

# **Organizational Capabilities and Multi-unit Franchising**

*Evidence from Germany and Switzerland*

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## **Abstract**

This study investigates the role of exploration and exploitation capabilities for the franchisor's choice of multi-unit franchising. According to the organizational capabilities view, multi-unit franchising increases the franchise firm's organizational capabilities (such as exploitation capabilities, consisting of coordination, control and knowledge transfer capabilities, and exploration or innovation capabilities) and hence its competitive advantage when compared to a single-unit franchising system. We hypothesize that the franchisor's propensity to use multi-unit franchising is positively associated with the franchisor's perception of exploration and exploitation capabilities advantages under multi-unit franchising compared to single-unit franchising. The empirical results support the hypotheses. Overall, our study complements the organizational economics perspectives of multi-unit franchising by developing and testing an organizational capability model to explain the franchisor's choice of multi-unit franchising.

*Keywords:* Multi-unit Franchising, Organizational Capabilities, Exploration Capabilities, Exploitation Capabilities, Empirical Analysis