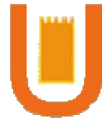


# UNIVERSITÀ DEGLI STUDI DI ROMA "TOR VERGATA"

FACOLTA' DI ECONOMIA

DOTTORATO DI RICERCA IN
ECONOMIA E ORGANIZZAZIONE DELLE IMPRESE

CICLO DEL CORSO DI DOTTORATO
XXI

Titolo della tesi

**Organization of The Franchising Networks:
Implications of Use of
Single and Multi Unit Franchisees**

Albino Dicerto

A.A. 2008/2009

Tutor: Chiar.mo Prof. Roberto Cafferata

Coordinatore: Chiar.mo Prof. Cosetta Pepe

**Aknowledgements**

Sometimes whilst watching football I see Alex, The Captain, exulting under the Curva Scirea filled with people and, sometimes, I think how great would be if my parents could jump by joy after a goal as high as his parents do. But then I realize that if mine cannot jump is because they are playing right next to me. Defenders maybe, all about stamina, long runs and sacrifices. And if I look at my life as if I were in a pitch I can see my team, perfectly lined up, looking for something more than a victory.

Looking for happiness and beauty in every pass.

I want to thank the President for his activity during the transfer season. He is the One who has always believed in me, who found a bunch of dispersed atoms and gave them a human-being form. Who gave me the best players ever to play with.

For, there shall be joy in Heaven for a believer who scores.

And, finally, if I close my eyes and stay silent for a while I can listen to the crowd singing…

”Walk on, walk on
with hope in your heart
And you'll never walk alone,
You'll never, ever walk alone.
Walk on, walk on with hope in your heart
And you'll never walk alone,
You'll never, ever walk alone.”

Thanks everybody for the assists.

**INDEX**


**Introduction** 8

**Chapter I: Organization and Relations in Franchising Chains**

**1. Introduction** 11

**2. Definitions and Evolution of The Franchising Format** 12

**3. A Network Approach to The Franchise Relations** 18

**4. Power and Relations in a Franchising Chain** 24

**5. The Management of The Relations Between Franchisor and Franchisees: a Barnard's Perspectives** 29

**6. Boundaries of Franchising Companies** 33

**7. The Italian Franchising Situation** 35

**7.1 Italian Franchising Chains: Evolution and Situation at 2007** 36

**Chapter II: Organizational Models and Franchising Theories: a Pilot Analysis**

**1. Introduction** 44

**2. Resource Scarcity Theory** 45

**3. Signaling Theory** 49

**4. Agency Theory** 51

**5. Transaction Cost Theory** 48

**6. Organization Action Theory** 59

**7. Boundaries and Franchising Theories** 63

**8. Growth Strategy and Boundaries in a Franchising Chain: a Comparison Among Franchising Theories** 63

**8.1 Introduction to The Case** 63

**8.2 History of The fFirm** 65

**8.3 Research: Methodology** 66

**8.4 Franchising Development in Toscano S.p.a.** 67

**8.6 Units Relations** 72

**8.7 Boundaries** 72

**9. Findings and Opened Questions Related to The Case** 73

**Chapter III: Implications of The Use of Multi-Unit an Single-Unit Franchisees**
**1. Introduction** 75
**2. Literature Review and Research Hypothesis** 76
**3. Methodology** 81
**4. Sample Composition** 81
**5. Growth Strategy and Organizational Form** 83
**6. Total Investment Cost** 89
**7. Power and Disputes** 90
**8. Uniformity and Innovation Ability** 91
**9. MUF as Reward-Strategy** 94
**10. Discussion of The Data** 95
**11. Managerial Implications** 98

Bibliography 102

# INTRODUCTION

Franchising has caught the attention of several studies during the last 50 years, since its appearance in the US market in the 50's.

Its development all over the world through the years, its growing importance in terms of turnover and outlets and its increasing affirmation as organizational model for firms belonging to different sectors made franchising one of the most important phenomena in the modern business model.

Franchising has been defined in very different ways during the last 50 years as its evolution was going on, and several studies have been carried out with the aim of describing how it works (Dant and Kaufmann, 2003; Stanworth and Curran, 1999; Rubin, 1978), its ability to change the competition amongst firms (Porter, 2005) and the ability of the franchised companies to grow faster than the 'normally' organized ones (Kaufmann and Dant, 1996; Sanchez et al. 2006; Shane, 1996). Nonetheless, franchising has attracted the attention of researchers from diverse disciplines including management, law, economics, marketing and finance (Dant and Kaufmann, 2003).

The definition used in this work is based on a network approach which define franchising as a particular typology or external network with a focal firm, constituted of a central unit named "franchisor", and other firms, the franchisees, tied to each others and the franchisor with multiple, reciprocal, systematic, stable and long-term relations ruled by the franchising agreement (Lorenzoni G. 1992).

Starting from the assumption that franchising in itself is not a homogenous form (Sanchez et al, 2006), this thesis suggests some useful insights for the

interpretation and the management of the complex relationships between franchisor and franchisees. Particularly, the existence of different models within franchising organizations will be explored, as well as their managerial implications in terms of growth rate, financial and recruitment problems, power, disputes and innovation ability.

Following this aim, the first chapter points out the different forms that a franchising chain can assume, making a series of considerations in terms of relations and distribution of power amongst the actors of a franchising chain.

The second chapter focuses on the description of the theories which described the birth, the development and the reasons of the success of franchising as a business model. These theories seem often in contradiction one to another (Watson A. 2005, Combs and Ketchen, 2003). Nonetheless, empirical support exists for them all, presumably reflecting the fact that there is no single explanation for franchising (Combs and Castrogiovanni, 1994) and its nature. At the end of the chapter a case study has been proposed with the aim to clarify and point out possible points of contact or inconsistencies amongst the main theories used in order to explain franchising. A new approach, based on the organization action theory (Thompson J.D. 1963, Maggi B. 2000, Masino M. 2001, Gasparre A. e Campi S. 2003) has been proposed as well.

As pointed out in chapter II, even if there are several studies focused on the understanding of franchising and its evolution, just few of them focus their attention on the understanding of the different structures a franchising can assume (Watson, 2005). Particularly, the existence of multi-unit franchising seems to contradict the fundamentals of the main theories focused on the understanding of franchising development and structure.

The third chapter focuses its attention on the study of these issues. Particularly, after a literature review of the main works on this area and a series of hypothesis coming from them, this chapter proposes a study of the Italian franchising chains made through the submission and the analysis of questionnaires sent during the period September-November to Italian franchisors.

# Chapter I: :

## Organization and Relations in Franchising Chains

### 1. Introduction

The franchising has been defined in very different ways during the last 50 years as its evolution was going on, and several studies have been carried out with the aim of describing how it works (Dant and Kaufmann, 2003; Stanworth and Curran, 1999; Rubin, 1978), its ability to change the competition amongst firms (Porter, 2000), and the ability of the franchised companies to grow up faster than the normal-organized ones (Kaufmann and Dant, 1996; Sanchez et al. 2006; Shane, 1996). Nonetheless, the franchising has attracted research attention from several disciplines including management, laws, economics, marketing and finance (Dant and Kaufmann, 2003).

Starting from the assumption that the franchising itself is not a homogenous form (Sanchez et al, 2006), the aim of this chapter is to explore the variations between different forms of franchising chains. Particularly, in the first paragraph we will propose a brief history of the evolution of the franchising formats, and the reason why they have been created. The following paragraphs illustrate the complexity of the relations between franchisor and franchisee from different points of view. The power issue will be explored and the Barnard's framework will be used to understand the relational problems.

The final paragraph illustrates the Italian situation of the franchising companies referred to the last year.

## 2. Definitions and Evolution of The Franchising Format

It is a common belief that franchising is a very recent phenomenon imported from Us in the 50's but its origin can be traced as far back as the Middle Ages[1]. Nonetheless it is true that the modern concept of franchising applied to the new companies comes from the Us. The company worldwide expansion of bottlers like Coca-cola or PepsiCo has been achieved by franchising bottling right and, just few years after, followers of this companies have been the big car manufacturers as the improved car production allowed by the new organization models had to find new distribution channels[2]. Later on, in the 30's, the franchising model established even amongst retailers, was aimed to combine their collective buying power and co-ordinate marketing and merchandising campaigns under a single brand name (Felstead, 1993: 44).

Many definitions of the franchising system exist in the literature and there is still a lot of confusion between this and the other distribution methods (Price, 1999), in part due to the variety of business arrangements that closely resemble franchising, and in part to the circulation of the term in a wide range of contexts (Housden, 1984).

According to the European Franchise Federation "franchising is a system of marketing good and/or services and/or technology, which is based upon a close and on-going collaboration between legally and financially separate and

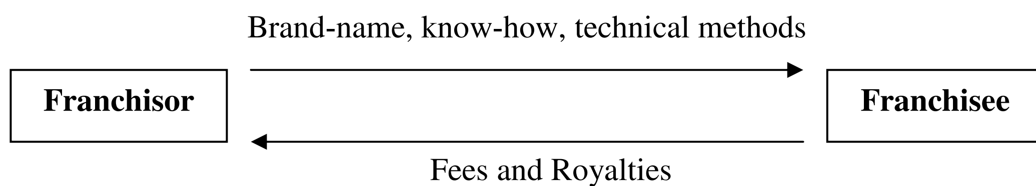
[1] For example, in Norman England, barons were granted territories by the King in return for the payment of royalties and provided they met many other requests made by the monarch. Similarly, later on in the Middle Ages, it was accepted practice for local governments to offer important people, who might also be high church officials, a franchise. This granted them the right to maintain civil order determine and collect taxes and levy special taxes in their area. The franchisee paid the franchisor a specified sum from the tax revenues collected, in order to receive military or other forms of protection. In this way the monarch could control his land within its sphere of influence by providing protection to its tax collectors. Although this system of tax collection came to an end in the middle of the sixteenth century, the sovereign's use of franchising re-emerged two centuries later. These arrangements often called for a pledge of allegiance to the monarchy in return for the right to develop one's personal wealth by exercising managerial authority over a specified geographical territory (Felstead, 1993: 39).

[2] Several selling methods were tried: mail order campaigns, agencies were established on a consignments basis, door-to-door salespeople were engaged and large department stores were used as outlets by some manufacturers. Only the use of agents on a consignments basis proved successful. It was therefore on this basis that the car dealership networks were established. Since car manufacturers lacked the capital resources to set up retail outlets of their own, they appointed dealers for particular areas. Cars were supplied to them at discounted price, allowing the dealer a margin between purchase and selling price to pay their running costs and allow them to make a profit. Dealers were allocated particular territories.

independent undertakings, the franchisor and its individual franchisees, whereby the Franchisor grants its individual franchisee the right, and imposes the obligation, to conduct a business in accordance with the franchisor's concept. The right entitles and compels the individual franchisee, in exchange for a direct or indirect financial consideration, to use the franchisor's trade name, and/or trade mark/or service mark, know-how, business and technical methods, procedural system, and other industrial and/or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework, and for the term of a written franchise agreement, concluded between parties for this purpose" (European Franchise Federation, 1990)

This definition provides several insights about this matter. First of all, franchising is a system of marketing goods and services, and finally it is a method aimed to create a distribution channel. This system is based upon an on-going collaboration. This collaboration is constituted in one direction (from the franchisor to the franchisee) by the right to operate under the brand-name of the franchisor and using its business format and, in the opposite direction, by an on-going payments represented by fees and royalties[3].

**Fig. 1.1 The franchising relation flows**




**Source: our elaboration, 2008**

Much of the lack of understanding of franchising as a distribution strategy stems from its diverse, heterogeneous and hybrid forms (Winsor and Quinones, 1994). It is possible to find in the managerial literature a lot of different classifications based on different categorization such as those ones concerning the different components of the supply chain or the way the franchisor organises the strategy.

[3] The fees are different in kind and quantity. An attempt to classify the diffent fees has been carried out by Felstead, 1993

One of the most famous classifications has been suggested by Charles Vaughn (1979), who identifies four types of franchising:

1) The Manufacturer-Retailer franchising – a manufacturer grants to a retailer the right to sell the product to the final consumer. The retailer could retain franchising as his sole business activity or, alternatively, as an activity within an existing business. Car dealership, public houses and petrol service stations are examples;
2) The Manufacturer-Wholesaler franchising – a manufacturer grants to a wholesaler the right to distribute a product. The main example of this form of franchising is the soft drinks industry, where companies such as Coca-cola and PepsiCo, sell franchises to independent bottlers which, in turn, distribute to retailers;
3) The Wholesaler-Retailer franchising – a wholesaler grants to a retailer the right to trade under a certain name. Examples here are the voluntary groups in grocery retailing, where the wholesaler (the franchisor) supplies products to the retailer (the franchisee) who is signed on a voluntary basis;
4) The Retailer-Retailer franchising – a retailer grants to another retailer the right to trade under the same name. Usually called "business format franchising", the franchisor has got a product or a service to be marketed under a common trade-name by, usually, standardized outlets. This type of franchising is based on the "cloning" principle and includes fast food outlets, car hire and hotel franchising.

For the discussion which follows it is important to identify, mainly, two types of franchising arrangement. The first one is known as product or trademark franchising, and concerns the situation where the franchisor is either a manufacturer looking for outlets through which distribute its products, or a manufacturer producing components seeking someone else able to assembly and then distribute the branded product to retailers. Franchisees, generally, conduct an independent business acquiring the identity of the franchisor through the product/trade mark. The second type of franchising arrangement is known as "business format franchising". In this case, franchisors sell not only products or

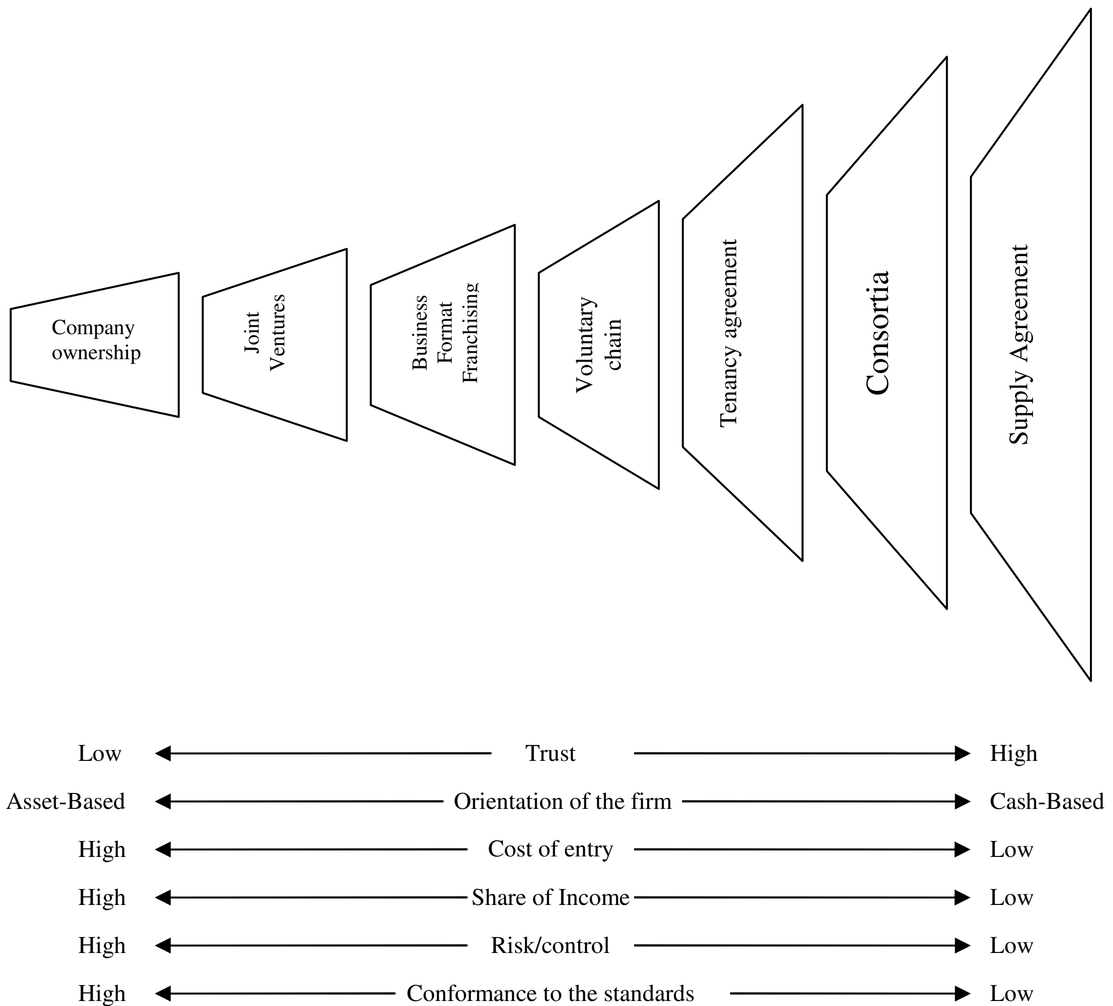
components but a real and complete "business format", concerning what do to and how to do that. Procedures are provided together with an operational manual and franchisees are under a strict agreement which describes meticulously every aspect of the relation.

From an organizational point of view, franchising contracts are, whatever the arrangement, always classified as a hybrid form of economic organization (Norton, 1998: Boari G., Grandi A., Lorenzoni G. 1992). The well-known Coase's article (1937), followed by a long stream of articles belonging to the Transaction Cost Theory School, suggested that all the economic organizations follow two general forms, market form or firm form. Actually, even if this distinction has been for a long time accepted as universal, several researches have identified different types of organizations that include elements related to both firm and market. A pioneer work carried out by Rubin (1978) examines the franchising contracts as a "third hybrid type", followed by other important researches (Mathweson and Winter 1985) using the same point of view. In that way it is possible to identify a *continuum* between the market-form and the firm-form. An interesting point of view has been proposed by Lorenzoni (1982), as he uses a network approach to describe the franchising reality. He describes the franchising form from that point of view as a particular typology or external network with a focal firm, constituted of a central unit named "franchisor", and other firms, the franchisees, tied to each others and the franchisor with multiple, reciprocal, systematic, stable and long-term relations ruled by the franchising agreement (Lorenzoni G. 1992). This approach avoids answering the transaction costs question but offers, in the meantime, a deeper understanding into the organization of the franchising firm matter.

Another important question about the collocation of the franchising relations concerns the proper identification of the franchising form opposed to other distribution solutions. Even if it is clear that the franchising model is not just a different way to distribute goods or services (Price, 1999) but results, as pointed out before, as a completely different way to organise a business, it is necessary to

make clear the differences which appear every time we talk about this kind of contracts and the others. Indeed it could be a really difficult issue, sometimes, to understand if we are talking about a franchised company, a voluntary chain or a supply agreement and it is often matter of subjective evaluations.
An interesting model has been proposed by Price in order to solve this problem. Using 6 different determinants such as level of trust, orientation of the firm, cost of entry, sharing of the income, control and need to conform to the standards, he outlines a useful taxonomy of hybrid organizational forms. Franchising contracts are, indeed, always classified as a hybrid form of economic organization (Norton, 1998: Boari G., Grandi A., Lorenzoni G. 1992)

**Fig. 1.2 Taxonomy of hybrid organizational forms**




**Source: Stuart P. (1999), *The Franchise Paradox*,**

The scheme is the result of several studies concerning the matter of the hybrid forms. Bailey et al (1995) suggested that it is possible to establish a hierarchy among the different hybrid forms, based on the costs of exit: accordingly, company ownership is associated with high costs of exit whereas membership of a trade association is comparatively cheaper to leave.

According to Harrison and Johnson (1992) it is possible to differentiate the hybrid organization form in terms of rigidity of their assets: the more a company is asset-based the more likely it will be keen to be a centralized company, the more it is cash-based the more likely it will use externalization strategies. An interesting study carried out by Ring and Van de Ven (1992) suggests that where the perceived risk is high and the trust is low then full-ownership is likely to be pursued and maintained, but, as opposite, where there is high risk and high trust, relationships are better addressed by long-term contracts characterized by elaborate safeguards to reduce the possibility of conflicts, such as joint ventures and franchising contracts. By contrast, as argued by Stanworth (1995), where the risk is low and the trust is high, relantionship are better managed by recurrent contracts.

The taxonomy proposed appears to be a good classification of the different hybrid forms supported by a broad array of literature (bailey et al, 1995; Housden, 1984; Lorange and Roos, 1993; Wiking, 1995) Nonetheless, as Price himself argues, once a particular relational choice is pursued, it cannot be changed with ease (Price, 1999) as the change presents several difficulties both from the internal and inner side (Cafferata, 2005). For this reason it is possible to find in the same layer of the hierarchy organizations featured in different way and with different levels of trust, risk, conformance to the standards and so on.

Focusing on the business format franchises a lot of classification problems still remain. In fact, as noted before, the business format franchise is not a homogeneous form and presents a wide range of different structural solutions (such as, single unit franchising, multi unit franchising, plural form) most of them

related with trust, risk, costs of entry and costs of exit issues. A deeper analysis of these issues will be proposed in the chapter II.

### 3. A Network Approach to The Franchise Relations

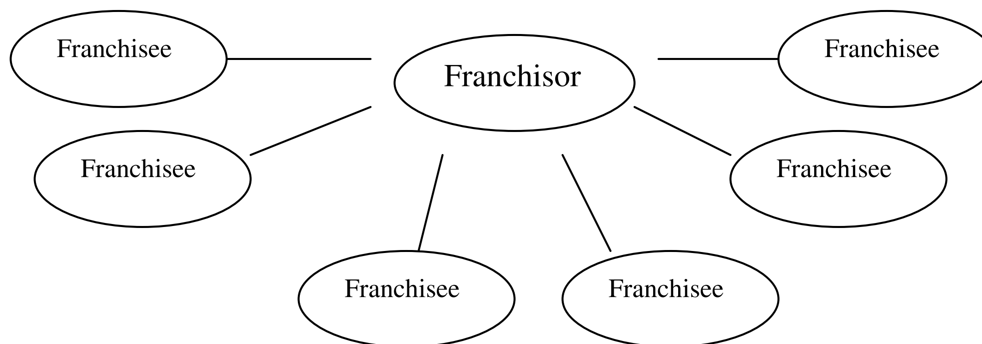
As pointed out before, a franchise chain can be identified as a network constituted of many satellite firms (the franchisees) and a focal firm (the franchisor). This approach is particularly interesting for the purpose of this work because it can help in better understanding, through the study of the relations amongst the different firms involved in the network, the differences between the possible structural configurations of this kind of organization.

A particularly important concept for our purpose is the one of centrality. Many authors have been involved in the particular issue of describing this concept (overall in the network analysis context) and the literature provides several different definitions of centrality, proposing a lot of different names and approaches to this. Moreover, centrality has been always connected with the concept of power, so that, the more the centrality of a unit (or a firm), the higher the power it has in bargaining with the other units (or firms). For this work the definition of centrality used will be the Freeman's one (1979), defining centrality as the synthesis of two measures: the *degree* (the number of other organizations to which the focal organization is tied) and the *betweenness* (that calculates the extent to which actors fall between other actors on the shortest path). Power, namely the ability to mobilize resources and people to get operations done, is supposed to be related with the level of the centrality: the more the level of the centrality, the higher the power of the unit.

In the franchising context, the franchisor gains a position of power over the franchisees and its suppliers, since the franchisor contractually determines the majority of the franchisees' suppliers they should use and, in some systems, the suppliers are sub-contracted by the franchisor himself (Price, 1999).

A linear franchising organization results, at a first glance, easily organized around the franchisor wills (fig. 1.3):

**Fig. 1.3 Linear franchising organization**



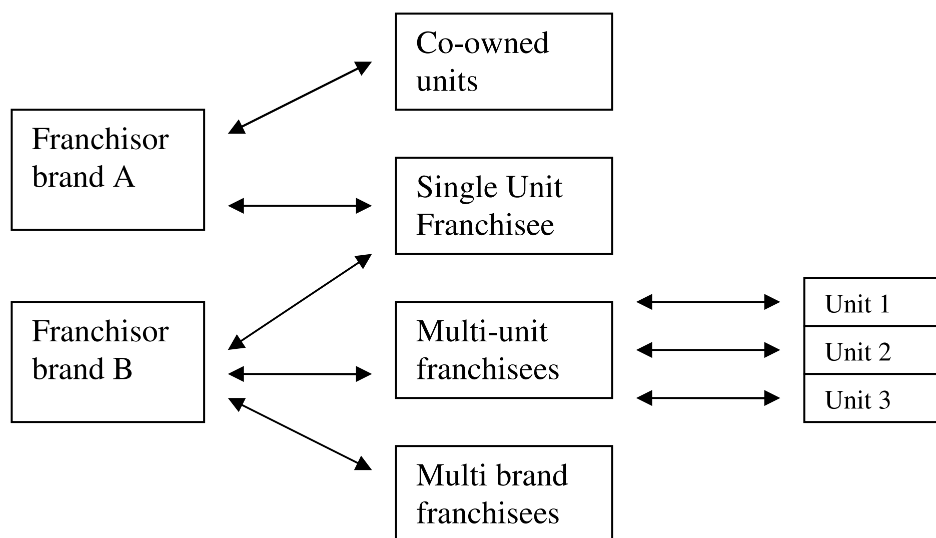

**Source: our elaboration, 2008**

This is the easiest case of franchising organization we can meet. Nonetheless it presents some variables worthy to be discussed. Even if we talk only about the business format case (the case in which a retailer allows other retailers to trade under the same name), it is possible to differentiate the case in which the franchisor purchases all the goods and then uses its franchisees to sell them and the case in which the franchisor determines what, when and how to do something but lets the franchisees free to manage their relations with the suppliers. In the first case the franchisor maintains all the power in its hands, in the second one it decides to give its franchisees some margin of power.

A linear franchising organization is a myth propounded by some marketers (Price, 1995) and, as Kaufmann and Dant (1996) comment, the literature implicitly or explicitly assumes that franchisees are owners/managers of single units. This weakness is beginning to be addressed with studies considering the motivations and implications of plural form networks (Bradach, 1997, Cliquet, 2000, Dant and Kaufmann, 2003), and multi-unit franchise systems (Bradach, 1995, Kaufmann and Dant, 1996, Garg et al, 2005). The relations in a franchising context are, therefore, more complicated, and then, when we discuss the organization form of a franchising organization we have also to consider other options such as multi-unit franchisees (franchisees operating with more than one unit of a particular

brand), multi-brand franchisees (those operating with more than one brand) and plural form (in which company-owned and franchised units exist together). Furthermore, we have also to consider that all this different types of organization can exist mixed together, that is, a franchisor could have contemporarily both multi-unit franchisees and single-unit franchisees and company owned units. In the meantime a franchisee could be allowed to manage only one brand or more than one brand. The figure 1.4could help in understanding better the problem:

**Fig. 1.4 Complex franchising relations scheme**




**Source: Stuart P. (1999), *The Franchise Paradox*,**

In this figure the franchisor "A" has some co-owned units and contemporarily it has a franchised channel (represented, in this case, by a single-unit franchisee). It is the usual configuration for those companies who started like normal companies and then, for different reasons, decided to open a new channel without abandoning the former.

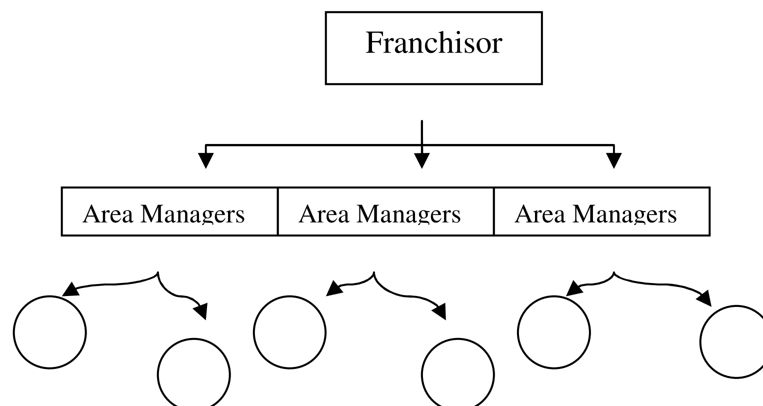
The franchisor B has, instead, only franchised units but with completely different needs and, probably, strength. Most of this work is focused in understanding what are the different reasons which conduct a firm to make this kind of organizational choices, with particular regards to the choice of allowing firm to have more than one unit or not.

All these configurations (and all the other possible ones) imply, obviously, different governance skills and have to be considered as different organizational forms.

The configuration showed in the figure 1.4, indeed, is the simplest configuration it is possible to find in a franchising chain. A franchisor relates with its franchisees directly and the relations are always top-down, from franchisor to franchisees.

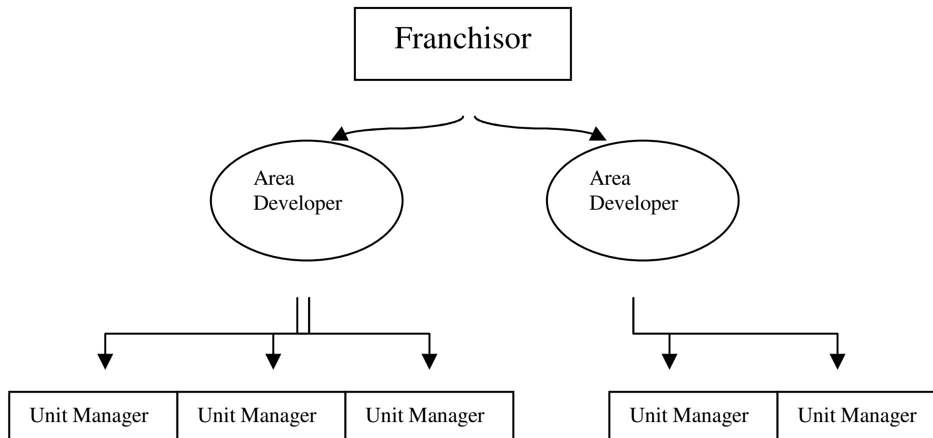
In this configuration the main problem that could arise is related with the recruitment issue, as the franchisor controls through the agreements the life of "its" organization.
This particular configuration is in most cases the best one for little franchisors and in limited contexts. When the geographical dispersion or the number of outlets increases, so do the complexity, and new needs of control arise. Franchisors can solve this problem in two different ways: hiring managers in charge of monitoring an assigned area (fig.1.5) or allowing franchisees to develop an area by themselves (fig.1.6)

**Fig. 1.5 Franchisor with hired area managers**




**Source: our elaboration, 2008**

**Fig. 1.6 Area development franchising**




**Source: our elaboration, 2008**

The organizational implications of this decision are various. In the first case, with an organization in which hired managers monitor the operations of the franchisees, part of the franchising advantages disappears as the mechanism is not completely subjected to a residual claimant concept. In other words, managers are paid as managers of other organizations and they have no stakes in the results of the company. At the bottom of the pyramid, franchisees have still to work hard considering that their gain is strictly related with their return, but is not possible to say the same for the manager, who can have different purposes or be keen to take advantage from their situation. On the opposite side, area developers are allowed to open more than one outlet and to develop an area, but they probably are not able to physically stay in the different outlets and, therefore, need to hire managers. The organization in its complexity has the same problem, shifted to a lower layer. Managers have no stakes in the performance of the outlets they manage, so that they, in absence of coercion, can be not keen to work, or act in opportunistic way.

The table below, proposed by Garg et al (2005), summarizes the question previously exposed:

**Tab. 1.1 Agency problems in the different organizational models**

| | | | Multi-unit Franchising (MUF) | |
|---|---|---|---|---|
| | Hired manager | Single-unit Franchising (SUF) | Area development franchising (ADF) | Incremental franchising (IF) |
| Shirking | ++<br>High potential due to salary incentives | 0<br>Low potential due to residual claimancy by franchisees | +<br>Moderate potential due to salary incentives of outlet managers and residual claimancy by franchisees | +<br>Moderate potential due to salary incentives of outlet managers and residual claimancy by franchisees |
| Free-riding | 0<br>Low potential because there are no gains to the hired manager from free-riding | ++<br>High potential, because outlets owned by others would bear the negative spillover effects of free-riding | +<br>Moderate potential because outlets of the same franchisee would bear the negative spillover effects of free-riding | +<br>Moderate potential, because outlets of the same franchisee would bear the negative spill over effects of free-riding |
| Adverse selection | + or ++<br>Moderate to high potential due to no opportunity to observe skills and the high number of applicants | +<br>Moderate potential due to no opportunity to directly observe the franchisee's skills ex ante | ++<br>High potential; cannot observe skills ex ante and the franchisee gets multiple units so this is a bigger risk than in SUF or IF | 0 to +<br>Low or moderate potential; cannot observe skills ex ante, but the IF provision could encourage high-quality franchisees to self-select in |
| Inefficient investment | 0<br>Low potential because hired outlet manager does not make investment decisions | ++<br>High potential, due to investment tied to returns from one outlet | +<br>Moderate potential, due to investment tied to returns from many outlets | +<br>Moderate potential, due to investment tied to returns from many outlets |

**Source: Garg et al., 2005**

This situation appears difficult to be sorted, so that it is impossible to define which the most suitable configuration for franchisor is, in a general way. Moreover, different theories explain this kind of problem in different, and sometime opposite, ways (see chapter II), suggesting different solutions for the same problem. Also, mixed configurations are possible so that it is possible to find in the same franchised organization area developers, area managers and outlets directly managed by the franchisor.

In the next paragraph we are going to explore how the different structural configurations affect the distribution of the power in the relations, and their quality.

## 4. Power and Relations in Franchising chains

The franchise agreement plays an important role in determining the relationship between franchisor and franchisees as, as noted by Rosenfield (1970: 67), it is from this instrument and the relationship that it creates that all the responsibilities and benefits flow. With this instrument, indeed, the franchisor sets all the legally binding obligations and duties for both parties. The first thing is possible to figure out is that not all the franchise agreements are similar and, instead, all the different franchisors decide autonomously the kind of rules to follow and the kind of relations to build. This is the first step of the complex plan a franchisor needs to set properly in order to match its own necessities. It has been argued, for example, that allowing franchisees to have more than one unit enhances their power and lowers the level of dependency (Bygrave, 1992) and rises the level of the litigations (Ishani, 2006) even if this configuration allows high growth rate (Kaufmann and Dant 1996, Sanchez et al. 2003). Single unit franchising is, instead, more manageable by the franchisor but is not suitable in situations of recruitment difficulties. Others argue that multi-unit franchising is more suitable in presence of repeat trade as it permits a higher conformance to the standards (Bradach, 1995). Moreover, maintaining a plural form, which has both company-owned units and franchised units, seems to be positively related with the ability of the firm of internationalize its business.

Harking back to the main topic of this paragraph, it has to be noticed that the franchisor exerts power through the agreement in two different moments: the first one when it proposes the agreement, the second one when it uses the agreement. The first class of clauses worthy to be mentioned are those ones related with the operational control. Even if the franchisees are considered to be formally autonomous from their franchisor, there are, indeed, a lot of different clauses designed to regulate the way the franchisees do their business. Together with the

rules aimed to provide a homogenous regulation of the day-to-day operation of the franchised business, a set of other rules is defined in order to shape the longer-term development of the franchisees' businesses[4]. Both provide a wide range of possibilities for the franchisor to exert power. Retaining, for example, the right to make unilateral operational change, gives to franchisors a potentially endless power over the franchisees (with the only limit posed by other possible agreement clauses), which are contractually required to follow franchisor-inspired changes without questioning. Moreover, as the contractual control is not simply related to the day-to-day operations, but is extended to shape the long-term development by measuring the franchisees performance in terms of outlet turnover, franchisors exercise wide-ranging control over their franchisees' business (Felstead, 1993)[5].

The question about who bears the risk of the business is another important question solved by the agreement. Usually the incomes of the franchisor are related to the turnover and not to the profit[6] so, if for some reasons something goes wrong, (the business makes a loss or becomes bankrupt) the franchisee bears the greatest financial risk.

The agreement offers even more instruments of control to the franchisor, such as those derived from the assets control. At a superficial level, the often significant investment required to the franchisees would suggest that the ownership and control of the business assets resides with them. A more detailed investigation reveals that franchisees do not have outright ownership of the business assets with which they work (Felstead, 1993: 109). The first asset we need to discuss is the know-how. Although the franchisee purchases an idea and acquires a complete business format, in most cases the franchisor tries to make it difficult to operate

[4] In the class of the day-to-day operation we can find clauses like possibility for the franchisor to unilaterally change the terms of the Operational Manual, opening/working hours of the franchisees, multi-brand ban, need of approval fro holidays, commitment in local advertising, influence in prices, monitoring of the product/service quality. Part of the second class clauses are minimum sales and other targets, expansion triggers, exclusivity of trading rights within a specified area, option to renew.

[5] It has been noticed that this measurement of the performance highlights a potential conflict area due to the different aims which franchisor and franchisees pursued. The aim of the franchisor – maximization of outlet turnover – and that of the franchisees – profit maximization of the outlet – may not coincide (Felstead, 1993: 103).

[6] The mechanism through which this is achieved is the royalty levy, that is, the franchisee pays regularly an amount of money commensurate to the profit it produces. Some franchise systems do not commit franchisee to make any direct payments. In that case the levy is represented by a mark-up the franchisor charges when it sells them the products ( product franchisors).

without its assistance by restricting the transfer of learnable know-how. In terms of organization choices it means that the less the franchisor can operate restrictions to the transfer of knowledge, the more it will be keen to use company-owned units instead of franchised ones, in order to maintain the control over the network. In terms of knowledge transfer an interesting study has been carried out by Kaufman and Dant (1996). Traditional franchise theory suggests that franchising may be preferred to company-owned units because franchisees represent an efficient bundled source of financial, managerial and information capital (Dant and Kaufmann, 2003). Franchisees operate typically in markets and communities of which they are themselves members and have considerable local knowledge. Thus, franchisees bring to the franchise system not just financial capital, but also a knowledge of geographic locations and labour markets, and their own managerial labour (Watson et al, 2005). Multi-unit franchising can enable this local market knowledge to be fully exploited (Sanchez et al, 2006), enabling the transfer of knowledge from store to store of the multi-unit owner. However, for multi-unit franchising to be effective in this respect, the outlets need to be located within the same locality. These considerations add complexity in terms of organization choices.

For what concerns the tangible assets, the discussion has to consider many aspects. It is not so common for the franchisor to have a "stake" in the tangible assets, as one of the most accepted theory explains the franchise choice as a choice made in order to achieve financial acquisition (this theory goes under the name of Resource Scarcity Theory) and, moreover, most of the time the franchisors are not able to expand their business alone because of a lack in financial means[7]. At a first glance the ownership of the tangible assets seems to belong to franchisees, but going deeper in the matter it is possible to find out that this ownership is subjected to many restrictions. In particular, it is useful to consider what happens when a franchisee decides to sell its business. Most of the time, franchisors ask franchisees to look for their approval every time they want to

[7] Sometime in retail-based franchise systems could happen that franchisor takes the head-lease and offers franchisees an under-lease or that franchisor hold outright ownership of the property and land on which outlets are built. McDonald provides a classic example of this sort of strengthened (Felstead 1993: 112)

sell the business. Several times, when the transfer is approved, franchisors ask franchisees to give them a commission adjusted to the sale price. As noticed (Felstead, 1993), despite investing large sums of money, franchisees have virtually no ownership rights in the intangible assets and only restricted rights in the more tangible ones.

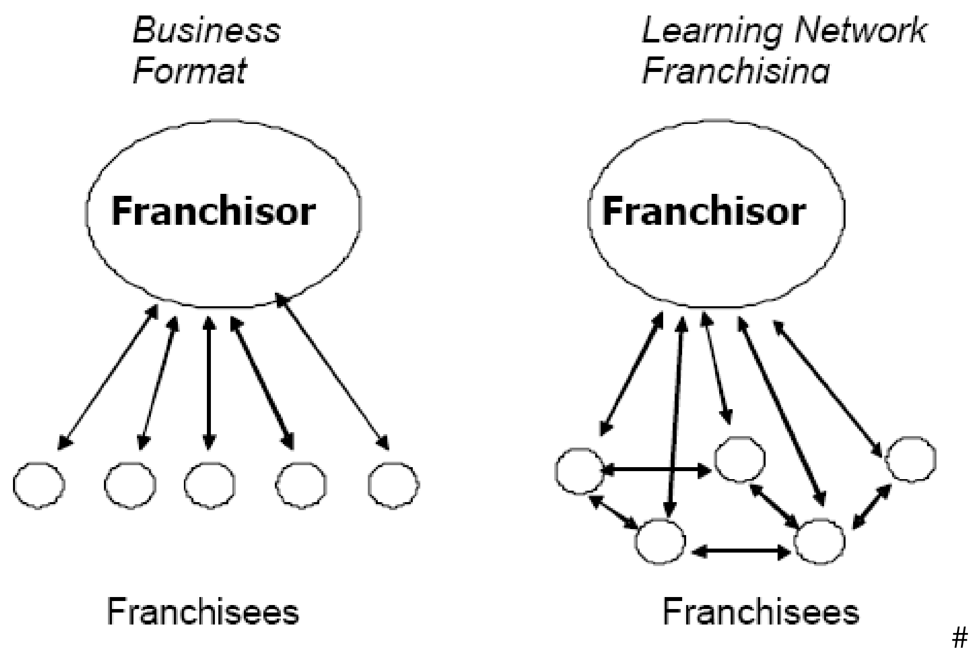
All these levers are only potential ones, because franchisors can decide to "use" the agreement in different ways (Macaulay, 1963; Beale and Dugdale, 1975). This last consideration implies several different choices in terms of organizational structure, as different types of leadership could be used. Summarizing, Felstead identifies an index of contractual control, formulating a continuum of "hard" and "soft" contractual types, based on six key elements[8], but whether such contractual power is used or not changes from franchisor to franchisor, and the types of leadership it intends to use. Franchisors can, indeed, decide to turn a blind eye over some violations of the contract or to ask franchisees to be strictly committed in the observation of the rules. Even if the type of leadership used is a subjective issue, it is possible to make some considerations in order to try to identify possible market aspects able to influence the way the franchisor relates with its franchisees. For example, it is argued that the nature of the served market is one of the factors the franchisor takes in mind when decides how to act. In the market, where a high level of uniformity is expected, the franchisor tends to be stricter in the interpretation of the rules (Price, 1999), whilst in markets where the responsiveness in the adaptation towards the demand of the customers is the main concern for the company, franchisors tend to be less strict, giving autonomy to their franchisees (Bradach, 1995)

Useful in the understanding of the relation between franchisor and franchisees are the concepts of formal authority and real authority. The first one is defined as the right to decide, the second one is defined as the effective control over decisions (Aghion and Tyrole 1997). As we noticed before, franchisors in business format franchising give to their franchisees a detailed operational manual, and describe

[8] The key elements identified are: non-exclusivity territories, performance targets, "stake" in tangible assets, possibility of unilateral change of the Operational Manual, post-termination restrictions, monitoring of output quality.

meticulously in their agreement what they can do and how they have to do it. The agreement and the operational manual are, therefore, the mean through which franchisors distribute formal authority in their chain. The real authority distribution is, as a matter of fact, something different, and does not coincides necessarily with the given formal authority. Azevedo (2003) suggests a possible trade-off between needs of standardization and needs of knowledge creation and sharing; the higher the level of standardization required, the lower the level of allocation of authority, the lower the level of innovation and knowledge-sharing. In other words, organizations whose strength relies on standardization have to be stronger and more concerned about the control of the franchisees' actions, while franchisors which need to exploit the ability of the franchisees to create innovation and to share the knowledge have to delegate more. Azevedo identifies, in that way, "the third generation of franchising", named Learning Network Franchising, in which the franchisor, besides transferring to the franchisees the right to use the whole business format, also shares the rights and obligations to innovate among all the participants in the franchise chain.

**Fig. 1.7 Business Format and Learning Network Franchising**




**Source: Azevedo, 2003**

The two models basically differ on the level of real authority exercised by the franchisors. Differences in business features, such as the required standardization and monitoring costs and the consumer sensitivity to variations in the product attributes (consumer measurement costs), explain, in this model, the adoption of the different modes of organization in franchising.

The choice of the organization form is not a simple choice. This work, in chapter III, is focused on better understanding why the franchising companies make some choices instead of other ones, particularly in relation with the question of the multi-unit franchising, single-unit franchising and company-owned choices. Responsiveness towards the market stimulations, uniformity to the franchisor standards, rapid growth target leadership, financial constraints and sector of activities, supposed to be related with the organizational choice of the franchising format, will be explored and discussed.

## 5. The Management of The Relations Between Franchisor and Franchisees: the Barnard's Point of View

As it has been noticed before, franchising can be seen as a form of relational exchange characterised by long-term continuous and complex relationships. Strutton (1995) argues that in a franchised organization any single exchange is of insignificant importance compared to the implicit imperative to sustain the relationship itself. In the previous paragraph, it has been argued that the majority of the power is held by the franchisor who often appears to consider franchisees as they were employees. A useful theoretical framework able to give some explanations of this matter is the Barnard's one. In his book (1938) he delineates an analysis model by which it is possible to point out the reasons of the cooperation and its way to endure in the time. He doesn't write anything about franchising, nonetheless many of his considerations can be reckoned strictly pertinent with this issue.

Base of the discussion is that the organizations come to life because of the human limitation in doing something. So that, when a single human being is not able to

do something by himself, he goes around looking for *cooperation.* Most of the literature studying franchising, in fact, argues that franchising is a way to overcome resource constraints (Oxendfelt, 1986). However, leaving the discussion about the reasons why franchise to the second chapter, it is useful at the moment to try to understand what the cooperation implies. A fist implication arising is that all the human beings (or the units) who constitute an organization bring into this their strengths and efforts but, at the same time, their own purposes, ambitions and limitations. Barnard is clear in underlining that cooperation doesn't mean necessarily identification in the same purpose and, instead, most of the time, this identification is impossible. The life of an organization depends on its ability to secure and maintain the personal contributions of energy, necessary to gain its purposes. It is possible, then, to identify efficiency as the ability of a firm to secure the necessary contributions, and the effectiveness as the ability to satisfy the different purposes inside the organization, whilst the organization purpose has gained. In other words, the management of the relations implies the ability to secure and produce and, at the same time, to distribute resources and to change motives of the participants at any level.

The implications for franchising company are many. In a franchising context it means to be able to understand the necessity of franchisees and give them what they need to be satisfied. This is not a simple question to be solved, as the areas of possible conflict are a lot. The key areas of conflict on the franchisor-franchisee relationship are rooted in their agency questions: shirking, free-riding, adverse selection and moral hazard are the main questions both franchisor and franchisee have to face

**Tab. 1.2: Agency Problems in franchising relations**

| Term | Definition |
|---|---|
| Adverse Selection | Reflect the uncertainty over a new issue. In this case is referred to the possibility to recruit bad franchisees |
| Free-riding | It is the situation in which individuals fail to participate in collectively profitable activities in the absence of coercion or individually appropriable inducements |
| Shirking | A positive incentive to supply less effort |
| Moral Hazard | Moral hazard is the prospect that a party insulated from risk may behave differently from the way it would behave if it were fully exposed to the risk. |

The main instruments a franchisor can use to force franchisees in concentrating their efforts in the franchising purpose are the agreements (as outlined before) and a particular feature of the franchised chain is that franchisees are interested in behaving properly as they share with the franchisors part of the interest in promoting and maintaining the brand equity. Nonetheless, as Dant and Nasr (1998) noticed, franchisees may not be directly interested in safeguarding the brand equity of their franchise if their own short-term profitability is not compromised by it. Particularly, the author notices that for those franchisees whose business is characterised by non-repeated trade, there may be a temptation to undertake activities which may be injurious to the brand in return for short-term gain. Nonetheless, is even possible that the franchisor, in an attempt to save money, reduces the quality of the inputs involved in the production. For the same

reason, namely in order to save money, the franchisor can decide to reduce the level of training or assistance provided to the franchisees and, as Spinelli and Birley argue, when this lack overcomes a “zone of tolerance”, conflicts arise.

A second area of conflict could be the possibility of shirking, namely the possibility for a franchisee to misdirect its efforts. Usually, franchising is supposed to be an instrument able to solve shirking problems often present in organizations leaded by managers. Moreover, Shane (1996) argues that monitoring shirking is less expensive for the franchisor than for normal organizations. Nonetheless, on the other side, employees can be fired whilst franchisees are legally independent businesses, tied with an agreement, and it could be more difficult to “fire” them.

A third area of conflict arises in the form of lack in uniformity and standards. The request of freedom and the natural inclination of franchisees to feel independent (Stanworth and Kaufmann, 1995) could have potential damage for the brand and could lead the brand to an important loss of value. This conflict is, indeed, the most difficult to be managed, because often franchisors have no clear idea about the level of autonomy they want to give to their franchisees. Sometimes, indeed, franchisees are recruited by the system because of the local market knowledge they can bring, or for any different knowledge they can provide. In this case franchisors have to face a trade-off between standardization-innovation which is not easy to be addressed.

All these conflicts can lead franchisors to eliminate or lose franchisees, to a loss of value and, if chronic, to the bankruptcy.

Barnard’s suggestion for a right management of the relations is composed of both economical and cultural interventions.
“The method of incentives”, as described by the author, refers to two different classes of incentives: the first one concerns all those that are specific and can be specifically offered to an individual, the second one is related to the general ones,

not personal and that can not be specifically offered. For what concerns the first class, having regard to a franchised context, it is possible to argue that a good management of the relations passes through a right setting of fees and royalties. The amount of royalties and fees, indeed, fixes the amount of revenues a franchisee can retain and, therefore, his “salary”. Other incentives belonging to this class are the services the franchisors offer: as pointed out before, franchisors have a tendency to reduce the amount of training and other services in order to save money, and this behaviour can cause disappointment among the franchisees. For what concerns the second class of incentives Barnard suggests that associational attractiveness, adaptation of conditions to habitual methods and attitudes, the opportunity of enlarged participation and the condition of communion are the most important. In a franchised context, the most important thing is the associational attractiveness, namely, the value of the brand. The more the brand is worth, the more the franchisees will be likely to remain faithful to the franchisor with an active and “pure” action. Another “general incentive” could be represented by the permission to open more than one outlet, given to “good” franchisees. Multi-unit franchising is used by franchisors, most of the time, as reward for the good actions of their franchisees. Barnard calls the condition of communion “the feeling of personal comfort in social relations, sometimes called solidarity, social integration or social security…or the opportunity for comradeship”. This “communion” is, of course, one of the most important managers’ target, even if it is hard to be built and takes a long time.

“The method of persuasion” is constituted by the creation of coercive conditions, rationalization of opportunity and inculcations of motives. All this incentives are present in the franchising agreement but, as we argued before, the important thing is not what is in the contract but how the franchisor handles the real situations when they come to the light. An uniformity in treatment and judgment of the different franchisees is at the base of a good management of the relations.

## 6. Boundaries in Franchising Companies

The definition of the boundaries of the modern companies is not a simple question to be faced. Indeed, companies are becoming much more integrated than in the past, and networking and complex supply chains render the firm boundaries difficult to be interpreted.

This matter in the franchising context is, of course, not easy to be defined, and many authors (Price 1999, Mendelsohn 2001, Felstead 1993) have proposed their own framework of interpretation.

The formal franchisees independence is out of discussion, as they run their own businesses and are responsible for every action they take in doing their activity. More complicated is to establish if franchisees have to be considered employees or self-employer. This question has been faced many times in the literature both from a social point of view (Stanwort et al, 1999) and from a management point of view (Kaufmann, 1999, Felstead 1993). The understanding of this issue is central for the solution of the boundaries question. If they are employees, even if they are paid in relation on their performance, it means that they operate under the franchisor organization and, therefore, franchisor and franchisees constitute a unique organization. If, on the contrary, they are self-employed, it means they are just connected with another organization but they are autonomous and constitute a different organization linked to a network with their own boundaries. It is difficult to understand which side of the literature prevails because both side have been experimented and have empirical works which can support them[9].

The second question that has to be analyzed arguing around this matter is the concept of power exposed before. If the power relies exclusively on franchisors, it is possible to argue that the franchisor internalizes the franchisees' resources and, even if they nominally belong to other people (namely the franchisees), they have to be considered part of the same organization. The most cited literature agrees with the point that the level of the franchisees' dependency is bigger than his

[9] For a deeper analysis of this matter it is possible to read Kaufmann P. J. 1999, Franchising and the choice of self-employment, Journal of Business Venturing; Eaton, J. (1986) Employee Relations, 1986, Vol. 8 Issue 4, p14-16, 3p, 1 bw, Kaufmann, Patrick J.; Stanworth, John. Journal of Small Business Management, Oct95, Vol. 33 Issue 4, p22-33, 12p, 4 chartsal

independency and, therefore, from that point of view, even if margins for discussion still exist, it is possible to consider franchisor and franchisees belonging to the same organization in which the governance and high level managerial decision have taken by the franchisor.

A different opinion could be found looking at the matter in a different way, such as, the one of the organization action theory. This framework adopts a different starting point assuming that the action instead of the "actor" has to be the main focus of analysis. Summarizing, in a complex process it is not important who does something but the result of the action.
This theory hasn't been tested yet coping with this issue in franchising context. Nonetheless some cases have been proposed (Campi S. & Gasparre, 2003: Maggi e Masino 2000) in both profit and no profit organizations. A first attempt in the franchising field is showed in the second chapter of this work, and could offer some useful insights for future researches on the field of the franchising organization boundaries.

**7. The Italian Franchising Situation**

Italy, like most of the developed countries, has had a massive development of this form from the early 80's to nowadays, and data shows that this sector is still in a growth phase. The franchising business has growth, as we will see better in the following chapter, of more than 5% only in the last year, reaching a total turnover of 21,129 billions euro and more than 50.000 outlets.

The next paragraphs will explore the situation and the evolution of the Italian franchising chains in the last years. The data could not be considered as precise data. At the moment, in Italy two associations exist. The biggest, Assofranchising, has about 250 members, while the smallest, Federazione Italiana Franchising (FIF), counts about 70 members. The estimated number of franchisors in Italy is assumed to be around 800, so that it is possible to suppose that more than 450 franchisors are not yet member of one association. This happens for three reasons. The first one is that both Assofranchising and FIF have a strong path of selection

for their members. For example, members with less then 3 franchisees are not allowed to join the association and, moreover, all the members have to show a certain experience in the sector (at least 12 months). The second reason is that Italy has had a huge delay in starting the association respect other US and European countries and the associations are relatively young.

The third reason is that part of the franchisors present in Italy have a foreign headquarter. It is estimated that the number of foreign franchisors is about 90 with about 4.000 franchised outlets and 650 owned units.

This representation is the only available one and it could be considered a useful picture of the actual situation.

### 7.1 Italian franchising chains: evolution and situation at 2007

The Italian franchising chains had a relative late development with respect to other countries (Sestili, 2008). Even if some evidences can be found before the 90's, it has been in those years that the Italian franchising chains have had their major development. The table below shows as in about 5 years in the early 90's the number of franchisors doubled (passing from 250 chains to 465) and then, in the following 10 years it reached the number of 766 in 2006.

**Tab. 1.3 Evolution of the Italian franchising organizations**

| Year | n. Franchisor | n. Franchisees | Average n. franchisees per franchisor |
|---|---|---|---|
| 1991 | 250 | 12.000 | 48 |
| 1992 | 336 | 15.000 | 45 |
| 1993 | 361 | 17.500 | 48 |
| 1994 | 370 | 18.650 | 50 |
| 1995 | 436 | 19.440 | 45 |
| 1996 | 465 | 20.706 | 45 |
| 1997 | 486 | 23.173 | 48 |
| 1998 | 502 | 26.274 | 52 |
| 1999 | 536 | 28.127 | 52 |
| 2000 | 562 | 31.439 | 56 |
| 2001 | 606 | 36.547 | 60 |
| 2002 | 628 | 39.315 | 63 |
| 2003 | 665 | 41.901 | 63 |
| 2004 | 698 | 43.199 | 62 |
| 2005 | 735 | 46.337 | 63 |
| 2006 | 766 | 48.422 | 63 |

**Source: Quadrante, 2008**

A first insight we can get looking at this table is the stability of the average number of franchisees per number of franchisor, so that we can argue that the increased number of franchisors is composed of new franchisors with similar dimensions.

The regional distribution of the franchisor and franchisees is another important thing worthy to be pointed out. As Italy is a country with a big gap between the north and the south in terms of employment rates and growth rates, it is interesting to notice that this gap is reflected even in the franchisors distribution (tab. 1.4)

**Tab. 1.4 Italian distribution of franchisors per region**

| **Region** | **N. Franchisors** |
|---|---|
| Lombardia | 274 |
| Lazio | 89 |
| Veneto | 85 |
| Emilia-Romagna | 80 |
| Piemonte | 60 |
| Toscana | 39 |
| Campania | 38 |
| Puglia | 33 |
| Sicilia | 24 |
| Liguria | 22 |
| Abruzzo | 19 |
| Marche | 16 |
| Friuli | 14 |
| Umbria | 11 |
| Sardegna | 9 |
| Trentino Alto Adige | 8 |
| Calabria | 8 |
| Basilicata | 3 |
| Valle d'Aosta | 1 |

**Source: Quadrante 2008**

There are some exceptions. Trentino Alto Adige and Valle d'Aosta, for example, are two of the most rich regions in Italy in terms of GDP and employment rates but are down in the ranking of franchisors, while opposite, Puglia and Campania are at the lower level in the GDP and employment rates ranking but in the middle of the franchisors ranking. It could be interesting to bear in mind this phenomenon when the data about the alleged use of multi-unit franchising in order to overcome recruitment problems will be verified. However, it has to be pointed out that if the number of franchisors is grouped in the major areas the number of chains in the North is about the 65%, in the centre 19% and in the South & Islands 18%.

It is possible to identify a second interesting table in the general statistics findings proposed by the annual report of Assofranchising. It is the analysis of the sector and their development in the last years.
As shown in Tab. 1.5, the most important sector in term of turnover is the Gdo food, followed by the real-estate sector. The two sectors cover the 25% of the entire turnover of the whole franchising companies considered together.

**Tab. 1.5 Italian distribution of franchisors per sector of activity**

| Sector of Activity | Turnover | % |
|---|---|---|
| GDO – Food | 3.428.880.000 | 16,22 |
| Real Estate | 2.129.891.000 | 10,07 |
| GDO - No Food | 2.026.850.000 | 9,59 |
| Clothing storse | 1.965.890.000 | 9,30 |
| Tourism | 1.549.940.000 | 7,33 |
| Specialized Service | 1.232.599.000 | 5,83 |
| Underwear | 1.015.270.000 | 4,80 |
| Restaurants | 914.220.000 | 4,32 |
| Shoes | 785.620.000 | 3,72 |
| Forniture | 660.090.000 | 3,12 |
| Photo, Video | 560.815.000 | 2,65 |
| Office and automation | 548.660.000 | 2,59 |
| Cars (products and services) | 516.420.000 | 2,44 |
| Gift shop | 490.460.000 | 2,32 |
| Clothing storse (children) | 467.580.000 | 2,21 |
| Bookshop | 465.600.000 | 2,20 |
| Optician (products and services) | 380.470.000 | 1,80 |
| Health Centres and Gyms | 356.408.000 | 1,69 |
| Jewellery | 320.890.000 | 1,52 |
| Hair dressers and beauty farm | 236.760.000 | 1,12 |
| Printing services | 212.380.000 | 1,00 |
| Internet-Phone | 197.200.000 | 0,93 |
| Perfumery and cosmetic | 151.815.000 | 0,72 |
| Consultancy and Training | 140.610.000 | 0,67 |
| Pub | 104.910.000 | 0,50 |
| Hotel and Catering | 92.250.000 | 0,44 |
| Laundry | 60.050.000 | 0,28 |
| Nursery | 58.720.000 | 0,28 |
| Kiosk and ice-cream parlour | 39.240.000 | 0,19 |
| Herbalist and Pharmacy | 32.760.000 | 0,15 |
| | 21.143.248.000 | 100 |

**Source: Quadrante 2008**

The ranking definitely changes if the interest shifts to the number of outlets or the number of employed (Tab 1.6)

**Tab. 1.6 Italian distribution of franchisor: ranking per outlets**

| Sector of Activity | Franchisor | Outlets per franchisor |
|---|---|---|
| Real Estate | 73 | 10.258 |
| Clothing stores | 82 | 5.370 |
| Specialized Services | 112 | 4.629 |
| GDO - Food | 31 | 2.691 |
| GDO - No Food | 13 | 2.564 |
| Tourism | 31 | 2.461 |
| Underware | 16 | 2.111 |
| Office and Automation | 17 | 1.980 |
| Shoes | 26 | 1.693 |
| Gift shop | 41 | 1.686 |
| Clothing stores (children) | 32 | 1.577 |
| Photo, Video | 19 | 1.535 |
| Optician (producs and services) | 9 | 1.432 |
| Cars (products and services) | 20 | 1.423 |
| Healt center and gym | 37 | 1.373 |
| Furniture | 45 | 1.222 |
| Hair dresser and beauty farm | 12 | 1.174 |
| Restaurant | 45 | 1.145 |
| Internet-Phone | 20 | 1.093 |
| Jewellery | 21 | 1.044 |
| Printing services | 8 | 885 |
| Consultancy and training | 43 | 742 |
| Perfumery | 13 | 568 |
| Bookshop | 6 | 458 |
| Laundry | 11 | 365 |
| Nursery | 14 | 341 |
| Kiosk and ice-crema parlour | 11 | 284 |
| Pub | 23 | 243 |
| Hotel | 11 | 233 |
| Herborist and Pharmacy | 5 | 145 |
|  | 847 | 52.725 |

**Tab. 1.7 Italian distribution of franchisor: ranking per employees**

| Sector of Activity | Employees | % |
|---|---|---|
| Real Estate | 36.152 | 19,77 |
| Clothing storse | 16.526 | 9,04 |
| GDO – Food | 15.362 | 8,40 |
| Restaurant | 13.968 | 7,64 |
| Specialized Services | 12.411 | 6,79 |
| GDO - No Food | 10.136 | 5,54 |
| Hair dresser and beauty farm | 6.352 | 3,47 |
| Undewear | 6.297 | 3,44 |
| Tourism | 5.785 | 3,16 |
| Office and automation | 5.302 | 2,90 |
| Shoes | 5.115 | 2,80 |
| Cars (products and services) | 4.679 | 2,56 |
| Clothing stores (children) | 4.493 | 2,46 |
| Gift Shop | 4.487 | 2,45 |
| Forniture | 4.417 | 2,41 |
| Photo, Video | 4.121 | 2,25 |
| Healt centre and Gym | 3.867 | 2,11 |
| Internet-Phone | 3.282 | 1,79 |
| Optician (products and services) | 2.864 | 1,57 |
| Printing Services | 2.587 | 1,41 |
| Jewellery | 2.480 | 1,36 |
| Consultancy and training | 2.423 | 1,32 |
| Hotel | 2.149 | 1,17 |
| Bookshop | 1.730 | 0,95 |
| Perfumery and cosmetic | 1.575 | 0,86 |
| Pub | 1.228 | 0,67 |
| Nursery | 1.074 | 0,59 |
| Laundry | 977 | 0,53 |
| Kiosk and ice-cream parlour | 711 | 0,39 |
| Herborist and Pharmacy | 358 | 0,20 |
|  | 182.908 | 100 |

**Source: Quadrante 2008**

Unfortunately statistics about the distribution of the franchisees are not available yet. The only data provided in that sense are the data about the number of outlets (franchised and owned) operating in 2006 and 2007 (tab. 1.8)

**Tab. 1.8 Indicators of performance of Italian franchising chains.**

| Indicators | Measure | 2006 | 2007 | 2007-2006 | |
|---|---|---|---|---|---|
| | | | | Var. | Var.% |
| Turnover | Euro (mld) | 20.082 | 21.129 | 1.047 | 5,21 |
| Franchising Chains | Number | 778 | 847 | 69 | 8,87 |
| Owned Outlets | Number | 8.686 | 8.841 | 155 | 1,78 |
| Franchised Outlets | Number | 49.340 | 52.725 | 3.385 | 6,86 |
| Foreign Outlets | Number | 4.850 | 6.669 | 1.819 | 37,51 |
| Employees | Number | 176.731 | 182.908 | 6.177 | 3,50 |

**Source: Quadrante 2008**

Despite of a period of crisis in almost all the sectors indicated above, data shows that all the variations are positive and the number of outlets in the considered period increased with a preference for the franchised one. Extremely interesting are the data concerning the internationalization of the Italian franchisor. As better pointed out in the table below, the most internationalized sector is the real estate one, with a number of internationalized franchised outlets of about 1600 units.

**Tab. 1.9 Internationalization of Italian franchising chains.**

| Sector of Activity | Foreign Outlets |
|---|---|
| Real Estate | 1.569 |
| Clothing storse | 1.277 |
| Underwear | 1.250 |
| Restaurant | 892 |
| Shoes | 651 |
| Furniture | 226 |
| Clothing stores (children) | 175 |
| Health Centre and Gym | 146 |
| Gift Shop | 97 |
| Tourism | 74 |
| Kiosk and Ice-cream parlour | 47 |
| Office and automation | 38 |
| Perfumery and cosmetic | 38 |
| Specialized Services | 36 |
| Cars (products and services) | 32 |
| Optician (products and services) | 25 |
| Herborist and Pharmacy | 15 |
| Video - Photo | 14 |
| Haird dresser and beauty farm | 10 |
| Pub | 10 |
| GDO - food | 9 |

| Consultancy and training | 9 |
|---|---|
| Jewellery | 8 |
| Internet-Phone | 6 |
| GDO - No Food | 6 |
| Laundry | 5 |
| Nursery | 4 |
| Hotel | 0 |
| Bookshop | 0 |
| Printing services | 0 |
|  | 6.669 |

**Source: Quadrante 2008**

The real estate sector seems to be the most keen to the internationalization through a franchised channel. One of the reasons could be the supposed ability of the franchising chains to acquire knowledge from the market and dynamically adapt to the different legislation imposed by the different governments.

## CHAPTER II:
## Organizational Models and Franchising Theories: A Pilot Analysis

### 1. Introduction

A lot of literature concerning franchising as organizational form can be found. Most of this literature is related with the existence of the plural form, that is, the coexistence of both company-owned unit and franchised units. Despite its apparent prevalence, as the multi-unit franchising is becoming the dominant form of franchising (Kaufmann and Dant, 1996, Sanchez, Salamanca & Suarez and Vazwuez, 2006), multi-unit franchising is an area which is still under research (Weaven and Frazer, 2004), and the researches that have been conducted have been principally US based, and focused on the fast food sector, although exceptions (for example Weaven and Frazer, 2004) exist.

When a firm chooses to franchise, it surrenders significant control over new outlets bearing its name and receives only a small percentage of franchised outlets' revenues. Thus, what leads organizations to franchise particular outlets, has been the subject of considerable empirical research. Unfortunately, little consensus has emerged (Shane, 1999). For example, whereas several studies report that small firms emphasize franchising more than large firms (Roh, 2001), others report the reverse (Alon, 2001). Some studies suggest that a lack of capital leads firm to franchise (Combs and Ketchen, 1999) while others do not (Michael, 1996). One explanation for the lack of consensus is that research on franchising has been conducted for over thirty years, (even if the interest in it increases

dramatically in the 90's) and the new companies involved are completely different in their attitude and size compared to the previous one (Combs and Ketchen, 2003). A second possible reason is that the franchising form has been studied from several different points of view and disciplines.
Several attempts have been carried out with the aim to fill in the gap. Unfortunately, qualitative reviews suffer from two key shortcoming, as the interpretation of the literature is affected by authors biases (Cmbs and Ketchen, 2003), and qualitative reviews count the supporting and contrary findings to arrive at conclusions (Hunter &Schmidt, 1990).

A lot of theories have also been developed along the last 30 years. Empirical support for all them is mixed, presumably reflecting the fact that there is probably no single explanation for franchising (Combs and Castrogiovanni, 1994).
However, all of them, even if sometimes, at least apparently, they are in contrast one to another (Dant and Kaufmann, 2003), can offer precious insights into the matter we are exploring. The next paragraphs will explore the different theories trying to figure out what they propose in terms of understanding of the issue we are trying to define.
A case study will be proposed. The different theories will be tested in order to better understand possible convergences and divergences and, at the same time, discuss possible insight for further researches.

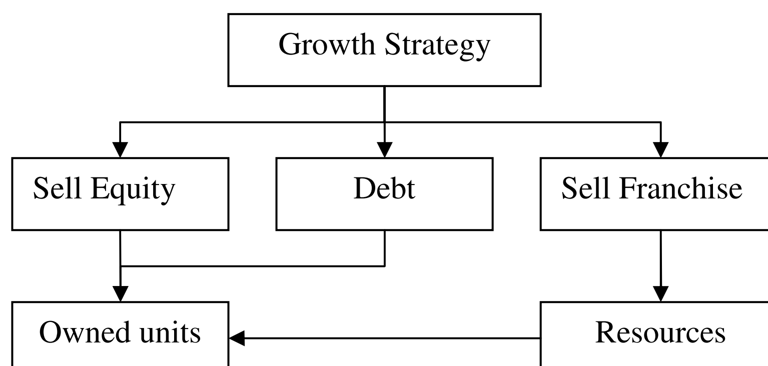
## 2. Resource Scarcity Theory

The basis of this theory has been posed in the 60's by Oxendfelt and Kelly who described the franchising form as a temporarily one, leading to the phenomenon of the ownership reaquisition. In other words, Oxendfelt and Kelly argue that the reason relying on the basis of the franchising decision is the lack of resources that a firm has at the very early stage of its development. The most obvious links of this theory with the previous one can be tracked to the resource-based view of the firm (Penrose, 1959; Wernerfelt, 1984) and the resource dependence theory (Pfeffer & Salancik, 1978), even if Hunt (1999) considers it is possible to find in there at least six well-delineated school of thought.

Following the rationale of this theory it is argued that, confronted by resource limitations, firms are predicted to opt for strategic organizational and interorganizational governance choices that ensure the availability of resources critical for the furtherance of their business (Dant and Kaufmann, 2003) and, in other words, the entrepreneurs use franchising to gain access to significant resources that are short in the early stages of the development of their chains, such as financial resources managerial resources and informational resources (Oxendfelt and Kelly 1968, Caves and Murphy (1976), Norton (1988) and Gilman (1990).

A first question the firm has to ask itself, given a lack in resources, is if it is better to sell equity, take on a loan or sell franchises. Selling equity and taking out for a loan can give to the firm only financial capital and, however, for firms at the early stage of their life it could be difficult to find someone able and aimed to cover their financial needs. The franchising, instead, represents an efficient bundled source for all the three critical capitals (Norton, 1998). Following this theory, therefore, the first structural choice of a firm is the result of a reasoning which has, as background, the will to own the business, but that find in the resource constraints the limitation of this will and the starting point for a new structure contemplating the existence of "foreign people".

**Fig. 2.1 Acquisition capital flow: different options**




**Source: our elaboration, 2008**

Mixed forms can obviously exist. It is common, indeed, to find companies without franchised outlets, companies without owned outlets or company with both (namely plural form organizations).

Another organizational implication can be found in this theory. Following this school of thought, firms recur to franchise organization when they face resources constraints. It has been argued that small and young firms are more likely to franchise their business compared with old and strong ones (RST perspective) even if other authors couldn't find the same relation (signaling theory perspective) and several famous example like McDonalds or Coca-Cola can be mentioned in order to oppose this relation.

As Oxwendfelt and Kelly (1968) suggested, the frustrations and difficulties involved in operating a franchise system are a powerful pressure towards ownership, which permits far greater control. For this reason, in their opinion the franchising choice is more a constrain than a facilitation and, eventually, all the chain are destined to be bought back by the company as soon as possible (ownership redirection)[10]. From this point of view, therefore, franchised chains are only temporary choices: this prediction, made by the two authors, is under investigation, and, passed 40 years, there are still no clear evidences able to definitely support this theory. Nonetheless there is a body of evidences to suggest that many franchised companies are at least partially motivated by access to financial and related resources (Dant, 1995, Carney and Gedajlovic, 1991, Combs and Ketchen, 1999).

Although there are in the managerial literature a lot of studies concerning the plural form analysis, only a few contemplate the possibility of a deeper

---

[10] The phenomenon of ownership redirection has been investigated from the perspectives of at least five theoretical frameworks: (1) resource constraints or resource acquisition theory (cf., Oxenfeldt and Kelly 1968) with its roots in the resource-based view of the firm (Penrose, 1959; Wernerfelt, 1984) and
resource dependence theory (Pfeffer and Salancik 1978), (2) agency theory (cf., Fama and Jensen 1983a, 1983b), (3) transaction cost analysis (cf., Williamson 1975; 1979) , (4) signaling theory (cf., Beggs 1992; Ga llini and Lutz 1992; Gallini and Wright, 1990), and (5) property rights theory (cf., Coase 1960; Demsetz 1966;Hart and Moore 1990; Hart 1995; Maness 1996). Some of these contributes will be discussed in the next paragraphs.

investigation in the structure of the franchised company. Among the few studies carried out in this issue, it is possible to find some works concerning Multi Unit Franchising and Single Units Franchising. It has been suggested, for example, by a number of authors (Kaufmann and Dant, 1996, Garg et al, 2005, Sanchez et al, 2006) that MUF may be a cheaper form of expansion compared with SUF, as the costs of recruiting, screening and training franchisees are potentially less.

Traditional franchise theory suggests, indeed, that franchising may be preferred because franchisees represent an efficient bundled source of financial, managerial and information capital (Dant and Kaufmann, 2003). Franchisees operate typically in markets and communities of which they are themselves members and have considerable local knowledge. Thus, franchisees bring to the franchise system not just financial capital, but also a knowledge of geographic locations and labour markets, and their own managerial labour (Watson et al, 2005). Multi-unit franchising can enable this local market knowledge to be fully exploited (Sanchez et al, 2006) enabling the transfer of knowledge from store to store of the multi-unit owner. However, multi-unit franchising can be effective in this respect, and produces results only if the outlets are located within the same locality. The research by Weaven and Frazer (2004) implies that this may not always be the case. Indeed, Kaufmann (1988) found that area development agreements could run across several states, encompassing hundreds of outlets. Under such circumstances it is difficult to see how an area developer could bring their local market knowledge to bear. Their experience and skills and operational knowledge would however be of value, and are likely to require less training and support from the franchisor. Part of the work in the chapter III, through an intra-sectoral point of you, is aimed to test and discuss this issue.

Resuming, following this pattern of analysis:

- small or young businesses are more likely to use franchises as a means to acquire the resources they are in lack, compared with the old and well-established ones;

- the choice of a company to become a franchisor is compared with other choices like sell equity and take on a loan. Compared with them, the franchise choice is generally the cheapest way to achieve that purpose and, also, provides human and informational capital not provided by the others. Opposite, this form could bring into the organization conflicts and governance problems.
- even if multi-unit franchising is still an underdeveloped area of research, it has been suggested that multi-unit franchising, compared with single-unit franchising, is a better source of financial resources and knowledge and, for this reason, it is supposed to address better the resources constraints issue.

### 3. Signaling Theory

While the resource-based perspective entrepreneurial model responses to internal constraints faced by firms, like the lack of adequate capitals for expansion, the signaling theory is focused on the externalities of the market imperfections and knowledge asymmetries to explain organizational choice (Kaufmann and Dant, 2003). The fundamental question at the base of this theory is how franchisors manage the adverse effects of the information asymmetries of the market. In other words, "bad" franchisors have the incentive of misrepresent their quality in attempt to sell franchises, and good franchisors have to face the problems related to the misrepresentation in order to attract suitable franchisees.
Firms can counter the deleterious effects of such information asymmetries using a variety of "signaling" device. Signaling is particularly important in franchising context because the transfer of trade names and operational know-how is a transfer of intangible assets whose assessment is not easy. This is overall true in business format franchising, overall considering that potential franchisees and franchisors can evaluate each other only from an external point of view.

The most common signals are warranties, pricing, advertising and promotion, but this kind of signal can be presented (and misrepresented) both by good companies and bad companies. Leland and Pyle (1977) suggest that firms can more easily convince potential investors of their project's viability by making direct and personal investments in their enterprises. In the same way, franchisors can

convince potential franchisees of the security of the investments by the direct operation of a critical mass of units (Gallini & Lutz, 1992; Tirole, 1998). In other words, the first things a company has to do in order to be reliable is to start its own business by itself and then enlarge the business via franchised units. This concept is completely opposite to the one indicates by the resource scarcity theory. In this theory, in fact, it is assumed that the company has to run first its own businesses and then, when it has established a credible marketplace, operate through a franchised channel. The resource scarcity theory suggests, instead, that the company has to run before a franchised channel and then, when it has the adequate resources, buy back the entire channel.

**Tab. 2.1 Time-based Comparison between resource scarcity theory and signaling theory**

| | **Resource Scarcity Theory** | **Signaling Theory** |
|---|---|---|
| Start-up | The company, facing constraints in acquiring adequate resources, uses franchisee in order to expand. | The company run its own business in order to create credible marketplace. |
| Development | The company acquires the capital (financial, human and informational) through its franchisees | The company creates a credible marketplace. |
| Maturity | The company buys back all the franchised units. | The company sells franchised units in order to expand its business. |

**Source: our elaboration, 2008**

The implications for the organizational choices are obviously completely different. It has been argued before that young and fragile company are more likely to use franchised units than owned ones. In this paragraph, instead, it is proposed the opposite reasoning, namely, the younger and more fragile have to

develop by themselves and only in a second step they can evolve into a franchised form. Dant and Kaufmann (2003), discussing this issue, demonstrate the straightness of the resource scarcity approach over the fragility of the signaling theory finding out that the larger, the older and the more resource flush systems appear more likely to exhibit a strategic tendency towards company ownership of outlets rather than franchisee-operated units.

No researches have been carried out applying signaling theory to single-unit and multi-unit organizational forms. It is possible to figure out that, following this pattern, in order to overcome recruitment problems derived from market asymmetries, the franchisor are more likely to allow “old franchisees” to open more than one unit. This is hypothesis has been proposed by Watson (2003) who suggests that multi-unit franchising is used as a consequence of difficulties in recruiting single unit franchisees.
These hypothesis, together with the other mentioned above, will be discussed in the chapter III.

**4. Agency Theory**

Agency theory exists in any joint effort in which one party (the principal) delegates authority to a second (the agent). The link between them is the reciprocal interest they have even if they have different goals and attitudes. Most of the efforts of the principal are directed to ensure that the agent(s) act(s) in the principal’s best interest (Jensen and Meckling, 1976). Usually, the principal has two basic tools at its disposal to ensure the agent cooperation such as observation of the agents’ behaviour and incentives tied to agent outputs.

In a franchising agreement, franchisors act as principal and franchisees as agents, because the franchisor (the principal) licenses others (the franchisees) the right to distribute goods or services. Franchisors use the above mentioned tools aimed to reduce deviation in the behaviour of the franchisees. Even if the franchisor sets in act a systematic observation of the franchisees behaviour, making several controls over the quality and the respect of the procedures, franchising largely alleviates

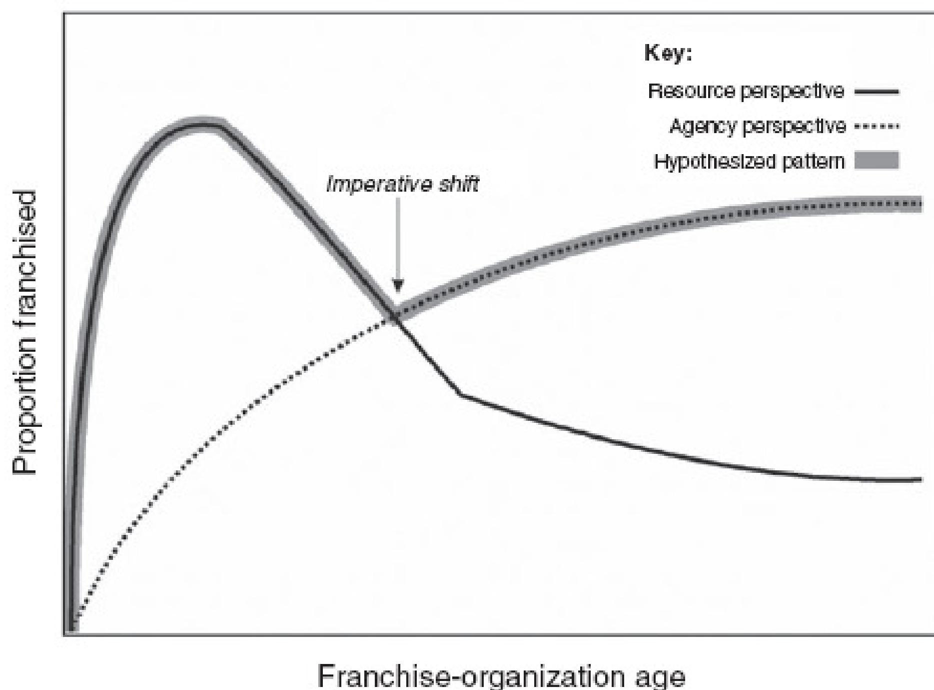
franchisors need for costly observation of outlet managers, because the franchisees are the residual claimants on their outlets profits (Norton 1988; Rubin 1978). Moreover, franchisees typically make substantial investments in their outlets, and the anticipated profit stream from these investments depends on franchisees' continued best effort (Klein 1995). Eventually, franchisees are highly motivated to maximize the performance of their outlets and franchisors' need to monitor franchisees via reduced direct observation (Bradach, 1997).

According to agency theory, franchising is preferred over firm ownership, because it substitutes the powerful ownership incentives with the costly monitoring that would otherwise be necessary with employee managers (Rubin, 1978). In terms of organization choices, therefore, it has been argued that the need to substitute franchising for direct monitoring increases as the cost of monitoring outlets through direct observation and inspection increases. Several studies have been carried out in order to understand this matter and most of them have as central point the geographical dispersion. Geographical dispersion raises direct monitoring costs by increasing the distance and forcing managers to gain knowledge about local conditions, so that they can effectively evaluate outlet-level managers (Minkler, 1992). Particularly, it has emerged that in rural contexts, outlets are more often franchised because of the cost of frequent travel by monitoring personnel (Norton, 1988). For the same reason, also distant outlets are more likely to be franchised (Brickley & Dark, 1987), and foreign companies prefer to open franchised outlets in distant countries, given the difficulty of assessing the managers' efforts in unfamiliar markets (Minkler, 1990, Fladmoe-Lindquist & Jacque, 1995). Moreover, as the franchise network expands and outlets are increasingly built in distant or foreign markets, the firm proportion of franchised outlets should increase (Castrogiovanni et al. 2006). This last paper suggests a possible comparison amongst the theories mentioned. Particularly, as we noticed above, resource scarcity theory seems to suggest that young and small firms are more likely to use franchising business format, whilst signaling theory suggests that young and small firms are less likely to use franchising agreements because of a lack in confidence and credibility in the marketplace. Following the pattern delineated by the agency theory, it seems to be evident that the larger the

company and the more dispersed are the outlets, the more the company will be likely to use franchising. In this sense, signaling theory and agency theory converge. All the theories, instead, converge in describing franchising as a potentially useful tactic for firms pursuing growth (Carney & Gedajlovic, 1991)

Worthy to be mentioned is an attempt carried out by Castrogiovanni et al. (2006) to build an integrated model merging resource scarcity and agency theory issues. The author tries to identify a possible pattern of analysis, able to provide a possible explanation of the differences in the above mentioned theories, using age-related feature as central focus.

**Fig. 2.2 Time-based Integrated model**




**Source: Castrogiovanni et al (2006)**

The author uses as starting point the assumption that organizations focus attention on a few critical imperatives and that these tend to shift over time as conditions change ( Miller, 1987), and managers attend to multiple goals sequentially (Cyert and March). Accordingly, changes in the proportion of franchised units could reflect a franchisor's strongest imperative for franchising at a given point in time.

Namely, if a firm needs to grow rapidly to survive or to overcome competitors in a particular sector, the firm will franchise massively even if from an agency point of view it could be not acceptable. As a second step, when the firm reaches the prospected results, it can shift the attention from the rapid expansion to a major profitability, passing through a buy back of the franchised units. This is acceptable from a resource scarcity point of view (Brown, 1998), even if agency theory issues (like managerial preferences and monitoring cost considerations) can limit the degree to which firms can shift towards ownership. This adjustment could be viewed as a return to the level of franchising that would have occurred if prior resource scarcities had not induced greater initial use of franchising. Furthermore, as the firm gains familiarity with markets initially penetrated by franchisees, the monitoring cost goes down and deeper market penetration through firm ownership might follow (Minkler, 1992)

For what concerns the presence of multi-unit franchising and single-unit franchising, agency theory provides different and opposite insights. At first glance the presence of multi-unit appears to "… contravene one of the most distinguishing theoretical features of single-unit ...namely the efficiencies arising from the residual risk-bearing status of the unit's owner-manager" (Garg et al, 2005, p. 8). That is, the introduction of MUF means that local managers have to be hired, creating a hierarchical structure. Thus "…inefficient risk bearing problems increase with multiple ownership" (Brickley and Dark, 1987, p. 408). However, agency theory also suggests that where a business is characterised by non-repeat trade, the franchising (single-unit) may increase agency costs. As Brickley and Dark (1987) argue, multi-unit franchising provides a mechanism to control free riding by the franchisee, provided that the units are geographically close (Sanchez et al, 2006). Franchisees who own multiple outlets in close proximity to one another, will "…internalize a greater share of quality debasement costs" than single unit franchisees. That is, franchisees will bear at least some of the costs if quality standards are not enforced, as the lost custom is likely to fall on their own outlets. In addition, the closer the motivated monitor (that is, the franchisee) is to the agent's location, the lower the monitoring costs (Garg et al,

2005). Thus, where free-riding is a particular concern, multi-unit franchising may be preferred to other organizational forms.

**5. Transaction Cost Theory**

Transaction cost analysis (TCA) (Coase 1937, Williamson 1975, 1985) can be considered the more macro-oriented parent paradigm of agency theory, as both the frameworks discuss principal-agent relationships and make predictions about the likely nature of the inter-firm governance arrangements (Brent et. al. 2007). Actually, the main discussion in TCA field is the broader issue of whether or not a firm should integrate with its suppliers and its distributors as opposed to letting the market mechanism drive its inter-firm governance. Even if franchising is not strictly correlated with this matter, a large quantity of franchising literature starts from a point of view TCA related (Brown. W. O. Jr 1998, Anderson E., Weitz B.A. 1985), and many insights have been proposed.

The transaction cost theory starts from two basic assumptions: the first one is that bound rationality is at the centre of any decisions taken in any organizational process. The organization is considered as a tissue of decision at any level (Cafferata R., 2005) and any choice is pervaded by bounded rationality of the decision-maker. Incomplete information, environmental uncertainty and process limitations (Simon 1957) keep the decision-maker far from the possibility to completely manage his decision making process. It has to be intended that any actor tries to be rational and tends to be rational: its limitations do not derive from an intention but from an impossibility to know every aspects related with the decision he is going to take.
The second assumption is that any actor in the market or in an organization is keen to act in an opportunistic way and has potential opportunistic behaviour, able to damage directly or indirectly other actors.

The central question in TCA is the make or buy choice. In other words, any firm has to decide in which level to access the market for the resources provision and which resources it would rather generate from the inside. The general assumption

is that, comparing all the costs of the two options – namely make or buy choices – including an appraisal of the degree of uncertainty and strategic position, firms are able to make their choice.

In the franchising issue, the choice is not properly a make or buy one. Indeed, as we argue in the third chapter, and as many authors pointed out, even if franchisees are nominally autonomous entities, they have to be considered like "internalized external units"11. Nonetheless, the franchisor has to decide if a owned unit or a franchised one is more suitable than the other. In terms of opportunistic behaviour in a franchised context, a large literature has been carried out. For what concerns the bound rationality, franchising has to face the same problems of any other organization operating in the same marketplace. For what concerns the possible opportunistic behaviour of the franchisees, it is possible to argue that adverse selection, free-riding and shirking12 are problems every organization has to face, and an evaluation of the impact of the diverse units over the organization has to be carried out every time these problems arise. This kind of evaluation is strictly related with transaction cost analysis, and has received particular attention in the fields both of the plural form and of the single and multi-unit franchising question. Moreover, it is interesting to notice that the opportunistic behaviour could be operated from both sides of the organization. If the resource scarcity theory is reliable, and therefore franchisors are focused on the reacquisition of the units when they do not need their franchisees anymore, the franchisor's opportunistic behaviour is easily identifiable. The will to exploit the resources owned by others with the purpose of getting rid of them as soon as possible is absolutely classifiable as an opportunistic behaviour (Fesltead, 1993). However, even if a lot of researches related to this matter have been carried out, there is still no evidence of such behaviour. On the other side, franchisees can be keen to exploit franchisors' brands using them as a start-up help and then getting rid of them, or, worse, going on with the same brand but using "hidden suppliers" or hiding revenues.

---

[11] See chapter III

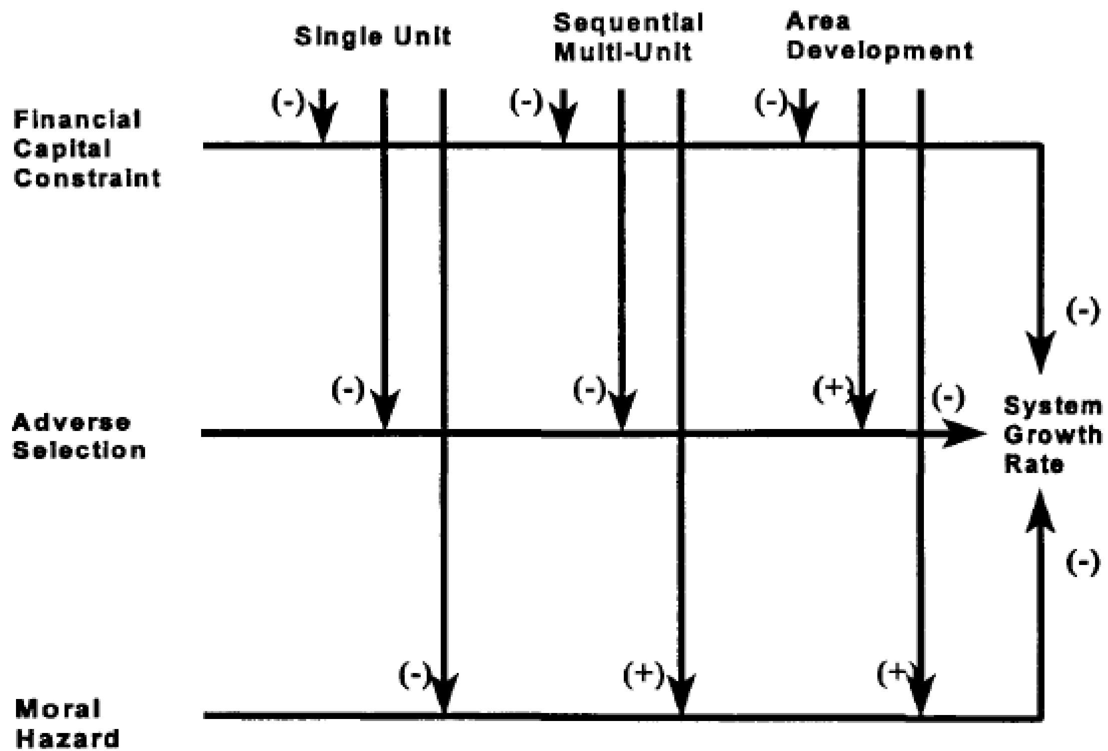
[12] This is issue as been treated in the first chapter.

A first attempt in the plural form issues and the ownership redirection question has been carried out by Dashlstrom and Nygaard (1995), using the TCA perspectives. Aim of their study was to explain the relationship between ownership redirection and franchisee quality control violations. Their result suggests that in industries where repeated purchasing is low, the franchisees have more incentive to shirk their responsibility regarding quality control. Thus, it becomes less costly for the firm to maintain the ownership of such units compared to the costs of franchising these units, since managers employed by the franchisor will have less incentive to shirk these quality control responsibilities.
Lafontaine and Kaufmann (1994) investigated redirection trends in franchising. Their findings were mixed, partly supporting a resource scarcity perspective and partly supporting a TCA approach and agency theory. The suggestion coming from the TCA side was that the alignment of both franchisor and franchisees incentives produces a more efficient operation than the resources scarcity notion of reacquiring franchised units.

Keeping arguing of the studies related to TCA, an interesting article has been written by Kaufmann and Dant (1996). Arguing about the usefulness of the franchising chains to improve the growth rate of the firm, they realize a model based on adverse selection and moral hazard. The distinction between single unit and multi unit franchising (and, in the latter, between sequential multi unit franchising and area development franchising) arises. The model has been built on the base of the literature review about financial capital constraint, adverse selection and moral hazard.

The model (fig 2.3) suggests that single unit franchising is the best form.

**Fig 2.3 Single Unit and Multi Unit: a comparison**




**Source: Kaufmann and Dant, 2006**

This model is constituted of a first part related with resource scarcity theory and a second part related with transaction cost theory. In this model the authors distinguish between single unit and multi unit and, in a multi-unit context, between sequential multi unit and area development multi unit. Franchising is supposed to be able to address financial capital constraints better than owned units and to lead the system to a faster growth rate. Area development franchising is the best form for facing this problem, as it allows the entrepreneur to access to large blocks of funds without resorting to the venture capital and with only a single transaction with a franchisee who will be in charge of developing the area. Also sequential unit franchising is supposed to be helpful in acquiring the necessary resources faster than single unit. Particularly, subsequent units make initial units more profitable (Kaufman and Dant, 1996) and the franchisees, anticipating the potential expansion, should accept lower returns than the ones new franchisees might otherwise demand.

From a TCA point of view something changes. Area developers are able to hire their own managers and the recruitment matter is totally delegated to them. The adverse selection problem is just shifted to another person who is out of the control of the franchisor, who has to rely on the franchisee ability to deal with this problem. Area developers are therefore more likely to maintain the problem but in a different layer of the hierarchy. Totally different is the sequential unit approach. Allowing only good franchisees to open new units, franchisors solve their problem in recruiting new and unknown franchisees, this way reducing the degree of potential adverse selection problem. Single unit, instead, maintains this problem and the adverse selection is higher or lower in relation to the ability of franchisors to deal with this problem.

Moral hazard and opportunism are addressed better by single unit than by multi unit. In fact, single unit franchising companies are supposed to be smaller than multi unit ones and, therefore, more manageable. Guhagen and Mittelstaedt (2005, 2000) observe that, for a franchisee, developing an additional unit may be a way to raise power and obtain more "say". In this same direction moves also a US research (Ishani 2006), arguing that litigations between multi-unit franchisee holders and franchisors are increasing when using MUF.

This hypothesis are still under research, and the relation between increase in litigations and multi-unit is still not proved. Some cases, indeed described by Felstead (1993), apparently sustain the hypothesis that the franchisees can not always raise their power by growing and opening new outlets.

## 6. Organization Action Theory

A possible framework of analysis of the franchising organization could be the one proposed by Maggi (2000), called Action Theory. It has never been applied to the franchising context, but it could offer some interesting insights in this matter.

The Organization Action Theory (OAT) starts from a completely different point of view than the other theories, because it considers firms as something "fluid"

(Maggi, 2000). Firms are phenomena (not object) which face and solve problems by using bounded rationality: the object of the analysis shifts from the organization who act to the action of the organization[13]. Thompson defines organization as a process of decisions and actions oriented to a purpose (2000).
This theoretical perspective is recognizable for its conception in terms of process of actions and decisions and for a definition of limited rational action. Pathfinders of this theory are Max Weber (1922), Chester Barnard (1938) and Herbert Simon (1947). Barnard defines organization as "system of consciously coordinated actions of forces of two or more persons (1938, p.73), underlying that not the persons but their actions are the components of any cooperative system; Simon suggests that any organization system is a tissue of decisions pervading the hierarchy, emphasizing the idea that the analysis object is the action and the human behaviours leaded by his bounded rationality and oriented by personal intuition.

Thompson put himself as follower of this "innovative tradition"( Thompson 1999, p. 75). Unlike his precursors, in his work, he underlines the uncertainty characterizing any organizational process. Every organization process, when coming to life, defines its own field of action, constituted, as in Levin and White model (1961, p. 583-681), by choices in terms of range of products, supplied population and service: a firm defines, by this way, the contact points whit other production processes, important for its existence and its future. At this point and because of these relations, the uncertainty rises and any organization will have to deal with this. Governance of relationship with other processes becomes fundamental to survive and almost all the structural project efforts will have to consider that the relationship within the processes is regulated by the relationship

[13] Simon explains the difference between state descriptions and process descriptions telling a metaphor. A circle – he writes – is a geometrical shape in which all the points in the perimeter are equidistant to the centre. To draw a circle you have to rotate the compass making a branch steady and making the other one rotating until it comes to the starting point.. The process outlined in the second sentence implies that a circle will be the result. The first sentence is the description of the object, the second one is the process through which it comes to the light (Simon, 1962).

between power[14] and dependency, existing in a particular time in an mutable equilibrium (Cafferata 2003, p.73)

The debate about power within firms and the elements of the task environment has been intense and various in approach and interventions. Perrow (1967) sustains that organizations are real instruments of power handed by various groups of command. Pfeffer and Salancik (1981), pathfinders of power and dependence studies, consider the reduction of dependence from external elements by appropriate strategies and structural choices as a primary target even if it is confronted with efficiency. Porter, some years before, claimed that "the essence of strategy is coping with competitors[15]" (Porter, 1979) and that efficiency research is only a "routine"[16]. Crozier, in 1960, studying the relations among groups and persons, underlined the importance of individual power, defining this as the "capacity of uncertainty control" coming from relations.
The question of power is important in network organizations, and in consequence it is important in studying relations between firms in a franchised context. Lorenzoni (1992) defines franchising as an organization composed by one central units named "franchisor" and other firms, the franchisees, in multiple, systematic, stable and long term relations with the franchisee and the other franchisees. Trust is the fundamental element and social dimension and managing of power assume a great importance. Forsgren and Phalberg (1992) say that units, being members of a network, have a hierarchic position and a network position that defines power inside the whole organization. The various units are oriented, through acquisition of knowledge and resource control, to rise their power. The more an unit will be "central", the more its power will be, and the more it will not replaceable. In Holm opinion (1991), the strength of a controlled society is function of its ability

[14] The concept of power used hereafter is the one proposed by Emerson (1962) according to which the power is the reverse of the dependence.
[15] In the Porter's concept competitors, suppliers, indirect competitors, potential new firms and customers have to be considered competitive forces.
[16] "with efficiency I intend to refer to all the practices that allow the firm to better use all the inputs it needs, for example, reducing production imperfections or developing fester new products. Opposite, making strategy means do different things from the one made by the competitors or similar things but in different way" (Porter, 2002: 40)

to contact direct supply sources and to condition network activities by direct and indirect relations.

In literature, as noted in the chapter one, exists a heterogeneous variety of power definitions. Thompson uses the power concept proposed by Emerson, in which power results as the reverse of the dependence. Explaining power in this way is particularly interesting for the purpose of this work, because it means that two interdependent organizations can rise power at the same time and it is not necessary that the increase of power in one of them entail reduction of power of the others[17]. This concept results particularly useful in studying networks and coalitions. Passing over, the concept of "zero summa power" is particularly useful in studying network relationship. An organization, indeed, is dependent from another element of the task environment according to the bigger or smaller need of this element it has[18].

In the Action Theory, the environment is composed by various processes in relations one to another. The relationships among them are regulated by power and dependence, and firms have to consider them in establishing their strategy and structure. Maggi and Masino (2000) say that each process defines relation with other processes through structural choices, which use as principal criterion the control exercisable ability. This premise is verified by a certain number of cases both in the field of profit organizations (Maggi e Masino , 2000, Cotnoir, 2000) and in the field of no profit organizations (Campi S., Gasparre A., 2005).

OAT can suggest some interesting insights in a franchising context. Considering every units and the franchisor as a single process with different systems of regulation (such as owned-units and franchised units), OAT argues that the

[17] A firm which relates in an intense way with its own supplier, in a way it becomes the only one able to supply good and services increases, on one side, the dependence of the firm over the supplier but, on the other side, increases the dependence of the supplier over the firm. This happens frequently in assembly industries such as, for example, automobile industries and special components supplier of goods.

[18] An example can better clarify the issue. A firm who purchases generic raw materials can purchase them every where in the market without needing to relate with a specific supplier. In this case, taking in mind only the possible constraint of an agreement between them, the firm can easily change supplier without encounter particular problems A firm who, instead, purchases specific raw materials or special components is tied up in a strong way to his supplier and its wills.

decision-making process would consider the distribution of power, and the maintenance of this, like the most important purpose to achieve by its organizational choices.
Mainly, the first difference it is possible to notice making a comparison with this theory and the other ones is that in this theory there is no correlation with the time in which the franchisor has to make its choice, because both in the early stage of its life and in the next ones the driver of the organizational choice is the same. Moreover, some franchisors could act in some way and others could adopt completely different strategies in relation to their environment and their ideas about that. This means that a firm can think that for its particular need to achieve the full (or the best) control over its process it is better to create a franchised chain or, the opposite, to own all the units or part of them. At the same time, and for the same reason, it is possible to identify the choice at the base of the decision whether to allow franchisees to have more than one unit or not. This choice is related to what the main process (the franchisor) thinks it is the best one in order to maintain or enlarge its power over the other processes (the other units, either owned or franchised).
Another implication of this theory is that the notion of organizational boundaries loses every meaning (Maggi, 2000), given that the whole process is fluid and all the processes are part of a big unique non-divisible process.

**7. Boundaries and Franchising Theories**

The definition of boundaries, as considered in the previous chapter, has always been a difficult issue. The different theoretical approaches here described face this problem in many different ways. In the Resource Scarcity Theory perspective, it is implicit that franchisor and franchisees are part of a complete different organization, as the franchisor, supposed to act in an opportunistic way aimed to buy back all the franchised units, allows *other people* to use its brand only temporary, in change of fees and resources (human, financial and informational) it cannot find in its first steps. More complicated but similar is the point of view of the Agency Theory and Transaction Cost Theory. As we argued before, this two theories can be considered together, as one (TCA) is the macro point of view of

the other (Agency Theory). From a TCA point of view, the relation between what is "inside" and what is "outside" the organization is explained in terms of costs associated to the transactions. Homogenous transactions are grouped together and this clustering defines the boundaries of each organization. In franchised organization, therefore, owned units have a kind of relationship with the franchisor (the organization produces through its own outlet revenue, which constitutes the company revenue) and franchised units in another way (they pay fees to "buy" service and goods from the franchisor). So, it is easy to understand that from a TCA point of view franchisors and franchisees are completely different organizations.

OAT, as it starts from a completely different point of view, proposes a new approach to this issue. Particularly, as it talks about processes and not "units", it is worthless to argue about boundaries. A process is defined in terms of time instead of space and, moreover, it is composed in an inseparable way by all the smaller processes which shape and reshape it constantly. It is therefore possible to identify in a particular moment the boundaries of the main process, made up by the sum of all the actions which form it in that particular moment. An action has to be considered part of the process if it takes part in it, independently from the subject which carries it out. In a franchised context, therefore, it is not important to identify a owned unit or a franchised unit; the only thing that matters is the kind of action and its contribution to the main process.

## 8. Growth Strategy and Boundaries in a Franchising Chain: a Comparison Among Franchising Theories

### 8.1 Introduction to The Case

Toscano S.p.a. is one of the biggest real estate company in Italy. This case offers some interesting practical insights and possible explanations of the issues treated before and, even if it has to be considered only a pilot-case, it can offer some suggestions in terms of application of organizational theories. This case is particularly suitable for the purpose of this work, because the company started and developed its activity in the last 20 years, by creating a franchised channel step by

step and maintaining, at the same time, an owned channel, allowing both multi-unit franchising and single-unit franchising. The very recent history and the existence of the first generation of managers, including the founder, can help in understanding every single step the company made, and is making, in terms of organizational choices. A brief discussion and comparison amongst the above presented theories will be proposed.

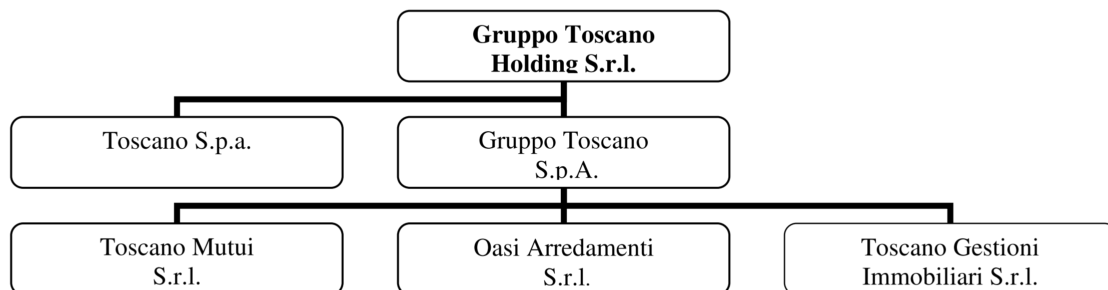
## 8.2 History of The Firm

The "Toscano" project was founded in 1982 by Ilario Toscano, now president of Gruppo Toscano S.p.A.. The first office was open in 1983. Toscano took the form of general partnership and, only some years ago, the one of limited company. While in a first period the external communication was carried out exclusively with word-of-mouth, since 1988 the firm began an intense activity of communication using advertising campaign, both via press and television spots. Toscano had in mind to create and promote franchising by recruiting franchisees via television spots, but the project failed and the creation of a franchised channel was abandoned and postponed until 1997. From 1988 to 1997, the firm grew gaining new Italian places and becoming relevant nationwide. The whole expansion process through direct agencies was based on sending in the new areas people with a strong relation with the firm. At the same time, Toscano decided to expand territorially, with a horizontal expansion: the company became S.p.a. and diversified its own business, adding to the intermediation activity other related companies such as Oasi (in the field of restructuring), Toscano Mutui (dedicated to financial intermediation) and, then, Toscano Gestioni Immobiliari (field of assessment and administration of real estate assets), and Toscano Frazionamenti e Cantieri (able to provide the customers with restructuring and restyling service). All this companies were controlled by Toscano.

The firm decided to create divisions (Toscano, GuidoBaldi, Toscano Commerciale & Industriale) able to offer a diversified service based on the different customers demand. The real estate market is a differentiated market with a heterogeneous kind of customers, each of them with specific characteristics:

Guidobaldi addresses the high-class customers by managing luxury real estates, Toscano Commerciale & Industriale deals with valorisation, managing and renting of big real estates for big public and private clients.

**Fig. 2.4 Toscano Group: Organizational Chart**




**Source: our elaboration, 2008**

The project of creating a franchising channel started again in 1997, but with a precise strategy, different from the first. The managers' idea was to give birth to this new channel by generating it from the inside. Firsts franchisees were, indeed, "trust men" operating since several years before in direct agencies, and encouraged to open new franchising agencies. This initiative had a big success, and Toscano decided to go on this way with new agencies: the main idea was to "conquer" every city with a direct agency that would become the central point of control over an area, and to render this agency able to generate new ones, franchising agencies or direct agencies.

Nowadays Toscano has got 232 agencies spread in every Italian region, 800 real estate consultants, 150.000 customers and about 20.000 transactions every year. The firm has got more than 18.000.000 euros of sales proceeds and it spends more than 8.000.000 euro in advertising investments. This amount is equivalent to the incoming originated from the franchising network.

## 8. 3 Research: Methodology

After two brief informal meetings with the Toscano management, the research has been carried out by interviews and questionnaires, both with multiple choices and free answers. Each question has been formulated to understand the evolutionary

dynamics of the group, the growth strategies, the relations among units and the motivations anticipating the decision to create the new franchising channel.
For the multiple choice questions, the management had to assign a value from 0 to 10 to each possible alternative and for every question the management had a free space in which to insert notes.

### 8.4 Franchising Development in Toscano S.p.a.

As discussed earlier, Toscano S.p.a. has got a plural form as it has both owned-units and franchised units. Leaving apart, at the moment, the discussion about the other strategies pursued by the governance actors, we will focus only on the franchising question, trying to clarify better the peculiarities of this process.

The company was founded with the typical features of a small company in the real estate sector. The founder, indeed, had only few agreements in his hands and little amount of money and resources. He opened a small office starting the activity and, only after the acquisition of a certain amount of resources (financial ones, but overall knowledge of the market), he decided to expand his activity only by opening new "outlets" in places geographically close to each other and with similar markets and customer characteristics. As emerged from the interviews, even if the expansion was "in the air" and the orientation of the boss was to open new outlets, he decided to move step by step, involving people who were "trust men" in the activities. This decision was made in order "not to share the acquired knowledge with foreign people" and to create a solid base for further expansions. This first step of the Toscano's growth path seems to be more related with the Signaling Theory issue and the OAT one than with Agency Theory and Resource Scarcity Theory. The governance, indeed, decided to be more confident with the market before starting a possible franchised channel, and to use "cultural ties" instead of other means (like franchising as suggested by agency theory) in order to lower the monitoring costs. This behaviour seems also related with power choices as, according to what emerged from the interviews, the reciprocal dependency and the trust of the other outlets has been considered as the first step for a solid and durable relationship. Thompson reckons that in an agreement between A and B

(two elements of the task environment), A supplies support to B, which acquires it, and the uncertainty is reduced for both. A cooperative strategy will be winning if A is able to reduce B's uncertainty and B takes care to share this ability with A (1967: 112). The cultural way was the one used by this firm to create a large and durable collaboration between them.

The second step of the growth path was an attempt to build a franchised channel in order to cope with the market forces and expand more rapidly. Franchisees were recruited via a large campaign, using both television broadcast and newspaper advertising. This action seems to be strictly related with the ones proposed by Agency Theory, Signaling Theory and Resource Scarcity Theory. A resource-based explanation is that the firm expanded for a while by using its own means and then, when it was not able to expand more, decided to "acquire" external resources by franchising its business. The Agency Theory provides a good explanation, as the firm, facing a more geographically dispersed context, decided it was time to franchise part of the expansion of the company in an attempt to lower monitoring cost and recruiting costs. The Signaling Theory, as proposed in the first part of this chapter, suggests that, after a period of trust and credibility acquisition in the marketplace, it was able to expand further and faster by a franchised channel. Unfortunately, after a brief period, the company decided to abandon the "franchised way" to come back to the "owned way", because the franchised channel was not in line with the target of the company, and part of the new franchised units were not under control. The company decided to slow down the expansion and go on only with the owned units. The considerations above fall off and an OAT perspective seems to be able to explain better that choice: the company, realizing that the dependency of the new franchised units was threatened by adverse selection and moral hazard problems, decided to buy back the new units and stop the franchised channel. This action could be usefully explained also by a Signaling Theory perspective, as it is arguable that the conditions of the market were not favourable yet for the next step, and the scarce ability and knowledge of the market leads the company to adverse selection and moral hazard problems. It is more difficult to explain this choice from a resource-

base point of view, as the problem, as what emerged from the interview, was not related to resource scarcity or to a decision not to expand (this, actually, was the focus of the company), but to monitoring and recruitment problems. Given that, moreover, the agency theory fails its explanation when it argues that franchised chains are useful in reducing monitoring and screening costs.

A third step of the evolution of the company was the new attempt to open franchised outlets, this time generating them from the inside[19].

There are no doubts that this action was aimed to compete with competitors and general environment, that was increasing in competitiveness and strength. From the interviews, indeed, emerged that the decisions to grow up was taken not to increment results, but in reply to environment and competitors pressures.

In this way, the company was able to expand in all the Italian regions and, eventually, became one of the leaders of the Italian real estate market.

**Fig. 2.5 Toscano's regional development**

**Source: our elaboration, 2008**

---

[19] This practice is really common in franchised chain where franchisor prefer to create new outlet, using "friend" financial resources. Felstead (1993) reports same important cases like McDonalds quoting that "many early McDonald's Franchisees in the US were personal friends of the chain's founder Ray Kroc". Moreover all the franchisees were asked to spend at least six months in a McDonald's restaurant without being paid before the possibility to open a own franchised restaurant.

A first consideration could be that the company, sorted out its governance problems, was eventually able to exploit the resources provided by the potential franchisees. This action seems to receive the resource-based assumptions made before but, going deeper, it is possible to realize that generating the new franchisees from the inside means to be able to exploit only external financial resources, as the human and the informational resources are created internally. This action seems to be in accordance with the assumptions proposed by the Agency Theory: as expanding geographically, the monitoring costs rise and the firms, in order to lower them, create franchised units. Even if this is true, it has to be noted that also the Agency Theory is only partially right, as the firm goes on recruiting people through the normal channel, and only after a large period in the owned company they can open a franchised outlet. Therefore, even if the monitoring costs go down, as forecasted by the Agency Theory, the recruitment costs are still largely supported by the firm, in the same way it used to do before the idea of franchising the business.

At first sight, the franchisor's behaviour seems to clash with the theoretical assumption of an OAT Theory: yielding to a third party a part of its own energies because of the payment of royalties and fees, the firm increases its profit but, at the same time, its dependence on other processes increases too. Consequently, it loses power. So, stipulating many franchising contracts enables a growth of presence and capillarity on the area, an increase of supply's flexibility and a reduction of risks and uncertainty related to territorial expansion (all are measures used to increase the power towards task environment), but on the other hand this fact seems to reduce power and increases the dependence towards the franchisee.

Thompson underlines how compound organizations can move towards their own aims only through a compromise. Toscano's case in this sense is emblematic: Toscano S.p.a. seems to have considered this problem in its structural choices. In almost every case the chance of becoming franchisee is given after an "incubation" period and an experience in direct agencies. This allows the firm to maintain a certain "style" (the "Toscano style"), by keeping homogenous the quality level both in direct agencies and franchised agencies. In terms of power

control, this process entails both the ability to reduce uncertainty and the relative possibility of franchisees to "run away" to other marks or to an independent activity and a rise of dependence and control over it. The transfer of human resources to an external process could be read as a will to homogenize competences, knowledge and culture and can be traduced as a want to rise fidelity and dependence of external process. Toscano, through a cultural intervention, tried to include inside its own boundaries other than the direct agencies also units formally independent. This will emerge clearly from the questionnaire: the firm's management reckons that the incubation period and intense and repetitive contacts with the franchisees are the reasons at the base of its low turn over. In partially accordance to the Resource Based Theory, Thompson observes that organizations imprisoned by constraints (for example, because of lake of managerial or financial resource) act creating no-captive organizations able to help them in reaching the target. Given the resources, Toscano sees in franchising the means through which to get free.

Finally, Toscano's communication strategy is based on complete re-investment of profit coming from franchising activity: it is a further evidence that growth strategy aim is to expand territorially and, therefore, has no economic reasons (not prevalent).

Another interesting consideration could be done talking about multi-unit and single-unit franchising. The company decides case per case if it is possible to allow a franchisee to operate in more than one unit. The company, in that way, operates a discrimination between "good franchisees" and "bad franchisees" allowing the first ones to operate more than one unit and the second ones to operate only in a single outlet. The discrimination is based on the degree of trust and faith the company has toward its franchisees. This, in other words, means that the franchisor allows only the franchisees it believes in and has control over to operate in more than one unit. If it easy to be understood from a OAT point of view, there are no evidences able to support the Agency Theory, the Resource-Based Theory and the Signaling Theory.

## 8.6 Units Relations

Toscano's structure can be defined as a "mixed network", since inside the network, franchising units and franchisor's property units coexist. Up to 1997, the firm operated exclusively by direct channel. Afterwards, as firstly reminded, it decided to create an alternative franchising channel. Generally, the "conquest" of new areas or big cities starts with an explorative owned-unit and, only afterwards, the area is open to franchisees. From the questionnaire it emerges that, at the moment, this strategy is pursued only in "interesting strategic areas". In non-strategic areas, franchisees are allowed to operate immediately. In other words, the territory is segmented by levels of uncertainty or criticism, and subsequently given to units with different levels of dependence. Cultural positions are also important. Some time the coordinator of an area is a franchisor particularly "close" to the management. However, even considering this case, it is possible to argue that the strategy is defined in accordance to the ability of a unit to deal with uncertainty, dependence and power. This operation cannot be explained in terms of Agency Theory or Resource Based Theory. Several studies show instead how, often, franchisors send franchisees in new areas or in international not well-know contexts in order to achieve knowledge from the "native" units (Sanchez, 2006). A possible explanation for this, following an OAT pattern, could be that after a segmentation of the territory by uncertainty franchisors decide whether it is better to act on their own or to explore the new areas with franchised company, with the main purpose of increasing their power by this action.

## 8.7 Boundaries

From the interviews several different and opposite suggestions relative to the boundaries question arise. The managers consider the two different channels as two completely different businesses. For example, the revenues coming from the franchised channel are totally reinvested in the same channel in advertising or other interventions finalized to a faster growth of the company. The organization of the business is also differentiated as the two channels have two different boards of managers. Considering that, it appears obvious that the boundaries have to be defined considering the franchised channel and the owned one as separate

companies. Nonetheless, this conception is strictly related with a TCA prospective, as only the economic relations are inspected. Going deeper in this matter, it is possible to find numerous other "clues" leading to a different position in terms of boundaries. From the interviews emerged that "it is impossible for the customer to identify a franchised outlet from a owned one", and the synergies between the two channels are inseparable and absolutely necessary for the development of the whole company. The economical spill over, indeed, both in a single area but possibly in all the units, are relevant and considered central in the development of the brand. Another cultural question, before mentioned, is important. Usually a owned company is the leader of a certain area, but sometimes it happens that, given the major ability of a franchised unit to lead a particular area, the leader role is given to a franchised one. Considering cultural issues, the difference between a franchised unit and an owned one is, in this chain, not big as pointed out before. These differences are not evaluable in a TCA perspective, but with an OAT perspective it is possible to argue that where the action of units, both owned or franchised, is similar to another action proposed by another unit, they are comprised in the same boundaries. This approach appears to be closer to the reality and able to explain the concept of boundaries in a franchised context better than a TCA approach, as the last one does not consider the cultural aspects.

## 9. Findings and Opened Questions Related to The Case

This case has to be considered only a pilot case, but it offers some relevant insights about the questions still open in the franchising-related studies. Particularly, it shows how the different theories deal with the development of a company which has both franchised and owned units. The analysis of the development has been effectuated by relating with the original management of the firm and by both free interviews and guided ones. Our results show that there is still confusion in terms of theories describing the organizational choices in a franchised context, and most of the time differences from a franchisor to another appear evident and not understandable. A new theory has been proposed. We found, studying this case, that a possible framework of explanation for the

franchisor behaviour is the OAT, which describes every organization as a process and suggests that each process (in our case the franchisor) defines relations with other processes (the franchisees) through structural choices which use, as principal criterion, the control exercisable ability.

Particularly we found that:

- Toscano's growth path showed a discontinuous and heterogeneous use of both franchised units and owned units. This path is not easy to be explained by the normal theories. OAT offers, instead, some interesting clues worthy to be investigated in depth.
- Toscano's growth strategy was based on segmentation by uncertainty degrees of territory: the more the uncertainty, the more the necessity of control over the conqueror unit. Critic and fundamental areas, for example, are conquered by direct agencies, while in less important cases the conquest is left to independent units.
- The possession of multi outlets is allowed only to good franchisees. The goodness of a franchisees is measured in terms of trustiness and controllability.
- Both economical and cultural aspects have to be considered in explaining the boundaries of a franchised company. Following a OAT perspective, it is possible to argue that where two units, owned or franchised, operate in the same way, they belong to the same company.

This single case is able only to offer some insights into this matter, therefore, it has to be considered as a pilot-case.

In the following chapter we will explore deeper, through a survey, some of the aspects outlined before. The questionnaire has been created to offer an inter-sectoral point of view and it has been done across two nations, United Kingdom and Italy, to offer a wider validation of the results.

# CHAPTER III
# Implications of The Use of Multi-Unit an Single-Unit Franchisees

## 1. Introduction

Franchising has been defined in very different ways during the last 50 years as its evolution was going on, and several studies have been carried out with the aim of describing how it works (Dant and Kaufmann, 2003; Stanworth and Curran, 1999; Rubin, 1978), its ability to change the competition amongst firms (Porter, 2005) and the ability of the franchised companies to grow faster than the 'normally' organized ones (Kaufmann and Dant, 1996; Sanchez et al. 2006; Shane, 1996). Nonetheless, franchising has attracted the attention of researchers from diverse disciplines including management, law, economics, marketing and finance (Dant and Kaufmann, 2003).

Starting from the assumption that franchising in itself is not a homogenous form (Sanchez et al, 2006), the aim of this chapter is to explore the differences among different forms of franchising chains, focusing on the use of multi-unit franchising and single unit franchising.

As pointed out in chapter II, even if there are several studies focused on the understanding of franchising and its evolution, just few of them focus their attention on the understanding of the different structures a franchising can assume (Watson, 2005; Combs and Ketchen, 2003). Particularly, the existence of multi-unit franchising seems to contradict the fundamentals of the main theories focused on the understanding of franchising development and structure.

This chapter focuses its attention on the study of these issues. Particularly, after a paragraph that proposes a literature review of the main works on this area and a series of hypothesis coming from them, this chapter will propose a study of the Italian franchising chains made through the submission and the analysis of questionnaires sent during the period September-Novemeber to Italian franchisors.

**2. Literature Review and Research Hypothesis**

The different papers analyzed during the literature review phase (chapter II) seem to suggest that companies use franchising as a mean through which to achieve a faster growth in terms of units and turnover. The Resource Scarcity Theory, indeed, suggests that companies implement a franchising channel when they face difficulties in acquiring the necessary resources (financial, human and informational) by themselves. The Agency Theory suggests that companies use franchising for their expansion because it is a cheaper way through which to maintain control over units, overall in a geographical dispersed context. Franchisees, acting as residual claimants, share their interest with the franchisor, being their remuneration related to the performance they put in act. Empirical support for the two theories is mixed reflecting the fact that there is probably no single explanation for franchising (Combs and Castrogiovanni 1994). Nonetheless, both of them suggest that a positive relation between franchising and growth exists.

Even though the literature coming from the two different approaches seems to agree on this assumption, confusion still exists about the impact of the use of the different organizational options in a franchised context. Particularly, Bradach (1998) suggests that MUF could enable a more rapid growth because of the gained efficiency in terms of recruitment, screening and training. This model finds support in other research, such as the one proposed by Kaufmann and Dant (1996), which introduces, together with Agency Theory arguments, also Resource Scarcity Theory arguments in a mixed approach. Nonetheless, other research (Sanchez et al., 2006, Weaven and Frazer, 2004) cannot confirm this finding. As different studies carried out in different countries achieve opposite results, a

possible explanation for this lack of consensus could be found in the structure of the labour market and the difficulties in recruiting new franchisees. In UK and Australia there appears to be anecdotal evidence at least to suggest that MUF is used in an attempt to overcome difficulties in franchisees recruitment (Watson, 2007).

*Hp 1 – The use of MUF enables more rapid growth*

*Hp 2 – MUF is used to overcome franchisees recruitment problems*

As suggested by Sanchez (2006), MUF is not a homogenous form and two possible types could be found. In area development franchising agreements the franchisees have the obligation to develop an area in a specified period of time, operating a specified number of outlets. In incremental multi unit franchising, instead, the franchisor allows its franchisees to operate successive units, usually following new separate franchising agreements. It has been suggested that incremental multi-unit is more likely to be used when franchisors face problems in recruiting new franchisees (Kaufamm and Dant 1996). Allowing an old and well-known franchisee to operate one or more new units grants a saving of money for the franchisor and reduces risks in terms of adverse selection, as old franchisees have proven themselves to have the requisite skills. The same savings cannot be found in area developer agreements, as the recruitment problem is only shifted from franchisor to franchisees that are in charge for the recruitment of managers who will operate the new units. Area development agreements are normally used to expand in unknown areas. In this sense, a shift of the recruitment duties to a franchisee, which is supposed to be more aware about the conditions of the market in the area it has to develop, could be a good option. Nonetheless, in this case, franchisors can rely only on the ability of area developers to recruit the right managers for the new outlets.

*Hp3 – If the franchisor faces recruitment problems, it is more likely to use incremental multi unit franchising than area development franchising.*

*Hp4 – MUF is a cheaper form of expansion compared with SUF and, within MUF, incremental franchising is cheaper compared with area development*

It has been argued that adverse selection is better addressed by incremental franchising because of franchisors' knowledge of the franchisees that are going to operate new units. It is possible to argue that this is true only when this right is given exclusively to selected franchisees, namely when franchisors operate discrimination between good and bad ones. In this case operating a new unit is used as a "reward" for good franchisees and could be an incentive for them to be more involved in the activity of their franchisors. Nonetheless, there is no evidence that a good franchisee is also able to manage a wider organization such as a multi-unit franchisee. It could be argued, therefore, that not all the small franchisees have got necessarily the requisite skills for managing a multi-unit franchising. In this sense Garg et al. (2005) suggest that whilst area developers must have the ability to identify and hire suitable managers for operating their outlets, the same skills are not, or not necessarily, a requisite possessed by incremental franchisees. In other words, whilst the main requisite of an area developer is the ability to hire and coordinate managers, an incremental franchisee, namely a single unit franchisee who added new outlets, has been previously recruited for his/her ability of managing only one outlet. There is no evidence that a franchisee able to manage an outlet is also good at hiring and coordinating managers.

Also, it has been argued that a big franchisee is more likely to argue with franchisors given its increased power in the whole organization. Indeed, it has been suggested that single unit franchisees may over time begin to question the value of belonging to a franchise system (Watson and Stanworth, 2006) and this can only be magnified for multi-unit franchisees, particularly those responsible for a large number of outlets (Watson, 2007). In other words, a good single unit franchisee could turn into a bad multi-unit franchisee because of its increased importance and its ability to deal with the franchisor on equal terms (Ishani, 2006). This could be true in both incremental franchising and area development agreements as the result of these is a bundle of outlets managed by the same franchisee.

*Hp5- IF and ADF require different skills*

*Hp5 – is the use of multi unit franchising used as reward strategy?*

*Hp6 – the use of multi unit franchising leads to more disputes*

Watson (2007) suggests that the organizational form of a franchising could be affected by the different sectors in which it operates. In other words, different sectors could have different preferences in the use of single unit franchising or multi unit franchising and, within MUF, between incremental agreements and area development agreements. From a resource scarcity point of view, the main difference amongst sectors is the quantity of resources needed to run a business. Referring to financial resources, a possible discrimination could be made looking at the investment costs a franchisee needs to make to enter the network. As Kaufmann and Dant argue, MUF seems to address better than SUF capital acquisition problems. Particularly, MUF could offer to franchisees a series of synergies. An incremental franchisee who operates a new outlet has expectations more adherent to the reality and he/she is more inclined to bear risks and invest bigger amount of money in an activity he knows as profitable in prospective. Similarly, area development allows entrepreneurs to access large blocks of funds without resorting to venture capital (Kaufmann and Dant 2006).
From an agency theory point of view, the main difference between sectors is given from the possibility that the agents (in that case, franchisees) fail to participate collectively in presence of appropriable individual advantages. Garg et al (2005) suggest that MUF contravenes one of the most distinguishing theoretical features of SUF, namely the efficiencies arising from the residual risk-bearing status of the unit's owner-manager and the inefficient risk-bearing problems that increase with multiple ownership (Brickley and Dark, 1987). Nonetheless, it has been suggested that where a business is characterised by non-repeated trade, single unit franchising may increase agency costs. In other words, if a single unit franchisee knows that a customer is unlikely to be back to the same outlet, considering that the business is characterized by transient customers, probably it would not take care of the quality of the service it offers. On the other hand, as MUFs are likely to manage outlets in close proximity to one another, they have no incentive (or at least they have less incentives) to free-ride and offer a service with poor or different quality from the one established by their franchisor. In addition,

it has been suggested that for those organizations for whom uniformity is of particular concern, MUF may be preferred (Bradach, 1998) as it increases the level of uniformity. Bradach also suggests that “a collection of single-unit franchisees would likely exhibit wider variation in following the chain’s uniform standards than would a group of units under the same administrative structure (Bradach, 1995, p.76). Moreover Bradach argues that deviations should be easier to notice in MUF systems because it offers more opportunities to evaluate the franchisee’s adherence to the standards.

*Hp7 – MUF is more likely to be used in sectors characterized by high investment costs*

*Hp8 - Franchisors for whom uniformity is of particular concern and that work in sector characterized by high level of potential free-riding are more likely to use MUF*

On the contrary, it is possible to expect that when the emphasis is in local responsiveness, SUF is a more suitable solution. Bradach argues that hired managers are less inclined to look for new solutions and also they are supposed to move more often than owner-managers. For this reason, single unit franchisees are likely to have more knowledge of the territory in which they operate compared with the knowledge of hired managers who operate outlets on behalf of the multi unit franchisee.

*Hp9 – Franchisors for whom responsiveness and innovation are of particular concern are more likely to use SUF*

**3. Methodology**

A pilot case (see chapter II) has been made in order to understand the franchisor’s point of view and test the hypothesis.

After this phase a questionnaire has been elaborated and sent, with the collaboration of the Federazione Italiana Franchising, to 68 franchisors. Given the small amount of FIF’s members, it has been decided to send the same questionnaire also to other 180 non-member franchisors during the period September – November.

The questions posed were almost all based on a scale from 1 to 7, from strongly agree to strongly disagree, but also opened answers have been requested as completion and integration of them.
After the data collection and elaboration phase it has been decided to interview some of the most relevant franchisees in order to go deeper in the analysis of the concepts. A meeting with some franchisors at the end of the work helped us in better understanding some points object of the work itself.

**4. Sample Composition**

The questionnaires have been sent to 248 Italian franchisors during the period September – November. We received back 49 questionnaires but part of them (8) were not suitable for our purposes. Therefore, the useful sample was composed of 41 replies equivalent to 16,53% of the total amount of the contacted franchisors. This percentage appears to be in line with other researches of the same type.
The table below offers some useful insights about the organizational forms of the franchising in the sample. Particularly, from the table it is possible to consider the number of franchisors that have chosen multi unit, single unit and/or plural form for their structure.

| **Organizational Form** | | |
|---|---|---|
| Single Unit Franchising | 14 | 34% |
| Multi Unit Franchising | 27 | 66% |
| Of which | | |
| Incremental Franchising | 25 | |
| Area Developers | 2 | |
| Plural form | 12 | 29% |
| And Single Unit | 3 | 25% |
| And Multi Unit | 9 | 75% |
| Total | 41 | |

The table points out the existence in the sample of all the three forms. As previously mentioned in the literature review, multi unit franchising seems to be the most used form (66%). 9 out of the 12 franchising chains using a plural form organization allowed their franchisees to acquire more than one unit. This quantity

(in terms of percentage it is about 75%) seems to suggest a possible correlation between plural form organizations and use of MUF.

The replying franchisors are present in almost all the categories mentioned in our questionnaires. Particularly, the table below represents the sample composition analyzed according to the sector of activity:

| **Sample composition** | | | |
|---|---|---|---|
| Sector of activity | | Single | Multi |
| Direct selling, distributon | 9 | 3 | 6 |
| Estate agents, mortgage brokers | 9 | 4 | 5 |
| Consultancy, Training, Executive seach | 8 | 1 | 7 |
| Domestic, Personal, Health and Fitness | 4 | 0 | 4 |
| Retailing | 8 | 4 | 4 |
| Tourism | 1 | 1 | 0 |
| Catering and hotels | 2 | 1 | 1 |
| Total | 41 | 14 | 27 |

The table put in evidence possible differences in the use of single unit franchising and multi unit franchising form. Even if, with the exception of the "Domestic, Personal, Health and Fitness" category, at a first glance, it is possible to argue that the number of franchisors is well-spread along the table, it is also possible to argue that the sample shows a preference for MUF in sectors like Direct Selling and Distribution and Consultancy, Training and Executive Search while SUF seems to be preferred in sectors like Estate agents and Retailing.

Also, it is interesting to notice the relation between turnover (of the whole company) and organizational form. The table below shows this relation:

| **Turnover (average over the last three year)** | | | |
|---|---|---|---|
| | | Single | Multi |
| <1.000.000 | 9 | 6 | 3 |
| 1.000.000-2.000.000 | 5 | 3 | 2 |
| 2.000.000-5.000.000 | 8 | 3 | 5 |
| 5.000.000-10.000.000 | 5 | 1 | 4 |
| >10.000.000 | 14 | 1 | 13 |
| Total | 41 | 14 | 27 |

From this table it is possible to infer that smaller companies prefer SUF and, instead, big franchisors would rather go for MUF. Indeed, 42% of the SUFs involved in this research has a turnover between 0 and 1.000.000 Euros, whilst 48% of the MUFs prospects a turnover of more than 10.000.000 Euros.

The age of the sample could also give some useful insights. The table below shows the distribution of the franchisor per year of foundation.

| | Single Unit | Multi Unit |
|---|---|---|
| <1998 | 2 | 16 |
| 1999 | - | 1 |
| 2000 | 5 | 1 |
| 2001 | 2 | 2 |
| 2002 | - | 2 |
| 2003 | 2 | - |
| 2004 | 2 | 2 |
| 2005 | 1 | 3 |
| 2006 | 2 | - |
| 2007 | - | - |
| 2008 | - | - |
| | 14 | 27 |

60% of the MUFs has been founded before 1998 whilst SUFs are, in average, younger. Apart from 2 of them, in fact, the other ones have a more recent history.

## 5. Growth and Organizational Form

Franchisors were asked to outline their growth path in terms of units over the last three years. In the table below it is possible to find the results divided according to the organizational form (MUF and SUF).

| **Growth (over the last 3 years)** | | | | | | |
|---|---|---|---|---|---|---|
| Multi Unit | 2005 | 2006 | 2007 | var | Var % | CAGR |
| 1 | 48 | 54 | 63 | 15 | 31,25% | 9,49% |
| 2 | 6 | 12 | 14 | 8 | 133,33% | 32,64% |
| 3 | 51 | 53 | 48 | -3 | -5,88% | -2,00% |
| 4 | 85 | 83 | 78 | -7 | -8,24% | -2,82% |
| 5 | 37 | 39 | 48 | 11 | 29,73% | 9,06% |
| 6 | 171 | 198 | 200 | 29 | 16,96% | 5,36% |
| 7 | 40 | 48 | 62 | 22 | 55,00% | 15,73% |
| 8 | 16 | 50 | 30 | 14 | 87,50% | 23,31% |
| 9 | 18 | 31 | 47 | 29 | 161,11% | 37,70% |
| 10 | 171 | 189 | 229 | 58 | 33,92% | 10,22% |
| 11 | 2 | 4 | 8 | 6 | 300,00% | 58,74% |
| 12 | 10 | 30 | 48 | 38 | 380,00% | 68,69% |
| 13 | 102 | 120 | 191 | 89 | 87,25% | 23,26% |
| 14 | 60 | 90 | 120 | 60 | 100,00% | 25,99% |
| 15 | 48 | 70 | 92 | 44 | 91,67% | 24,22% |
| 16 | 28 | 40 | 48 | 20 | 71,43% | 19,68% |
| 17 | 23 | 41 | 61 | 38 | 165,22% | 38,42% |
| 18 | 6 | 30 | 42 | 36 | 600,00% | 91,29% |
| 19 | 30 | 46 | 52 | 22 | 73,33% | 20,12% |
| 20 | 20 | 38 | 55 | 35 | 175,00% | 40,10% |
| 21 | 22 | 30 | 38 | 16 | 72,73% | 19,98% |
| 22 | 251 | 329 | 389 | 138 | 54,98% | 15,72% |
| 23 | 121 | 150 | 186 | 65 | 53,72% | 15,41% |
| 24 | 22 | 40 | 72 | 50 | 227,27% | 48,47% |
| 25 | 40 | 41 | 34 | -6 | -15,00% | -5,27% |
| 26 | 40 | 70 | 82 | 42 | 105,00% | 27,03% |
| 27 | 93 | 113 | 148 | 55 | 59,14% | 16,75% |
| Units | 1561 | 2039 | 2485 | 924 | 59,19% | 16,76% |
| Average | 58 | 76 | 77 | 34 | | |

| Growth (over the last 3 years) | | | | | | |
|---|---|---|---|---|---|---|
| Single Unit | 2005 | 2006 | 2007 | var | var% | CAGR |
| 1 | 315 | 407 | 490 | 175 | 55,56% | 15,87% |
| 2 | 0 | 3 | 4 | 4 | 0,00% | 0,00% |
| 3 | 5 | 6 | 9 | 4 | 80,00% | 21,64% |
| 4 | 9 | 10 | 10 | 1 | 11,11% | 3,57% |
| 5 | 10 | 14 | 16 | 6 | 60,00% | 16,96% |
| 6 | 13 | 20 | 20 | 7 | 53,85% | 15,44% |
| 7 | 4 | 4 | 4 | 0 | 0,00% | 0,00% |
| 8 | 2 | 2 | 2 | 0 | 0,00% | 0,00% |
| 9 | 20 | 26 | 18 | -2 | -10,00% | -3,45% |
| 10 | 10 | 15 | 13 | 3 | 30,00% | 9,14% |
| 11 | 0 | 7 | 23 | 23 | 0,00% | 0,00% |
| 12 | 30 | 30 | 33 | 3 | 10,00% | 3,23% |
| 13 | 24 | 20 | 20 | -4 | -16,67% | -5,90% |
| 14 | 1 | 2 | 3 | 2 | 200,00% | 44,22% |
| Units | 443 | 566 | 665 | 222 | 50,11% | 14,50% |
| Average | 37 | 40 | 48 | 12 | | |
| Units* | 103 | 137 | 152 | 49 | 48,87% | 13,85% |
| Average* | 9 | 11 | 12 | 3 | | |

Looking at the table referring to SUF, it is possible to notice the existence of a franchisee, the first one, with completely different characteristics in terms of number of units from the average of the other ones. In our considerations we will proceed analyzing this table both considering and not considering this particular franchisee. Its particular features could, in fact, lead the result of our analysis astray. “Units*” and “average*” indicate the corrected data.

The two tables offer a series of possible considerations.

The first one is that MUF chains are generally bigger if compared with SUF chains. Indeed, the average number of units per franchisor passes from 58 to 92 in the case of MUF and from 37 to 48 in the case of SUF. If we don’t take in count the “particular franchisee”, this consideration is even truer: in this case, the average of units per franchisee would pass from 9 to 12 with a bigger spread between MUF and SUF.

The second consideration it is possible to make is that the growth speed, comparing SUF and MUF ones, is similar. Our data seem to suggest that it is not possible to find a strict correlation between growth and organizational form. It is true that MUF chains are, in average, bigger than SUF one and it is also true that

data show that MUF has a major tendency to growth but it is not possible to find a strong correlation like the one found out in past research (Kaufman and Dant 1996, Bradach 1998). This research seems to have a closer relation with the ones proposed by Sanchez (2006) and Weaven ad Frazer (2004) which suggest that MUF is used in contexts where it is difficult to recruit new franchisees.

The following tables make this relation clearer. The first one shows the replies we received when it was asked to the franchisors to indicate what they think are the greater obstacles to their growth strategy.

| **Growth obstacles** | Single | % | Multi | % |
|---|---|---|---|---|
| | | | | |
| Lack of suitable franchisees | 2 | 10,00% | 14 | 35,90% |
| Insufficient financial resources | 7 | 35,00% | 6 | 15,38% |
| Lack of suitable sites | | | 2 | 5,13% |
| Poor economic conditions generally | 8 | 40,00% | 11 | 28,21% |
| Competition from other franchise systems | 1 | 5,00% | 4 | 10,26% |
| Market competition | 2 | 10,00% | 2 | 5,13% |
| | | | | |
| | 20 | 100,00% | 39 | 100,00% |

From these data it is possible to identify different needs according to the different organizational choices. Particularly, whilst the lack of suitable franchisees is considered the biggest obstacle for MUFs, poor economic conditions and insufficient financial resources appear to be the most important problem SUFs have to face. It reflects the possibility that, as it has been found out during the literature review phase, MUF is used to overtake recruitment problems. In other words, when franchisors face difficulties in recruiting new franchisees, they decide to go ahead with the old ones, allowing them to open more than one unit. Even if the lack of financial resources is indicated as a problem more by SUF than MUF, it must be noticed that both put in evidence this problem as one of the main ones (35% for SUF and 15% for MUF). It is possible to argue that franchising agreements generally are used to overcome financial problems during the development phase, but whilst SUF is more suitable in order to deal with financial problems, MUF addresses recruitment problems better than SUF.

In order to better understand this point, the franchisors were asked to indicate the extent to which they agreed or disagreed with the statement "The ability to recruit suitable franchisees is a considerable barrier to our ability to grow" from strongly agree (1) to strongly disagree (7).

| Q1 | SUF | MUF |
|---|---|---|
| 1 | 0 | 9 |
| 2 | 2 | 8 |
| 3 | 4 | 1 |
| 4 | 3 | 2 |
| 5 | 3 | 3 |
| 6 | 1 | 3 |
| 7 | 1 | 1 |
| Average | 4 | 2,81 |
| Mode | 3 | 1 |
| Median | 4 | 2 |
| Variancy | 2 | 3,71 |
| Sqm | 1,41 | 1,93 |

The distribution of the data and the average that comes from that as a result seems to be in line with what has been found out before. MUFs are more concerned about recruitment difficulties compared with SUFs. In fact, more than 60% of MUFs compared with just 15% of SUFs (looking at the value "1" and "2") considers the ability of recruiting new franchisees as one of the main concerns of their activity. Looking at all the franchisors involved, SUFs are indifferent to recruitment problems (the indicated median value for them is 4) but MUFs show a particular regard to this matter (the same data for them is 2).

It must be born in mind that in this research SUFs are generally smaller and younger than MUFs. This is a possible explanation of why they indicated "poor economic conditions" as their main concern. Cafferata (2005) suggested that small companies in their first years of activity are more subject to external forces, still being in a *natural selection phase* and not having developed yet their abilities to cope with the environment. Even if this is a possible reason why SUFs are more likely to be dependent from external constraints, this same statement cannot explain why MUFs would have more problems in terms of recruitment issues. MUFs, having developed more skills after a long period in the market, should

have developed also the skills needed to recruit the right franchisees for their growth. It means that mature franchising chains, facing trouble in recruiting new franchisees, use their old franchisees in order to support their growth strategy.

In order to better understand the key-points of the growth strategies and their relation with the structure of the companies, the franchisors were asked to indicate the extent to which they agreed or disagreed with these two statements:"Allowing existing franchisees to open additional outlets considerably reduces costs (Q2)" and "Area development franchisees require considerably different skills to traditional single unit franchisees (Q3)" from strongly agree (1) to strongly disagree (7).

| Degree | Q2 | Q3 |
|---|---|---|
| 1 | 10 | 6 |
| 2 | 9 | 4 |
| 3 | 6 | 2 |
| 4 | 1 | 3 |
| 5 | 1 | |
| 6 | 0 | 2 |
| 7 | 0 | |
| Average | 2 | 2,59 |
| Mode | 11 | 1 |
| Median | 2 | 2 |
| Variancy | 1,07 | 2,71 |
| Sqm | 1,035 | 1,65 |

For what concerns the question referring to the cost of the expansions through the existent franchisees, it emerges clearly that most of the involved franchisors consider this as a cheaper way of expansion compared to SUF. Almost all the franchisors, indeed, strongly agree with the statement they were asked about, and none of them strongly disagree. This finding seems to be equivalent to other ones suggested in other research (Kaufmann and Dant, 1996)

For what concerns the second question, related to the skills needed for adopting a structure based on area developers, it is necessary to make some previous considerations. Unfortunately, our sample comprises only two companies using area development agreements. This means that it is not possible to have a clear opinion coming from them. At the same time, it is possible to argue that, if this

sample represents in a good way the situation of Italian franchisors, a small number of franchisors adopt this model. This statement seems to be supported from the data coming from Q2. The franchisors bear in mind the idea that area developers need different skills from the ones requested by an incremental franchising model. The two considerations seem therefore to suggest that area development franchising agreements are tools considered difficult to be managed and they require skills not present in the actual franchisors' management.

Furthermore, MUFs show a tendency to consider their franchisees as more skilled than the potential new franchisees they could recruit. This tendency is present also in SUF context but with a smaller degree. The table below shows the answers to the question "Our franchisees have developed skills we cant find in the marketplace", even in this case rated from 1 (strongly agree) to 7 (strongly disagree).

| Q4 | SUF | MUF |
|---|---|---|
| 1 | 2 | 8 |
| 2 | 4 | 7 |
| 3 | 2 | 3 |
| 4 | 4 | 4 |
| 5 | 0 | 1 |
| 6 | 2 | 4 |
| 7 | 0 | 1 |
| Average | 3,14 | 2,85 |
| Mode | - | 1 |
| Median | 3 | 2 |
| Variancy | 2,41 | 3,31 |
| Sqm | 1,55 | 1,82 |

The existence of a big number, compared to the total, of SUFs "indifferent" to this question seems to confirm the findings that have been proposed before, namely that MUF organizations have experimented or are more concerned about the problem of recruiting new franchisees.

## 6. Total Investment Cost

It has been argued that MUF seems to address better than SUF capital acquisition problems. Particularly, MUF could offer a series of synergies to franchisees keen on operating new outlets: the knowledge of the franchisors

maturated during the on-going relationship and the existence of expectations in terms of performance more adherent to the reality could lead “old franchisees” to bear more risks and invest bigger amount of money in an activity they know as profitable in perspectives. The table below shows the relation between the total investment cost that the opening of a new outlet requires and the organizational form:

| **Total Investment Cost** | | |
|---|---|---|
| | Single | Multi |
| <10.000 | 4 | 6 |
| 10.000-20.000 | 3 | 3 |
| 20.000-50.000 | 3 | 7 |
| 50.000-100.000 | 2 | 9 |
| >100.000 | 2 | 2 |
| average | 38.571 | 45.370 |
| mode | 10.000 | 75.000 |
| median | 15.000 | 35.000 |

Even though the two averages seem to suggest a small gap between the two forms, the analysis of the modes and medians seems to suggest a strict relation between organizational form and total investment cost. Particularly, the bigger is the amount of money necessary for operating a new outlet the more the company is likely to have a MUF-form.

### 7. Power and Disputes

It has been argued that the bigger the size of a franchisee, the more a franchisor has to take in consideration its request. This could suggest an increase in the number of disputes and, generally, it results in a more difficult situation in the management of the “strong units”. Franchisors having a MUF structure were asked to answer the question “The more units the franchisee possesses the more seriously we need to consider his/her requests (Q1), even in that case using a scale from 1 to 7. The table below shows the results:

| | Q5 |
|---|---|
| 1 | 5 |
| 2 | 7 |
| 3 | 3 |
| 4 | 5 |
| 5 | 1 |
| 6 | 4 |
| 7 | 0 |
| average | 3,08 |
| mode | 2 |
| median | 2 |
| Variancy | 2,87 |
| Sqm | 1,69 |

Franchisors were also asked to indicate if they were dealing with any dispute with their franchisees and how many agreements they had terminated before the expected time in the past. The table below shows the results of this analysis:

| | Current Disputes | n° of contracts terminated |
|---|---|---|
| SUF | 21% | 8* |
| MUF | 56% | 4,3 |

The first table seems to indicate a small relation between franchisees' size and their power even if there is a tendency to consider them more than the small ones. It has to be noticed that a large number of them (20%) are indifferent to this statement.

The second table shows that 56% out of the total of MUFs is currently dealing with problems related with their franchisees. This seems to suggest a possible relation between MUF and the level of disputes. Instead, the number of contracts terminated could mislead the analysis. The average concerning SUF, in fact, includes a big franchisor that terminated 70 contracts and several other franchisees with a relative smaller number of terminated contracts. If we eliminate from the average this "strange franchisor" the average results being "1", definitely different from the one indicated in the table.

## 8. Uniformity and Innovation Ability

The debate about uniformity and innovation has always been of a big concern in the organizational studies. Particularly, the contemporary necessity of both innovation and standardization led the managers of these companies to propose

different types of structure and styles of leadership (Cafferata, 2005). As we pointed out before, franchising is not a homogeneous form in itself. It has been argued that an explanation of the range of differences it is possible to find in franchising organizations could be the different necessity of uniformity and innovation.

Franchisors were asked to answer a series of questions related to this matter. Part of them are designed after other research (Bradach 1995, Brickley and Dark, 1987). The used system is the same used for the other questions. Therefore, franchisors were asked to indicate a number to express their agreement, from 1 to 7, from strongly agree to strongly disagree. The questions posed were:

Q6) All of our outlets in a region must offer uniform products/services

Q7) Every franchisee has to meticulously follow the standards, rules and procedures we have developed for our system

Q8) We require that all outlets in a region participate in special promotions, temporary discounts, etc.

Q9) We require that our franchisees work with their own customers in developing products/services that best suit their needs

Q10) We encourage franchisees to make important decisions without waiting for our approval so that they can respond to local competition

The table below shows the results of our findings in this matter divided per SUF and MUF.

| | Q6 | | | Q7 | | | Q8 | | | Q9 | | | Q10 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | SUF | MUF | | SUF | MUF | | SUF | MUF | | SUF | MUF | | SUF | MUF |
| 1 | 2 | 11 | | 2 | 14 | | 4 | 14 | | 3 | 0 | | 3 | 0 |
| 2 | 4 | 7 | | 4 | 8 | | 5 | 5 | | 7 | 4 | | 3 | 4 |
| 3 | 4 | 5 | | 4 | 3 | | 0 | 2 | | 2 | 6 | | 3 | 4 |
| 4 | 2 | 0 | | 2 | 1 | | 2 | 3 | | 0 | 2 | | 1 | 9 |
| 5 | 2 | 2 | | 2 | 1 | | 0 | 2 | | 0 | 2 | | 1 | 3 |
| 6 | 0 | 1 | | 0 | 0 | | 2 | 1 | | 2 | 5 | | 1 | 5 |
| 7 | 0 | 1 | | 0 | 0 | | 1 | 0 | | 0 | 2 | | 1 | 2 |
| Average | 2,86 | 2,33 | | 2,86 | 1,78 | | 2,93 | 2,15 | | 2,5 | 4,19 | | 3,07 | 4,26 |
| Mode | 2,5 | 1 | | 2,5 | 1 | | 2 | 1 | | 2 | 3 | | 2 | 4 |
| Median | 2,5 | 1 | | 2,5 | 1 | | 2,5 | 1 | | 2 | 4,5 | | 2,5 | 4 |
| Variancy | 1,55 | 2,67 | | 1,55 | 1,06 | | 4,066 | 2,27 | | 2,39 | 2,84 | | 3,46 | 2,19 |
| Sqm | 1,24 | 1,63 | | 1,24 | 1,03 | | 2,02 | 1,51 | | 1,55 | 1,71 | | 1,86 | 1,48 |

This table confirms a tendency of franchisors to ask their franchisees for uniformity. This tendency is more evident and stronger in MUFs than in SUFs, even if both of them seem to be interested in uniformity. Nonetheless, it is evident that SUFs use a weaker control and consider their franchisees a good source of innovation. Furthermore, whilst MUFs seem to be indifferent to innovation and put uniformity as their main concern, for SUFs uniformity seems to be a secondary problem whilst innovation and the development of product/service through the contact with customers seems to be a key-point.

Uniformity is the main concern for companies working in sectors characterized by repeated trade with the same customers and long term relationships with them (Bradach, 1995). In order to have a confirmation to the data showed in the table above, the franchisors have been asked to indicate what proportion of their customers is constituted by loyal customers.

The table below illustrates the results:

| % of loyal customers | SUF | MUF |
|---|---|---|
| 0-30 | 3 | 6 |
| 31-60 | 4 | 5 |
| 61-80 | 0 | 7 |
| 81-100 | 4 | 6 |
| Average | 53% | 56% |
| Mode | - | 70% |
| Median | 45% | 70% |

It is possible to deduct from the table that, even if the average, the moda and the mediana are higher in the case of MUF, it is not possible to establish a proper relation between repeated trade and organizational form, given that the number of franchisors is spread all along the table, both in the case of SUF and MUF.

An hypothesis about why this last finding seems to be controversial is that MUF can guarantee uniformity only in the case of geographically close units. In other words, it is possible to argue that MUF can offer uniformity only in the case in which all the units it owns are in a limited area and, therefore, easily under control. Franchisors were asked to evaluate, giving a mark from 1 to 7, the statement "We only allow franchisees to purchase additional units which are

geographically close to their existing outlets". It is possible to find the results in table Q11:

| Q11 | MUF |
|---|---|
| 1 | 5 |
| 2 | 4 |
| 3 | 2 |
| 4 | 7 |
| 5 | 3 |
| 6 | 1 |
| 7 | 4 |
| Average | 3,69231 |
| Mode | 4 |
| Median | 4 |
| Variancy | 3,98 |
| Sqm | 1,99 |
| | |

This table shows a general indifference to this question. It means that geographical issues are not at the centre of franchisors' thoughts. It must be considered that not all the MUFs have similar features: for this reason it is possible to argue that a more detailed analysis that includes sectors of activity and its own characteristics may offer more insights related to this argument. Unfortunately in this case, given the small number of franchisors taken in consideration, it is not possible to reach a higher level of details.

**9. Rewards and Responsiveness**

The opening of a new unit for a franchisee could represent an opportunity to expand its own business and, at the same time, it could be a way through with franchisors can reward and incentive their best franchisees. On the other hand, it would mean that the existence of differences between franchising structure could be related more to a reward-system than to a organization design issue. Therefore, franchisors were asked to answer 4 questions related to this issue, in order to assess the use of multi-unit as a reward system. The four questions, always linked to a 7-points scale, were:

Q12) We see the potential to open additional units as an important incentive to our franchisees

Q13) We see our existing franchisees as a key means of increasing the system size (in terms of outlets)

Q14) The opportunity to purchase an additional outlet is an opportunity provided to only our best franchisees

Q15) We always allow our franchisees to buy new units if they show themselves capable

The table below illustrates the collected data related to these 4 questions.

| | Q12 | Q13 | Q14 | Q15 |
|---|---|---|---|---|
| 1 | 13 | 9 | 10 | 5 |
| 2 | 9 | 5 | 6 | 3 |
| 3 | 4 | 8 | 2 | 3 |
| 4 | 0 | 4 | 0 | 4 |
| 5 | 0 | 0 | 3 | 4 |
| 6 | 0 | 0 | 1 | 5 |
| 7 | 0 | 0 | 1 | 2 |
| Average | 1,65 | 2,27 | 2,43 | 3,85 |
| Mode | 1 | 1 | 1 | - |
| Median | 1 | 2 | 2 | 4 |
| Variancy | 0,53 | 1,2 | 3,29 | 3,9 |
| Sqm | 0,73 | 1,09 | 1,81 | 1,97 |

The data – particularly referring to questions 1 and 3 - show no doubts about the use of the opening of a new outlet as an important way to reward franchisees considered particularly able in dealing with their outlets. It has to be pointed out that these questions were posed exclusively to franchisors using a MUF organization. The answers to the second question support the idea that this kind of franchisors wants to pursue a growth strategy still based on their existent franchisees. The answer to question number 4 suggests the idea that not all the franchisees are allowed to open new outlets independently from their past performance. It means that MUFs, used as means of rapid expansion and as part of a reward-system, are nonetheless part of a bigger strategy design focused on maintaining the control of the units belonging to the wider system.

**10. Discussion of The Data**

From the analysis of the data, the existence of different forms of franchising characterized by different features emerged clearly. The various

organizational forms that franchising can assume seem to be related to a series of variables linked to both strategy and environment the companies have to face.

In this paper, through the study of the main works concerning franchising issues, some of the principal variables have been presented and analyzed. The variables we took in consideration are growth strategy, age and size of the franchising-system, financial and recruitment problems, level of disputes and power, necessity of uniformity or tendency to innovation and reward-system.

The link between growth and use of multi-unit franchising has been studied several times by other authors (Kaufmann and Dant 1996, Sanchez et al 2006, Weaven and Frazer, 2004) with different findings. Part of them found a relation between growth and use of MUF, other ones weren't able to find the same relation. Our data, referring to the last 3 years, show that MUF systems have a greater tendency to grow than systems based on SUF. The gap in the growth speed between the two organizational forms is not as big as in other research: this could be related to the presence of a different composition of the sample. The absence of sector data referring to these researches and the relative small size of our sample cannot allow a deeper study of the details.

The difference of speed which characterize MUF and SUF systems is generally put in relation to the consideration that MUF is a cheaper way through which acquiring new outlets compared with SUF. The waste of time and resources on screening and training new franchisees, absent in the case of MUF, is supposed to allow franchisors to save money. It emerged clearly from the questionnaire that MUF is considered by franchisors as a cheaper way to achieve growth targets in terms of outlets than SUF.

36% of the total of the interviewed franchisors using MUF considers the lack of suitable franchisees as the main obstacle to their growth strategy. The same percentage calculated on systems using SUF is definitely smaller (10%).

These three data – speed, savings during the expansion phase and growth obstacles, - suggest a confirmation of our first hypothesis. The use of MUF seems to be, in fact, positively related with growth strategy in terms of savings of time

and money during the recruitment phase and of its ability to overcome recruitment problems.

It has to be considered that, in the sample we are taking in consideration, SUF systems are younger and smaller compared with MUFs. These two features can suggest the idea that the gap in the growth speed is more related to the condition of weakness of the just come to life SUFs compared to the experienced and well-established MUF systems. If this consideration could explain a gap in the orientation and ability to growth, it cannot explain the bigger problem MUFs have got, related to recruitment issues. MUFs, having developed more skills after a long period in the market, should have also developed the necessary skills in recruiting the right franchisees for their growth. Furthermore, the attractiveness of bigger and well-established companies should solve, at least partially, the problem of the implementation into the system of new franchisees. These considerations seems to suggest that MUF is more related to recruitment problems than used as a way to grow faster. The relative faster expansion is only a consequence of that.

It was not possible to understand the differences within MUF, between incremental franchising and area development franchising, given the small number of these last ones. Nonetheless, it is possible to argue that the small number of area developers in the sample is a good representation of the reality. It probably means that area developers need particular skills not present in the actual franchisors' management. This statement is supported by the answers to question Q10 in which franchisors using SUF and MUF (incremental) suggest the idea that area developers need particular skills different from the ones necessary for incremental franchising or SUF.

It has been argued that the growing dimensions of a franchisee lead to more disputes and problems in the management of the inner relationships of the system. Our data suggest a positive relation between the level of disputes and the use of MUF. The use of MUF and the presence of big franchisees increase the level of arguments and create problems in the management of the relationships. This finding suggests, then, that the skills used in a SUF system are different than

the ones necessary in a MUF system, implying that SUF and MUF are two distinct organizational forms requiring different systems of management and governance.

Franchising is used in different sectors with different characteristics. Amongst the others, the necessity of uniformity and the ability of innovate are two of the main drivers of franchising company strategy. Organizations focused on innovation, as pointed out in the chapter II, need leadership styles and organizational structures completely different from the ones requested by organizations whose main concern is uniformity. This affirmation is validated by our analysis. Particularly, it seems to be evident that franchisors requiring innovation and partnerships with their customers generally choose a SUF based system. On the other hand, it is not clear the relation between MUF and uniformity. A hypothesis about this controversial finding is that MUF can guarantee uniformity only in the case of geographically close units. Our data referring to these issues, anyway, do not offer any particular suggestion so that it is not possible to go deeper in this analysis. An analysis conducted taking in account the different features of the sectors in which franchisors are involved seems to be necessary. Unfortunately, in this case, given the small number of franchisors taken in consideration, it is not possible to reach a higher level of details.

Operating a new outlet is clearly a way through with franchisors use to reward their franchisees but, at the same time, it is part of a wider strategy. In fact, as it is true that only the best franchisees are allowed to operate new units it is also true that not all the franchisees in a chain are created from the beginning for that purpose. It means that MUFs, used as means of rapid expansion and as part of a reward system, are nonetheless part of a bigger strategy focused on maintaining the control of the units belonging to the wider system.

## 11. Conclusions, Managerial Implications and Future Research

This work suggests a series of insights useful for the understanding of the organizational structure of franchising chains. Franchising, indeed, is not a homogenous form and, besides, it seems to include a wide range of different organizational models. Looking at this matter from a SUF and MUF standpoints, this work confirms hypothesis which have already been tested in other countries and offers a deeper understanding of new matters.

Particularly, from the analysis of the data emerged that:

- there is a tendency of firms using a MUF-form to grow faster than firms using SUF-form. This tendency is not as big as the one found in previous works, confirming the hypothesis that companies take the step between SUF and MUF when they face troubles in recruiting new franchisees. This hypothesis has been confirmed by the data;
- younger and smaller chains prefer SUF-form. This could be related to a lack of experience in managing bigger franchisees or to a general franchisors' preference for small franchisees. This second hypothesis, if verified and taking in account the first point outlined, could suggest that franchising chains prefer to use SUF-form and pass to a MUF-form only if required by the labour market conditions;
- the data confirm a higher level of disputes in franchising using MUF. This could explain the franchisors' preference for SUF-form.
- MUF is a relatively cheaper way through which to expand a business compared with SUF. The savings come from the lower costs in terms of recruiting, screening and training, not necessary in MUF-systems. It is also possible to argue that MUF can guarantee a faster and cheaper way to spread the knowledge all around the chain;
- MUF, indeed, seems to better address uniformity issues. Nonetheless this last finding seems to be controversial. It could suggest that MUF can guarantee uniformity only in the case of geographically close units. In other words, it is possible to argue that MUF can offer uniformity only in the case in which all the units it owns are in a limited area and, therefore, easily under control. A deeper

and sector-based analysis can be useful, in this case, to better understand this finding;
- SUF can guarantee higher level of responsiveness and perception of the stimulus coming from the market;
- MUF is used as a reward strategy. Franchisors, allowing only good and loyal franchisees to operate new outlets, can increase the level of loyalty in the chain and reward their best franchisees, pushing all of them to an improvement of their performance;
- This work cannot explain the differences between incremental franchising and area development franchising, given the small number in the sample of the ones using the latter. Nonetheless, it is possible to argue that the small number of area developers in the sample is a good representation of reality. It probably means that area developers need particular skills not present in the actual franchisors' management.

The use of single unit franchising and multi unit franchising is characterized by different features at the managerial level. This research and others have pointed out the necessity of making a distinction between the two models. Particularly, SUF seems to guarantee higher level of innovation, whilst MUF, where cautiously geographically planned, seems to better address uniformity issues.

MUF, on the other hand, seems to be a useful tool in the resolution of recruitment problems, allowing the system to overcome possible lacks of suitable human resources in the market and permitting a reduction of the screening and training costs.

Future research should be oriented to study the possible differences coming from the different sectors, analyzing their impact on the organizational choices made by franchisors. A comparison between data coming from different countries could be useful in order to overcome cultural issues and particular situations belonging to the wider economic system.

## Bibliography


Aghion, P. and Tirole, J. (1997). "Formal and Real Authority in Organizations", *Journal of Political Economy,* vol. 105, no. 1 (Feb., 1997), 1-29.

Azevedo P., (2003) Delegation and real authority in franchising chain*, Proceeding of Emnet, Franchising and Network Conference*, 2003

Bercovitz, J.E.L. (2003) The Option to Expand: The Use of Multi-Unit Opportunities to Support Self-Enforcing Agreements in Franchise Relationships, *Proceedings of the 2003 EMNet Conference on 'Economics and Management of Franchising Networks*, Vienna, Austria.

Blair, R.D. & Lafontaine, F. (2005). The Economics of Franchising, *Cambridge University Pres*s, New York.

Bradach, J. (1997) Using the plural form in management of restaurant chain. *Administrative Science Quarterly*, 42, 276-303

Bradach, J.L. (1995). Chains within chains: the role of multi-unit franchisees, *Journal of Marketing Channels*, 4, 65-81.

Bradach, J.L. (1998). Franchise Organizations, *Harvard Business School Press,* Boston, Massachusetts.

Brickley, J. A. and Dark, F. H. (1987). The choice of organisational form: the case of franchising, *Journal of Financial Economics*, 18 (June), 401-421.

Brickley, J.A. (1999). Incentive conflicts and contracting: evidence from franchising, *Journal of Law and Economics*, 42 (2), 745-774.

Cafferata R. (2007) Direzione aziendale e organizzazione, a cura di Roberto Cafferata, Aracne, Roma.

Campi S., Gasparre A, 2005, Organizational Boundaries in Childcare Services System and the Promotion of NPO Networks by Local Public Agencies in an Italian Metropolitan Area, *Impresa progetto, n. 2*
Carney, M. and Gedajlovic, E. (1991). Vertical integration in franchise systems: agency theory and resource explanations, *Strategic Management Journal*, 12, 607-629.

Caves, Richard E. & Murphy, William F. (1976), Franchising: firms, markets and intangible assets. *Southern Economic Journal, 42* (April) 572-586

Cliquet, G. (2000). Plural forms in store networks: a model for store network evolution. *International Review of Retail, Distribution and Consumer Research*, 10 (4), 369-387.

Coase (1937) The nature of the firm, *Economica*, vol. 4, no. 16, November, 386-405

Combs, J.G. & Castrogiovanni, G. (1994). Franchisor strategy: a proposed model and empirical test of franchise versus company ownership, *Journal of Small Business Management,* 31(2), 37-48.

Combs, J.G. and Ketchen, D.J. Jr. (1999). Can capital scarcity help agency theory explain franchising? Revisiting the capital scarcity hypothesis. *Academy of Management Journal*, 42, 196-207.

Cox, J. (2005) The spatial expansion of franchising systems in the UK: An exploratory study*, Proceedings of the 2005 International Society of Franchising conference*, London, UK.

Dant R. P. and Kaufmann P. J. (2003) Structural and strategic dynamics in *Franchising, Journal of Retailing*, February 2003

Dant, R. (1995), Motivation for franchising: rhetoric versus reality, *International Small Business Journal*, Vol 14, No 1, pp. 10-32.

Dant, R.P. and Kaufmann, P.J. (2003). Structural and strategic dynamics in franchising. *Journal of Retailing*, 79, 63-75.

Dant, R.P., Paswan, A.K. and Kaufman, P.J. (1996). What we know about ownership redirection in franchising: a meta-analysis, *Journal of Retailing*, 72(4), 429-444.

Dant. R.P., Perrigot, R. and Cliquet, G. (2006) Incidence of Plural Forms in Franchise Networks: Exploratory Comparative Empirical Insights from USA, France, and Brazil, *Proceedings of the 2006 International Society of Franchising, Palm Springs, USA.*

Felstead Alan (1993) The franchising Paradox: power and control in business franchise, *Routledge,* London , 1993.

Frazer, L., Weaven, S. and Wright, O. (2006*)* Franchising Australia 2006 Survey*, Franchise Council of Australia.*

Gallini, Nancy T. & Lutz, Nancy A. (1992) Conflict resolution processes in contractual channels of distribution. *Journal of Marketing*, 56 (January) 38-54

Garg, V.K., Rasheed, A.A., Priem, R.L. (2005) Explaining Franchisors' Choices of Organization Forms within Franchise Systems*, Proceedings of the 2005 International Society of Franchising Conference*, London, UK.

Grunhagen, M. and Mittelstaedt, R.A. (2002) Is bigger better? The anticipation of scale efficiencies and decision participation as motivations for aspiring muli-unit

franchisees, *International Journal of Entrepreneurial Behaviour and Research*, 8(3), 188-200.

Grunhagen, M. and Mittelstaedt, R.A. (2005) Entrepreneurs or investors: do multi-unit franchisees have different philosophical orientations, *Journal of Small Business Management*, 43(3), 207-225

Housden (1984) Franchising and other business relationship in Hotel and Catering Services*, Heinemann*: London

Hunt, Shelby D. (1999) *The strategic imperative and sustainable competitive advantage: public policy implications of resource advantage theory*. Journal of Academic of Marketing Science, 27 (Spring) 144-159

IFA Educational Foundation (2002) Multi-Unit Owners Study, *IFA Educational Foundation*, Washington DC, USA.

Ishani, M. (2006) The benefits and drawbacks of multi-unit franchising, *Business Franchise*, May, p. 65

Kalnins, A. & Lafontain, F. (2004) Multi-unit ownership in franchising: evidence from the fast-food industry in Texas, *RAND Journal of Economics*, 35(4), 747-761.

Kaufmann, P.J. & Dant, R.P (1996). Multi-unit franchising: growth and management issues, *Journal of Business Venturing*, 11, 343-358.

Kaufmann, P.J. (1988). Pizza Hut: Home Delivery. *Boston*, M.A.: Harvard Case Services.

Kaufmann, P.J. (1992). The impact of managerial performance decay on franchisors' store allocation strategies, *Journal of Marketing Channels*, 1(4), 51-80

Klein, B. (1995) The economics of franchise contracts, *Journal of Corporate Finance*. 2, 9-37
Lafontaine, F. & Slade, M.E. (1997). Retail contracting: theory and practice. *The Journal of Industrial Economics*, 65(1), 1-25.

La Fontaine, F. and K.L. Shaw (2001). Targeting managerial control: evidence from Leland, *Journal of Finance*, 32(3), 371-387

*Maggi B. (1994)* L'azione organizzativa in Thompson e oltre saggio introduttivo a Maggi B. Contnoir P. (2002), I confini organizzativi nell'industria aereonautica*, paper presentato al 3° Workshop di Studi Organizzativi, Genova, Febbraio.*

*Maggi B., Albano R. (1996),* La teoria dell'azione organizzativa *in G. Costae R.C.D. Nacamulli, Manuale di organizzazione aziendale, Il Mulino, Torino.*

*Maggi B., Masino G. (2001),* Verso una ridefinizione del concetto di confine organizzativo*, Atti del Convegno AIDEA, Genova 2000, McGraw-Hill, Milano.*

Mathewson, G.F. and Winter, R.A. (1985). The economics of franchise contracts, *The Journal of Law and Economics*, 27(3), 503-526.

Michael, S.C. (2002). First mover advantage through franchising, *Journal of Business Venturing*, 17(4), 325-341

Michael, S.C. (2003). Determinants of the rate of franchising among nations, *Management International Review*, 43(3), 267-290.

Minkler , A. (1992) Why firms franchise: a search cost theory. *Journal of Institutional and Theoretical Economics*, 148, 240-259.

Minkler, A. (1990) An empirical analysis of a firm's decision to franchise. *Economic Letters*, 34, 77-82.

NatWest BFA (British Franchise Association) (2006), *The NatWest BFA Franchise Survey 2006,* British Franchise Association.

Norton, S. W. 1988. An empirical look at franchising as an organisational form. *Journal of Business*, 61(2), 197-218

Oxenfeldt, A.R. and Kelly, A.O. 1968. Will successful franchise systems ultimately become wholly-owned chains. *Journal of Retailing*, 44(4), 69-83.

Penrose, Edith T. (1959), The theory of the growth of the firm. New York: Wiley.

*Perrow, (1977*) Le organizzazione complesse *FrancoAngeli Milano.*

Pfeffer J. & Salancik, G. R., (1978) The external control of organization: a resource dependence perspectives. New York: Harper & Row

Pfeffer J., Salancik G. R., (1978) The External Control of organizations: a resource dependence perspective, *Harper & Row, New York.*
Porter M. E. (1996) On Competition*, Harvard Business Review.*

Quadrante (2007) Italian Franchising Association Data

Rubin P.H. (1978), The Theory of the firm and the structure of the franchise contract, *Journal of Law and Economics*, 1978, 21 (April): 223-233

Sanchez, R. Salamanca & Suarez, I. & Vazquez, L. (2006) Ownership Strategies in Franchise Networks: Multi-Unit Versus Single-Unit Franchising, *Proceedings of the International Federation of Scholarly Associations of Management VIII World Conference*, Berlin, Germany.

Seth W. N. (1988), An Empirical Look at Franchising as an Organizational Form, *Journal of Business*, 1988, vol. 61, no. 2)

Shane, S.A. (1996). Hybrid organisational arrangements and their implications for firm growth and survival: A study of new franchisors. *Academy of Management Journal*, 39(1), 216-234.

Simon H. A. (1979) Rationale Decision making in Business Organizations*, American Economic Review, Vol. 69, pag. 493-51*

Simon H., (1962), The architecture of Complexity, *Proceedings of the American Philosophical Society, December, 476-82*

Stanworth J. & Curran J. (1999), Colas, burgers, shakes and shirkers: toward a sociological model of franchising in the market economy, *Journal of Business Venturing*, 1999, 14 (4): 323-344

Stanworth J. (1995), Research Note: penetrating the Mists Surrounding Franchisor Failure Rates – Some old lesson for new business*, International Small Business Journal*, Vol. 13, No. 2, pp. 59-63

Stanworth, J. (1995). The franchise relationship: entrepreneurship or dependence? *Journal of Marketing Channels*, 4: 161-176.

Stuart P. (1999), *The* Franchise Paradox, Cassell *Wellington House*, London

Thompson J.D. (1967) Organization in action*,: MacGraw Hill,* New York (trad. It L'azione organizzativa, Torino: Isedi)

Tirole J., (1988) The theory of industrial organization, MA: MIT press, Cambridge

Watson, A and Stanworth, J. (2006). Franchising and intellectual capital: A franchisees perspective, *International Entrepreneurship and Management Journal,* 2(3).

Watson, A. (2004) Success and Failure in Franchising. A Report to the British Franchise Association*, unpublished report*.

Watson, A., Stanworth, J., Healeas, S., Purdy, D. & Stanworth, C. (2005) Retail Franchising: An Intellectual Capital Perspective, *Journal of Retailing and Consumer Services,* 12(1), pp.25-34.

Weaven, S. and Frazer, L. (2004) Multi-unit franchising: Australian revelations, *Proceedings of the 2004 International Society of Franchising Conference, Las Vegas, USA*.

Weber, M., (1924, trad it. 1961), Economia e società, *Edizioni di Comunità, Milano, voll. 1 e 2.*

Williamson O., (1975) Markets and Hierarchies: Analysis and Anti-trust Implications*, Free Press, New York*