The family-owned-franchise penalty
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While a family-owned business may have marketing appeal, franchisees that are family-owned don't, on average, perform as well financially as non-family owned franchisees. That critical insight was revealed in recent research that analyzed both existing franchise data and field research.

In "Family Ties that B(l)ind: Do Family-Owned Franchisees Have Lower Financial Performance than Nonfamily-Owned Franchisees?" Professors Pankaj C. Patel of Villanova, Kyoung Yong Kim of City University of Hong Kong, Srikant Devaraj of Ball State University, and Mingxiang Li of Florida Atlantic University explore whether family ownership, in comparison to nonfamily-owned ventures, leads to a focus on noneconomic goals to the detriment of the business. Their paper is forthcoming in the March 2018 issue of the Journal of Retailing.

Analyzing data from the 2007 Small Business Owner survey, the authors observed that family franchisees generated at least 6.7 percent lower sales per employee than nonfamily franchisees. Their sample included 11,654 family franchisees and 4,122 nonfamily franchisees in the US, and they controlled for such variables that potentially affect employee performance as firm size, benefits offered, and the age of the firm. A subsequent field survey of 258 firms in South Korea led to similar results. Family-owned franchisees there exhibited lower sales per employee by more than $19,000. Across the board, franchisees that provided such benefits as health insurance, retirement benefits, and paid vacation realized higher per capita sales figures.

"The pursuit of noneconomic goals, lower formalization and professionalization, the practices of entrenchment and nepotism, and limited ability to recruit quality nonfamily employees...could reduce sales and increase payroll costs," the authors conclude. To help close the performance gap, they suggest that franchisors consider establishing a set of relationship management strategies tailored to family-owned franchisees. Family-owned franchisees, for their part, should understand that "pursuing idiosyncratic family goals may be financially short-sighted."


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