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Stable Plural Forms in Franchise Systems: An Examination of the Evolution of Ownership Redirection Research

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Abstract

The ownership redirection thesis within franchising governance research stream, originally proposed by Oxenfeldt and Kelly (1968), argued that successful, resource-flush franchise systems will ultimately tend toward becoming wholly company-owned systems due to opportunistic reacquisition activity by the powerful franchisors. For nearly forty years this dark prophecy has precipitated an intense research dialog between the supporters and detractors of this thesis. More recently, the plural forms thesis, nested in seminal work by Harrigan (1984) has been advanced, which argues that since each type of ownership structure provides its own unique governance benefits, franchise systems are likely to continue to simultaneously invest in both, company-owned and franchised outlets. This paper attempts to provide a detailed review of nearly four decades of related literature and its transition from the ownership redirection thesis to the contemporary stable plural forms thesis.

Keywords
Franchising, Ownership Redirection, Plural Forms, Dual Distribution, Distribution Strategy

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1 Introduction

Modern franchising can be dated to the 1850's when Isaac Singer attempted to increase the distribution of his sewing machines by establishing a franchise system. Other examples of early American franchising include the franchising of soft-drink bottlers, automobile and truck dealerships and gasoline service stations. These latter sectors constitute what has been labelled as “product trade-name” or “traditional” franchising to distinguish it from the most recent emergent “business format” franchising (Dant and Berger 1996). The essential difference concerns the complexity of relationship between franchisors and franchisees, and the normal mode of payments from franchisees to franchisors. In the former case, the franchisee functions very much as an authorized dealer with some territorial exclusivity (e.g., Chrysler dealership, Exxon Gas Station), and generally pays the franchisor through gross margins from the sale of merchandise. In business format franchises (e.g., McDonald's, Hyatt's), on the other hand, franchisee must adhere to elaborate modus operandi usually specified by franchisor through an operating manual and pays franchisors through a variety of royalties and fees. The 1930’s witnessed a period of rapid growth for business format franchising in the United States. During this time early American franchisors such as Howard Deering Johnson and Reginald Sprague began franchising restaurant chains. The 1950’s again saw a boom in franchising as massive numbers of fast food restaurants, diners and motel franchises opened up along the newly constructed interstate highway system.

Today, franchising is big business in the U.S. There are over 1,500 franchise systems in the U.S., according to the World Franchise Council. This count represents 760,000 franchisees employing approximately 18 million people (i.e. one out of seven jobs in the U.S. or about 23 employees per franchise outlet). These employment figures represent nearly $506 billion in payroll (or approximately 11% of the private sector payroll in the U.S.), in turn generating an economic output over $1.53 trillion which equals about 10% of the U.S. private-sector economy (Reynolds 2004). It is also an American invention that has been cited as one of the fastest growing U.S. exports to the world (House Committee on Small Business 1990); and it is arguably the fastest growing form of retailing in the world (Dant, Perrigot and Cliquet 2008). Franchising is also somewhat unique from a public policy perspective in that it is a net net-foreign exchange earner and does not over time create future foreign competitors that come back to compete in the domestic economies a la the international product life cycle phenomenon (Gillespie, Jeannet and Hennessey 2007).

For over 40 years now, the debate over the ownership redirection thesis, introduced into literature by Oxenfeldt and Kelly (1968) in their seminal article entitled *Will Successful Franchise Systems Ultimately Become Wholly-Owned Chains?*, has preoccupied the attention of franchising researchers (e.g., Brickley and Dark 1986; Dant, Paswan and Kaufmann 1996; Hunt 1973; Hunt and Nevin 1976; Lafontaine 1992; Lafontaine and Kaufmann 1994; Rubin 1978). Oxenfeldt and Kelly’s ownership redirection hypothesis contends that the successful, resource-flush franchise systems will ultimately become almost wholly-owned chains due to reacquisition activity by the powerful franchisors. As Dant, Paswan and Kaufmann (1996, page 429) state:

> The public policy questions embedded in their thesis are significant. Do franchisors use franchisees to open markets, develop consumer acceptance and preference for the franchisors' trademarks, and then appropriate that brand equity by terminating or otherwise ending the franchisees' rights to continue to operate the business? Concerns over such opportunistic franchisor behavior have precipitated intense legislative scrutiny (House Committee on Small Business 1990; Dant, Kaufmann and Paswan 1992; Dant, Paswan and Stanworth 1996). Franchising researchers too, fascinated by Oxenfeldt and Kelly's provocative thesis about organizational growth, have mounted numerous investigations attempting to confirm or disconfirm their prediction.

Oxenfeldt and Kelly contended that the primary exceptions of this hypothesis would be the marginally performing franchisee units that would be perceived as unattractive acquisitions by the franchisors. At the heart of this debate lies the issue of identifying factors influencing the motivations underlying the franchise ownership forms. In addition to the resource constraints theory, the conceptual basis for the ownership redirection thesis, several other theoretical frameworks such as Agency Theory (Lafontaine 1992; Brickley and Dark 1986), Transaction Cost Analysis (Manolis Dahlstrom and Nygaard 1995; Lafontaine and Kaufmann 1994), Signaling Theory (Dant and Kaufmann 2003), and Property Rights Theory (Windsperger and Dant 2006) have been utilized by scholars to investigate the issue of ownership forms in franchising and to offer alternative theoretical explanations for the existence or absence of the ownership redirection phenomenon.

While the above literature continues to debate the occurrence or non-occurrence of ownership redirection, the contemporary phenomenological observable reality in the U.S. is that franchisors are <u>not</u> systematically reacquiring their franchisees' operations. In fact, most of the wealthiest franchise systems continue to open both company-owned and franchisee-owned outlets for growth, in an apparent support for the stable plural forms thesis of franchising (Bradach and Eccles 1989; Bradach 1997; Dant, Kaufmann and Paswan 1992; Dant and Kaufmann 2003; Harrigan 1984). For instance, in 2001, McDonald's had 30,093 restaurants worldwide, of which 8,378 (almost 28%) were company-owned and operated and the remaining 21,715 (72%) were franchised out (Blair and Lafontaine 2005). Invoking the notion of tapered integration (cf. Harrigan 1984), and building upon the writings of Bradach and Eccles (1989) and Dant, Kaufmann and Paswan (1992), Dant and Kaufmann (2003, page 66) argue that:

> The strategic choice of a combination of price, authority and trust (in their terminology, the use of plural forms) is often the most effective method of governance over economic transactions. In their view, a combination of control mechanisms rather than a preference for one ideal type permits the firm to reap synergistic benefits unavailable if

> only one form is used. Hence, the existence of both forms of system ownership, company-owned and franchisee-owned, is predicted to complement and benefit the management of the other form principally by providing alternate models for unit management and supplying informational insights only available within one of the two forms.

Dant and Kaufmann (2003) also document empirical support for the ten specific strategic advantages associated with plural forms initially developed by Dant, Kaufmann and Paswan (1992) drawing on a sample of U.S. fast-food franchisors. Given these trends in the literature, this paper will attempt to fulfil the following objectives.

First, we briefly review the diverse literature and their related theoretical frameworks utilized by franchising scholars in their investigations of the ownership redirection hypothesis over the past forty years. A conclusion of this section is that even though some of the literature may imply a trend towards pure systems (i.e., fully company-owned or fully franchised systems), none of them really intended or became a truly pure system, and that certainly, empirical investigations instigated by these frameworks have never unearthed these pure systems. Second, we discuss the arguments of the plural forms thesis which we argue to be the successor to the ownership redirection thesis at least in the U.S. context. In doing so, we demonstrate that the ownership redirection phenomenon in the U.S. appears to be a thing of the past. The paper attempts to arrive at two tentative conclusions. First, we need to investigate this ownership redirection phenomenon from an emic rather than an etic perspective (Berry 1969; Jahoda 1970). In other words, it may have disappeared or dissipated in the domestic U.S. context, but may continue to occur in other countries, and that we need to understand the emic reasons for its continued occurrence. Second, we also speculatively argue that the primary reason for the demise of ownership redirection thesis in the U.S. context as compared to many other countries is the relatively extensive legal protection extended to U.S. franchisees from opportunistic franchisor behaviors.

2 Ownership Redirection and Theoretical Frameworks

As previously noted, 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; Gallini 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). In Table 1 we show a comparison of these frameworks with exemplars of ownership redirection research based on these perspectives.

Table 1. Fundamentals of Theoretical Perspectives Used In Redirection Literature[1]

Attributes	Resource Dependence Theory	Agency Theory	Transaction Cost Analysis	Signaling Theory	Property Rights Perspective
Intellectual Foundations	*Organizational Behavior*	*Organizational Economics*	*New Intuitional Economics*	*Economic Contract Theory*	*Applied Microeconomics*
	Oxenfeldt & Kelly 1968 Pfeffer & Salancik 1978 Wernerfelt 1984 Dant, Kaufmann & Paswan 1992	Eisenhardt 1989; Jensen & Meckling 1976 Fama & Jensen 1983	Coase 1937; Williamson 1975, 1985, 1996;	Beggs 1992 Gallini & Wright 1990 Spence 1974	Coase 1960; Demsetz 1966 Grossman & Hart 1986 Hart & Moore 1990 Hart 1995; Maness 1996
	Strategic organizational choices and inter-firm governance depicted as a coping response to the forces of environmental uncertainty and limited firm specific resources.	Alignment of principal and agent incentives to avoid agent shirking and the expenditure of agent monitoring costs	If adaptation, performance evaluation, and safeguarding costs are absent or low, market governance will be favored. If these costs are high hierarchical governance will be preferred.	Signals serve as tools that help alleviate the asymmetric information problem that exists between market participants that have information relevant to other market participants who require said information	Allocation of residual decision and residual income rights to motivate investments in non-contractible (intangible) assets.
Concept of Man	*Behavioral Man*: A rational information processor who forms beliefs, attitudes, and intentions within the constraints of an organizational context that are causally determinant of his behavior	*Opportunistic Man:* Self interested with independent goals. Principal and agent goals are aligned to avoid agent shirking and to lower organizational costs associated with agent monitoring	*Rationally Bounded Man:* rational decision making may be limited due to constraints on cognitive capabilities and rationality *Opportunistic Man*: Seeks to serve self interest with guile when the opportunity is presented	*Behavioral Man*: A rational information processor who forms beliefs, attitudes, and intentions based on possessed information garnered through the interpretation of market signals	*Economic Man*: Seeks to maximize his utility subject to constraints of time, income, information, and institutional rules
Appraisal Criteria	Intuitive plausibility, validity and reliability of measurement instruments	Mathematical elegance, simplicity, internal consistency	Mathematical elegance, simplicity, internal consistency	Intuitive plausibility, validity and reliability of measurement instruments	Mathematical elegance, simplicity, internal consistency
Research Methods	Predicted experimental effects; correlation in ex-post facto studies at the micro level.	Mathematical models; correlation in ex-post facto studies at the macro level.	Mathematical models; correlation in ex-post facto studies at the macro level.	Mathematical models; correlation in ex-post facto studies at the micro level	Mathematical models; correlation in ex-post facto studies at the micro and macro level.
Exemplar Ownership Redirection Studies	Carney & Gedajlovic 1991	Brickley & Dark 1986 Lafontaine 1992 Rubin 1978	Manolis Dahlstrom & Nygaard 1995 Lafontaine & Kaufmann 1994	Dant & Kaufmann 2003	Windsperger & Dant 2006

[1] This table is modeled after table 1 of Windsperger & Dant (2006)

2.1 Resource Constraints Perspective

The Oxenfeldt and Kelly ownership redirection hypothesis is most closely wedded to the rationale of the resources constraints theory which fundamentally asserts that since no firm is likely to be self-sufficient in all the resources it needs to effectively and efficiently operate in the marketplace, it must find alternative sources for these scarce resources. It therefore follows that franchising is likely to be most attractive to franchising firms when the growth-oriented firm is in its youth (Carney and Gedajlovic 1991) since the resources constraints are much more likely to be experienced by smaller and younger chains. For a chain trying to gain competitive advantage in the marketplace by growing rapidly and faster than its competition, waiting to accumulate sufficient internal resources for chain expansion would be a counterproductive growth strategy. Thus, franchising becomes an attractive option to these firms seeking rapid expansion as franchisees are able to provide the firm with the financial and managerial capital in addition to local marketplace informational capital, all bundled in one, not otherwise available to them. With age and system growth, however, the assumption is that these forms of capital will become more readily available to the franchisor chains internally, rendering the franchising option less attractive as the wholly-owned system becomes more attainable (Caves and Murphy 1976; Oxenfeldt and Kelly 1968).

It is important to realize that with its company-owned and operated units, the franchisor gets to keep all of the profits (revenues less cost of operations) whereas with franchised units its chief source of ongoing revenue is its royalty rate computed as a percent of the gross revenues. Blair and Lafontaine (2005) show that between 1980 and 2001, this royalty rate on an average has barely moved from 4.5% in 1980 to 5.2% in 2001. In other words, the franchisors have a major financial incentive to open more company-owned units in lieu of franchised units as their systems mature and grow. Moreover, the franchisors, being far more powerful than the individual franchisees, can also opportunistically reacquire the erstwhile franchised units, especially if they happen to be performing well, hence the label of *ownership redirection*.

Oxenfeldt and Kelly (1968) describe four forces that drive franchisors toward reacquisition of franchisee units: *goals*, *resources*, *opportunities* and *frustrations*. The principal *goal* of increased profitability is cited as the primary reason for franchisor acquisition of franchised units. As the franchise system grows and the informational, managerial and financial *resources* needed for system growth become more attainable internally, foregoing the higher levels of profit attained through company ownership ceases to be necessary. Company ownership also provides the flexibility for companies to take advantage of emergent *opportunities* when presented. For example, companies constantly need to invest resources (e.g. time, money and training) to keep up with technological advances that may produce efficiencies not currently realized with the company's present infrastructure. As the company is able to adopt new technologies the efficiencies produced should also improve company profitability. However, Oxenfeldt and Kelly (1968) describe the difficulty in getting franchisees to commit to the constant monetary investments required to stay current with advancements in technological. Company owned units have no such franchisee-induced obstacles getting in the way of taking advantage of such technological opportunities. Finally, closely related to the technology example described above is the resultant *frustration* when trying to get apprehensive franchisees to adapt to company policies and programs. Franchisees are afforded some level of independence in accordance with their franchise contract; efforts to coerce franchisees into compliance can lead to costly legal battles between the franchisor and franchisees (Oxenfeldt and Kelly 1968). The franchisor also bears the burden of a damaged brand name when franchisees act in a way that hurts the relationship between the franchised unit(s) and the community. These are frustrating issues according to Oxenfeldt and Kelly and provide incentive toward company ownership.

The discussion thus far has focused primarily on the incentives for franchisor companies to reacquire their franchised units. However, Oxenfeldt and Kelly also discuss why franchisees may want to surrender their franchised units back to the franchisor. Like the forces prompting franchisor incentive toward ownership redirection, the *franchisees goals, opportunities, resources* and *frustrations* provide incentives to sell back the franchised unit. Oxenfeldt and Kelly (1968) provide many examples of potential *frustrations* for the franchisee. For instance, the inability to make sufficient profit is assuredly frustrating to a franchisee heavily vested in a franchised unit. Some franchisees desire recognition for successfully operating a franchised unit. Failure to receive requisite level of individual recognition while operating under the umbrella of a franchisor's name may hence be a source of frustration for such franchisees. Also, company policies and programs may also be a source of franchisee frustration. Many people enter into franchising agreements believing they are becoming true entrepreneurs; however, the reality is that franchise agreements dictate to a great extent how the franchisees are to operate and manage their franchised units. In other words, though the franchise agreement does afford the franchisee some level of independence, hierarchal structures still govern much of the day to day operations of the franchised unit (Peterson and Dant 1990; Bradach and Eccles 1989). Such arrangements may disappoint and under-whelm the true entrepreneur who may wish to sell back their unit in order to pursue their *goal* of operating a completely independent business (Oxenfeldt and Kelly 1968). Finally, selling back the franchised unit may afford the franchisee the *resources* needed to pursue other *opportunities* more aligned with the franchisee goals (like running a completely independent operation or retiring with a nest-egg).

The empirical literature informed by the ownership redirection thesis for a number of years used age and size of the franchise systems as surrogate predictors of ownership redirection (see Table 2). It is only recently that the literature has reverted to measuring actual predictors of the purported ownership redirection.

Table 2. Empirical Studies on Ownership Redirection[1]

Study	Industry	Predictors of Ownership Redirection
Primary Data Studies		
1. Shelton (1967)	Restaurant & Composite	NA (Ownership Pattern was the independent variable)
2. Hunt (1973)	Restaurant	Time, Age and System Size
3. Lillis, Narayana, & Gilman (1976)	Restaurant	Franchise Life Cycle Stage
4. Brickley & Dark (1987)	9 Business Sectors	Investment Requirements for Franchise
5. Lafontaine & Kaufmann (1994)	Assorted IFA Member Franchises	Age and Subsidiary Status
6. Dant, Kaufmann & Robicheaux (1998)	Restaurant	Financial, Human and Informational Capitals
7. Dant & Kaufmann (2003)	Restaurant	Conversion Gains and Unit Shares
8. Windsperger & Dant (2006)	Assorted Austrian Franchise Systems	Percentage of Company Owned Outlets
Secondary Data Studies		
1. Caves & Murphy (1976)	20 Business Sectors (1973)	Sectoral Share, Extent of Tying, and Sales Efficiency
2. Anderson (1984)	17 Business Sectors (1969-1980)	Time
3. Marquardt & Murdock (1986)	16 Business Sectors (1969-1983)	Time
4. O'Hara & Thomas (1986)	16 Business Sectors (1969-1984)	NA (Ownership Pattern was the independent variable)
5. Padmanabhan (1988)	12 Business Sectors (1977-1984)	Time
6. Martin (1988)	16 Business Sectors (1969-1986)	Time and Credit Market Conditions
7. Padmanabhan (1989)	3 Groups of Business Sectors (1977-1986)	Time
8. Carney & Gedajlovic (1991)	Assorted Franchises in Quebec, Canada	Franchisor Strategy and System Size
9. Lafontaine (1992)	Assorted Franchise Systems	Capital Needs
10. Manolis, Dahlstrom & Nygaard (1995)	14 Business Sectors (1977-1986)	Terminations, Business Type, Growth Rate, and Sales Levels
11. Dant, Paswan & Stanworth (1996)	12 Business Sectors (1977-1986)	NA (Ownership Redirection measures were evaluated)
12. Castrogiovanni, Combs & Justis (2006)	6 Business Sectors (1999-2000)	Proportion of franchised outlets
13. Dant & Paswan (1998)	12 Business Sectors (1977-1986)	Unit Share and Net Conversion Gain
14. Alon (2001)	Assorted Franchise Systems (1990-1997)	Total number of franchised units

[1]This table is modeled after table 1 of Dant & Paswan (1998)

Three areas have been identified in the literature where franchisors were accused of acting opportunistically at the expense of their franchisees (1) misrepresentations by franchisors to potential franchisees about the operation of the franchise or “the disclosure problem” especially in terms of the profit potential of different sites, (2) restrictions by franchisors on the source of supplies or services purchases by their franchisees (the ‘tying agreement” problem), and (3) onerous termination provisions in the franchise agreement or the (capricious termination problem) (Diamond 1969). Incidentally, opportunistic ownership redirection is described by the capricious termination problem.

Subsequent empirical investigations were conducted to examine some of these opportunistic behaviors on the part of the franchisor. However, investigations were more centrally focused on franchisor opportunism regarding tying agreements and disclosure. For example, Hunt and Nevin (1975) found many franchising arrangements to be buried in litigation. Hunt and Nevin (1975) declared that the state of the franchisor-franchisee relationship had become so strained as to reach crisis proportions. Several large, well-known companies found themselves mired in lawsuits brought on by disgruntled franchisees (e.g., Mr. Donut, Midas Muffler, and H&R Block). Of central importance to the Hunt and Nevin 1975 piece was the “tying agreement” problem. Tying agreements are restrictions imposed by franchisors that mandate where franchisees receive their supplies (Hunt and Nevin 1975). The authors found that approximately 70% of franchisees were required to buy, at least some of their supplies from the franchisor. These tying agreements are not by themselves evidence of opportunistic behavior. However, Hunt and Nevin (1975) found that the majority of franchisee respondents felt that the franchisors were charging them prices that were higher than competitive market prices for the same items. This implies opportunism on the part of the franchisor by enforcing unfair trade practices in the franchise agreement. By inserting these “tying” restrictions into the franchise agreement, the franchisee has no choice but to comply and pay the higher price for supplies if they wish to become and subsequently remain a franchisee. Hunt and Nevin (1975) found opportunistic franchisors acting at the expense of the franchisees but did not investigate and thus uncover opportunistic ownership redirection. The important thing about the Hunt and Nevin (1975) study is that it does reveal franchisors willing to act opportunistically at the expense of the franchisees.

In their 1976 piece entitled “*Full Disclosure Laws in Franchising: An Empirical Investigation*” Hunt and Nevin investigated what is described as the disclosure problem. More specifically, franchisors were found to deceive potential franchisees about the potential profitability of a franchise investment. Hunt and Nevin (1976) investigated the capability of full disclosure laws to reduce the misleading of franchisees about potential profitability of a franchised unit. The authors found that full disclosure laws do reduce the incidence of franchisor deception. However, these laws are said to come at a price. Hunt and Nevin (1976) describe the numerous costs associated with enforcing full disclosure laws. The franchisor incurs filing fees, amendment fees, legal costs, accounting costs, printing expenses and executive time while the franchisee is burdened with higher franchisee fees and royalty fees. Finally the states that enacted these laws are responsible for administrative and legal costs as well as a decline in economic activity as businesses may be discouraged from operating in a state with full disclosure requirements.

Though there are costs levied on all the parties involved, the state, the franchisor and the franchisee, Hunt and Nevin (1976) are quick to point out that the benefits of such laws do outweigh the accompanying costs. Though neither of the Hunt and Nevin pieces discussed above (1975; 1976) examined the ownership redirection hypothesis directly, both have implications regarding ownership redirection. Specifically, both articles found and describe opportunistic franchisor behavior. Though both articles list several states that, at the time, were considering legislation designed to protect franchisees from opportunistic franchisors, the need for such laws imply that opportunism was not an isolated or rare occurrence between franchisors and franchisees. Given the abundance of franchisor opportunism regarding such things as tying agreements and disclosure, as well as the large amount of litigation involving disgruntled franchisees at the time, one would almost have to assume that franchisor opportunism would also be an issue regarding the reacquisition of franchised firms.

Conventional wisdom might lead one to believe that even the hint of such deleterious actions on the part of franchisors may have inspired franchise researchers to investigate these opportunistic motives potentially driving ownership redirection. Interestingly, it was not until 1992 when Dant, Kaufmann and Paswan published "Ownership redirection in Franchised Channels" in the *Journal of Public Policy and Marketing* did the opportunistic implications of ownership redirection get a thorough discussion in the ownership redirection literature. Up to that point, most research investigating the phenomenon was concerned with establishing the occurrence of ownership redirection and determining which theoretical perspective was most appropriate for explaining and predicting the phenomenon (Dant Kaufmann and Paswan 1992). The opportunistic implications of ownership redirection pose interesting questions that were remarkably understudied. For instance, given the empirical results presented by Hunt and Nevin (1975 and 1976) that support the presence of opportunism on the part of the franchisor, one would intuitively be suspicious of ownership redirection occurring because of these same opportunistic motives. However, more benign reasons for redirection were also suggested in the literature see (Dant Kaufmann and Paswan 1992; Manolis Dahlstrom and Nygaard 1995; Shelton 1967). For example, a franchisee may decide to retire, or the franchisor may repurchase the franchised unit in order to keep the unit open until a replacement can be found for the retiring franchisee. This action helps the individual franchisee wishing to retire because selling the unit at a fair market price may be difficult on the open market. These actions also helps the franchisor as they will be assured of not having a franchised unit standing empty potentially sending negative signals to the members of the community about the viability of system's brand name. In this particular example, the repurchase of the franchised unit is a win-win situation for both the franchisor and franchisee and would hardly be deemed opportunistic. Therefore, a stream of research aimed at distinguishing between opportunistic and non-opportunistic motives for redirection should have been produced. Interestingly, only a few studies ever really addressed the opportunistic component of franchise redirection. As mentioned above, the majority of work was geared toward determining the occurrence of redirection and settling the debate about which theoretical perspective was most appropriate for its study. In Table 3, we show the current state-of-the-art literature evidence on the ownership redirection thesis.

Table 3. Characteristics of Empirical Studies Investigating Ownership Redirection[1]

Study	**Nature of Data**	**Unit of Analysis**	**Ownership Redirection Operationalization**	**Empirical Conclusion**
Shelton 1967	Longitudinal Disaggregated Primary	Franchise Outlets	Sales Share	Ownership Redirection Not Occurring
Hunt 1973	Cross-Sectional Disaggregated Primary	Franchise Systems	Units Share	Ownership Redirection Occurring
Caves & Murphy 1976	Cross-Sectional Aggregated Secondary	Franchise Sectors	Units Share, Sales Share	Ownership Redirection Occurring
Lillis, Narayana & Gilman 1976	Cross-Sectional Disaggregated Primary	Franchise Outlets	Units Share	Ownership Redirection Occurring
Anderson 1984	Longitudinal Aggregated Secondary	Franchise Sectors	Units Share	Measure & Industry Dependent
Marquardt & Murdock 1986	Cross-Sectional Aggregated Secondary	Franchise Sectors	Units Share	Measure & Industry Dependent
O'Hara & Thomas 1986	Longitudinal Aggregated Secondary	Franchise Sectors	Units Share	Measure & Industry Dependent
Brickley & Dark 1987	Composite Disaggregated Primary	Franchise Systems	Units Share	Ownership Redirection Occurring
Padmanabhan 1988	Longitudinal Aggregated Secondary	Franchise Sectors	Units Share, Sales Share, Long Term Contracts, Net Conversion Gains, Attrition by Non-Renewal, Attrition by Termination	Measure & Industry Dependent
Martin 1988	Longitudinal Aggregated Secondary	Franchise Sectors	Units Share, Sales Share	Measure & Industry Dependent

Study	Nature of Data	Unit of Analysis	Ownership Redirection Operationalization	Empirical Conclusion
Padmanabhan 1989	Longitudinal Aggregated Secondary	Franchise Sectors	Long Term Contracts, Net Conversion Gains, Attrition by Non-Renewal, Attrition by Termination	Measure & Industry Dependent
Carney & Gedajlovic 1991	Cross-Sectional Aggregated Secondary	Franchise Sectors	Units Share	Industry Dependent
Lafontaine 1992	Cross-Sectional Disaggregated Secondary	Franchise Systems	Units Share	Ownership Redirection Not Occurring
Lafontaine & Kaufmann 1994	Cross-Sectional Disaggregated Primary	Franchise Systems	Units Share	Industry Dependent
Manolis, Dahlstrom & Nygaard 1995	Composite Aggregated Secondary	Franchise Sectors	Net Conversion Gain	Ownership Redirection Occurring
Dant, Kaufmann & Robicheaux 1996	Cross-Sectional Disaggregated Primary	Franchise Systems	Units Share, Sales Share, Net Conversion Gain	Measure Dependent
Dant & Paswan 1996	Longitudinal Aggregated Secondary	Franchise Sectors	Units Share, Net Conversion Gain	Measure & Industry Dependent
Dant Paswan & Stanworth 1996	Cross-Sectional/ Longitudinal Disaggregated Secondary	Franchise Sectors	Units Share, Sales Share, Long-term Contracts, Net Conversion Gains, Attrition by Non-Renewal, Attrition by Termination	Measure & Industry Dependent

Study	Nature of Data	Unit of Analysis	Ownership Redirection Operationalization	Empirical Conclusion
Alon 2001	Longitudinal Disaggregated Secondary	Franchise Systems	Units share	Ownership Redirection Not Occurring
Dant & Kaufmann 2003	Cross-Sectional Aggregated Primary	Franchise Units	Units Share, Net Conversation Gains	Ownership Redirection Occurring
Windsperger & Dant 2006	Cross-Sectional Disaggregated Primary	Franchise Units	Units Share	Contractibility of Assets Dependent
Castrogiovanni, Combs & Justis 2001	Cross-Sectional Aggregated Secondary	Franchise Sectors	Units Share	Ownership Redirection Not Occurring

[1] This table is modeled after table 1 of Dant, Paswan & Kaufmann (1996)

2.2 Agency Theory Perspective

It is important to recognize that the discussion of ownership redirection thesis inextricably entails a fundamental discussion of the "why" of franchising, i.e., why do growth-oriented businesses choose to grow via the franchising route as opposed to corporate ownership approach? Oxenfeldt and Kelly see resource constraints facing nascent systems as the fundamental rationale for seeking franchisee partners. Agency theory, while not explicitly contradicting this resource constraints argument for franchising, focuses on franchising as an effective and efficient vehicle for overcoming the problem of shirking on the part of the agents without costly monitoring expenses. As Dant, Paswan & Kaufmann (1996, page 434) state:

> The alternative perspective, nested in principal-agent literature, portrays franchising as an optimal organizational form representing an efficient alignment of franchisor's and franchisee's interests. By sharing claims to the revenues with the franchisees, and by requiring the payment of a bond in the form of a franchise fee, the franchisor hopes to elicit requisite levels of effort on the part of franchisee towards managing the outlet (i.e., eliminating the shirking and perquisite-taking problems associ-

> ated with agency relationships; Caves and Murphy, 1976; Martin, 1988; Norton, 1988). However, the simultaneous stipulation of contractually-vested variable payments of royalties to the franchisor based on outlet sales assures the franchisee that its franchisor too remains motivated to properly manage the overall system (Rubin, 1978). Presumably then, franchising delivers a more efficient operation than is possible through vertical integration and internal control (Lafontaine and Kaufmann, 1994). Importantly, the latter perspective and related writings (e.g., Brickley and Dark, 1986), suggest a move towards a fully-franchised chain (Martin, 1988).

In addition, growth-oriented businesses are also expected to prefer the franchising route because managers employed in company-operated units have an incentive to shirk their responsibilities given their compensation is fixed regardless of unit performance (Fama and Jensen 1983), thereby necessitating costly monitoring. In certain situations these monitoring costs can become excessive. For instance, the further the geographic distance of the unit from the monitoring headquarters, the greater the monitoring costs for the company (Brickley and Dark 1986; Castrogiovanni Combs and Justice 2006; Combs and Ketchen 2003; Eisenhardt 1989; Fama and Jensen 1983). A number of researchers have provided empirical support for an agency theory perspective regarding ownership trends (Brickley and Dark 1986; Dahlstrom and Nygaard 1994; Lafontaine 1992; Rubin 1978; also see Tables 1, 2 and 3).

2.3 Transaction Costs Analysis

Transaction costs analysis (TCA) (cf., Coase 1937; Williamson 1975; 1985; 1996), the successor paradigm to traditional neoclassical economics based on "New Institutional Economics" (Rindfleisch and Heide 1997), arguably may be considered the more macro-oriented parent paradigm of agency theory. Both frameworks discuss principal-agent relationships and make predictions about the likely nature of the inter-firm governance arrangements. TCA, however, addresses the broader issue of whether or not a firm should integrate with its suppliers and/or its distributors as opposed to letting the market mechanism drive its inter-firm governance. Hence, the issue of ownership redirection may be conceived as a special case within TCA.

TCA rests on two basic behavioral assumptions about the managers involved in governance decisions: that of bounded rationality and opportunism. Bounded rationality argues that managers are necessarily constrained by incomplete information, environmental uncertainty and/or information processing limitations (Simon 1957) from making completely rational decisions. Opportunism, defined by Williamson (1985 p. 47) as "self interest seeking with guile," assumes that market actors will act opportunistically whenever the opportunity presents itself, especially in the presence of relationship-specific investments (i.e., investments that have no value outside of a business relationship). This, then, has the effect of raising monitoring costs associated with transactions. Importantly, organizations are deemed incapable of anticipating all contingencies within contracts to completely eradicate all opportunities for opportunistic acts.

Transaction Costs Analysis (TCA) has received some attention within the ownership redirection literature (cf., Table 1; Dant, Kaufmann and Paswan 1992; Lafontaine and Kaufmann 1994; Manolis, Dahlstrom and Nygaard 1995). Manolis Dahlstrom and Nygaard (1995), used the TCA perspective to explain the relationship between ownership redirection and franchisee quality control violations. Their results suggest that in industries where repeat purchasing is low, franchisees have more incentive to shirk their responsibility regarding quality control. Thus, it becomes less costly for the firm to maintain 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) also used a TCA perspective to investigate redirection trends in franchising in conjunction with resource constraints predictions. They found mixed results partly supportive of the resource constraints perspective (i.e., a preference for company-owned units) and partly supportive of the incentives argument implicit in TCA and agency theory (i.e., a preference for relatively low proportion of company-owned units). This finding is consistent with the TCA perspective since franchisees are given residual claims to the profits of the franchised units, thus providing incentive for the franchisee to manage the unit appropriately. Also, the royalty paid to the franchisor by the franchisees assures the franchisees that the franchisor has adequate incentive to operate the entire franchise system appropriately. In other words, the TCA framework used in this study suggests that the alignment of both franchisor and franchisee incentives produces a more efficient operation than the resources scarcity notion of reacquiring franchised units.

2.4 Signaling Theory Framework

More recently, researchers have begun comparing alternative theoretical frameworks to their ownership redirection studies. Dant and Kaufmann (2003) empirically compared the results of two competing theoretical perspectives in the tradition of strong inferences program (Barnes 1977; Bloor 1976), namely, signaling theory, and the resource constraints arguments. As Dant and Kaufmann (2003, page 63) state:

> These two theories form a particularly interesting contrast in that they predict diametrically opposed dynamic effects as franchise systems mature. Stated simply, signaling theory would suggest an initial preference for company owned outlets with a subsequent tendency toward franchising whereas resource acquisition would suggest an initial pref-

> erence for franchise ownership with a subsequent tendency toward company ownership. It should be noted that these shifts can both be expressed as general strategic tendencies rather than the specific unit level choices that are typically the subject of agency theory analysis (Brickley and Dark 1987; Bradach and Eccles 1989).

It is important to note that these two frameworks are focused on very distinct drivers for ownership patterns. Again, quoting Dant and Kaufmann (2003, page 65):

> Signaling theory presents a very different account of franchising (cf. Beggs 1992, Gallini and Wright 1990, Gallini and Lutz 1992, Lafontaine 1993, Leland and Pyle 1977, Mishra, Heide and Cort 1998, Tirole 1988). While the resource based perspective models entrepreneurial response to internal constraints facing firms (i.e., lack of adequate capitals for expansion), signaling theory is focused on the externalities of market imperfections and knowledge asymmetries to explain organizational choice. Entrepreneurs desirous of attaining the incentive advantages of franchising are depicted as facing an asymmetric information problem: How do good franchisors signal the quality of their concept to prospective franchisees when bad franchisors have the incentive to misrepresent their quality in an attempt to sell franchises? …. Franchisors can powerfully and credibly signal their own confidence in the profit potential, the viability and the robustness of their systems, by the direct operation of a critical mass of outlets (i.e., company-owned units) (Tirole 1988, Gallini and Lutz 1992). This argument closely parallels Leland and Pyle's (1977) reasoning that entrepreneurs can more easily convince potential investors of their project's viability by making direct personal investments in their enterprise.

In other words, signaling theory predicts that franchise systems will start by opening up a critical mass of company owned units to establish the credibility of their franchise name. However, after the brand has been established, the firm will invest in developing franchised units. Signaling theory assumes that franchised units are preferred in the long run to company-owned units because franchisees presumably are motivated by the profit incentive (Dant and Kaufmann 2003). Therefore, franchisees are expected to manage their units in a way that is consistent with profit maximization. However, Dant and Kaufmann (2003) did not find support for the signaling theory account of franchise system dynamics.

2.5 Property Rights Theory

Windsperger and Dant (2006) offered a property rights framework (cf., Hart and Moore 1990; Hart 1995; Maness 1996; Baker and Hubbard 2004) based investigation of the ownership redirection phenomenon. Attempted as a strong inference comparison with TCA (operationally, initial investment representing asset specificity logic of TCA) agency theory (operationally, number of outlets based on the rationale that larger the network size, greater the monitoring costs, and greater the likelihood of the system leaning towards a more franchised system) and resource constraints perspective, the main contribution of the property rights framework is to qualify the core thrust of the resource constraints perspective. In the words of Windsperger and Dant (2006, pages 259-260):

> We argue that the structure and dynamics of ownership patterns in franchising networks depends on the contractibility of the franchisor's system-specific assets and the contractibility of the franchisee's local market assets. Under the property rights view, ownership redirection will result from an increase in the contractibility of the franchisee's local market assets (local market information, financial resources and managerial capabilities) and the resultant increase of the franchisor's bargaining power during the contract period.... Our main contribution is to extend the extant franchising literature and the resource dependence interpretation of the ownership redirection (Combs and Castrogiovanni 1994; Combs and Ketchen 1999a, 1999b; Lafontaine and Kaufmann 1994; Alon 2001; Dant and Kaufmann 2003) by arguing that informational, financial and managerial resources, the key resources sought by the resource-constrained franchisors from their prospective franchisees, are only relevant for the change of ownership structure if they are non-contractible. Hence, we provide a new theoretical foundation of the ownership redirection hypothesis by applying the property rights theory.

Though Windsperger and Dant (2006) found support for their property rights hypothesis and a corresponding refutation of the TCA and agency theoretic competing predictions, it should be noted that the property rights perspective was presented as a qualifier to the resource scarcity view of ownership redirection rather than a competing framework. Therefore, their support of the property rights perspective may be construed as further support for the resource scarcity perspective albeit with an important qualifier linked to the contractibility of the market assets.

3 Inconsistency in Evidence

As might be imagined, the use of multiple theoretical perspectives, the usage of multiple investigative methodologies, and contextual differences of empirical settings have all conspired to create a disparate body of empirical evidence best described as characterized by inconsistent and contradictory results. One well-intentioned outcome of this confusion has been the emergence of some newer studies that are utilizing multiple theoretical perspectives to determine the "most appropriate" framework for examining the ownership redirection thesis (e.g., Alon 2001; Castrogiovanni, Combs and Justis 2006). The general conclusion of these empirical investigations has been that the relevance of competing theoretical frameworks is contextually dependent on factors like system age, size and franchise location.

Other problems surrounding the disparate empirical findings involve (1) different operationalizations of the ownership redirection itself, (2) different sets of predictors depending on the framework employed, (3) usage of primary versus secondary data, (4) usage of longitudinal versus cross-sectional data, (5) usage of disaggregated versus aggregated data, and (6) the contextual idiosyncrasies of different industry sectors sampled. In their meta-analysis of ownership-redirection phenomenon, Dant, Paswan and Kaufmann (1996) concluded that empirical resolution to the global question of *Is Ownership Redirection occurring?* could not be directly answered even though the average mean effect was positive signifying support for the ownership redirection thesis (i.e., $r = 0.07$; combined $N = 4429$; $p < 0.001$) due to heterogeneity in the data without examining the results through the lenses of a series of five moderators. It turned out that distinctions between *(1) longitudinal versus cross-sectional data, (2) aggregated versus disaggregated data, (3) primary versus secondary data,* and *(4) industry sampled* were not significant moderators. The only moderator that seemed to matter was the *operationalization of ownership redirection* itself (i.e., four of the six operationalizations of *sales share, lack of long term contracts, net conversion gain,* and *attrition by non-renewal of contracts* supported the incidence of ownership redirection, whereas the remaining two operationalizations of *units share* and *attrition by termination* did not support the incidence of ownership redirection phenomenon.) One of the recommendations of these authors was to commend future researchers to focus on measures such as net conversion gain (cf., Dant and Kaufmann 2003) "that focus on the all-important *intent* behind ownership redirection since it is the presumption of opportunistic intent which has rendered ownership redirection sinister" and because "measures like units share, sales share, contract non-renewal, and contract terminations could *also* be driven by growth, management, strategic and/or other extraneous considerations" (Dant, Paswan and Kaufmann 1996, page 440) rendering evidence gleaned from such measures as potentially artifactual. In the next section, we describe the rationale of stable plural forms approach to conceiving the whole issue of ownership redirection. As contended earlier, we believe this perspective more accurately captures the phenomenon of contemporary franchising in the U.S., and as such can lay claim to be dubbed the successor paradigm to the erstwhile ownership redirection debate.

4 Stable Plural Forms in Franchise Systems

While the above five frameworks have been utilized by franchising scholars largely to support or refute the provocative ownership redirection thesis of Oxenfeldt and Kelly (1968), a parallel undercurrent of thought focused on "stable plural forms" most ostensibly linked to Harriagn's (1984) notions of tapered integration can be discerned in the literature. In a nutshell, the notion of stable plural forms rejects the premise that franchise systems are headed in the direction of either pure company-owned or pure-franchised systems, and argues that a mixed system (i.e., composed of a strategic mix of company-owned and franchised units or "plural form") is the likely ideal choice for efficiency minded systems seeking to reap the racheting advantages (Bradach and Eccles 1989) of both pure systems (cf., see earlier quote from Dant and Kaufmann (2003), page 66).

At this point, it is important to demarcate between research on organizational choice into unit level arguments and strategic firm level arguments. The resource constraints theory, signaling theory and property rights framework are aimed at strategic firm-level explanations for choice of organizational form. Agency theory and TCA, on the other hand, are focused at unit-level selection of outlet ownership. As stated by Dant and Kaufmann (2003, page 63):

> Agency theory, for example, has been the primary tool of analysis regarding unit level choices based on the comparison of incentive alignment and monitoring costs (Brickley and Dark 1987). When agency theory is employed to explain combinations of company-owned and franchised outlets within a system, it is based on the assumption of heterogeneous outlets, i.e., differences among units on variables such as distance from headquarters, size and potential profitability (Lafontaine 1992).

In other words, agency theory and TCA have always implied the possibility of plural forms. Similarly, signaling theory, too, definitionally accepts the existence of a mixed ownership strategy. Even resource constraints theory based writing of Oxenfledt and Kelly (1968) accepts the simultaneous continued presence of marginal units being left to franchisees to operate. Hence, as noted earlier, the received literature slants notwithstanding, none of the frameworks <u>really predicted</u> the emergence of truly pure systems. Further, again as noted earlier, none of the empirical investigations have revealed the trend towards pure systems, and the phenomenological observable reality of contemporary franchising is that most franchise systems seem to subscribe to the plural forms philosophy of structuring the governance of their systems. The strategic advantages of plural forms are well documented in the literature (cf., Bradach and Eccles 1989; Bradach 1997; Dant, Kaufmann and Paswan 1992; Dant and Kaufmann 2003; Harrigan 1984; Lafontaine and Kaufmann 1994). As summarized by Dant, Kaufmann and Paswan (1992, page 38):

> The framework of stable plural forms provides a fertile and distinct perspective for examining the phenomenon of ownership redirection. It points to the subtlety and complexity of the social and economic control mechanisms that are implicit in the franchise governance structures. It also suggests that the pervasive practice of dual distribution within

franchising may be a sophisticated and strategically motivated industry response aimed at instituting synergistic control mechanisms befitting the franchising context. Formally stating these contentions, we have:

P9: Ownership redirection may not reflect opportunistic behavior on the part of a franchisor. Instead, it may represent a strategic drive toward stable dual distribution in the anticipation that dual distribution will permit franchisors to:

(a) maintain direct and current familiarity with their businesses;
(b) spot new ways of reducing costs and enhancing systemic efficiency;
(c) conceive innovative product and business ideas for future growth;
(d) have suitable outlets for experimenting with, perfecting, and evaluating the feasibility of new ideas and concepts before their rollout;
(e) preempt the potential for opportunistic bargaining on the part of the franchisees, which may occur if franchisors are perceived as lacking current and direct knowledge of their business;
(f) correct the balance of their dependence on their franchisees by having viable boundary-shifting capabilities;
(g) better negotiate with their franchisees from a position of knowledge;
(h) retain sufficient voting rights to control forums like the ad council; and
(i) use the "racheting strategy" of synergistically building from the alternative experiences gained in both types of outlets.

Two investigations have formally tried to assess the empirical validity of the above theoretically proposed advantages associated with the stable plural forms of governance. Lafontaine and Kaufmann (1994) asked their 130 mixed-sector franchisor survey respondents to provide answers to their open-ended questions about the perceived advantages and disadvantages of franchised versus company owned units. Five advantages of company-owned units and two advantages of franchised units were volunteered by the franchisors (Lafontaine and Kaufmann 1994, page 106), all of them substantively subsumed in the listing shown above. Finally, Dant and Kaufmann (2003) put the above set of benefits to direct test through a structured questionnaire using their sample of 152 fast-food franchisor respondents. All the benefits were strongly supported by the sample (Dant and Kaufmann 2003, page 69). Hence, together the two studies demonstrated a remarkable convergence of findings and content validity associated with the proposed battery of benefits of stable plural form of franchise governance. We now turn to the subject of legal protection extended to U.S. franchisees from opportunistic franchisor behaviors, and its implications for the ownership redirection hypothesis.

5 The Evolution of Franchise Law in the United States

The evolution of franchise laws in the United States can be traced all the way back to the original anti-trust legislations (i.e., Sherman Act of 1890 and Clayton Act of 1914) which later led to the enactment of the first modern franchising statute in 1971 (i.e., The California Franchise Investment Law adopted in 1970 to be effective January 1, 1971). This was followed by the enactment of Federal Trade Commission (FTC) Franchise Rule 436 (promulgated in December 1978, effective October of 1979), formally labeled “Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures.” The FTC Rule 436 attempts to control a franchisor’s conduct by requiring the franchisor to make specified disclosures to prospective franchisees in terms of extensive details about its system considered important for prospective franchisees to make an informed purchase decision. It is also aimed at the prevention of fraudulent misrepresentation of material facts on the part of franchisor. It further specifies the timeline associated with making these disclosures. Operationally, a franchisor can use the FTC Rule 436 format or the alternative Uniform Franchise Offering Circular (UFOC) as developed by the North American Securities Administrators Association to make the requisite disclosures. The FTC Rule 436 specifies disclosure of 23 critical items associated with the franchise offering including litigation and bankruptcy histories, financial arrangements, and territory and sales restrictions. Various states have formulated their own versions of franchising laws based on the spirit and the letter of the FTC Rule 436.

Throughout the 1970’s and 1980’s, many states began to adopt franchise fairness laws designed to prevent abuses on franchisees from franchisors on issues such as encroachment, renewal, performance standards, assignment, free association, discrimination, and wrongful termination (Herman 2004). In the early 1980’s twenty-two states introduced laws that had a direct impact on issues like franchise sales or relationships, including amendments to existing franchise disclosure statues, fairness statutes, dealer relationship, and business opportunities laws. The flow of legislation continued in the later part of the 1980’s when in 1987, forty-nine franchise related statutes or amendments were enacted into law, and in 1989 forty-three franchise related statutes were enacted by twenty-five state legislatures (Herman 2004). Throughout the 1980’s and 1990’s the enactment of franchise related legislation became more pervasive and increasingly complex. In an effort to achieve greater uniformity and less ambiguity between state franchising laws, uniform federal legislation has been suggested, though to this date no such federal laws have been enacted.

In general, these state laws work in three regulatory ways (Justis and Judd 1989). First, they specify the required content and delivery of information to prospective franchisees. Second, they may require a franchisor to register with state authorities before offering franchises within those states (there are currently, 15 such "registration states" accounting for approximately a third the nation's population as well as a third of all franchises). Finally, they are aimed at regulating the business relationships between franchisors and their franchisees with particular reference to establishment, termination, renewal, or modification of franchise contracts.

In terms of the usage of these laws, we see a change in the manner in which courts have transitioned from the once more onerous *per se rule* to the *rule of reason* most clearly exemplified in the *GTE Sylvania* case, itself a signal of the maturing of jurisprudence surrounding franchising. For example, in 1949 the Supreme Court, in *Standard Oil v. United States*, ruled that tying agreements constituted a violation of the Clayton Act prohibiting tying or exclusive dealing (Herman 2004). Again, in 1951 in *United States v. Richfield Oil Corp*, the court ruled that Richfield's relationship with its franchisees constituted an unreasonable restraint of trade in violation of the Sherman Anti-Trust Act and that these relationships resulted in a lessening of competition which again violated the Clayton Act (Herman 2004).

However, in the mid-1960's the Federal Trade Commission and the Federal Court of Appeals ruled that Carvel could enforce tying agreements because the Carvel trademark licenses set a critical element in the franchise arrangement, and were not anti-competitive illegal ties, but rather, a necessary component in preserving the franchisor's good will (Herman 2004) . In other words, the court ruled that Carvel had the ability to enforce tying agreements because of the need to protect the brand associations with the product being delivered in Carvel franchises. Finally, in 1977 the Supreme Court heard the landmark *GTE Sylvania* case. In this case the court distinguished tying agreements that were designed to hinder competition from those set up to protect the quality and "goodwill" of the brand (Herman 2004). In other words, tying agreements were not deemed illegal *per se* but only if employed by opportunistic franchisors trying to exploit the franchise agreements by demanding franchisees to purchase at least some portion of their supplies from the franchisor. However, if the tying agreement was in place to ensure the quality and service provided by the franchised outlet, thus protecting the value of the brand name, then the agreement would be deemed legal. The decision to judge the fairness of tying agreements on a case by case basis, using the *rule of reason* was considered a victory for the franchisors. Franchisors viewed the court decision as a mandate against excessive franchisor scrutiny and overbearing antitrust regulation (Herman 2004).

In another milestone, in response to a number of civil suits filed by franchisees against their franchisors in the state of New York, Representative John J. LaFalce, D (N.Y.), then, the chairman of the House Committee on Small Business, commissioned a report detailing the state of franchising within the United States. The seventy nine page report, entitled "Franchising in the U.S. Economy: Prospects and Problems" was described as "the first comprehensive assessment of franchising in nearly two decades" (House Committee on Small Business 1990). The committee focused its attention on the coercive power used by franchisors to terminate franchise relationship. In other words, the committee recognized the opportunistic termination of a franchise contract as “the dominant problem arising between franchisors and franchisees” (p.65). The committee recognized that franchisors will, over time, begin to amass considerable leverage relative to their franchisees. The franchisee will have more invested than the franchisor, therefore much more to lose if the franchised contract were terminated. This leverage could translate into coercive power on the part of the franchisor. Though legislation was never enacted at the federal level in response to this report, the very existence of the report served to highlight the need for government’s oversight into franchise law and regulation.

Today the International Franchise Association (IFA), the purported apex body of franchisors in North America, has instituted self-policing mechanisms including a Code of Ethics for franchisors in an effort to address and preempt the issue of abuse claims in franchising. Other organizations such as the American Association for Franchisees and Dealers (AAFG), and the American Franchise Association (AFA) see educating franchisors, franchisees and all parties involved, on “win-win” approaches to franchising as one of their primary goals. In other words, these organizations are trying to ensure that participants in a franchise contract treat the contract fairly and equitably (Herman 2004). As the foregoing account underscores, franchising and franchising laws have evolved primarily in the United States. However, as franchising gains popularity in overseas markets, so is the need to enact franchise laws in these diverse countries. Though not yet to the complexity and level of detail of U.S. franchise laws, several countries have followed the U.S. model and enacted disclosure laws (Herman 2004). All these legal and voluntary regulatory devices underscore the theme of “coming of age” of franchising in the U.S. In Table 4, we contrast the U.S. legal structure aimed at regulating franchising with selected countries from around the globe.

Table 4. Cross Cultural Comparative Evaluation of Franchise Legislation [1]

Country	Level	Specificity	Scope
USA	Federal & State	Directly Regulates Franchising	Offer & Sale of Franchise, Franchisor-Franchisee Dealings, Disclosure Requirements, Registration Requirements, Limitations, Refusal to Transfer, Title & Renewal, Anti-Trust Laws applied to Franchising (e.g. Tying Agreements)
Canada	National and Provincial (Ontario & Alberta) The Canadian National Government or the other 8 Provinces have failed to legislate specific franchise law	Provincial legislation directly regulates Franchising. National and other Provincial legislation (all provinces except those previously mentioned) fall under general business legislation	(Specific to Alberta and Ontario Legislation); Timely Disclosure of necessary information (14 days prior to signing of franchise contract), civil remedies for breach of franchise contract & Relational Issues that dictate "fair dealing" between franchisee and franchisor are also covered

Country	Level	Specificity	Scope
Mexico	National *(Industrial Property Law*)	Directly Regulates Franchising	Disclosure Requirements, Registration Requirements
Brazil	National	Indirectly Regulates Franchising	Timely Disclosure Requirements (10 days prior to execution of franchise agreement), Registration Requirements, Franchise Agreement Standardization
France	National *(Loi Doubin*)	Directly Regulates Franchising	Timely Disclosure of information (20 days prior to execution of franchise agreement)
Spain	National *(Retail Trade Act)*	Directly Regulates Franchising	Timely Disclosure of information (20 days prior to the execution of a franchise agreement), Registration Requirements
Italy	National *(Commercial Affiliation)*	Directly Regulates Franchising	Timely Disclosure of information (30 days prior to execution of franchise agreement), Civil remedies for breach of franchise contract, Relational Issues
Belgium	National	Directly Regulates Franchising	Provincial Specifications within franchise agreement
Romania	National	Indirectly Regulates Franchising	Pre & Post Contractual Relations, Disclosure Regulations, Provincial Specifications within franchise agreement
Russia	National (Civil Code of Russia)	Indirectly Regulates Franchising	Registration Requirements
Australia	National (Franchising Code of Conduct)	Directly Regulates Franchising	Timely Disclosure of Information (within 14 days prior to execution of franchise agreement), Dispute Resolution
Indonesia	National	Directly Regulates Franchising	Consumer Protection, Geographic placement of franchise units, Government preference for entrepreneur size, Disclosure, Government Monitoring
Malaysia	National	Indirectly Regulates Franchising	Relational Issues, Registration Regulations

Country	Level	Specificity	Scope
South Korea	National *(Unfair Trade Practices in Franchising, Unfair Trade Practices in international Contracts)*	Directly Regulates Franchising	Disclosure, Unfair Trade Practices, Relational Issues, Unfair Trade Practices
China	National	Indirectly Regulates Franchising	Timely Disclosure of information (within 10 days prior to execution of franchise agreement)

[1] This table is based on Konigsberg (1999) & The European Franchise Federation Country Bulletins

As can be amply seen from Table 4, much of the world lacks the elaborate, regulatory environment within which franchising flourishes within the United States. And we attribute the demise of the opportunistic ownership redirection threat within the United States to this elaborate web of laws and regulations governing the franchising industry. At the present time, we are not aware of any systematic literature on ownership redirection investigations mounted in much of the rest of the world. Some anecdotal evidence suggests that ownership redirection may be occurring in some of the countries, but these anecdotes need rigorous scientific investigations, a task we commend to future scholars of franchising.

6 Conclusions

This paper was aimed as both a review of the forty years of literature inspired by the ownership redirection hypothesis of Oxenfeldt and Kelly (1968) together with the theoretical frameworks employed by franchising scholars to support or refute their provocative hypothesis, as well as an introduction to its arguably successor paradigm of stable plural forms. We have demonstrated that literature slants notwithstanding, none of the theoretical frameworks truly envisioned pure company-owned or pure franchised systems; moreover, none of the empirical investigations inspired by this thesis has revealed the emergence of such pure systems. In effect, what seems to have captured the imagination of the past scholars is the premise of sinister opportunism implied in the ownership redirection thesis.

In the discussion of the brave new framework of stable plural forms, we have shown that it is possible to examine the issue of outlet ownership from a fundamentally different and strategic perspective, away from an “either/or” and “opportunism” mindset to the amicable simultaneous coexistence of both types of outlets. We have also shown that the elaborate web of franchise laws in the U.S., much of it enacted after the publication of the Oxenfeldt and Kelly’s (1968) seminal article probably played an invaluable role in taming these erstwhile opportunistic tendencies. In other words, we have argued that *normatively*, at least within the U.S. context, it is time to move on to this nascent, exciting strategy-oriented investigation of plural forms and abandon the fear-based erstwhile framework of ownership redirection thesis.

The cross-cultural implications of this review article are very different. Given that franchising is the fastest growing form of retailing around the world, and increasingly becoming popular as a foreign market entry strategy and a popular alternative for foreign nationals in developing countries wishing to embark on their own business venture (Gillespie, Jeannet and Hennessey 2007; Keegan and Green 2003; Terpstra and Russow 2000), the ownership redirection hypothesis may still lend valuable insight into countries that do not have a body of franchise law as evolved or sophisticated as that of the United States. Such cross-cultural investigations should provide valuable information about the evolution of franchise law and its impact on opportunistic franchisor behavior. More specifically, the more researchers investigate ownership redirection in countries where franchise laws are just beginning to develop, the more insight we may gain into the connection between legislation and its ability to curb opportunistic franchisor behavior. Such data would provide invaluable insights regarding the nature of franchisor behavior and franchisor predilection to act opportunistically, simply because they are in a position to do so.

The new stable plural forms thesis opens up a whole new slate of research agenda for the future franchising scholars. As noted in the review earlier, there have been only limited empirical verifications of this thesis (cf., Dant and Kaufmann 2003; Lafontaine and Kaufmann 1994). The thesis needs to be empirically tested in alternative industries, alternative cultural and country settings; it also needs new theoretical conceptualization and articulation as befitting a new scientific paradigm, to evaluate contingency variables under which the thesis is more or less likely to hold. So, for example, the level of competition in the marketplace, the extent of environmental uncertainty, and the relative inter-dependence in the franchisor-franchisee relationships could all be significant moderator variables to the focal premise of the thesis. These still need to be conceptualized and the resultant hypotheses empirically investigated. Another significant characteristic of franchising, the existence of multi-unit franchisees (franchisees that own more than one outlet), needs to be brought into the articulation of this new paradigm. Finally, the connection between the plural forms strategy and system performance needs to be examined. In other words, is a system better off using a set of master-franchises and/or franchises functioning under area-development arrangements as compared to the straight plural forms strategy? Do these implications hold for franchise systems expanding overseas? We commend these topics to the future franchising scholars.

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