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WHICH ENTREPRENEUR SHOULD OWN IT? EXTENDING AGENCY THEORY TO EXPLAIN OUTLET OWNERSHIP IN FRANCHISING (SUMMARY)

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SUMMARY

WHICH ENTREPRENEUR SHOULD OWN IT? EXTENDING AGENCY THEORY TO EXPLAIN OUTLET OWNERSHIP IN FRANCHISING

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Principal Topic

Franchising offers an important avenue for growth for some entrepreneurs and access to entrepreneurial business opportunities for others (Shane & Hoy, 1996). Franchising occurs when an entrepreneur (the franchisor) develops a branded product, process, or service and sells the right to use the brand, operating routines, and product specifications to another entrepreneur (the franchisee). Because the decision to franchise involves surrendering notable control over outlets bearing the franchisor’s brand (Bradach, 1997), the question of why entrepreneurs opt for franchising over company-ownership has attracted sizable research attention (Combs, Michael, & Castrogiovanni, 2004). Previous research has relied on agency theory to explain which outlets an entrepreneur will franchise, but the theory does not explain two key phenomena: 1) allowing franchisees to own multiple outlets and 2) the use of franchised and company-owned outlets in the same geographic area, called dual distribution. We extend agency theory to explain these phenomena by incorporating insights from research depicting the two types of entrepreneurs, franchisors and franchisees, in a symbiotic relationship (e.g., Bradach, 1997; Kaufman & Eroglu, 1998).

Method

We tested our theoretical extension by investigating ownership patterns among single-outlet franchisees, multi-outlet franchisees, and franchisor owners using a sample of 3,673 outlets from 16 restaurant chains that use both company ownership and franchising in Florida. Geographic information software was used to calculate distance between outlets and headquarters. Logistic regression was used to analyze the data, with the dependent variable being outlet ownership type.

Results and Implications

By viewing the franchisor-entrepreneur’s primary objective as market penetration, the most efficient way to achieve this goal is through multi-outlet franchising. New markets are seeded with single-outlet franchisee-entrepreneurs who have the potential to grow. However, if growth into multiple-outlet ownership does not occur in a timely fashion, company-ownership must be used. Therefore, the results highlight the role of multi-outlet franchisees, which function as a third type of entrepreneur capable of using the franchisor’s business opportunity to build a “mini-chain.” From the franchisor’s vantage point, these like-minded entrepreneurs make it easier to conserve resources while penetrating whole markets and maintaining quality standards.

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