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# The Effect of Service Complexity on Performance of Franchised Outlets

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# The Effect of Service Complexity on Performance of Franchised Outlets

## **Abstract**

The overall results of this study suggest that for low service complexity new ventures the incentive structures and contractual arrangements inherent in franchising are well suited. In service ventures with high levels of service complexity, arrangements involving two distinct parties that must work together may be more costly and difficult to manage. We find that franchisee outlets outperform independent entrepreneurs in each of the first three years of operation when the service business was low in complexity. In contrast, independent operators were able to outperform franchisees after the first year in complex service enterprises. Franchisors who operated in complex service settings were only able to outperform independents in the first year of operation, suggesting that both experienced chains who provide reliable and consistent services and independent entrepreneurs who quickly learn to adapt to the broad needs of sophisticated consumers are able to obtain performance success.

## **Keywords**

new ventures, hotel operations, service complexity, organizational structure

## **Disciplines**

Hospitality Administration and Management | Organizational Behavior and Theory

## **Comments**

### **Required Publisher Statement**

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## **The Effect of Service Complexity on Performance of Franchised Outlets**

The overall results of this study suggest that for low service complexity new ventures the incentive structures and contractual arrangements inherent in franchising are well suited. In service ventures with high levels of service complexity, arrangements involving two distinct parties that must work together may be more costly and difficult to manage. We find that franchisee outlets outperform independent entrepreneurs in each of the first three years of operation when the service business was low in complexity. In contrast, independent operators were able to outperform franchisees after the first year in complex service enterprises. Franchisors who operated in complex service settings were only able to outperform independents in the first year of operation, suggesting that both experienced chains who provide reliable and consistent services and independent entrepreneurs who quickly learn to adapt to the broad needs of sophisticated consumers are able to obtain performance success.

Keywords: New Ventures, Hotel Operations, Service Complexity, Organizational Structure