Multi-Brand, Multi-System and Multi-Role Franchising: A Qualitative Exploration and Framework Development in Brazil

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Abstract

This study investigates franchisees' rationales for engaging in ownership constellations beyond single brands or systems. Through exploratory interviews with Brazilian franchisees, the reasoning and process of how franchisees develop their multi-brand, multi-system and multi-role portfolio of businesses is elucidated. Franchisees in Brazil with ownership stakes in more than one brand or system aim to keep units within their monitoring range, while diversifying to mitigate the risk of their business portfolios. Brazilian franchisees have created an active marketplace in which franchises are traded akin to commodities and are used as schools or entrepreneurial 'internships' by franchisees who seek skills they may initially lack.

A new framework of laddered diversification options in franchising is developed. The study concludes with implications for franchise practice and research.

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Introduction

A conventional assumption in the franchising literature has been that franchisees are relatively undiversified owners of their franchise units (Martin 1988; Rubin 1978). While many franchisees own the traditional single unit, the contemporary franchise marketplace has increasingly seen the emergence of multi-unit owners, i.e. franchisees who own dozens, if not hundreds, of outlets *of the same brand*. Accordingly, franchisees have been treated in the academic literature akin to investors who put "all of their eggs in the same basket", i.e. they invest most, if not all, of their money in the same franchise system (e.g., Felstead 1993, p. 85) by adding units and expanding in a relatively undiversified fashion.

However, strong anecdotal evidence indicates that franchisees frequently engage in relationships with franchisors *beyond a single brand or even beyond a single system* (Rose 2012; Seid 2011).[1] This means that franchisees of one brand or system own outlets *simultaneously* in one or more *different* brands or systems. This is a very different scenario from what has been investigated to date in the multi-unit franchising literature (Grünhagen and Mittelstaedt 2005). The extant rationales for multi-unit franchising are all grounded in the efficiencies of repeated transactions with the same franchisor, including internal scale and learning efficiencies (Garg, Priem, and Rasheed 2013), reduced free-riding (Sanchez-Gomez, Suarez-Gonzalez, and Vazquez 2010), system-specific investments (Hussain, Moritz, and Windsperger 2012), and enhanced cooperation (Argyres, Bercovitz, and Zanarone 2016). These explanations are weakened substantially when franchisees grow beyond one franchisor. As scenarios of franchisees with

[1] In this article, we follow the terminology by Lawrence and Kaufmann (2019) who differentiate between franchise "brands" and the upstream corporate owners of one or more brands as "systems".

ownership stakes in multiple brands or systems are hitherto unexplored in scholarly research, an urgent need exists to understand why these constellations exist and how they have emerged. Gaining a deeper understanding of this research gap may yield important insights with regards to issues of loyalty or identification with one system over another. It may also lead to greater comprehension of investment decisions in which a franchisee may have to prioritize one brand or system over another. Further, franchise sector reality indicates that franchi*sors* of some systems simultaneously operate as franchi*sees* of other systems, i.e. multi-role franchising. Scenarios like these raise questions of role conflicts, as well as conflicts of interest. This study proceeds in two stages.

First, we set out to explore franchisees' rationales for adopting multi-brand, multi-system and even multi-role ownership portfolios to elucidate the process of how franchisees develop their holdings through a set of semi-structured qualitative interviews. Emergent themes are uncovered through a rigorous examination of the interview transcripts, using qualitative data analysis software and an iterative procedure of data coding and theme identification. The findings reveal novel patterns and insights into the motivations and reasoning of franchisees in their efforts to grow via multiple brands, systems and roles. Franchisees with ownership stakes *beyond one system* aim to keep units within their monitoring range, while diversifying to reach synergies and to mitigate the risk of their business portfolios. We reveal the existence of an active marketplace in which franchises are being traded akin to commodities, and we discover that franchises are used as schools or entrepreneurial 'internships' by franchisees who seek skills they may initially lack. The setting of the interviews was a convenience sample of multi-brand, multi-system and multi-role franchise owners in the largest transitional economy of South America, Brazil. In a second step, we develop a framework of multi-brand, multi-system and multi-role franchising from the franchisee perspective, offering a new and systematic model that highlights a pattern of diversification unique to the franchise realm.

This study's contributions are threefold. To the best of our knowledge this is the first study that investigates the rationales and emerging patterns of multi-brand and multi-system ownership from the perspective of franchisees, providing new insights into how such franchisee-entrepreneurs grow, and why. Optimizing the local monitoring capacity of franchisees and diversifying their investments arise as main explanatory factors for these new ownership patterns. The commodification of franchises in the emerging market context of Brazil facilitates this pattern.

Second, diversification in the franchise realm represents a unique opportunity for franchisee-entrepreneurs as a critical resource to acquire competencies they lack. We contribute to the entrepreneurship literature by showing that franchising may serve as an alternative strategic tool for entrepreneurs. Rather than looking at the franchise model as an organizational form in the conventional way the business literature has done in the past, franchise concepts may also serve as novel sources of knowledge as they allow the acquisition of capacities franchisees may initially lack. In other words, franchises become institutional 'internships', or schools, for entrepreneurial competencies.

Third, our research develops a new framework of multi-brand, multi-system and multi-role ownership, establishing a laddered sequence of diversification scenarios from the perspective of franchisees. The emerging framework serves as a novel and systematic classification of diversification options available to franchisees in a contemporary marketplace in which loyalty to traditional brand concepts may not be *de rigueur* any longer.

Literature Review

The franchising literature has established multi-unit franchising as today's most pervasive and dominant form of franchising, namely the operation of multiple units by one franchisee (Grünhagen and Mittelstaedt 2005; Hussain and Windsperger 2010; Weaven and Frazer 2007). Multi-unit franchisees range in size from a few units to "mini-chains" with hundreds of outlets, and they represent the majority of franchise units in the U.S. today (Daley 2015). By comparison, single-unit franchising, i.e. the operation of a single unit by one franchisee, represents the simplest and traditional "textbook" example of the franchise sector. Although its existence is still widespread, multi-unit franchising has seen stronger growth rates for decades in the U.S. market and accounts for the majority of units.

From the perspective of the franchisor, multi-unit franchising offers the primary advantage of accelerated growth (Garg, Rasheed, and Priem 2005), particularly through so-called "area development agreements", in which franchisees follow a development schedule for the duration of the contract, and the franchisor delegates the development of franchised outlets to multi-unit franchisees. Greater ownership stakes also reduce multi-unit franchisees' free riding tendencies due to heightened internalization of negative brand repercussions (Sanchez-Gomez, Suarez-Gonzalez, and Vazquez 2010). Finally, multi-unit franchising spurs franchisors' cooperation and the use of relational contracts (Argyres, Bercovitz, and Zanarone 2016).

Motivations of multi-unit franchisees have also been explored in the extant literature. Multi-unit owners gain significant internal scale and learning efficiencies from the operation of several units of the same brand (Garg, Priem, and Rasheed 2013). Multi-unit franchisees have also been shown to exhibit significant investment motives (Grünhagen and Mittelstaedt 2005). Ultimately, multi-unit franchising represents a strategy by franchisees to increase their investment in and commitment to one franchisor, for example through transaction-specific investments (Hussain, Moritz, and Windsperger 2012), while allowing for some geographic diversification across different outlet locations, thus ameliorating risk that stems from an investment portfolio that relies on exposure to a single system (Martin 1988; Rubin 1978).

However, anecdotal evidence of the extant reality strongly suggests that franchisees have increasingly become more strategic in their investment decisions by attempting to create a much more diversified portfolio than hitherto assumed (Rose 2012; Seid 2011). Franchising represents for many investors just one facet of a portfolio that may range from real estate to securities and other capital market tools (Bennett 2014; Higuera 2015). Yet, even for those investors who see franchising as their focal investment vehicle, the range of options *within* the realm of franchising has not only expanded, but franchisees have started to realize the limits of remaining "beholden" to one franchisor. This is of particular salience in a context in which a significant number of franchisees operate as incorporated firms and are, thus, likely to be concerned with professional investment strategies. Especially during the recent global financial crisis, having relied on a franchise system that may have struggled due to consumers' cutting back on expenses may have offered franchisees an incentive to seek diversification of their franchise holdings (Hashim 2014). In sum, myriad reasons exist for franchisees to diversify their investments *outside of their initial franchise system*.

Hence, we set out to investigate the literature on diversification and risk spreading with a focus on the franchise realm. Our examination covered the past 20 years (1999-2018) of the top entrepreneurship, strategic management and strategic entrepreneurship journals in which such content could likely be expected, i.e. *Journal of Business Venturing, Journal of Small Business Management, Entrepreneurship Theory and Practice, Journal of Small Business Strategy,* *Strategic Management Journal* and *Strategic Entrepreneurship Journal* (since its inception in 2007). Only scant mention of diversification instances in franchising were discovered. In studies set in the franchise sector, notions of diversification or risk spreading were only occasionally mentioned, albeit as relatively minor notes in support of different research agendas. While franchisors, often large organizational systems, are quite strategic in their decision making (Falbe, Dandridge, and Kumar 1999), entrepreneurs often decide to become franchisees (rather than independent business owners) to reduce risk related to a specific industry (Williams 1999). Further, Hoffman and Preble (2003) refer to experienced franchisees as sources of reducing the risk of adverse selection. In other words, franchisors may spread risk by recruiting a mix of experienced and inexperienced franchisees. In a similar vein, Tracey and Jarvis (2007) note that franchisors are able to shift the risk related to new product introductions to downstream franchisees. They also allude to plural forms as a way to spread the risk related to better vs. worse performing units. Similarly, Gillis, Combs, and Ketchen (2014) note that franchising inherently poses the risk of opportunism by franchisees, and that plural forms achieve the dual goals of standardization and adaptation simultaneously to safeguard against such risk. No study to date, however, has investigated diversification stemming from ownership of multiple brands or systems in a franchise context specifically, and all of the mentioned articles only considered the perspective of the franchisor, but not of the franchisee.

A clear challenge to undertaking an empirical investigation of franchisees with ownership stakes in multiple brands or systems lies in the identification of franchisees who are involved in such scenarios. We had an opportunity to access such franchisees through a practitioner with an extensive network of franchise contacts in the largest emerging market in South America, Brazil.

Hence, we first had to gain a comprehensive understanding of the context of our sample franchisees, i.e. the Brazilian economy and franchise market.

Brazil's Economy and Franchise Market

Brazil is the 5th largest country in the world by size (3.288 million sq. miles) and population (210 million) (Meyer 2010; Rosenberg 2017; Worldometers 2017), and the 8th largest economy with a GDP of USD 1.796 trillion and a per capita income of roughly USD 8,600 (International Monetary Fund 2017; The World Bank Group 2017). It is also the largest economy and consumer market of South America and one of largest emerging economies globally. In 2012, Brazil's middle class totalled 115 million people, which corresponds to more than 58 percent of the Brazilian population, with an average monthly household income in the range of USD 550-1,800 (Donatelli, Hoefel, Resstom, and Stul 2016). Despite the Brazilian economy's persistent recession and widespread government corruption, the country continues to be an important market for foreign investment due to its long-term promise for growth based on its large and predominantly young domestic market (PricewaterhouseCoopers Brasil 2016).

The first franchised business in Brazil, an English language school, began its operation in the 1950s (Cartorio Postal 2014). Since then, the sector has seen tremendous growth. In the period 2003-2016 alone, the Brazilian franchise sector's cumulative revenue grew by 357 percent and accounts for over USD 43 billion today (ABF 2016). The Brazilian franchise sector employs around 1.192 million people, and the Brazilian Franchise Association, which was founded in 1987, counts more than 3,000 franchise systems and over 142,000 franchise units (ABF 2016). Domestic franchise systems make up 94.8 percent of the Brazilian market, while foreign systems total only 5.2 percent (ABF 2016). However, in the food industry specifically, foreign systems account for 29 percent of the market (ABF 2016). On the international market, 130 Brazilian franchising systems are operating in 80 foreign countries today (ABF 2016). While franchising is present all across Brazil, with 2,321 out of 5,570 Brazilian counties counting at least one franchise outlet (ABF 2016), franchise density (based on area or population) is relatively low (Dant, Perrigot, and Cliquet 2008), and the Brazilian states of São Paulo and Rio de Janeiro are the main domestic franchise markets. Together, they account for 64.5 percent of all franchise systems and 46.3 percent of all units in the country (ABF 2016).

Study Design and Methodology

The objective of this study was to investigate why franchisees adopt ownership stakes in multiple brands or even multiple systems, and how they develop their portfolio of businesses. However, no specific theoretical explanations for these unique strategies adopted by franchisees have been created in the extant literature to date. Keeping in mind the novelty of the research question, an exploratory inductive research approach (Armstrong 1979) was adopted for this study. We believed that digging deeper in order to better understand a phenomenon that is not well understood was important in our case (McCracken, 1988). Thus, we used a qualitative exploratory approach for the present study. Qualitative research methods can generate useful insights about a novel or emerging phenomenon based on participants' views and perceptions (Creswell, 2013; Woodside & Wilson, 2003). The subjective nature of qualitative research methods allows researchers to better understand and interpret the depth of responses and respondents' opinions about creating and maintaining their social realities (Mertens, 2010). The findings of qualitative research can generate a rich narrative by studying real-world settings and enable researchers to draw significant and meaningful conclusions from the data (Foroudi, Gupta, Nazarian, and Duda 2017; Patton 2002).

The methodological approach used for this study is similar to that used in several recent studies employing qualitative research methods and in-depth interviews to investigate novel and emerging phenomena in a franchise context (Doherty 2009; Grace, Frazer, Weaven, and Dant 2016; Grünhagen, Witte, and Pryor 2009; Jell-Ojobor and Windsperger 2017; Yeung, Brookes, and Altinav 2016). The use of qualitative research in studies related to franchising has significantly increased in the recent past (Doherty, Chen, and Alexander 2014) and can be justified by the complexity of franchisor-franchisee relationships (Jell-Ojobor and Windsperger 2017) as well as the lack of explanatory research on the use of different forms of franchising in different contexts. Theory-method fit is an important consideration in qualitative research, hence the methodology used in this paper is appropriate for theory development which is based on qualitative data on a social reality which has not be been investigated before and for which no theoretical explanation is available (Gehman et al. 2018). This paper uses qualitative research methodology based on 23 in-depth semi-structured interviews conducted face-to-face with franchisees in Brazil.

Sample and Informants

Purposive sampling was used to select franchisees for interviewing, enabling researchers to collect the empirical data from respondents who are relevant to the research question and who can provide valuable information (Strauss and Corbin 1998). We targeted franchisees who had two or more franchised units with at least two different brands. No database or other source listing information about multi-brand franchisees was available which could have served as our sampling frame. Through intensive field research, we were able to develop a list of 36 potential informants, and this list served as our sampling frame. Purposive sampling was appropriate for this study as more traditional random sampling was not feasible (Gehman et al. 2018). The identified franchisees were located in the broader Rio de Janeiro and Sao Paulo metropolitan areas, Brazil's most significant franchise markets, as noted earlier. We contacted these franchisees by email and telephone with a request to participate in the research. 24 out of 36 potential informants agreed to volunteer as participants in this research study. As two of the informants were a couple with identical ownership, we ultimately scheduled and conducted 23 interviews.

Following the key informant approach (Kumar, Stern, and Anderson 1993; McKendall and Wagner 1997), the franchisees themselves were interviewed, including 13 male informants, 9 female informants and one couple. The informants belonged to 14 different industries and had an experience of 12 years in franchising on average (with a minimum of 3 years and a maximum of 28 years). Most of the informants held university degrees (17 out of 23) and had prior professional experience before buying a franchise (21 out of 23), although only 6 had experience in the same or a related industry. The informants were reassured that their identities would not be revealed and that the data would be used for academic research only. Table 1 presents descriptive details about the informants, using pseudonyms for all companies and informants.

< *Insert Table 1 about here* >

In-Depth Interviews

Semi-structured in-depth interviews are an important method for collecting qualitative data (Patton 2002) and can be described as "conversations with a purpose" (Burgess 1984; Berg and Lune 2004) as their informal style is meant to generate discussion and enables the informants to lead the discussion (Mason 2002). This methodology allows researchers to explore themes and explanations about a particular social reality not already studied in the literature. A pilot interview was conducted via telephone with a franchisee who met the eligibility criteria to pre-test the interview protocol. This enabled the researchers to ensure that the questions inquired about what they were intended to probe, and that the sequence and structure of the questions were appropriate (Yin 2009). This pre-test was not used in the final data analysis and served solely as a measure to ensure rigor and reliability of the data collection process (Patton 2002). The researchers' own understanding of the phenomenon and the feedback from the pre-test served as the framework for developing and refining questions for the semi-structured interviews.

The 23 semi-structured face-to-face interviews were conducted over a two-week time span in the spring of 2017. A team of three researchers and four translators was involved in the face-to-face interviews. In order to provide a conducive environment for the discussion (Holstein and Gubrium 1995), the interviews were conducted at the respective informant's place of work or at another place suggested by the informant. The interviews were held in Portuguese, the national and official language of Brazil. The respective translator translated questions from English into Portuguese and answers from Portuguese into English. The interviews were recorded with the prior permission of the informants. A simple protocol was adopted in order to ensure consistency and comparability of the responses (Yin 2009). The interviews started with a brief explanation of the topic, assurance of confidentiality and anonymity, reaffirmation of consent to participate in the study and to record the interviews. Each conversation began with general questions about franchising and about the interviewed franchisee's experience, and later the informants were asked to expand on other issues related to their franchise business, expansion, their rationale for franchising and for getting engaged with multiple brands or systems, and their future plans. Table 2 provides the interview guide for the semi-structured interviews. The nature of the questions was broad which allowed the informants to discuss their individual experiences and opinions. The duration of the interviews ranged from 26 to 85 minutes with an average of 54 minutes. The entire recordings of each interview (all parts both in Portuguese and English) were transcribed. The Portuguese versions of text were translated into English by two independent translators. The translations made during the interviews and the translations made from the Portuguese transcriptions were compared and no significant differences were found between these two versions of informants' responses. The total data amounted to approximately 250,000 words and 685 pages of transcriptions and translations.

< *Insert Table 2 about here* >

Data Management and Analysis

The transcriptions were analyzed using *NVivo 12 Plus*, a computer assisted qualitative data analysis software. *NVivo* is used to code, visualize and report on qualitative data uploaded to this software package (Bazeley and Jackson 2013). Detecting research themes and drawing conclusions may prove to be a complicated process with large amounts of qualitative data; therefore, the use of computer assisted packages is seen as an important aide in managing data and enabling researchers to have an accurate and transparent picture of their data (Morrison and Moir 1998; Richards and Richards 1994; Sinkovics 2016). In addition, the use of programs like *NVivo* can increase rigor by facilitating searching, querying and reporting on qualitative data (Richards and Richards 1991). While there are several such software packages available, *NVivo* was chosen for this study due to its user friendliness, the possibility of creating different levels of codes (nodes and codes) and its function of model building which allows researchers to create flexible coding structures (Sinkovics 2016). *NVivo* not only helps researchers manage their data and synthesize their concepts, but also allows them to theorize (Sinkovics and Alfoldi 2012; Sinkovics, Penz, and Ghauri 2008).

The text generated by transcription of semi-structured in-depth interviews was uploaded to *NVivo 12 Plus*. The data were coded following thematic coding (Grbich 2007) which allowed us to process data according to broad themes identified from the literature. Thematic coding is particularly useful in exploring research topics having little or no theoretical explanations (Valos et al. 2016) and enables researchers to identify common themes and topics. It allows researchers to create the same codes for different terminologies and wordings used for the same social reality. Thematic analysis may also allow researchers to develop theories and propositions (Valos et al. 2016; Warwick and Lininger 1975), however, the findings may not be generalizable outside the context under investigation (Braun and Clark 2006). Coding and grouping codes are very important steps in qualitative research and can be facilitated by the use of *NVivo* (Hutchison, Johnston, and Breckon 2010). By comparing the coding done independently by three researchers, we found around 90 percent consistency in the coding and grouping of the codes. In cases of disagreement, inconsistencies were resolved by discussion among the researchers.

Reliability and Validity

Issues related to reliability and validity of claims about knowledge creation through qualitative research have been an important topic of interest for researchers (Cho and Trent 2006). Several important measures were used to ensure that findings in this study correspond to the social reality under investigation. Ensuring consistency and minimizing interpreter bias in translinguistic qualitative research is very important as meanings and context are at the core of qualitative data (Lopez, Figueroa, Connor, and Maliski 2008). A multi-step approach was adopted to address these concerns and to ensure that the translation produced data that is as accurate as possible (Brislin 1970, 1980; Larson 1991; Lopez et al. 2008). All three researchers involved in the data collection were multi-lingual, two with English as their major language, and the third researcher was a native Portuguese speaker and fluent in English. They all understood the sensitivity involved in translinguistic qualitative research and paid special attention to it. In addition, the four interpreters involved in the data collection were carefully selected. They were familiar with the context and the terms used in the research. They were briefed in-depth about the context of the research ahead of the interviews, and they were asked to take notes during the interpretation. No idiomatic phrases were used in the interview protocol and guiding questions so that the translation would be simpler, and that the interpreter bias was minimized. When respondents used idiomatic phrases or words with multiple meanings, interpreters were asked to use their best judgements and pay special attention to the context so that the meanings of the translation were as close as possible to the original expressions. Doubts were discussed with translators not present at the interviews and resolved by listening to interview recordings and by agreement among multiple translation staff and researchers. In addition, we did spot-checking and paid special attention to emotional and nonverbal content to ensure accuracy of transcription (MacLean, Meyer, and Estable 2004). We listened to the recordings of ten random interviews again and checked the accuracy of transcription. No transcription mistakes were detected during the spot-checking. All researchers had multi-cultural backgrounds and they ensured that the interpreters took into consideration non-verbals during the interviews. Since one of the researchers is a native Portuguese speaker, the qualitative data in Portuguese was also coded and it was compared with the coding of the translated data. No significant differences were found during the comparison.

In addition, we applied the refutability, comprehensive data treatment and deviant-case analysis procedures to increase analytical rigor, reliability and validity of our research (Silverman and Marvasti 2008). Refutability refers to revealing contradictions in data which may undermine findings. We looked for contradictions in transcriptions which could have negated the conclusions we drew from the data. In other words, we searched for evidence in the data which could falsify our conclusions and could support counter hypotheses, as suggested elsewhere (Garside 2014; Silverman and Marvasti 2008). We also used age, gender, industry, age and educational background to compare perceptions of the various respondents to find contradictions. However, we did not find any contradiction to our findings. Therefore, we concluded that refutability was not a concern in our findings. Further, comprehensive data treatment refers to handling and managing the data in a comprehensive manner. The use of *NVivo 12 Plus* allowed us to handle the data collectively and to obtain a holistic picture of broader themes and specific topics related to our research question (nodes and codes). Lastly, deviant-case analysis is meant to detect outliers and cases with significantly different findings and insights about a social reality. Our thorough analysis of the findings did not identify any outlier or case that we considered deviant.

Significant Findings of Emerging Themes

The following identifies and discusses the main themes that emerged through the above described iterative process.

Lack of Growth Opportunities in Extant Systems

At the outset, several franchisees in our study indicated that, as multi-unit operators within single systems, they did not see their growth aspirations satisfied. Growth opportunities offered by multi-unit franchising were limited due to system size limitations or the franchisor's own strategic plans. Further, some franchisees' expectations of "special treatment" or other incentives in return for their significant multi-unit stake as part of a franchise system remained unfulfilled.

"I have my nineteen stores of Botino, already covering 100% of my area and I could not expand [any further]." (Pedro)

"Besides that, it's all the same. The fact that we have a big number of stores doesn't give us any different treatment. There is a franchisee with 25 stores and the conditions are the same." (Italo)

Monitoring Costs and Need for Geographic Concentration

Franchisees in our study frequently indicated a preference for direct supervision and monitoring of their local operations. In order to accomplish this, geographic proximity of their units is a common path as distance represents a significant impediment to the monitoring of unit performance with increasing size of franchised operations. Several franchisees in our study focused their franchised units from different brands or systems at the same geographic location (i.e., a shopping mall) or within a short distance from each other.

"So the idea was to concentrate everything in a close geographic space so we can make it work…. Two reasons: one is to focus everything in Campo Grande because of distance, since I believe a lot in this business model we use - there are other people who use other business models. I truly believe that the operating partner has to be very present inside the store." (Igor)

"You see, I had the Tim's store here but I also had other six stores in Minas, so I was traveling a lot and I decided not to have those stores anymore and grow my business inside my range here…. I wanted to stay in town and I can tell you for sure that my main business is Tim. I want my operations all together because I can't grow anymore…with growing I cannot improve my life." (Anna)

"As a matter of convenience, I wanted to focus, because I live here, so I wanted to focus everything here. There were two opportunities, but in distant neighborhoods and I was afraid I couldn't have this easy operation." (William)

Mitigation of Risk through Diversification

Mitigation of risk through diversification emerged as the most significant motive that led franchisees to the decision to become either a multi-brand or multi-system franchise owner. Franchisees perceived different types of risks associated with their franchised operations. On one hand, these include risks associated with a franchise system, for example, scenarios in which the franchisor decides to buy back franchised units or the franchise brand faces a decline. On the other hand, risks may also be associated with an industry or a business sector. Franchisees have learned to understand risks associated with their businesses, yet it is critical for them to spread their exposure to more than one industry or business sector in order to mitigate risks that stem from seasonality or downturns. In addition, franchisees also indicated that they generally did not want to depend on one brand alone.

"No more stores from the same franchisor – if I did that, I would be concentrating my risk even more, and I wanted to spread it." (Fabio)

"I prefer to have many small stores, and separate, because the risk is shared…. Actually, we share the risk, as I told you. Because it's that thing of not putting all eggs in the same basket, right? So, I share the risk a little bit, and there are moments where Resti is better and moments where Pasto is better." (Fernanda)

"You have to diversify for different reasons ……I could list a hundred of them, it's not good to be dependent on one brand, one market, one franchisor because you don't know when this guy decides to start buying everyone else, or he messes up his strategy, we were lucky to have a good franchisor." (Pedro)

"*I knew it was possible to have two or more different brands, and it was very important because… do you know the eggs and baskets, it was very new for me, it could be a future problem if I had all my eggs in one basket."* (Leonardo)

Synergies

Internal Synergies or "Resource Complementarity." Internal or resource-related complementarity refers to the exploitation of resources and capabilities across different businesses (Lubatkin and Chatterjee 1994; Palich, Cardinal, and Miller 2000). Franchisees in our study indicated their ability to share certain resources in the case of multi-brand and multi-system franchising and possibly achieve economies of scale. This may include using the same back office for the management of franchise units, human resource management, procurement or accounting. Franchisees in our sample who had ownership stakes in multiple brands or systems both utilized opportunities to share resources for their franchised units.

"The same person that does procurement for Banito does it for Babio. I just changed a little bit of the system, the coding." (Pedro)

My back office will be the same whatever they sell, I have one person in human resources, I have two or three people in finance and one person in purchasing, and the processes they use are the same no matter the product." (Leonardo)

"The functions, the operations you have as a franchisee are the same, it doesn't matter which brand you are working with. You need to have a personnel department, you need to have a financial area, and you need to have operations management." (Leonardo)

"A close friend is a franchisee of Modo, a brand of clothing. So, talking to him I realized that the processes are very similar. Logically, the operation is different, but the management is very close." (Igor)

External Synergies or "Market Complementarity." External or market complementarity refers to taking advantage of diversification by enhancing the range of products offered to the same customers (Lubatkin and Chatterjee 1994; Palich, Cardinal, and Miller 2000). Franchisees can mitigate franchisor-related risks in multi-system franchising by staying close to their original industry or market while avoiding direct competition between brands or products. Several franchisees in our sample were able to find unique solutions to diversify where they could use their industry or market segment knowledge without violating contractual non-compete clauses.

"I've located Kakao there, and right beside it I put a Tim's kiosk, I understood Tim's kiosk, I knew the power of it, its traffic, but I didn't know the power of Kakao. I came to understand that it would offer good synergy because Tim's sells cold food, ice cream, and Kakao is chocolate and coffee…in my head this would fit well and it worked, it's the best point of sale I have. (Anna)

"That's where it gets really simple […] Italiano is a women's shoe brand and Chauso is a men's shoe brand, and I couldn't get to that market with only Italiano. They have different markets, so we've got one store next to the other. We had this male market that we could not get to, so we searched for brands that would be useful for both markets." (Fabio)

"I have chosen my brands very carefully because I didn't want to have a conflict between them in times of huge amounts of sales. For example, in the summer X sells more because of the ice cream, and that's the moment when chocolate and coffee are slower. When the sales fall for brand X it is because winter in coming, and then I sell Easter eggs because it's already Easter time and I grow with chocolate." (Anna)

Franchise “Commodification”

As franchisees, several interviewees in this study viewed their roles as transient and short-term, facilitated through the typical franchise contract duration of only five years in Brazil. Several franchisees described franchises akin to "commodities" in that they can be easily traded, i.e. bought and sold from other franchisees or the franchisor, and combined in portfolios according to the needs of the respective franchisees. Their franchise engagement lasts only for the period during which they own the franchise, while they may trade franchises repeatedly over time. This group of franchisees views tradeable franchise contracts as hedging tools in the context of emerging market uncertainties.

“So, my strategy nowadays is this, we have already bought from franchisees and from the brand itself, but after 5 years of experience we’d rather buy stores that are ready than to build new ones, new ones have a bigger risk. […] It all depends on the economy at the moment. I mean, if we’re at a good economic moment it’s expensive, but let’s suppose this, last year we built one store and bought two. Nowadays it’s really expensive to build a store. […] Without the site, an outlet is between 250 and 300 thousand that you spend to build, [but] we’ve bought Bijou for 80 thousand. […] Today we are sure that at a good moment it’s maybe best to build a new store, but at a bad [moment] it’s definitely better to buy one. […] The truth is that while analyzing the business we decided that if someone comes up wanting to buy, we’ll sell it. If no one comes up we’ll continue, but we’ll be waiting for the opportunity to sell.” (Caio)

“You see, I had the Tim’s store here but I also had six other stores in Minas, so I was traveling a lot and I decided not to have those stores anymore and grow my business inside my range here. […] I sold them. […] 15 is what I have today. Two and a half years ago, I sold the other 6 outlets, back then I had 21 stores.” (Anna)

Franchises as Entrepreneurship “Schools”

A distinct group of franchisees expressed a fundamental view of the franchise itself as a resource to be exploited while the franchisee has access to it, rather than an asset in which to invest over the duration of the franchise relationship. In other words, the franchise contract is viewed by some franchisees akin to an “access code” to a wealth of resources, including operations manual, training, best practices and the like, of which franchisees could avail themselves for later use, independent of whether the franchisee intends to pursue a longer engagement as a franchisee, as a franchisor of his own system, or as an independent entrepreneur. The franchise becomes a *de facto* internship or school for entrepreneurial capabilities.

"…because in a franchise you have to pay royalties, (laughs), you have to pay more. And as soon as you get to understand the business, the food business, you get more confidence and you feel more confident to go and build your own thing because you already have experience. […] *It's like a school, you know? Cause you have someone that knows already everything and they are like, giving you all the steps to build your business, cause to build- the business is yours, but you have to follow their rules, you have to follow what they think is good for the business. So, not only the good things that I would take, but also the bad things I would change if I had my own."* (Laura)

"For me it's wonderful because I get to be on both sides, so at the same time I'm participating in a group of franchisees here on one side, and right after that I'm coordinating another group, so that's very good. The franchisors where I'm a franchisee get a little bit uncomfortable, there is always that thought "he is here to get information", so I have to be really careful." (Diego)

"All of this impacts the business, so in the future I intend to leave franchising. The interesting thing is to learn this franchising knowledge because you are [a franchisee] - that's why it's interesting [to be with] Grupo Calo and my experience at Pizzo. Grupo Calo is too restrictive, things work because they supervise everything, they watch everything closely. Then you have to take this knowledge, which was what my partner did…he took his knowledge and took it to a private business, unrelated to franchising." (Igor)

"A franchise is something, as I said previously, that serves you, it's an easy way [to learn] about a world you don't know, that you don't have knowledge about. Some years later, as we are now, I already know the business somewhat, so obviously, following the entrepreneur's mind, I would open something that is not a franchise. My own business, my own brand." (Alex)

Multi-Role Franchising…and Beyond

Franchisees frequently exhibit entrepreneurial traits (Grünhagen and Mittelstaedt 2005; Kaufmann and Dant 1999), and "the decision to enter franchising is part of a general process of becoming an entrepreneur" (Grace, Weaven, Frazer, and Giddings 2013, p. 220). Intrinsic motivations that are part of such ambitions played a significant role in the pursuit of future endeavors by franchisees in our study. Some franchisees expressed a desire to become franchisors themselves in the long run.

"Yes, of course. [Becoming a franchisor] is a plan for the future, that's why I asked if they were bringing a brand here. My idea is to bring a brand or a business model to represent here in Brazil and change professions. When you're representing a brand you have a much more comfortable position than when you're a franchisee, I'm already part of a group of businesses that plans to bring companies into the country." […] *The position I would have as a franchisor is much better than the one I have as a franchisee. Nowadays the relation between franchisor and franchisee is really complicated in the country, you have to get used to it, but it's complicated. You have to pay royalties, you pay the brand even though sometimes you don't get the assistance that is required. Why not go to the other and side and be able to offer your franchisee a good assistance?"* (Fabio)

"We think about [becoming a franchisor], but it's another step, right? Maybe we would have to change our strategy, stop being [a franchisee] because we wouldn't be able to do both at the same time." (Fernanda)

Several others expressed a need to do something different from their present franchise business. Some expressed that an engagement with another brand may not offer sufficient opportunity to satisfy their entrepreneurial aspirations, and a true satisfaction of their intrinsic needs for entrepreneurial activity may only be achieved through an independent engagement in a different business model that does not come with the rules and standards of a franchise system.

"I want and I will develop another business, it can be now starting with Vermo…. I don't want to…I can't accommodate myself with the current situation of having these Chocolato stores. I need, for my personal satisfaction, not financial, to go to another challenge, another product." (Italo)

"I think it is part of the entrepreneur, always taking risks; I think that if you don't take risks, you end up not being an entrepreneur." (William)

"With a brand of my own, in which I've got some control, I know exactly what I can expect and until what point I can go. At this time I'd rather be here and have the benefit to have some stores of my own and some franchises of my brand because I can open up new possibilities of business and I grow effectively the brand that interests me. I'm not going to grow someone else's brand..." (Diego)

Empirical Findings Discussion

We discuss four key findings of our exploratory empirical study. The first finding represents a *facilitator*, while the other three findings are characterized as *motivators*. Motivators are factors that appear to have clear causal relationships to franchisees' decisions to seek out multi-brand or multi-system franchising. A facilitator, on the other hand, refers to a factor that does not appear to cause a franchisee's preference for multi-brand or multi-system ownership *per se*. Rather, a facilitator creates a condition that makes ownership in multiple brands or systems *possible*.

"Commodification" of franchises in Brazil represents a key facilitator in their operationalization because it creates a fundamental condition for the management of a diverse portfolio of franchised businesses. Franchises are being bought and sold by both franchisees and franchisors, in some cases even before reaching their maturity date, *de facto* creating a marketplace for such trading. Typical franchise contracts in fast food, the quintessential franchise industry, in Brazil are only five years in length (which coincides with the length of commercial leases in shopping malls in Brazil, see Cushman and Wakefield 2018), as compared to ten to twenty years in developed economies like the U.S., Australia or Western Europe. The opportunity to easily buy and sell franchises facilitates the creation of business portfolios because it allows franchisee-entrepreneurs to try new business concepts and locations while retaining the option to adjust the overall portfolio composition in response to changes in the marketplace or economic conditions. Thus, a franchise relationship is not necessarily seen as a long-term commitment to a relationship that comes with mutual responsibilities and efforts to contribute to its perpetuation, as is the norm in more mature and developed Western franchise markets. Rather, in Brazil franchisees often view a franchise as a business arrangement to be exploited for its resources and learning opportunities.

Second, our findings suggest that franchisees expand into additional brands or systems in their quest to stay close to their current outlets in order to facilitate their direct monitoring, while their original franchisor does not offer expansion opportunities in the same geographic area. In this scenario, the new outlet location is a critical decision criterion for franchisees because the distance between their units affects their monitoring costs significantly (Brickley and Dark 1987). Relatedly, multi-brand and multi-system franchisees who seek geographic proximity of their outlets of different brands in their efforts to reduce the monitoring range (Jindal 2011) do not share the same cannibalization concerns which are common among multi-unit owners of proximal locations. In our study, most franchisees had their multi-brand or -system stores within a monitorable distance. From a theoretical perspective, this is an important finding because the franchise literature has identified franchisees' motivation to monitor units (i.e. "owner attention"), as opposed to hiring managers, as a key reason for the existence of franchising (Caves and Murphy 1976; Castrogiovanni, Combs, and Justis 2006). The franchisee is the residual claimant of an outlet, whereas a manager is not. Critically, we find that the monitoring capability trumps any brand or system preference among our study's franchisees. In other words, transaction costs of monitoring are an overriding concern, or motivator, for our Brazilian franchisees, and consequently they develop their operations mostly in proximal locations.

A second major motivator behind franchisees' decision to engage in multi-brand and multi-system franchising is the strategic use of diversification both to mitigate business risk and to achieve synergies. On the one hand, the idea of not putting all eggs in the same basket arose frequently in the interviews. This is aligned with extant theory because risk mitigation is a driving factor that explains the business portfolio of franchisees (Montgomery and Singh 1984). While multi-brand franchising may offer a risk reduction associated with the franchise brand or a particular market segment, it does not offer a mitigation of risk related to a particular franchisor. Multi-system franchising, on the other hand, is typically chosen when the franchisee wants to diversify away from the franchisor or even from the current industry or line of business. A second factor explaining business diversification strategy is the achievement of synergies (Lubatkin and Chatterjee 1994), particularly when resources and capabilities are not perfectly divisible or marketable (Teece 1980). In these cases, a portfolio of businesses is created in such a way that their joint performance is greater than the sum of the performance of each business separately. In this sense, franchisees in our interviews indicated that multi-brand and multi-system franchising may offer synergies through economies of scale by centralizing back-office tasks. However, they did not emphasize this advantage as much as risk diversification or other advantages, such as the location choice or the acquisition of new skills. The persistent economic crisis in Brazil was highlighted on many occasions across interviewees and provided additional justification for their need to diversify their ownership stakes.

The third motivation is dynamic in nature and refers to some franchisees changing allegiances with franchisors to acquire new skills and to develop capabilities they lack, following a long-term vision of launching their own brand. Several of our interviewees compared franchising to an "internship" or school in which they not only learn new business concepts, but also management capabilities. As one of the franchisees aptly articulated, "it's like a school" – or to use a different metaphor, like training wheels, to be taken advantage of and used when needed, but left behind when one has outgrown their usefulness. This seems to be particularly useful for those franchisees with a distinct entrepreneurial orientation. Our findings suggest that franchisees with a distinct entrepreneurial orientation seek to learn from franchised businesses and gain experience in the sector with a final aim of either launching a new brand and becoming a franchisor, or creating an independent start-up. This orientation appears to follow a long-term strategy in which franchisees know that launching a successful business requires both exploration and exploitation capabilities (Baert, Meuleman, Debruyne, and Wright 2016; March

1991). In challenging economic times, as they are present in Brazil nowadays, such active entrepreneurs monitor the market for rapid changes and explore resulting emerging opportunities on which to capitalize. At the same time, exploitation occurs in their interactions with franchisors and local partners at the franchised outlets through observation of best practices, training and other learning opportunities. The outcome is a franchisee-entrepreneur who may reach yet another level of diversification as a multi-role franchisee, or as an independent business owner.

A Framework of Diversification Beyond Single Systems

After an in-depth examination of our exploratory empirical findings, we set out to create a systematic framework of diversification from the franchisee perspective. We did so by utilizing our interviewees as representatives of each of the stages in the emerging framework. Our qualitative methodology provided us with detailed data on the number of brands and systems in which each franchisee held an ownership stake, as well as their years of experience in franchising (Table 1). The number of years in franchising represents the franchisees' experience, consistent with prior literature (Combs, Ketchen, and Hoover 2004). With increasing experience in the franchise sector, franchisees in our study raised their degrees of diversification (Table 1), and our model illustrates the diversification options available to them. The complete framework that emerged from our interview study is presented in Graph 1, and the subsequent discussion references the individual stages of the new framework. In Graph 1 we have denoted in which cell of the framework each franchisee from our interviews is located, taking into account whether a franchisee represents more than one brand, whether the brands belong to more than one system, and whether the franchisee plays also the role of franchisor of their own brands. Due to the confidential nature of the qualitative interviews we conducted, and the resulting pseudonyms we used throughout this paper and in Table 1, in the subsequent discussion we cannot refer to specific brand examples from our interview study in Brazil. Rather, we will refer to otherwise well-known brands to illustrate the emerging framework. However, the underlying patterns we discuss find their origins in the interviews and local brands of our exploratory study.

< Insert Graph 1 about here >

The starting point is the extant state of the franchise literature that has focused primarily on single-unit (SUF) and multi-unit franchising (MUF) in the bottom left quadrant of Graph 1. As outlined earlier, multi-unit franchising represents an initial growth opportunity for franchisees beyond the operation of single units. However, although it represents location diversification, multi-unit franchisees maintain ownership of their units only within the same brand.

Multi-Brand Franchising

Multi-brand franchising (MBF) differs from multi-unit franchising in that multi-unit franchisees are beholden to a single brand, whereas multi-brand franchisees have ownership stakes in multiple brands within the same system. Among our interviewees, multi-brand franchisees were the smallest by number of units with the least experience in franchising (typically less than 5 years, Table 1). It is important to note here that the establishment of multi-brand franchising represents an incentive strategy by the franchisor to retain franchisees. As franchisors face increasing demands by successful and growing franchisees within their systems to diversify their rising investments, the creation or acquisition of multiple brands becomes an apt strategy to address this need of existing franchisees. If the franchisor is not able to offer them an option for diversification "in house", they may look for alternatives in other systems and the franchisor may lose a valuable and experienced partner.

Many franchisors have ownership stakes in multiple branded concepts, typically in the same industry. One of the most prominent examples globally is *YUM Brands*, which owns the

Kentucky Fried Chicken (KFC), *Pizza Hut* and *Taco Bell* brands. Similarly, *Marriott Hotels and Resorts* owns both the *Sheraton* and *Westin* hotel brands. While some consumers may be aware of their common ownership, the underlying idea is that consumers may choose a different brand for different occasions, so that the franchisor is able to attract different market segments by offering multiple brands.

With respect to diversification, multi-brand franchising reduces *brand-specific* risk. As brands that are unrelated in the eyes of the consumer are franchised to the same franchisee, the combined portfolio of such unrelated brands balances the separate brand-specific risks for multi-brand franchisees.[2] With respect to the exploitation of synergies across brands, ownership of several franchised brands may improve the franchisee's overall results if the design of these business concepts is based on organizational modularity (Helfat and Eisenhardt 2004). In this case, shared modules across different brands facilitate the achievement of economies of scale and scope. The two typical challenges of simplification and standardization that any business requires to be franchised (Bradach 1998) reinforces this notion of a modular design by franchisors. For example, in the case of *YUM*, all three brands (*KFC, Taco Bell* and *Pizza Hut*) benefit from shared modules (such as supply relationships or vendor selection procedures) and the franchisor's routines and knowledge is leveraged across all three brands. In some cases, common ownership of two brands results in co-locations (i.e., the sharing of the same dining

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[2] A special case in this context is the lodging industry, where it is common for franchisors to offer a full "stable" of family brands that are related to the original "parent" brand. For example, *Hilton Hotels* is now offering various alternatives to their original *Hilton* brand, e.g., *Hampton Inn by Hilton,* or *Doubletree by Hilton*. Each of these brands is linked to the parent brand visibly through the *by Hilton* phrase. As franchisees consider diversifying "in house", these brands represent attractive choices to not stray too far from the original successful concept by branching out into a visibly-related brand. This allows them to remain with the same proven brand concept and expertise of the original franchisor. For consumers, the connection to the parent brand reinforces brand awareness, recognition, and loyalty. As the performance of these family brands differs across markets, the portfolio of related family brands partially balances the separate brand-specific risks for multi-brand franchisees. Unfortunately, our sample of franchisees did not include franchisees with this profile.

space by a *KFC* and a *Taco Bell* restaurant, or the sharing of common conference and recreation facilities by adjacent *Hilton* and *Le Meridian* hotels), thus, allowing a franchisee to take advantage of shared facilities by spreading the use of such common spaces.

Multi-System Franchising

Multi-system franchising (MSF) represents the most frequent case among our interviewed franchisees. In our sample, multi-system franchisees were on average much larger than multi-brand franchisees, some of them with more than 20 units and more than 10 years of experience in franchising (Table 1). Multi-system franchising, often sparked by disenfranchisement with a franchisor or triggered by market opportunities in the immediate geographical vicinity of existing units, may not be viewed favorably by the initial franchisor. Beyond the incentives created through multiple "in-house" brands ("carrots" in Graph 1) explored above, franchisors typically impose contractual limitations on franchisee intentions to get involved in different franchise systems. Such non-compete clauses ("sticks" in Graph 1), however, are typically constrained to limitations on competitive formats within the same industry, geographic proximity and a relatively narrow competitive scope overall. In other words, a pizza franchisee may be prevented from signing an agreement with another pizza franchise in the same town and surrounding communities, yet may be free to do so with a different type of casual restaurant franchise (e.g., a sandwich chain). Akin to judicial precedents in the U.S., Brazilian courts have ruled non-compete clauses to be only enforceable if they are "reasonably limited in time and geographical scope" (Caffé and Abenza 2010, p. 11).

Different Franchisors in the Same Industry (MSF$_1$) A franchisee looking for diversification through ownership of brands by different franchisors will likely look for such opportunities within the same industry. So, for example, a franchisee may consider ownership of

Super 8 and *Comfort Inn* hotel units simultaneously. In our sample, such franchisees accounted for the largest subset of multi-system franchisees. The advantage of this strategy is clearly seen in the diversification not only through different brands, but beyond through a diversified set of owners and the related management of separate companies. Seeking ownership in the same industry, say fast food or lodging, entails the transferability of experience from one system to the other. This type of diversification, of course, is highly dependent on the existence of non-compete clauses in the respective contracts. In other words, some franchisors may have strong incentives to discourage the existence of franchisees with "parallel" ownership in competing systems in order to safeguard against the transfer of trade secrets and the like.

As it relates to diversification, multi-system franchising creates a strategy to ameliorate the specific risk related the ownership of a franchise. Rather than mere diversification through different brands owned by the same franchisor, *multi-system franchisees reduce the risk that is related to a firm or franchisor*. While franchisees are legally independent of their franchisor (Gonzalez-Diaz and Solis-Rodriguez 2012), multi-system franchising adds a degree of economic independence from sole investment in a single franchise system. Further, some franchisors have been shown to change management or even ownership frequently (Lawrence and Kaufmann 2011), while acquisitions and mergers are a ubiquitous mainstay throughout the history of franchising. Franchisees with ownership in multiple systems may substantially reduce these *franchisor-specific* risks through ownership of units in different systems, thus reducing their overall business portfolio risk.

With respect to synergies, multi-system diversification may also facilitate the exploitation of some tangible and intangible synergies, particularly when the diversification is in the same industry. The main difference to the previous scenario (multi-brands in a single system) is that it is not possible to take advantage of synergistic potentials of the franchisor, so that franchisees have to diversify towards opportunities in which they can leverage their own competencies or skills. Tangible synergies can be found in areas such as procurement of supplies from the same vendors or recruitment from the same employment agency. These advantages are stronger when the businesses are within the same industry because they share more similarities. Further, intangible synergies are applicable as well as franchisees may build on their customer complaint handling competencies or their expertise in reinforcing customer loyalty.

Different Franchisors Across Industries (MSF_2). The next level of diversification may be reached by franchisees who have ownership stakes in different industries, for example simultaneous franchises of *Great Clips* hair salons and *Burger King* fast food outlets. An ownership stake in any industry comes with an inherent *industry-specific* risk. Ownership of franchised units in different industries introduces another form of diversification, which may drastically reduce the specific risk related to one industry for multi-system franchisees beyond the risk related to mere ownership of units in different systems. It is not uncommon for franchisees who have ownership interests in different industries, yet often they attempt to diversify among industries that are somewhat related, such as in the broader hospitality industry where franchisees may, for example, have ownership stakes in restaurants and hotels simultaneously.

Diversification across industries limits the exploitation of tangible synergies because different industries yield fewer shareable similarities. In our study, this was the smallest subset of multi-system franchisees, likely due to this limitation of synergies. However, the opportunity for success stems often from leveraging intangible skills (for example, customer service, complaint handling or human resource management expertise), as well as avoiding stringent non-compete clauses as franchisors may have only few objections to such cross-industry diversification. While ownership in different industries may only offer limited opportunities to improve the overall performance of franchisees' combined businesses due to the divergent nature of the industries involved, franchisees may view diversification among related industries as opportunities that increase their management competences and enhance their flexibility, for example on the human resource front. Offering advancement options to employees that transcend a particular industry and allow for retention or promotion into a related yet different industry, e.g. from a fast-food restaurant to a hotel, provides additional incentives beyond the risk diversification argument.

Multi-Role Franchising

Possibly the ultimate form of diversification is created through multi-role franchising (MRF). Such diversification occurs through a portfolio of *mixed roles* where a franchisee in one or more systems may also be a franchisor in yet another system. While only one franchisee operated in this capacity in our sample of interviewees, several others noted that they were seriously considering this option as a next step. These franchisees were not larger or had more experience than multi-system franchisees; yet, they appeared to have an entrepreneurial orientation and related absorptive capacity, in contrast to multi-brand or multi-system franchisees.

An example of multi-role franchising are *Travel Centers of America*, a company which acts as a franchisor of its own brands of restaurants inside of its interstate truck stops, including *Country Pride*, *Iron Skillet* and *Quaker Steak & Lube* restaurants. At the same time it is a franchisee of 25 restaurant brands in some of their travel centers, including *Burger King*, *Starbucks* and *Arby's* (Lawton 2019).

The franchise literature has established that the franchisor, not the franchisee, is the residual claimant of brand equity, i.e. the reputational capital and goodwill created in the marketplace (Dant and Nasr 1998). In other words, a significant portion of the effort by a franchisee in developing its units is appropriated by the franchisor as the owner of the brand and the associated goodwill (e.g., Felstead 1993, p. 151/152), which is particularly relevant after contract expiration or termination. As the franchisor is the residual claimant of the brand's equity, an individual franchisee's contribution to the maintenance or enhancement of the brand's equity is not compensated. If a franchisee wants to reduce or eliminate this risk of effort expropriation based on the role as a franchisee, the franchisee needs to develop its own system, and thus, become a franchisor.

The specific risk related to the role of being a franchisee entails the inability to affect the broad strategic direction or even individual strategic decisions of the franchisor. In other words, the franchisee lacks decision rights (Mumdžiev and Windsperger 2011) that rest with the franchisor's management and/or ownership. The only way to diversify this *role-specific* risk is to create a separate new role by becoming a franchisor, while remaining a franchisee in (a) different system(s) simultaneously.

In terms of synergies, the multi-role scenario in different systems may represent, to some extent, an extension of the multi-system case within the same industry, achieving substantial tangible and intangible synergies. Tangible synergies are based on sharing activities among all brands, for example when *Travel Centers of America* combines many of its tasks that benefit all of its restaurants, both as franchisor and franchisee. In many cases, this is regardless of its role as franchisor or franchisee because it is in the best interest of all "in house" systems to find the best solution for procurement, legal advice, and advertising, to name a few areas of overlap.

Similarly, the firm's greatest capability rests in its competencies in managing restaurants, a skill which can be leveraged across all of its brands, regardless of the company's role in each, whether it be as franchisor or franchisee.

Summary of Study Findings and Implications

The main purpose of this study was to elucidate empirically growth from the vantage point of franchisees, investigating their rationales for the use of different franchising ownership constellations. Data for this exploration were collected through interviews of franchisees in the largest emerging market in South America, Brazil. The findings revealed several motivations behind franchisees' decisions to become multi-brand or multi-system operators, or even to take on simultaneous roles as franchisor and franchisee, i.e. multi-role franchising. Initial empirical findings from exploratory semi-structured interviews revealed the criticality of distance and franchisees' ability to monitor their units. In our Brazilian study, monitoring distance was an overriding priority, so that franchisees' concern about transaction costs of monitoring trumped any preference for one franchisor over another, and thus, created franchisees' multi-brand or multi-system portfolios. Second, they also suggested the criticality of risk reduction to become multi-brand and multi-system franchisees. Furthermore, our interviews revealed the commodification of franchises in Brazil, necessitated by the persistent economic crisis and the concomitant quest for flexibility on the part of the local franchisees. Of particular salience in the context of this study was the significantly shorter contract length of five years which reflects the combined need for flexibility by local franchisees and the franchisors' awareness of local market conditions. Contrary to franchisees aspirations in Western markets, where a franchise relationship is often viewed as the epitome of an entrepreneur's quest to be accepted as a franchisee and a long-term commitment to the relationship ensues, in Brazil a franchise is frequently exploited for the learning opportunities and resources provided. As such, a franchise contract is merely a stepping stone to a future engagement as franchisor or independent business owner.

In a broader sense, the described picture likely applies to other emerging economies in a similar way since Brazil is a prime representative of emerging markets globally. In other words, franchises may serve a fundamentally different purpose in lesser developed markets of the globe than hitherto assumed. Franchisees there may contemplate a “life after franchising” in their decision making, which contrasts with the typical formula seen in developed franchise markets where franchisees are often only recruited if they can show prior business experience, and joining a franchise may well constitute the epitome of their business aspirations. As prior research has indicated that diversification impacts performance to a greater extent in less developed than in more developed economies (Chakrabarti, Singh, and Mahmood 2007), our findings hold significant promise for franchisees in Brazil, and in a broader sense, other emerging markets globally. While prior research in *developed* economies (i.e. the U.S. and France) had indicated that franchisees may be quite strategic in their decision making (Guilloux, Gauzente, Kalika, and Dubost 2004; Yin and Zajac 2004), our study provides evidence that franchisees in an *emerging* market context are just as strategic as decision makers, always looking ahead to not only the next opportunity, but the longer term and how today’s decisions may open up “strategic windows” in the future. While local economic conditions represent severe constraints, such as the monitoring of units in relative proximity, the franchisees in our study, as representatives of franchisees in emerging markets globally, showed remarkable adaptability and foresight, ultimately representing a bright light on the horizon of an otherwise glum economic context.

In a second step, an effort was undertaken to place the exploratory empirical findings of our study in a broader, more generalizable context. Hence, we developed a systematic framework of diversification options within the franchise realm, including multi-brand, multi-system and multi-role franchising, by incorporating both the exploratory empirical findings as well as management theory on diversification.

The emerging framework provides an overview of the principal diversification options for franchisees beyond the choices offered within a single franchise system. The vast majority of research studies on franchising has focused on single-unit and multi-unit franchising within single franchise brand systems in the past, while multi-brand, multi-system and multi-role scenarios, which incorporate franchisee stakes across multiple brands or systems, have rarely been mentioned, and no comprehensive classification has been generated to date. In other words, a significant portion of the reality of the contemporary franchise sector has not been explored by academic research to date, and this study fills this gap in the literature base on franchising by creating a systematic framework of multi-brand, multi-system and multi-role franchising.

The new framework offers practitioners a first orientation and guideline as to the options available while including diversification and synergy considerations from the franchisee perspective, as well as the concomitant control concerns of franchisors. We are not suggesting that franchisees always follow the outlined scenarios in the presented laddered order. Rather, the framework outlines a sequence of increasing risk diversification and the concomitant loss of control by the franchisor. Yet, franchisees may well decide to skip “steps” on the outlined “ladder”, or create combinations of diversification hitherto not envisioned in the framework.

As with any emerging concept, the chief task at this point is its empirical validation in future research studies. Further, we call on researchers across the globe to expand or amend the framework by accounting for regional or local idiosyncracies. No model is all-encompassing – it is the nature of models to represent simplifications of reality. And yet, such simplifications may assist researchers to get a better handle on the complexities presented by the real world.

Limitations and Future Research

This study has several limitations, many of which relate to the empirical portion of this research. A first limitation involves the sampling methodology utilized. The franchisees interviewed for the exploratory study were identified based on the personal knowledge and contacts of one of the co-authors. As outlined earlier, one of the primary challenges in the investigation of multi-brand, multi-system and multi-role franchising is the identification of franchisees who have an ownership stake in multiple brands or multiple systems, or are involved as franchisees and franchisors at the same time. No such listings exist as franchisors do not generally designate (or even know) franchisees who may have franchises in other systems or operate their own systems as franchisors. Hence, our approach relied on personal connections to include franchisees in our convenience sample.

The interviewed franchisees in this study came from the two most prominent urban franchise markets in Brazil, Sao Paulo and Rio de Janeiro. No owners in more remote parts of the country were involved. This limits the generalizability of the findings to all of Brazil as demographic, social, and economic characteristics of franchisees in other locales may differ.

Further, our study ended up only including one multi-role franchising representative. Future studies ought to put a particular emphasis on this very peculiar type of franchising, given the overlap in franchisee and franchisor roles. Firms in this category are likely to be larger organizations who can contend with the operational and compliance complexities of operating both as franchisee and franchisor simultaneously.

As with all qualitative research studies, the size of the sample with whom interviews were conducted is not comparable to sample sizes in quantitative, survey-based studies. While our sample of 24 franchisees is consistent with guidelines for these types of studies (Creswell 2013; Morse 2000), a broader sample could have been selected. A related limitation were also the unequal cell sizes of the franchisee categories we identified. Clearly, future research out to substantiate our findings through larger samples for each of the respective cells in our model. However, in our sample later interviews indicated no significant new insights compared to earlier interviews, suggesting that the size of the sample was adequate.

A significant hurdle to the conduct of the interviews was the language barrier between the native-speaking franchisees and the majority of the authorship team involved. Multiple measures were taken to ameliorate the impact of this challenge. Throughout each of the interviews, at least one, if not multiple, interpreters were involved to facilitate the conversation. All conversations, were digitally recorded, and both questions and responses were simultaneously translated into the respective other language, i.e. Portuguese and English. After transcriptions were completed by dual-language experts, each transcription was then double-checked, and the Portuguese sections were translated again by a different set of translators. While all of this was done to scrutinize every part of every interview for accuracy, this procedure cannot entirely eliminate the fact that the interviews would likely have been conducted in a more natural flow of conversation without the interruptions that were necessary to facilitate interpretation throughout. In future studies, research of this nature should be conducted ideally by native experts to reduce the potential distractions that are introduced through interpretation as part of the interview process.

Another limitation relates to the fact that all franchisees in our study declared that they were in compliance with their franchisors non-compete clauses if such existed. While we were able to check the veracity of these declarations against the brand portfolios they revealed to us, their declarations obviously assume ethical conduct on their part. Our study was not designed to explore the ethical behaviors of franchisees, so that future research ought to investigate whether franchisees behave, indeed, as ethically as they declare. In light of significant prior work in the franchise domain on the potential for franchisees' opportunistic behaviors (e.g., Evanschitzky, Caemmerer and Backhaus 2016; Grünhagen, Zheng and Wang 2017), such studies appear greatly warranted.

As far as we know, the interview portion of this study represents the first empirical effort to investigate the process of how franchisees develop their portfolio of businesses in their diversification efforts. While the bulk of research into the franchise business model has been conducted in the context of developed economies, the challenging sampling needed for this study required the above described convenience sample. As it happened, the necessary contacts were available in Brazil, which consequently determined the site of the investigation. Conducting the first study of this kind in an emerging market introduces a layer of complexity as the findings may not be generalizable beyond the market context in which the data were collected. In other words, while we gathered insights into diversification motivations of franchisees in one emerging market, the question remains whether similar motivations exist by franchisees in other emerging economies, and whether they also play a role in the more mature franchise markets of North America, Europe, or Australia. In the wake of globalization, such research appears urgently warranted. Subsequent studies ought to be conducted to facilitate comparisons to the established nomological knowledge base on franchisees, their motivations, and behaviors. The framework that was developed in this study and integrated the empirical findings might serve as a basis for such future investigations.

A clear avenue for future research is whether franchisors, foreign or domestic, in emerging markets are aware not only of their franchisees' expectations and aspirations that may well clash with their own goal to recruit franchisees for the long-term for a mutually committed relationship, but also of the underlying exploitation intentions. And if so, what safeguards may franchisors have developed to protect against such exploitation, if any? Relatedly, have Western franchisors developed different strategies to pursue in emerging markets as opposed to their developed home markets? And finally, how do franchisors deal with a divergent set of franchisees, of which some may have a longer-term orientation towards commitment to the franchise, while many others are only out to reap the benefits short-term?

This study represents a first step on the pathway of a new research agenda in the franchise realm. For the past 50+ years, research on franchising has largely concerned itself with single- and multi-unit franchising within single systems. In part, this was a result of the franchise sector's reality in earlier years, and in part, a consequence of the challenges involved with accessing data sources to investigate the more contemporary emergence of multi-brand, multi-system and multi-role operators. As such, we hope that this study provides a starting point to gain a much more comprehensive understanding of the extant, much more complex reality in developed as much as in emerging markets.

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Table 1
Profiles of Informants

No.	Informant Name (Designation) {Education} [Previous Experience]	Age (Yrs)	Gender	No. of Units	No. of Brands	No. of Systems	Franchisee Type	Industry	Years in Franchising
1	Pedro (Franchisee) {NA} [Investment Banking]	34	Male	23	3	2	MSF_1	Retailing (Cosmetics)	Inherited
2	Fernanda (Franchisee) {Nutrition} [None]	42	Female	6	3	2	MSF_1	Fast Food & Restaurants	16
3	Leonardo (Franchisee) {Engineering} [Consultancy & Retailing]	45	Male	7	3	3	MSF_1	Retailing (Sports Goods) & Retailing (Apparel)	15
4	Camila & Felipe (Franchisees) {Engineering & None} [None & Engineering]	55 & 65	Couple	3	2	2	MSF_1	Fast Food & Retailing (Food)	16
5	Arthur (Franchisee) {High School} [Travel Agent]	45	Male	4	2	2	MSF_1	Fast Food & Retailing (Food)	15
6	Daniel (Franchisee) {Marketing} [Banking}	42	Male	7	2	2	MSF_2	Fast Food & Lotteries	10
7	Jessica (Franchisee) {NA} [Tax Consultant}	-	Female	2	2	2	MSF_2	Retailing (Food) & Retailing (Jewelry)	-
8	Laura (Franchisee) {Communication} [IT Sales]	28	Female	4	2	1	MBF	Fast Food	3
9	Victoria (Franchisee) {NA} [Flight Attendant]	59	Female	2	2	2	MSF_1	Retailing (Food) & Fast Food	6
10	Gustavo (Franchisee) {Business} [Stock Exchange}	50	Male	6	3	2	MSF_2	Petroleum & Fast Food	28
11	Bruna (Franchisee) {Law} [Lawyer]	34	Female	41	2	1	MBF	Retailing (Cosmetics)	Inherited
12	Paulo (Franchisee) {Accountant} [Retailing]	36	Male	6	3	3	MSF_2	Language School, Fast Food & Personal Care	10

13	Igor (Franchisee){Business} [Purchasing/Distribution]	39	Male	2	2	2	MSF_1	Fast Food & Restaurants	8
14	Thiago (Franchisee) {Hotel Management} [Hotels]	37	Female	2	2	2	MSF_1	Retailing (Shoes) & Retailing (Clothing)	8
15	Anderson (Franchisee) {Business} [None]	25	Male	6	4	3	MSF_1	Fast Food & Restaurants	5
16	Caio (Franchisee) {NA} [HR]	63	Male	9	3	3	MSF_1	Retailing	5
17	Diego (Franchisor & Franchisee){Psychology} [Psychologist]	50	Male	15	9	5	MRF	Fast Food, Coffee Shops & Restaurants	8
18	Anna (Franchisee) {NA} [Consultancy/Banking]	50	Female	22	4	4	MSF_1	Fast Food & Food Retailing	19
19	Fabio (Franchisee) {Business} [Telecommunication]	36	Male	15	4	4	MSF_2	Fast Food, Retailing (Shoes) & Telecom	14
20	Isabela (Franchisee) {Nutrition} [Professor/Quality Mgt]	44	Female	4	2	1	MBF	Fast Food & Restaurants	5
21	William (Franchisee) {Business} [Retailing]	45	Male	6	3	3	MSF_2	Fast Food, Retailing (Food) & Retailing (Tobacco)	16
22	Alex (Franchisee) {Technology} [Technology]	46	Male	3	2	2	MSF_1	Fast Food & Retailing (Food)	27
23	Italo (Franchisee) {Enginnering} [IT]	65	Male	7	2	2	MSF_1	Retailing (Chocolates)	10

Table 2
Interview Guide

Sections	*Topics*
Introduction	• Aim of the research • Consent to participate • Permission for record • Assurance of confidentiality and anonymity
Company identification and ownership stakes in different brands/systems	• Interviewee’s personal information and affiliation (name, age, company name and role) • Company (franchisee’s) history • Company (franchisee’s) structure (businesses/brands/systems, industries, locations, size, etc.)
Motivations for ownership stakes in different brands/systems	• Why branch out? • Benefits from ownership of multiple brands/systems? • Why combined businesses are successful? • How important are ownership stakes in different brands/systems for the overall performance of combined business?
Future plans	• Future plans? • Plans to keep franchised brands/systems long-term? • Plans to start own brands/systems? • Has experience with other brands/systems or as franchisee been beneficial?
Interviewee’s questions	• Any other relevant issue regarding ownership stakes in different brands/systems?

Graph 1
A Framework of Multi-Brand, Multi-System and Multi-Role Franchising