

Franchise Unit Success Factors

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Abstract

The economic importance of franchising in service provision, job creation and self employment opportunities is widely reported. However the factors influencing franchise unit success has received little academic attention. This represents an *important gap in the literature*. Previous research has tended to focus upon system-level operations and recently upon the reasons for franchisor discontinuance and failure. This research extends the organisational management literature through investigating factors influencing the success of individual franchised units. Convergent interviews with the franchisor and four franchisees within one service, and one retail franchise system were conducted. Findings suggest that franchisee entrepreneurship and franchisee selection criteria were the most important determinants of a franchise unit's success.

Keywords: franchise, success, entrepreneurship, selection criteria

Background

Franchising is an efficient method for the distribution of goods and services (Justis and Judd, 2003). Franchisors provide professional business services to their franchisees, who in turn facilitate customer service delivery at the unit level. While there has been extensive research into franchising operations over the last four decades, most studies have investigated the reasons for franchisor success or failure, the reasons for franchise system success or failure, and, to a limited extent, the failure rates of franchisees (for example: Caves and Murphy II, 1976; Frazer and Winzar, 2005; McCosker, 2000; Oxenfeldt and Thompson, 1968/69). Although business format franchising has achieved significant success in Australia (Frazer and Weaven, 2004), there is a concern with the disparity in the reporting rates of failures of franchised units (Frazer and Winzar, 2003; Pilling, 1991) due to what is considered to be an unwillingness of franchisors to disclose information of a negative nature (Castrogiovanni and Justis, 1993). As a consequence, the reasons for failure, and therefore the rates of success, are not known with any certainty (Frazer and Winzar, 2003).

Several issues have been identified as relating to franchise system successes and failures. The main factors include franchisee satisfaction (Johns, Paswan and Strutton, 2004; Morrison, 1997), franchisor power (Dahlstrom and Nygaard, 1999; Lim and Frazer, 2004), the franchisor/franchisee relationship (Clarkin and Swavelly, 2003; Nathan, 1996), communication (Anderson and Narus, 1990; Frazer, 2004), franchisor support (Frazer, 2001; Pilling, 1991), franchisee entrepreneurial ability (Dandridge and Falbe, 1994; Frazer, 2004), and franchisee selection criteria (Jambulingam and Nevin, 1997; McCosker, 2000). *This research examines these issues in relation to franchise unit success.* A greater understanding and appreciation of the issues involved may result in a better utilisation of the scarce resources of franchisors and franchisees and allow for the development of processes which will result in improving the likelihood of success of individual franchise units. Consequences of this are the positive effects on local, state, and national economies not only through the creation of wealth for franchisors and franchisees but also by decreasing the negative affects of business (franchise unit) failure on

franchise systems, franchisees, and the community in general. The factors impacting on franchise unit success are explored below.

Franchise unit success factors

The success of franchising as an organisational form and its positive contribution to the small business base in Australia demonstrates its importance, both economically and socially, as a method of distributing products and services (Chow and Frazer, 2003). Much of the emphasis in the literature has been on comparing the failure or success rates for various franchised and non franchised organisations; mostly researching from a franchisor or franchised system perspective, with some research concentrating on the causes of franchisee failure (for example, Frazer and Winzar, 2005). In particular, most research has focused on various operational elements of franchise organisations including franchisee selection, communication, relationships and power, entrepreneurship, level of franchisor support, and levels of franchisee satisfaction. Of these operational elements, two stand out as having a significant impact on the success of franchise systems: franchisee selection criteria and franchisee entrepreneurial ability.

The *selection* of franchisees has been determined to be the franchisor's most pervasive operating problem (Wattel, 1968/69). By controlling the quality of franchisees through the application of thorough selection criteria, franchisee performance should be enhanced and long-term monitoring costs should be reduced (Jambulingam and Nevin, 1997). However, while prior research has determined that the franchisee selection process is critical to the long term success of the franchise system (for example, Frazer and Perry, 1998; Gauzente, 2002; Lim and Frazer, 2004), there neither appears to be uniformity in the selection processes of franchisors nor little which has related this process to the subsequent success of an individual franchise unit (McCosker, 2000). In addition, the entrepreneurial ability of a franchisee is also a significant issue relating to franchise system success (Spinelli, Rosenberg and Birley, 2004).

A franchisor needs to have the characteristics of an *entrepreneur* to survive in a business environment which is generally highly competitive and experiencing rapid ongoing change (Dandridge and Falbe, 1994). In such circumstances, the activities of a franchisee are seen as limited, leading to the perception that they cannot be entrepreneurial without conflicting with the franchisor's goals (Dandridge and Falbe, 1994). However, this may (generally) not be the case. Most franchisees have a significant personal investment in their franchise unit(s) and tend to display entrepreneurial characteristics in the developing of their local market and in influencing the larger organisation of which they are a part (Kaufmann and Dant, 1998). In essence, while franchising does not necessarily provide a franchisee with a high degree of control or independence (Jambulingam and Nevin, 1997), some level of entrepreneurial activity is desirable particularly at the local market level (Guiltinan, Rejab and Rodgers, 1980).

Methodology and analysis

Methodology and data collection

Due to the paucity of prior research in this area a qualitative study utilising an ethnographic approach involving non participant observation and convergent interviewing was adopted.

Previous research suggests that this dialectic process is particularly useful in qualitative research on topics that lack an established theoretical base or methodology (Dick, 1990). Open-ended, reflexive style questions were utilised enabling the researcher to identify convergent themes on the most important issues within the area under investigation (Yin, 2003). In addition, non participant observation and recording of participants' behaviour during the interview process provided a context of the meaning and purpose of the recorded data (Goulding, 2002).

The study involved interviewing a franchisor and four franchisees from each of two franchise systems, System X and System Y. System X provides services within the financial services market while System Y is in the household furnishing industry. The organisations ranged in size from nine to 30 units and have been operating for 4 and 5 years respectively. Respondents were questioned regarding their opinions of franchise unit success and the factors that impacted on this success. With the permission of the interviewees, each interview was taped and transcribed the following day. In addition, summary notes relating to interviewees' actions and demeanor during the interviews were taken in order to ensure that the data was transcribed retaining the context in which it was given by each respondent. A single researcher with significant franchise sector experience as a multi unit operator conducted the interviews, providing a consistency in the questions asked as well as a thorough understanding of the problems faced by members of the sector. The success factors previously identified as impacting on the success of franchise systems and/or franchisors were used as foci for the convergent interviewing. The findings of the qualitative stage of this research are discussed in the next section.

Findings

At the outset of the interviews the majority of franchisees believed that unit profitability was the only effective measurement of success. The following statement is typical of most franchisee responses, "*Profitability absolutely overrides everything. Just ask those that do not have it*". However, additional factors were identified during the course of the interviews (detailed below).

Franchisee satisfaction did not rate highly in comparison with other factors. While franchisors believed that satisfaction related to the level of support provided to franchisees, franchisees indicated a willingness to disregard levels of dissatisfaction if there was a possibility that preoccupation with this aspect of franchising would have a negative impact on the success of their franchise unit. In comparison, 'passion', of the franchisee with regard to all aspects of his or her business, was an emergent issue resulting from the interviews conducted with the franchisors. However, little attention was given to this issue by the franchisee respondents during the interviews. This mixed response from franchisors and franchisees regarding passion as a success factor was an indication that further exploration of this issue is warranted.

Franchisor power was perceived as instrumental in influencing the relationship between franchisor and franchisee. However, while franchisees preferred that the franchisor use its power as a last resort to resolve issues, this was perceived as impacting on the franchisor/franchisee relationship. In particular, most franchisees were not of the opinion that the use or misuse of such power had a significant impact on the success of their franchise units.

The *franchisor/franchisee relationship* was not viewed by a majority of respondents as affecting the success of a franchise unit but rather as a measure of the success or otherwise of each

franchised unit. Contrary to previous research no respondents perceived the franchising relationship as similar to one of a marriage with each partner having expectations of trust, honesty and commitment from the other (Nathan, 1996) but as a function of the distribution of power (Clarkin and Swavely, 2003). In addition, a majority of interviewees perceived *communication* as related more to the franchisor/franchisee relationship and not directly associated with franchise unit success. While the majority of respondents expressed a desire to see improvements in the communication levels and, hence, relationship issues between franchisor and franchisee, the issue of franchisor support attracted more attention.

Franchisor support was seen as having an inverse relationship with franchisee experience levels, with the impact of franchisor support diminishing as franchisee experience levels increased. Franchisor support was accepted as a significant element during the transition period when a franchisee moves to his or her newly adopted franchise system. That is, it was seen as a bridging mechanism. This viewpoint was evident in a franchisee's response when he commented that, "*I still think of it as being my own business. I know the franchisor has a large component of support (in place) but that is not going to determine if I am highly successful or just successful. That is up to me.*" Thus, franchisor support was not found to have majority support

One factor which was viewed as important by the majority of interviewees was a franchisee's *entrepreneurial ability*. While franchisors acknowledged that it was necessary for franchisees to act within the parameters imposed by the franchise system, both franchisors and franchisees believed that there was a significant link between the entrepreneurial ability of the franchisee and the success of his or her franchise unit. While most franchisee respondents suggested that the franchise model and basic support provided by the franchisor provided assistance in the initial stages of their business start-up, their own entrepreneurial efforts were perceived as instrumental in reaching desired levels of success. For example, one franchisee respondent suggested that "*Even though all the systems are in place and the support is there...you're more likely to succeed if you have got the entrepreneurial background*" Similarly, one franchisor respondent commented that, "*I can attribute all of our (sales) declines in any of our stores back to the (lack of) entrepreneurial ... skill*". Despite this level of consensus on franchisee entrepreneurship, the factor which most respondents agreed had the most impact on unit success was franchisee selection criteria.

Both franchisor respondents indicated that they believed the *selection of franchisees* was a critical step in achieving success, on a system-wide and unit basis. However, while they acknowledged the importance of detailed selection criteria, both respondents indicated that 'growth' pressures had resulted in the application of inappropriate selection criteria which had introduced significant problems within their respective systems. In addition, the growing professionalism of franchising was recognized by one of the franchisors who commented: "*Originally we believed we could take a mum and dad and turn them into franchisees. We (now) believe that this is not the case in today's franchising environment. Franchising has become very sophisticated. We would not look at anyone who has not been in business before.*" One franchisee was quite perplexed as to why a franchisor would want to jeopardize the success of the franchise system by not administering the strictest selection criteria. The franchisee likened the selection of franchisees to a team leader selecting for a sports team, querying "*If they (franchisors) were selecting for their own football team, would they compromise on quality?*"

Discussion and managerial issues

This research has implications for franchisees and franchisors relating to the increased likelihood of achieving individual franchise unit success.

Franchisees. Prospective franchisees need to be made aware that the degree of success of their franchise unit will, to a certain extent, depend on their entrepreneurial ability in relation to marketing their product or service within their local community. Consequently, they need to self-assess their abilities as entrepreneurs during the process of deciding to become franchisees. Advice regarding the entrepreneurial aspect of franchise unit operations should be included in marketing literature provided by franchisors to prospective franchisee candidates.

Franchisors. The findings of the study have implications for franchisors. Firstly, franchisors should not ignore the connection between communication, their relationship with franchisees, and the satisfaction levels of those franchisees. An integral aspect of developing this relationship is being able to align the support requirements of franchisees with their experience level within the system's industry, noting that there is an inverse relationship between the two. Furthermore, franchisors need to be aware of franchisees' expectations relating to the development of a 'partnership' as franchisees become more experienced within the system. Being proactive in maintaining effective communication channels with franchisees should reduce the instances of conflict and enhance the development of this partnership. This will ensure franchisees have the opportunity to focus scarce resources on the operations of their franchise units, thus promoting the likelihood of unit success, rather than on conflict and/or communication management issues.

Secondly, franchisors need to be proactive in the support of franchisees that are desirous of developing their units by utilizing entrepreneurial skills. The development of local marketing manuals and appropriate training packages will assist in promoting entrepreneurial activities by franchisees which, in turn, will improve the likelihood of franchise unit success thus benefiting the franchise system as a whole. Finally, despite the pressures for system growth and the acquisition of market share, franchisors should develop and strictly apply appropriate franchisee selection criteria. Selecting the right franchisee for the system will significantly enhance the prospect of franchise unit success which, in turn, will benefit the franchisor, the franchise system and the existing franchisees that are relying on brand strength and brand integrity (Jambulingam and Nevin, 1997).

In summary, this study used in-depth interviews with franchisors and franchisees to investigate factors influencing franchise success at the unit level. The findings suggest that franchisors need to be proactive in the development of effective communication channels with their franchisees thus assisting in the development of a positive franchisor/franchisee relationship. Franchisors should also encourage the use of franchisees' entrepreneurial skills through, if necessary, the development of appropriate operational manuals and training packages. Finally, appropriate franchisee selection criteria should be developed and strictly applied, for the benefit of the franchisor, the system and existing and prospective franchisees. This rich and penetrating data provides a unique perspective on assessing franchise unit success prior to embarking on a future empirical analysis. Thus, it is envisaged that this paper will form the basis of a large scale quantitative study using a sample of franchisors/franchisees across a variety of industries in the Australian franchising sector.

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