirements, cost of goods sold among is evident. Further condensing the industry down into the specific services offered by each entity would provide the best possible analysis although due to the limited size of each franchisor in each specific business function the results would be insignificant.

Auto Care

Table 18: Auto Care Dependent Variable				
<i>Dependent Variable</i>	Sample Size	Mean	Standard Deviation	Coefficient of Variation
Percentage of Stores Franchised (2017)	24	89.44	23.42	.261

Table 19: Auto Care Independent Variables				
<i>Independent Variables</i>	Sample Size	Mean	Std. Deviation	Coefficient of Variation
International Presence	24	.64	0.49 2	.768
Years Franchising	24	31.32	15.58	.497
Franchise Fee	24	\$30,518.18	\$10,094.44	.330
Royalty Fee	22	6.18%	3.11 %	.503
Initial Investment	24	\$375,353.18	\$459,471.99	1.224
3 Year Growth Rate	24	15.39%	26.07%	1.693

Descriptive Information

The F value (2.667) and P value .058 of the overall model is significant at the 10% level.

R Square = .516

Independent Variables	<i>Percentage of Stores Franchised 2017 (Dependent Variable)</i>		
	<i>U. Coefficients</i>	<i>Significance</i>	<i>Analysis</i>
Years Franchising	1.052	.013	Significant at the 5% level
Initial Investment	-2.271	.029	Significant at the 5% level
3 Year Growth Rate	.556	.021	Significant at the 5% level

Auto Care is the sixth largest industry in the study and there are four independent variables that affect the percentage of stores franchised. First, years of franchising average about 31 years which also makes this industry the longest averaging franchise industry, so in accordance with our agency theory view of long term strategy and growth this is just another example of agency theory prevalence. Second, initial investment is a recurring theme in industries that require land and equipment such as auto care. But here, for the first time, we see the opposite outcome. As the initial investment increases, we see an increase in franchised outlets. While this may seem counterintuitive to our previous findings and prior literature. There is a simple logical explanation. In this industry the initial investment is high because of the large real estate footprint required for their mechanic, or tire shops along with expensive tools and equipment to start. The capital required to begin is higher than the typical service industry therefore the franchisor himself may not be expanding his corporate owned stores. As the number of franchisee's increase regardless of how slow eventually this outcome will come to be. Last, the three-year growth rate on average was twenty-five percent once again this is high for a capital-intensive industry. Under both theories we expect franchisors with an aggressive rate of

growth will have significantly more franchised outlets than company owned outlets, due to the overall resources required for fast growth.

Salon/Body Care

Table 21: Salon/Body Care Dependent Variable				
<i>Dependent Variable</i>	Sample Size	Mean	Standard Deviation	Coefficient of Variation
Percentage of Stores Franchised (2017)	22	87.17	17.89	.205

Table 22: Salon/Boy Care Independent Variables				
<i>Independent Variables</i>	Sample Size	Mean	Std. Deviation	Coefficient of Variation
International Presence	22	.58	0.507	.874
Years Franchising	22	16.79	11.41	.679
Franchise Fee	21	\$37,013.15	\$8,148.13	.220
Royalty Fee	19	5.76%	.386 %	.067
Initial Investment	22	\$401,963.50	\$200,6178.8	.498
3 Year Growth Rate	22	266.02%	616.91%	2.319

Descriptive Information

The F value (3.656) and P value .032 of the overall model is significant at the 5% level.

R Square = .379

<i>Independent Variables</i>	<i>Percentage of Stores Franchised 2017 (Dependent Variable)</i>		
	<i>U. Coefficients</i>	<i>Significance</i>	<i>Analysis</i>
International Presence	16.560	.024	Significant at the 5% level
Years Franchising	-.948	.010	Significant at the 1% level
Initial Investment	-4.884	.032	Significant at the 5% level

Salon/Body Care is the seventh largest industry in the study. Three independent variables affect the percentage of stores franchised. International presence on average is at fifty-eight percent while average years of franchising is around seventeen years and the covariance of initial investment to standard deviation is .498. These numbers in each of the respective categories are extremely like other industries with the same outcomes. The reasons from previous industry analysis apply and provide more supporting evidence to the overall conclusions.

Home Care

Table 24: Home Care Dependent Variable				
<i>Dependent Variable</i>	Sample Size	Mean	Standard Deviation	Coefficient of Variation
Percentage of Stores Franchised (2017)	22	98.08	4.85	.049

Table 25: Home Care Independent Variables				
<i>Independent Variables</i>	Sample Size	Mean	Std. Deviation	Coefficient of Variation
International Presence	22	.71	.463	.652
Years Franchising	22	13.95	9.431	.676
Franchise Fee	22	\$45,405.35	\$10,140.32	.223
Royalty Fee	21	5.20%	1.49%	.286
Initial Investment	22	\$105,961.76	\$33,908.91	.320
3 Year Growth Rate	22	47.41%	42.35%	.893

Descriptive Information

The F value (7.004) and P value .015 of the overall model is significant at the 5% level.

R Square = .260

Table 26: Home Care Significance	<i>Percentage of Stores Franchised 2017 (Dependent Variable)</i>		
Independent Variables	<i>U. Coefficients</i>	<i>Significance</i>	<i>Analysis</i>
Franchise Fee	.000	.015	Significant at the 5% level

Home Care is the eighth and last industry in the study. This is the first time; franchise fee is the sole independent variable correlated to percentage of stores franchised regarding the industry specific analysis. When compared to the other industries in the study, Home Care has some of the lowest franchise fees and on average is around ninety-eight percent franchised to franchisees. This supports the assertion from chapter one which states that the proportion of franchised outlets in franchise systems with low franchisor fees should be significantly higher than those in franchise systems with high franchisee fees. It is important to note that the coefficient of .000 is due to rounding.

Contributions & Limitations

Each industry functions differently with regards to the which independent variables have an impact on the percentage of stores franchised. Five of the initial propositions were supported except of the proposition that food franchisors: quick service and specialty food will have the highest international presence. Firms that are more capital intensive upfront such as quick-service food industry may rely more on agency theory through franchising for new outlets due to resource constraints. Whereas other firms such as business services may use franchisees to grow as fast as possible even

though the upfront costs are low leveraging the value added by agency theory as opposed to it being a cost issue.

This is the first study to our knowledge combining the analysis of more than one industry and comparing them across the board. The managerial implications for potential franchisee owners are beneficial so that they are better informed as to the inner workings of franchises in their specific industry.

The main limitation of this study is that it is based on US franchising firms and a small sample, yet this is the most reliable data available and the franchising industry does not have hundreds of players in each industry.

Overall, agency theory has prevailed in each industry and the nature of franchising is to leverage franchisee resources to grow. Aside from the data presented herein we have seen this personally through our attendance at Franchise Expos, our discussions with franchise consultants, and attending professional development seminars such as the Selling Franchises Boot Camp. Oxenfeldt and Kelly's theory that franchise systems will eventually be wholly owned does not seem to be the case. In fact, our industry experience proves otherwise. It seems to be that franchisors are presently involved in the game of sell, sell, sell. Albeit, carefully to maintain quality and integrity. While Oxenfeldt spoke of buy backs, it seems that this typically occurs if there is a poorly performing franchised outlet. If so, the franchisor may buy it back merely to increase its performance and sell it again.

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