FIRM VALUE AND RISK IN FRANCHISED CHANNELS

Liwu Hsu
Doctoral Student
Marketing Department
Boston University
Boston, MA, 02215
Email: liwuhsu@bu.edu

Patrick Kaufmann
Professor, Chair, and Everett W. Lord Distinguished Faculty Scholar
Marketing Department
Boston University
Boston, MA 02215
Email: patk@bu.edu.

Shuba Srinivasan
Associate Professor and Dean’s Research Fellow
Marketing Department
Boston University
Boston, MA 02215
Email: ssrini@bu.edu.

Presented at the 25th Annual
International Society of Franchising Conference
Boston University
Boston, Massachusetts, U.S.A.
June 16-18, 2011

25th Anniversary

Acknowledgements: The authors thank the reviewers of the 2011 International Society of Franchising Conference and the participants at the 2010 Marketing Science Conference for their valuable suggestions.

Firm Value and Risk in Franchised Channels

Abstract
Publicly held franchisors need to understand how their various financing and investment decisions impact their goal of maximizing the firm’s market value. In this paper, we provide evidence on how investors evaluate a firm’s strategic emphasis between investments in intangible assets (e.g., brand) and tangible assets (e.g., plant and property). Our goal is to assess the link between a firm’s strategic investment emphasis and shareholder value including the two risk components (i.e., systematic risk and idiosyncratic risk) within franchise systems. We use a panel-data model with secondary data from a sample of 79 firms and 108 individual franchise systems reported in popular franchise directories and augmented by the investment expenditures and firm values reported in their annual reports, CRSP, and COMPUSTAT. We find that a strategic emphasis on intangible assets is positively associated with stock returns and negatively associated with systematic risk. Moreover, we show that there is a significant curve-linear effect of strategic emphasis on idiosyncratic risk. Because an investment strategy focusing on tangible assets is typically associated with a move toward greater company ownership of individual units, this research provides a novel empirical examination of franchising economics and has significant managerial implications for franchising as well as traditional channel structures.

**Keywords:** Strategic Emphasis, Intangible Assets, Shareholder Value, Systematic Risk, Idiosyncratic risk.