



## MODELING THE NEW FRANCHISE

# CREATION DECISION: THE RELEVANCE OF BEHAVIORAL REASONS

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## ABSTRACT

**Purpose:** Franchising is one of the fastest-growing operating modes in Brazil. In 2014, the Brazilian Franchising Association reported 2,492 active brands in the country. Some theories with an economic point of view, such as the agency theory, plural forms theory, or scarcity principle, explain why companies choose franchising. However, did the decision makers and founders of these franchises decide on this strategy taking only economic reasons into consideration? The purpose of this study is to understand the *a priori* criteria (prior to the decision) that executives took into account when adopting this strategy and the key motivations for this decision.

**Originality/gap/relevance/implications:** The literature emphasizes the economic reasons for the success of the franchise model, but it does not focus on the founders' motivations when they choose this strategy. This is the gap that this study seeks to address. Dissonance could arise between economic reasons and entry motivations that could result in consequences for the management of new franchises.

**Key methodological aspects:** Ten companies of different industries and different life cycle stages involved with the franchise model were scrutinized using a semi-structured questionnaire based on the literature on decision theory and franchising.

**Summary of key results:** Behavioral factors significantly influence decision makers when choosing the franchise model.

**Key considerations/conclusions:** This study distinguishes the economic reasons from the executives' motivations when choosing the franchise model and highlights the importance of non-economic factors in this decision.

## KEYWORDS

Decision theory. Franchising. Decision criteria. Franchisor. Decision model.

# 1 INTRODUCTION

In 2003, according to the Brazilian Franchising Association – ABF (2015), 678 brands were operating in Brazil and, in 2014, eleven years later, this number rose to 2,492 brands, an increase of 368%. Franchising, due to its nature of standardization, which implies the acquisition of similar goods and services across the network, takes advantage of concepts developed at the regional level and spreads them throughout a country and sometimes even abroad.

Some theories try to explain the economic reasons that lead companies to adopt a franchising strategy, focusing on the lack of resources, whether monetary or management resources, necessary to expand the business. According to the resource scarcity theory, originally proposed by Oxenfeldt and Kelly (1969), what influences a company to become a franchise is the need to obtain resources, such as capital, human resources, and knowledge, among others. The agency theory proposed by Jensen and Meckling (1976) is taken into account by Lafontaine (1992), by proposing that it is cheaper to monitor and control franchised units than own units, because the franchisee has differentiated incentives to run the business. Furthermore, the plural forms theory, proposed by Bradach and Eccles (1989), explains that companies take advantage of the participation of third parties, in addition to company-owned units, to exploit the opportunities of both the resource scarcity and the agency theory. However, is the founder's decision related only to economic factors? This study sought to understand which other non-economic criteria are taken into account before opting for the franchising system, that is, which a priori criteria (prior to the decision) the executives consider before adopting this strategy and the key motivations for this decision.

The following section presents the theoretical framework that supports the development of this paper. Subsequently, we discuss the topics related to the research and the method used, and then, based on the results, we propose a structured model of motivations divided into three levels of motivation – rational, administrative, and economic – and an influence diagram of the decision based on the study conducted. Finally, we discuss the conclusions, limitations, and possible extensions of this study and the references used.

## 2 FRANCHISING

According to Stanworth and Dandridge (1994), franchising is a business that essentially consists of a company, known as the franchisor, with a business package that has been tested in the market, focused on a product or service.

Through a contractual relationship, the franchisor establishes relationships with other companies, which in turn start operating under the brand of the franchisor to produce and/or sell goods and services in accordance with the format specified by the franchisor (Chiou & Droge, 2015). The franchisor assigns the rights to use the process and brand and licenses the intellectual property. The franchisee pays an initial lump sum as soon as it acquires these rights and agrees to pay a royalty fee based on sales (Rubin, 1978).

In the franchising system, the capital used comes from the franchisee rather than the franchisor, a fact that distinguishes the growth strategy of the companies, since they do not need their own investments to expand the network, as explained by the scarcity resource theory (Lafontaine, 1992). To establish new branches, distribution centers, or service offices, a company needs financial resources or personnel. In the franchising method, the franchisor gives up a portion of the profits and provides a service to the franchisee upon compensation. The franchisee reduces its net income due to the fact that it makes use of know-how that was previously acquired and tested by the founder of the franchise network, which is a more favorable situation, as the franchisor, by transferring all its know-how to this business, anticipates some of the barriers that would be faced when following the traditional methods (Gorovaia & Windsperger, 2010).

To control the franchisee and gain the maximum homogeneity in the network, the franchisor defines the governance structure through contractual agreements. The franchise agreements may cause the franchisee to be merely an employee of the franchisor, given the level of control of the franchisor over the franchisee (Rubin, 1978). The governance structure model governs the coordination modes of the production chain and the contractual relationship between the agents of the franchise (Lara & Azevedo, 2006).

### **3 RESOURCE SCARCITY THEORY**

This theory was one of the first attempts to identify the reason for the existence of franchising. As the central assumption, Oxenfeldt and Kelly (1969) state that companies would prefer to expand with their own units, but when faced with scarcity of resources, they opt for franchising as an alternative to overcome this limitation. Therefore, the franchisees are the main source of funding for the expansion and the franchisor depends on these financial resources for its expansion (Baker & Dant, 2008).

A small business also faces restrictions in the recruitment and retention of management talents. Another difficulty is the know-how about the new markets

in which the companies intend to operate (Shane, 1996), and franchising is an alternative way for these companies to meet these needs. The franchisees, on the other hand, depend on the know-how and brand of franchisors (Brickley & Dark, 1987; Mathewson & Winter, 1985). In addition to financial resources, the franchisees add human resources to the network without the labor costs inherent in hiring professional managers for the network units (Aguiar, Consoni, & Bernardes, 2014).

## 4 AGENCY THEORY

The agency theory is a theoretical model for analyzing the relationships between the participants in systems in which the ownership and control rest with different figures, thus giving rise to conflicts due to the existence of different interests. In franchising, where the risks and gains are shared, franchisors feel less vulnerable in relation to the problems faced by other configurations, such as large retailers (Brickley & Dark, 1987; Combs & Ketchen, 1999, 2003). For example, a franchisor that has 50 franchised units abstains from profiting as if it entirely owns the business. However, it relies on an administrator that has a direct interest in the capital invested in the unit, the franchisee (Brickley, 1999).

The agency theory focuses on the relationship between the different types of agents in a network. The franchisees may have different interests and levels of information from the franchisor. With different levels of information, it is possible to characterize the issue of information asymmetry (Eisenhardt, 1989; Jensen & Meckling, 1976). This theory, used in finance to analyze the relationship between investors and managers, is also used to assess the relationship between franchisor and franchisees and other similar relationships (Wright, Mukherji, & Kroll, 2001). Contracts may mitigate the problems caused by information asymmetry; that is, the franchisor enters into an agreement with the franchisee, seeking to motivate the latter to act in accordance with the franchisor's predefined interests. The motivation is based on contractual incentives, seeking to mitigate unpredictable situations in the relationship, in addition to incentives based on the verified performance (Jensen & Meckling, 1976).

The agency theory emerged as an alternative to the resource scarcity theory. To justify this statement, Lillis, Narayana and Gilman (1976) suggest that the lack of capital is not the most relevant factor in the decision to franchise. In their research, these authors find that, regardless of the network's maturity (period of existence), the main factor pointed out by franchisors concerning their decision to franchise is the motivation of the franchisee as a competitive

advantage, the second factor, in order of relevance, is the accelerated market penetration, the third reason is the possibility to share risks, and the shortage of capital is the fourth reason.

## 5 PLURAL FORMS THEORY

A different theory understands that the adoption of franchises is an option that can coexist with other arrangements in the same business network. This understanding is known as the plural forms theory. The key point of this theory recognizes that different organizational forms can coexist within a company (Dant, Kaufmann, & Paswan, 1992).

Bradach and Eccles (1989), the pioneers of this theory, recognize organizational forms within the same business group. Thus, company-owned and franchised units work, in practice, as separate business units. This theory contradicts the conversion hypothesis proposed by Oxenfeldt and Kelly (1969), whereby companies only franchise their activities to buy back the units afterwards. Thus, the system only changes temporarily, returning to its initial format.

Companies are thus able to increase or reduce their share with their own units depending on the strategy followed at the time (Lafontaine & Shaw, 2005).

## 6 DECISION THEORY

Within the scope of applied social sciences, especially in the field of business administration, the decision-making process can be conceptualized as the choice and irrevocable commitment of resources to a particular course of action or resolution of a given situation to the detriment of other alternatives. For some authors, the issue of irrevocability is questionable, because, according to McNamee and Celona (2008), for example, decisions can be changed and adjusted during their life cycle, albeit at a certain cost.

Broadening the perspective offered by Bazerman and Moore (2009), the research studies on decisions can be classified into three distinct lines of thought, according to the models and concepts addressed:

- Descriptive line: The concern is to explain and describe how decisions are made, individually or in groups (organizations, companies, etc.), including the imperfections and deviations, as well as the factors that affect decisions,

such as behavior, politics, preferences, and so on. In this case, the main reference is Bazerman and Moore (2009);

- Prescriptive line: The concern is to minimize the limitations and errors of the decision-making processes through the development of models and tools seeking to improve the decision making and help decision makers to act more rationally. In this case, the main references are Hammond, Keeney and Raiffa (1999) and McNamee and Celona (2008);
- Normative line: The concern is to find optimal solutions to decision-making problems through decision technology. Similar to the prescriptive line, the normative line suggests the development and application of models (including mathematical models) for the purpose of improvement; however, it seeks and studies completely rational and foolproof processes with the complete reduction of uncertainty through the in-depth analysis of all the alternatives (Menezes, Silva, & Linhares, 2007; Simon, 1955).

A possible interpretation in this discussion is to understand the normative line as the idealization of the optimal and thorough decision-making process, the descriptive line as the explanation of the actual day-to-day situation observed, and the prescriptive line as the middle ground, focused on improving the decision making in a feasible and direct manner.

According to these authors, the basic components of a decision are (a) information, (b) alternatives, (c) preferences, (d) results and consequences, and (e) logic (McNamee & Celona, 2008). On the other hand, the “decision-making process” is the set of actions and dynamic factors of analysis and choice of the decision makers, which ranges from the identification of the stimulus to the choice and implementation of the line of action and commitment of resources (Mintzberg, Raisinghani, & Theoret, 1976).

In the study of decisions, there are two keywords: complexity and uncertainty. Several authors, regardless of their school of thought, discuss the steps or phases related to the logical path towards a decision. According to Bazerman and Moore (2009), six actions are necessary for a quality decision: define the problem, identify the criteria, weight the criteria, generate alternatives, rate each alternative according to each criterion, and compute the optimal solution. Hammond *et al.* (1999) consider that a rational decision must have eight steps: define the right problem, specify the objectives, create imaginative alternatives, understand the consequences, grapple with the trade-offs, clarify the uncertainties, think hard about the risk tolerance, and consider linked decisions.

## 7 METHODOLOGY

The methodology of this research is qualitative and analytical, with the aim of building a generic and abstract model of the decision *a priori* of the executive. The construction of this model requires conceptual validation and empirical evidence in its hypothetical construction. These were achieved in two different ways during the research, always combining theory recommendations with empirical suggestions. The modeling steps below are the result.

1. Prepare a preliminary conceptual model towards the decision to operate with franchises, interconnecting the various suggestions proposed in the theory on franchising aided by the decision theory.
2. Validate this preliminary model conceptually.
3. Approach such a preliminary model to the reality by checking the validity of the list of motivations with a franchisor chosen for this purpose.
4. Refine the preliminary model based on an intentionally diverse sample of entrepreneurs to fulfill the potential analytical generalization to the refined model.

The result is a more comprehensive model in which the explanation of the entrepreneur's behavior combines the reasons derived from economic theories that explain the franchises with the attitudes and subjective norms of entrepreneurs. The natural way to achieve this is to include, at every step, conceptual, methodological, and empirical aspects. Therefore, in the following sections, we will address the four aspects in each step of the modeling.

The first two steps of the modeling are presented in the subsection "searching the model." The subsection "refining the model" indicates the methodology to continue the modeling with the use of cases. Finally, section four involves the analysis of the results of these cases and the way in which such evidence is incorporated into the model.

Considering the theoretical framework on franchising on the one hand and the decision theory on the other hand, the authors of this study sought to develop a theoretical model that will provide support for the generic decision to expand a business through franchising, always from the perspective of the franchisor. In line with the prescriptive line of authors such as Hammond *et al.* (1999) and McNamee and Celona (2008), the purpose was to clarify and, if possible, simplify the uncertainties and complexities involved in this type of problem by offering a support tool to the makers of this type of decision. Based on the model proposed by Galotti and Tinkelenberg (2009), the first step in the decision-making



process is the recognition and definition of the problem or, in this case, the identification of the motivations behind the strategy to become a franchisor.

Franchising is a strategic business alternative that, on the one hand, is associated with concepts such as rapid growth of the network, greater expansion of the organization, accelerated market penetration, increased market share, and greater brand exposure, aspects that are directly or indirectly related to the key motivation to increase the company's revenue (Oxenfeldt & Kelly, 1969). On the other hand, the franchising method is associated with the motivation to **reduce operating costs**, as it is based on concepts such as increasing economies of scale, greater standardization of goods and services, and the optimization of the network resources, also explained by the plural forms theory (Bradach & Eccles, 1989). However, there are two other key factors in the theories that are used to justify the decision to adopt the franchising strategy, which are the **scarcity or limitation of own resources**, regardless of the type (financial, personal, production, etc.) and **risk sharing**.

The second step involves the definition of an initial diagram and the identification of the uncertainties associated with the problem under study, as well as the sub-decisions, indicators, and relationships between all of these variables. Based on a prior interview with an executive, who, at the time of the interview, had just structured his company to start selling franchises, we identified some uncertainties based on the theoretical references, which could be categorized into three areas of decision making.

- Market uncertainties. These consist of two uncertainties: (A1) the **environment situation**, which encompasses subjects ranging from economy and partnership to market, competition, and technology, that is, the factors that characterize the environment in which the franchisor operates and in which the franchisee wishes to operate; and (A2) the **level of distinction between markets** and end customers, which addresses the particularities of niches or regions and audiences and consumer behavior, that is, differences in the characteristics between the market of origin (franchisor) and the destinations (franchisees).
- Business uncertainties. These consist of (B1) the **level of standardization of products and services**, that is, the level of viable homogenization in the supply of products, services, and processes; (B2) the **bargaining power of suppliers**, that is, the influence and control of suppliers over the supplies applied in the operation and, indirectly, over the organization's purchasing power; (B3) **capacity and productivity**, that is, the organization's ability to meet any additional demand for goods and/or services; and (B4) the **mix of human resources**, that is, appropriate balancing of the types of profile and professionals required for the establishment of a franchise – capacity and mix

of resources are related to the shortage of human resources. The first three items affect and, if properly addressed, eliminate the fifth uncertainty of the operation, which is the *level of economy of scale*, that is, the optimization of costs due to greater production volumes achieved through franchising.

- Partnership uncertainties. These are (C<sub>1</sub>) the **financial health of the franchisee**, which considers not only the initial capital, but also the working capital and the credit condition of interested parties, that is, factors that indicate the ability of the franchisee to commit financially to the project and reduce the financial risks; (C<sub>2</sub>) the **level of qualification** of the franchisee, such as knowledge, skills, attitude, and commitment, that is, the characteristics of the partner that favor the partnership and reduce the operational risks; and (C<sub>3</sub>) the **level of bargaining power of the franchisee**, that is, the influence and control of customers (in this case, franchisees) on the selling and decision power of the organization.

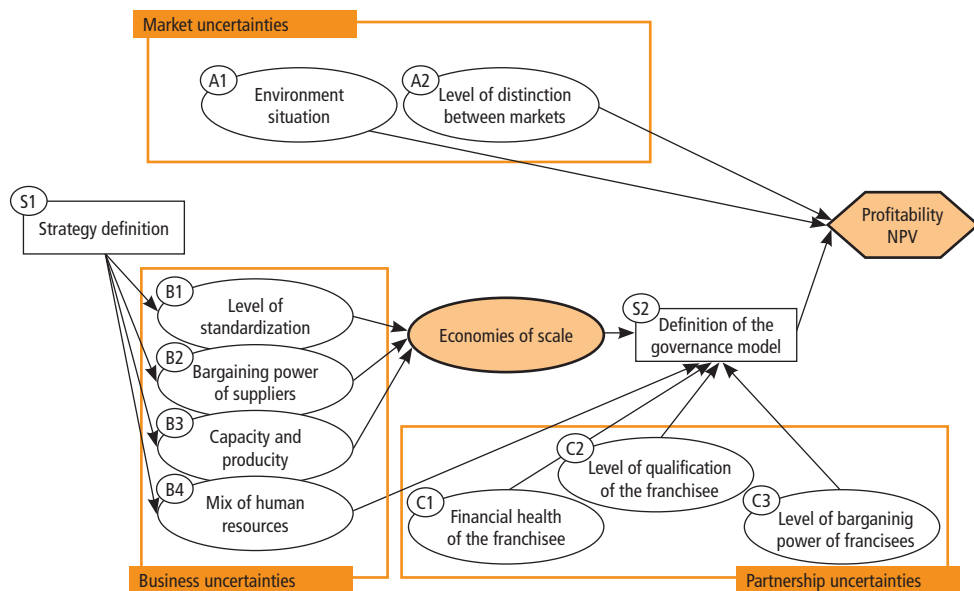
Two sub-decisions are also involved in the problem of the choice of franchising. The first is basically the initial decision to opt for franchising within (S<sub>0</sub>) **strategy definition**. The other sub-decision refers to (S<sub>1</sub>) the **governance model** to be used by the organization. This model concerns the management and operational definitions for the entry and operation of the franchising, defining activities, responsibilities, goals, focus, and so on (one of its main products is the franchise manual). In this item, we list all the elements of the system operation configuration.

The third component is the performance indicator of the decision, that is, the main dependent variable of the decision model. This variable is usually associated with the key motivations mentioned above, such as revenue, cost, and profitability. Initially, we chose profitability because it directly combines the other two motivations (revenue and cost) and calculated it at the present value to minimize the effects of time on the analysis. Other options could be evaluated as indicators. For example, considering that the choice of the franchising model requires investments from both franchisee and franchisor, it would be justifiable to select the return on investment (ROI) as the monetary indicator to represent the quantitative result of the decision, that is, the efficiency of the capital invested, which is usually evaluated jointly with the IRR (internal rate of return) and payback (expected time of return on investment) in business expansion projects.

To represent, in an efficient, compact, and intuitive manner, the uncertainties and other components (dependent variable and sub-decisions) of a given problem and the relationship between them, McNamee and Celona (2008) suggest the use of influence diagrams. Although popularized with this name, the most appropriate description of this tool would be relevance diagrams, since the term influence can be misinterpreted as causality and/or sequentiality.

FIGURE I

INITIAL INFLUENCE DIAGRAM FOR THE DECISION ON FRANCHISING



Source: Elaborated by the authors.

Figure 1 shows an initial version of the diagram for the decision on franchising from the franchisor's standpoint, based on the models of Howard and Matheson (2005). According to these authors, this representation facilitates an easier understanding for everyone. The oval-shaped figures represent uncertainties, the oval-shaped figures with double edges represent controlled uncertainties (those that are explained by and depend on other uncertainties), the rectangles are sub-decisions, and the hexagons with double edges are the indicators to measure the decision. First, it was considered that the decision on the strategy is only relevant to the business uncertainties, while the market and partnership uncertainties are unrelated to this sub-decision.

After building the initial model based on the theoretical framework, the authors of this research conducted three stages of empirical refinement, interacting with a variety of individuals, including current and future franchisors, franchising researchers, and decision theory researchers, seeking to identify, test, validate, and adjust this theoretical model of decision making. The first stage was intended to provide an initial assessment of the factors and aspects related to the subject under study through an in-depth interview with open questions and

a predefined script. This interview was based on the in-depth interview method (Gubrium & Holstein, 2001), allowing the respondent to explain the possible motivations and uncertainties involved in becoming a franchisor. For convenience, we chose a themed burger restaurant located in the center of São Paulo.

For the respondent, the founder and owner of the restaurant, franchising is a method of expanding the business faster (“achieve scale”) and reinforces the standardization of both franchisors and franchisees – which according to him would facilitate obtaining credit to invest in franchises (due to the format, the risk of operationalization would be lower). In addition, franchising motivates the franchisee in the partnership and the effective participation as the owner and partner of the business with a different attitude and action from those in own networks, for example. From the owner’s perspective, franchising is a strategy with lower financial risk (to the franchisor), since in his opinion most of the capital invested comes from the franchisee (once again ensuring a stronger partnership). The level of clarification regarding the method and motivations are certainly related to the previous experience of the respondent as an entrepreneur.

The second stage focused on the conceptual validation of the initial decision model from the perspective of the decision theory, with regard to both the research objectives and the issue of motivations and uncertainties of the model proposed. The influence diagram defined in the previous section and some hypotheses regarding the combination of uncertainties and relevance were presented and discussed with a research group that studies the decision theory in the Graduate Program in Business Administration at the University of São Paulo. This informal validation was important for the development of the survey, which will be addressed below.

The third stage involved the testing of the concepts and the validation of the theoretical model in the field, with the specific target audience of franchises, in this case, franchisors. We drafted a simplified survey, once again focusing on the motivations and uncertainties. It was applied to nine franchisors in interviews that lasted for approximately one hour at ABFEXPO, a franchising event held in June 2015, and, despite having no statistical significance for generalizable conclusions, it allowed us to refine and validate the theoretical model. For the sample, we selected companies that ranged from beginners in the model, including a company that is starting in the franchising business, but is still without franchisees, to companies with extensive experience of this particular type of operation. In this third stage, we selected companies from various segments to avoid segment bias in the results. The data analysis was developed based on the studies on multiple-objective decision analysis (Keller, Simon, & Wang, 2009) and is explained in the next section.

## 8 ANALYSIS OF THE RESULTS

First, we evaluated the general and demographic characteristics of the franchises, such as the year of establishment of the company, year of beginning in franchising, segment of operation, and current numbers of company-owned and franchised units, as shown in Table 1. Therefore, we addressed large franchises, such as Restaura Jeans, Igui, and Casa do Construtor, as well as franchises that are beginning in franchising, such as the company referred to here as G, which is seeking franchisees for its first unit administered by a third party. The segments of operation also vary greatly, as does the maturation time of the company from the establishment to the beginning of the franchising. Although it may statistically limit the conclusions, this variety in the sample reduced the rationalization bias *a posteriori*.

Subsequently, we evaluated the motivating factors. In the survey, this subject was assessed in two complementary ways. Initially, in response to an open question, the respondents reported the “trigger” for choosing the franchising strategy for their business (that is, the main motivating factor). The answers are compiled in Chart 1.

TABLE I

### CHARACTERISTICS OF THE SAMPLE

COMPANY	YEAR OF ESTABLISHMENT	YEAR OF FRANCHISING	SEGMENT	COMPANY OWNED FRANCHISED UNITS	
A	1991	1994	Laundry and dyeing	5	250
B	1995	2008	Swimming pools and equipment	0	360
C	1993	1998	Equipment rental	15	204
D	1985	2010	Healthy food in bulk	2	34
E	2013	2014	Food (açai)	9	43
F	2007	2009	Food (dishes and salads)	2	95
G	1982	2015	Jewelry	2	0
H	1986	2011	Retail of womenswear	21	21
I	2002	2008	Decor	11	11

Source: Elaborated by the authors.

As noticed by the researchers, in some interviews, the open answer regarding the trigger indicated bias. The first was related to the moment in the life cycle of the franchise. For the respondents from companies with a more mature and established franchising model, the “trigger” considered the knowledge *a posteriori* of the decision combined with justifications or the expected and unexpected benefits of the strategy. In these cases, the interviewer suggested an exercise of reflection and returning to the past, involving the respondents asking themselves the basic and fundamental reason for opening their first franchise. The second bias was related to the follow-up of consultants in the establishment of the franchise, a usual procedure in the segment to assist in the strategy, a feasibility study, in addition to legal and accounting issues and so on.

CHART I

TRIGGER FOR THE DECISION ON FRANCHISING

COMPANY	TRIGGER
A	Many outlets performing collection and the franchise law were the triggers.
B	Already worked exclusively with many outlets and noticed standardization in the system.
C	Customers wanted to rent instead of buying, noticing revenue growth in the system.
D	Entry of a new partner.
E	Opportunity in a different business and reduction of the reliance on employees.
F	Saw an opportunity after the visit of a specialized consultant. Status.
G	Extremely low profit margin in the industry, search for alternative.
H	Customers asked. Status.
I	Exporting company was affected by the variations in the US currency.

Source: Elaborated by the authors.

The answers collected on the topic “trigger” confirmed the motivations evaluated in the literature, but also pointed out other hidden or unexpected motivations, as was the case of achieving status/differentiated product/service, favorable legislation, and a suggestion from the consultant, some of which do not have sufficient specific weight, according to the respondents, to support such an important strategic decision for the future of the business and the owner. Some of these unexpected motivations can be explained by non-economic theories, such as the theory of reasoned action of Ajzen and Fishbein (1977) and the theory of

planned behavior (Ajzen, 1991). Particularly, the topic “status” was identified in the interviews on more than one occasion and can be extrapolated to other personal matters. According to different respondents, status is associated with the fact that, as a franchisor, an individual has more personal and professional visibility and has a differentiated positive projection or perception of the environment of great professional success and financial independence. Although this matter is unrelated to business management itself, its influence on the decision to franchise is much more present and decisive than we initially thought or is suggested in the theoretical framework assessed.

Complementing the topic of motivations, the second question was posed, this time a closed question, requiring a simple classification of the importance of the motivations (three-point scale, without repetition). Based on the outlined theories, three key motivations were mentioned (revenue, cost, profitability) for choosing the franchising strategy as follows: increased revenue through the expansion of the business, reduction of operating costs through economies of scale, and, as a result of the combination of the previous two, increased business profitability with reduced risk.

TABLE 2

KEY MOTIVATIONS\*

COMPANY	KEY MOTIVATIONS		
	INCREASED REVENUE	COST REDUCTION	INCREASED PROFITABILITY
A	1	2	3
B	2	3	1
C	1	3	2
D	1	2	3
E	2	1	3
F	1	3	2
G	2	3	1
H	1	2	3
I	1	3	2
Average	1.3	2.4	2.2

\* (1 = greater importance to 3 = lesser importance).

Source: Elaborated by the authors.

In this case, increased revenue through business expansion is comparatively the most important factor in the respondents' opinion (average value 1.3), while cost reduction (average value 2.4) and increased profitability (average value 2.2) have almost the same importance. In fact, the franchising strategy is associated with the rapid expansion of the business, greater market penetration, and increased brand exposure.

In addition to the topic of motivations, we evaluated the uncertainties and, indirectly, the influence diagram initially outlined. As a result of the two steps preceding the field (interview and technical validation of the initial model), we made some adjustments to the survey and added two items. Regarding the market uncertainties, we included a third aspect, referred to as (A3) the **degree of impact of institutional factors**, that is, how much the decision can be affected by legal, legislative, tax, government, and/or certification issues. Furthermore, concerning the operation (or business) uncertainties, we included a fifth aspect, referred to as (B5) the **level of own investment required**, which is related to the scarcity of own financial resources, since even for the franchisor an initial and/or recurrent investment is required for the franchising maintenance.

The first question posed to the respondents in relation to the uncertainties concerned the simple classification of importance regarding the decision to franchise in relation to the three major constructs of uncertainties, that is, market, operation (or business), and partnership, defined based on the literature. The question was closed, with a three-point scale, without repetition. The results are shown in Table 3.

TABLE 3

SETS OF UNCERTAINTIES\*

COMPANY	UNCERTAINTIES		
	MARKET FACTOR	BUSINESS FACTOR	PARTNERSHIP FACTOR
A	2	1	3
B	3	1	2
C	3	1	2
D	2	1	3
E	2	1	3
F	2	1	3
G	3	2	1

(continue)



**TABLE 3 (CONCLUSION)**

**SETS OF UNCERTAINTIES\***

COMPANY	UNCERTAINTIES		
	MARKET FACTOR	BUSINESS FACTOR	PARTNERSHIP FACTOR
H	1	3	2
I	3	2	1
Average	<b>2.3</b>	1.4	2.2

\* (1 = greater importance to 3 = lesser importance).

Source: Elaborated by the authors.

The set of business (or operation) uncertainties appears to be the one to which the respondents assign greater importance comparatively (average value 1.4), while the market factors (average value 2.3) and partnership (average value 2.2) have virtually the same position. There are indications that the operational factors are the key aspects in the decision and definition of the franchising strategy, due to the requirement for both franchisees and franchisors to maintain a standard of conduct.

Complementing this discussion, we asked the respondents to highlight the intensity of each of the 11 uncertainties at the time of the decision to franchise (closed question, 5-point scale, with repetition). To avoid the bias of knowledge *a posteriori* of the decision, the interviewer once again suggested that the respondents undertake an exercise of reflection on the past, asking themselves the basic reason for opening their first franchise. The results are shown in Table 4.

**TABLE 4**

**INTENSITY OF UNCERTAINTIES\***

COMPANY	UNCERTAINTIES										
	A1	A2	A3	B1	B2	B3	B4	B5	C1	C2	C3
A	4	4	3	4	5	4	4	5	4	2	4
B	1	1	1	5	1	4	2	4	4	3	1
C	1	1	1	5	4	1	5	5	4	4	5
D	5	1	1	5	3	2	4	4	4	4	3

(continue)

TABLE 4 (CONCLUSION)

INTENSITY OF UNCERTAINTIES\*

COMPANY	UNCERTAINTIES										
	A1	A2	A3	B1	B2	B3	B4	B5	C1	C2	C3
E	4	3	4	5	5	3	4	5	5	4	2
F	2	5	5	5	4	3	3	2	2	1	1
G	4	3	1	1	1	4	5	5	5	5	3
H	4	5	1	5	5	2	3	3	3	4	1
I	1	4	2	5	3	4	5	3	5	4	4
Average	2.9	3.0	2.1	4.4	3.4	3.0	3.9	4.0	4.0	3.4	2.7

\* (1 = low intensity to 5 = high intensity).

Source: Elaborated by the authors.

Even with the obvious mathematical limitation due to the number of respondents, it can be seen that factors such as the level of standardization (B1) (average value 4.4), level of own investment required (B5) (average value 4.0), financial health of the franchisee (C1) (average value 4.0), and mix of human resources (average value 3.9) indicate high intensity in the opinion of the respondents, especially the first factor. On the other hand, the uncertainty that has the lowest intensity is the degree of impact of institutional factors (A3) (average value 2.1).

Again, the bias of knowledge *a posteriori* was noticed in these answers. Even with the technique of suggesting that the respondents reflect on the past, returning to the moment when they made the decision to franchise, the intensity of associated uncertainties seems to be related to the current situation of the company, exemplifying the availability heuristic suggested by Bazerman and Moore (2009). This consideration was confirmed by company G, being the only one to report little intensity concerning the level of standardization. Operating in the jewelry segment, company G is the only one of the respondents without franchises and has just opted for the franchising method to expand its business and to increase its profit margin. Since the answer may have been influenced by other factors, such as the understanding of the uncertainty or the field of activity itself, this is a point that needs to be evaluated, segregating the companies that are already established.

Another interesting fact that was expected, but it could not be observed due to the reduced volume of answers is associated with the uncertainties related to

the bargaining power of suppliers and customers (franchisees). For the decision-making process on franchising, we expected a greater intensity of uncertainties in relation to the bargaining power of suppliers, since there is greater reliance on suppliers, a lower weight of the company (volume), and, therefore, lower control and autonomy.

On the other hand, with regard to the bargaining power of franchisees, it was expected that this point had no influence at the time of the decision, since the franchisor would have greater control over the decisions and the progress of the business. The bias of the availability of information seems to be present once again, since some companies in which the method is already established and at a mature stage, with a large number of franchises already in operation, indicated an inversion of the intensities in the bargaining powers, assigning greater intensity to franchisees, which, as a whole, now have a greater specific weight in the relationship.

Complementing this analysis of uncertainties at the individual level, we created indexes based on 1. the importance of the groups of uncertainties (marketing, business, and partnership) and 2. the intensity of individual uncertainties. This enabled a joint analysis in relation to the two perceptions. Table 5 shows the results.

**TABLE 5**

**DISTRIBUTION OF INDIVIDUAL UNCERTAINTIES  
 × UNCERTAINTY FACTORS**

COMPANY	MARKET UNCERTAINTIES	BUSINESS UNCERTAINTIES	PARTNERSHIP UNCERTAINTIES
A	36.67	110.00	16.67
B	5.00	80.00	26.67
C	5.00	100.00	43.33
D	23.33	90.00	18.33
E	36.67	110.00	18.33
F	40.00	85.00	6.57
G	13.33	53.33	65.00
H	50.00	30.00	26.67
I	11.67	66.67	65.00
<b>Total</b>	<b>221.67</b>	<b>725.00</b>	<b>286.67</b>

(continue)

**TABLE 5 (CONCLUSION)**

**DISTRIBUTION OF INDIVIDUAL UNCERTAINTIES  
× UNCERTAINTY FACTORS**

COMPANY	MARKET UNCERTAINTIES	BUSINESS UNCERTAINTIES	PARTNERSHIP UNCERTAINTIES
	TOTAL PERCENTAGE SHARE IN UNCERTAINTIES		
	18.00%	58.80%	23.20%

Source: Elaborated by the authors.

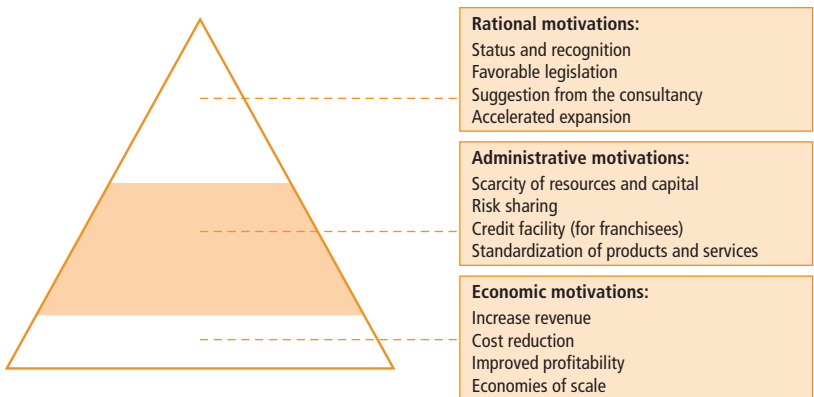
Based on the distribution, it can be seen that the business uncertainties (58.8%) are the most relevant in the total percentage share of uncertainties, followed by partnership uncertainties (23.2%) and market uncertainties, being the least important of the three (18%).

**9 MODEL PROPOSED FOR THE DECISION ON FRANCHISING**

Considering the findings of the previous section and combining them with the main aspects assessed in the theoretical framework, we initially suggest a model to explain the key motivating factors behind the franchising strategy (from the franchisor’s standpoint) and the revision of the influence diagram.

**FIGURE 2**

**MOTIVATING FACTORS FOR THE DECISION ON FRANCHISING**



Source: Elaborated by the authors.

Figure 2 summarizes the main reasons found for choosing the franchising method. They are classified into three groups, categorized according to a taxonomy developed by the authors based on the literature and the field survey and attributed in the interviews by the respondents.

At the top of the pyramid, we find the rational or key motivations, as they were considered the minimum required condition for the decision on franchising. They are called rational because they are considered and evaluated according to the reasons to franchise of the respondents, the motivations that would bring logic to face the risk. Then, the administrative motivations are described, which are combined with the rational motivations and in fact explain the strategy of franchising.

They complement and justify the essential goal, substantiating the choice of the franchising method; they indicate the factors that would be optimized in the management of a franchise in relation to an entirely owned network.

The third class contains the economic motivations. These may have a certain influence on the decision, but alone they are unable to explain the intention to franchise; despite being important in the strategic decision on the future of the organization due to being the most relevant in financial terms, they were highlighted by the respondents as the ones that were considered last in the decision.

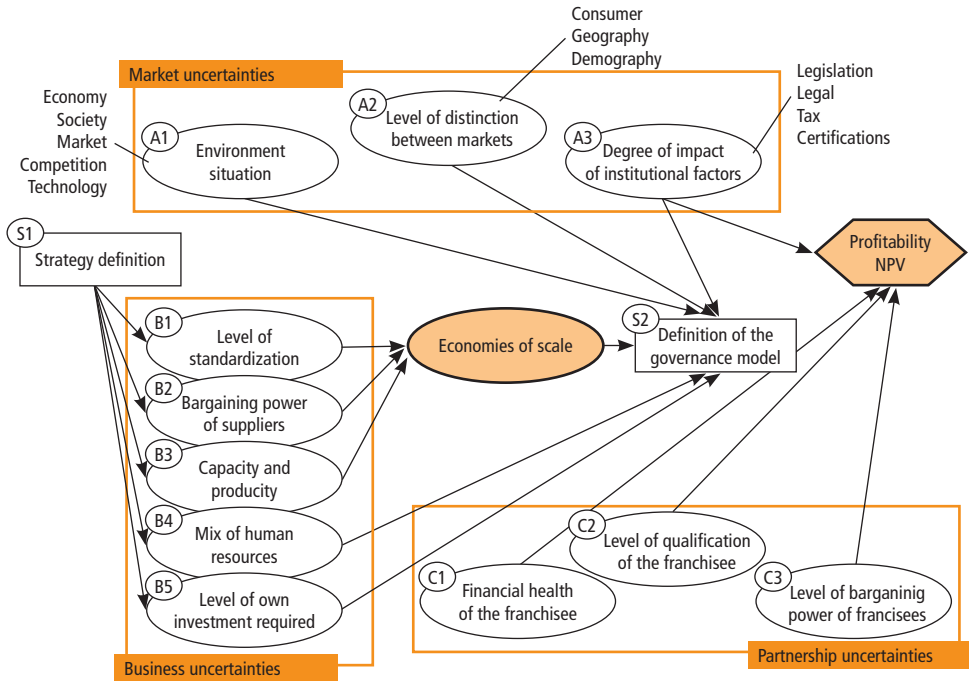
Despite the suggested segregation, what can be seen is that the strategy of franchising a business is successful only when there is a combination of these factors; for example, the organization wants to increase its revenues rapidly through the physical expansion of its business (while having the possibility of reducing the operating costs with the standardization and economies of scale), but it does not have the funds required for a different growth strategy (organic, acquisition, etc.) and/or does not want or have the conditions to take on the risks of this growth individually.

Figure 3 shows the influence diagram for the decision to franchise from the franchisor's standpoint, considering the uncertainties individually according to the three topics initially suggested. Despite having been identified as the uncertainties of lowest intensity in the survey, the degree of impact of institutional factors was included as a market uncertainty and the level of own investment required as an operation or business uncertainty.

For the authors, the market uncertainties are not influenced by the sub-decision on strategy, that is, they are addressed in this model as independent variables over which the company has little or no control, especially in the cases of the environment situation and institutional factors.

FIGURE 3

INFLUENCE DIAGRAM FOR THE DECISION ON FRANCHISING



Source: Elaborated by the authors.

The market uncertainties, on the other hand, directly affect the definition of the governance model and must be considered in this sub-decision. The sub-decision regarding the definition of strategy has direct consequences for the five business uncertainties. The level of standardization, bargaining power of suppliers, and capacity and productivity are directly related to economies of scale, which alongside the mix of human resources and the level of own investment are key factors for the definition of the governance model. In particular, the level of standardization, which was evaluated as the uncertainty with the highest intensity, could be interpreted as a sub-decision in some cases, since it can be administered internally with proper planning.

The partnership uncertainties may be the most discussed aspect of the model, as the sub-decision of strategy, in principle, does not seem to have any relevance to the uncertainties of this group and cannot be adequately balanced through the governance method defined. The governance model, influenced by the market and business uncertainties alongside the partnership uncertainties, has direct relevance to the result of the decision, in this case represented by the variable net present value of profitability.

## 10 FINAL CONSIDERATIONS AND CONCLUSIONS

What motivates business owners to choose franchising? Is it the rationalized reasons of the economic theories that seek to explain the success of franchises? This study found that other factors are also relevant to founders' decisions.

Through interviews with business owners, it was found that franchisors are motivated not only by economic and rational factors, as suggested by the main theories related to franchising, but also by social and behavioral factors. As proposed by the theory of reasoned action of Ajzen and Fishbein (1977), attitudes and subjective norms are combined to determine behavioral intentions.

In this research, some respondents indicated that status and visibility, as a factor that influenced their decision for the franchising model, embody such attitudes and subjective norms. The same can be seen in cases in which business owners justified their decision to franchise by having a business that, in their opinion, seem to be unique and that there are businesses that are similar but never identical to theirs. As shown in Figure 2, the motivations may be rational, administrative, or economic in the terminology adopted here due to the originating theories. In a not-so-obvious manner, rational motivations stand out as crucial and economic motivations as supplementary. It is worth noting that the reasons for the explanatory theories of franchises appear in the three categories, as well as the attitude and subjective norms. The objective norms are also present, included here in the market uncertainties and addressed as institutional factors. All these points suggest that further research studies are necessary to strengthen or refute such connections. Small differences in the products or services offered, the operating mode, and the way in which the company was formatted also affect the perception of the factors and how the challenges are faced, thus explaining the behavior in view of the challenges that appear throughout the life cycle of the franchise.

Based on the findings of this study, it was possible to develop an alternative model of the reasons why companies choose franchising. The influence diagram model suggested in this paper allowed an understanding and a proposition of the factors and uncertainties that are directly related to the franchising business at the time of opting for franchises. It is based on the theoretical framework and corroborated by empirical observations, albeit with obvious statistical limitations. In the refined model, we continued with the market, business, and partnership uncertainties, but we included the institutional factor as a distinct element in relation to the market uncertainties, as well as the factor ability to invest among the business uncertainties.

In this research, we also found that, after an initial evaluation phase and reflection on the decision, many business owners ended up seeking support from consulting firms and finding out that their goals were somewhat out of focus and adjustments in their direction were required for the success of the business. On the one hand, this finding suggests that the economic reasons are recognized and incorporated into the decisions for the continuity of the model. On the other hand, questions emerge on how and why business owners change from standards and subjective attitudes to economic reasons.

Among the limitations of the study, we find the evident statistical limitations of the findings due to the low number of companies in the sample and the difficulty of addressing the bias during the interviews, such as the bias of availability. The latter complication is particularly challenging to address, and the effect is that the knowledge *a priori* and *a posteriori* of the decision become mixed and their separation becomes a challenge.

Despite not identifying a factor or weight for each one of the uncertainties, which would reinforce their prescriptive nature, the model can be used as a preliminary weighting tool for companies that plan to adopt franchising as a practice.

As suggestions for future improvements and studies, we suggest refining the survey and subsequently applying it to a larger sample, firstly seeking the validation of the model and then the identification of weights for each one of the uncertainties, which could help in the creation of a more accurate classification and prescriptive tool for the decision on franchising. Another suggestion is based on the main finding of this research, the non-financial motivations. It includes analyzing the franchisors and comparing their performance levels, with the aim of understanding whether these motivations, which are less economic and more rational, would bring benefits and have an impact on the maintenance of the companies in the franchising system.

## MODELAGEM DA DECISÃO DE CRIAÇÃO DE NOVAS FRANQUIAS: A RELEVÂNCIA DOS MOTIVOS COMPORTAMENTAIS

### RESUMO

**Objetivo:** O *franchising* é um dos modos de operação que mais crescem no Brasil. Em 2014, a Associação Brasileira de *Franchising* contava 2.492 marcas ativas no país. Algumas teorias de caráter econômico, como as teorias da agência, formas plurais ou escassez de recursos explicam as razões que levam as empresas a



optar por franquia. Mas será que os tomadores de decisão e fundadores dessas franquias teriam se decidido por esta estratégia levando em conta simplesmente motivos econômicos? O objetivo do estudo é entender os critérios *a priori* (prévios à decisão) que os gestores levaram em conta para formatar a estratégia e os principais motivadores dessa decisão.

**Originalidade/lacuna/relevância/implicações:** A literatura enfatiza as razões econômicas do sucesso do modelo de franquia. Mas, não examina as motivações da opção do empreendedor pela franquia. Essa é a lacuna que este estudo busca preencher. Assim poderia emergir uma dissonância entre razões de sucesso econômico e motivações de entrada que poderia ter consequências na gestão das novas franquias.

**Principais aspectos metodológicos:** Dez empresas de diversos setores e estágios diferentes de desenvolvimento envolvidas com o sistema de franquias foram analisadas, utilizando-se de um questionário semiestruturado analisado à luz das teorias da decisão e de *franchising*.

**Síntese dos principais resultados:** Fatores comportamentais influenciam decisivamente os gestores e empresários na opção pela franquia.

**Principais considerações/conclusões:** Este artigo distingue as razões de sucesso da franquia das teorias econômicas das motivações dos empresários na escolha do modelo e realça a importância de fatores não econômicos nessa decisão.

## PALAVRAS-CHAVE

Teoria da decisão. *Franchising*. Critérios da decisão. Franqueador. Modelos de decisão.

## MODELAJE DE LA DECISIÓN DE CREACIÓN DE NUEVAS FRANQUICIAS: LA RELEVANCIA DE LOS MOTIVOS COMPORTAMENTALES

### RESUMEN

**Objetivo:** El franchising es uno de los modos de operación que más crece en Brasil – en 2014, la Asociación Brasileña de Franchising contaba 2.492 marcas activas en el país. Algunas teorías de carácter económico, como las teorías de agencia, formas plurales u escasez de recursos explican las razones que llevan las empresas a optar por esta estrategia. Sin embargo, tuvieron en cuenta los tomadores de decisión y fundadores de esas franquicias simplemente motivos

económicos cuando decidieron por esta estrategia? El objetivo de este artículo es el de entender los criterios a priori (previos a la decisión) que gestores llevaron en cuenta para formatear la estrategia y sus principales motivaciones para esa decisión.

**Originalidad/laguna/relevancia/implicaciones:** La literatura enfatiza razones económicas de éxito del modelo de franquicia. Pero no examina las motivaciones de la opción del emprendedor por la franquicia. Ese es el hueco que este trabajo busca rellenar. Así podría emerger una disonancia entre razones de éxito económico y motivaciones de entrada que podría tener consecuencias en la gestión de las nuevas franquicias.

**Principales aspectos metodológicos:** Diez empresas de diferentes sectores y en diferentes momentos de desarrollo y maduración involucradas con el sistema de franquicias fueron analizadas usando un cuestionario semi-estructurado tomando como base el referencial de las teorías de decisión y de franchising.

**Síntesis de los principales resultados:** Factores comportamentales influyen decisivamente los gestores y empresarios en la opción por la franquicia.

**Principales consideraciones/conclusiones:** Este artículo distingue las razones de éxito de la franquicia de las teorías económicas de las motivaciones de los empresarios en la opción del modelo y destaca la importancia de factores no económicos en esa decisión.

## PALABRAS CLAVE

Teoría da decisão. Franchising. Criterios de decisión. Franquiciador. Modelo de decisión.

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