Consequences of Franchising Maximization Versus Optimization on Firm Performance

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Abstract

This paper investigates the relationship between deviation from optimal franchising and firm financial performance. Our study includes 72 publicly-listed franchising restaurant firms in the United States. Drawing from strategic deviance theory, we show that franchising firms that deviate from predictions of resource scarcity and agency theory perform better. Thus, contrary to previous studies, our findings suggest that franchising more or less than the optimal franchising level has a positive influence on firm performance. For franchisors, results highlight the importance of attending to strategic deviance perspective rather than considering resource scarcity and agency costs.

Key words: Misalignment; agency theory; resource scarcity; strategic deviance; firm performance.