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Antecedents of franchise strategy and performance☆

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ABSTRACT

Franchising is an important form of entrepreneurship, but literature explaining franchising strategy and performance is scarce. This study adapts the resource-based view and relationship-marketing theory to explain franchising strategy and performance differences in chain stores. This study develops and tests a model explaining franchisees' performance antecedents and their intention to remain in the franchise system. The model describes how franchisees' strategies relate to knowledge sharing, trust, conflict management, brand reputation, and performance in chain stores. The study uses data from 246 active franchisees from a chain-store franchise system in Taiwan. Data analysis uses structural equation modeling (SEM) and fuzzy set qualitative comparative analysis (fsQCA). Results show that knowledge sharing, trust, conflict management, and brand reputation are key factors in reinforcing franchisees' intention to remain and financial performance within the franchise system. The study ends with a discussion of theoretical and managerial implications.

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1. Introduction

Entrepreneurship studies offer important implications for franchising research (Anderson, Dodd, & Jack, 2012; Audretsch, 2012), but franchising research must become more theoretically robust (Nielsen & Lassen, 2012; Renko, Shrader, & Simon, 2012). Franchising is a business relationship via a licensing agreement between two independent firms. Franchising has two primary forms: product distribution and entrepreneurship franchising (Altinay & Brookes, 2012; Altinay & Okumus, 2010). Franchising entrepreneurship is the franchising form most popular with strategic management researchers (Chaston & Scott, 2012; Galindo & Méndez-Picazo, 2013; Garcés-Ayerbe, Rivera-Torres, & Murillo-Luna, 2012; Renko et al., 2012; Shane, 1998a). Franchising entrepreneurship has an important effect on the economy (Lee, Hwang & Choi, 2012; Lee, Olson & Trimi, 2012; Shane, 1998b; Siegel & Renko, 2012).

Franchisees exist because of their operation's size and the type of contractual agreement with the franchisor (Altinay & Brookes, 2012; Altinay & Okumus, 2010). Franchisor–franchisee relationships represent a relational exchange partnership (Dyer & Singh, 1998). Strengthening franchisor–franchisee relationships (e.g., through individual franchisees' business expansion) means sharing benefits and costs (Madhok, 2002). Franchise systems represent unique entrepreneurial business structures because they comprise different organizations that are legally independent, economically interdependent, and operationally indistinguishable (Brown, Cobb, & Lusch, 2006; Parsa, 1996, 1999). However, research on franchisees' perceptions of their franchising intention strategy and performance is scant. This study aids the understanding of franchisees' perceptions of their franchising intention strategy and performance.

The resource-based view (Barney, 1991) and the relationship-marketing theory (Dyer & Singh, 1998; Lewin & Johnston, 1997) are the primary theories that explain franchisees' franchise strategy and performance. Paniagua & Sapena (2014), Rapp, Trainor, & Agnihotri (2010), and Trainor, Andzulis, Rapp, & Agnihotri (2014) suggest that firms' abilities to convert resources into business-enhancing capabilities determine firm performance. The resource-based view examines firms rather than cooperative organizational forms like franchises. However, strategic resources such as organizational trust and organizational learning capability are important success predictors among cooperative organizational forms (Bhasin, 2012; Dyer & Chu, 2003). Relationship-marketing theory is a competitive advantage theory that explains how firms' inter-firm relational resources create profits (Dyer, 1997; Dyer & Singh, 1998). Relationship-marketing theory recognizes inter-firm relations' importance and explains how franchisees determine their franchise intention (Kim, 2007).

This study makes three strategic management contributions to research in franchising and entrepreneurship management. First, the research uses the resource-based view and relationship-marketing theory to explain key success factors. This study thus has theoretical implications that differ from those of previous studies. Second, research in

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strategic management must explain performance. However, little research examines franchisees' performance. Consequently, this study determines the relative effect of franchisors' strategic resource and inter-firm relational exchange on franchisees' franchising strategy and firm performance. Third, this study develops a new scale and validates this scale using exploratory analysis.

2. Literature review

Researchers emphasize social interactions (i.e., trust and relational norms) in franchising as a way to attenuate agency problems (Cochet, Dormann, & Ehrmann, 2008). Grace & Weaven (2011) report that researchers should focus on how and why franchisees exit. Chiou, Hsieh, & Yang (2004) focus on relationship-building behaviors that reduce conflict and develop strong franchising partnerships. Gillis & Castrogiovanni (2012), Lee, Hwang, et al. (2012) and Lee, Olson et al. (2012) report that franchisees are entrepreneurs because they embrace risk in joining a franchise system. Entrepreneurship is a broad field that encompasses high-risk, high-return projects in the franchising field (De Cleyn & Braet, 2012; Fernández-Mesa, Alegre-Vidal, Chiva-Gómez, & Gutiérrez-Gracia, 2013; Mousa & Wales, 2012).

The resource-based view suggests that firms with valuable, rare, difficult to imitate, and non-substitutable resources will sustain above average performance (Barney, 1991; Combs & Ketchen, 1999a). The resource-based view explains how franchisees and franchisors convert resources and capabilities to improve their competitive advantage (Madhok, 2002). Firms' franchising decisions reflect which resources they should use (Schilling & Steensma, 2002; Williamson, 1991). Governance structure can include hybrid organizational forms such as joint ventures, alliances, or franchising (Ping, 1995; Poppo & Zenger, 1998; Williamson, 1991) to use the resource.

Marketers use relationship-marketing theory to maximize relationship building with customers, which is important for a franchise system (Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994). Relationship-marketing theory posits that relational exchange may lead to competitive advantage (Falbe, Dandridge, & Kumar, 1998). Relational resources incorporate joint investments and relational capital. Joint investments improve organizational performance and spread inter-firm knowledge (Dyer & Singh, 1998). In contrast, relational capital, mutual trust, respect, and friendship stem from close interaction between alliance partners (Kale, Singh, & Perlmutter, 2000).

Brand reputation is a strategic asset that leads to good performance (Park, Jaworski, & MacInnis, 1986). According to the resource-based view, franchisors possess and use strategic assets like brand reputation to improve firm performance (Amit & Schoemaker, 1993; Shocker, Rajendra, & Ruekert, 1994). Kim & Chung (1997) find that firms with brand reputation improvements have greater market share, which fundamentally indicates franchising performance (Michael, 2000a,b; Yoo & Donthu, 2001).

Franchising research depicts franchisor management as a function that supports franchisees (Doherty, 2009; Doherty & Alexander, 2004). Franchisors can refer to the relationship with franchisees primarily in contractual terms that franchisors use during negotiation and coercion to achieve contract adherence (Dant, Weaven, Baker, & Jeon, 2013). Accordingly, franchisors can view the relationship as an opportunity to invest in mutually beneficial relational resources that encourage cooperation, trust, and learning (Dyer & Singh, 1998; Gassenheimer, Baucus, & Baucus, 1996). Higher knowledge flows and transfers between franchisees and franchisors, effective enforcement of contractual obligations, and willing cooperation in promotions and other programs to build the brand (Dyer & Singh, 1998; Gómez et al., 2011; Lin & Lee, 2004).

Numerous management studies use return on investment (ROI), sales, sales growth, and financial performance as company performance indicators (Venkatraman & Ramanujam, 1986; Zou & Cavusgil, 2002). Strategic performance refers to a firm's market share and competitive position relative to major rivals (Barthélemy, 2008; Combs, Ketchen, Shook, & Short, 2010; Ferguson & Ketchen, 1999). However, researchers and practitioners must agree on acceptable performance measures to capture any effect of franchisees' performance initiatives in chain stores.

However, franchise relationships are difficult to manage. Research on franchising's consequences for franchisees is scarce (Combs, Michael, & Castrogiovanni, 2004). Studies concentrate on survival rates for franchisees with independent businesses (Altinay, Brookes, Madanoglu, & Aktas, 2014) or focus on why individuals select franchising over independent entrepreneurship (Shane, 2001). Few researchers, however, seek to understand what factors contribute to franchisee performance. Literature shows a significant gap regarding factors affecting franchisee's strategy and performance. Advancing knowledge on factors affecting franchisees' strategy and performance could help franchisors adopt more supportive policies and help potential franchisees choose among competing franchise opportunities.

3. Theoretical model and research hypotheses

Franchisors' resources and relational variables are antecedent constructs that relate theoretically to franchise strategy and firm performance. Fig. 1 presents a franchisee response model of the following variables franchisors' brand reputation, knowledge sharing, trust, conflict management, franchisees' intention to remain, and franchisees' performance.

Empirical evidence implies that improvements in brand reputation relate to greater intention (Combs & Ketchen, 2003; Lafontaine & Kaufmann, 1994). A competitive franchise system gives franchisees a strong brand, scale economies, and efficient franchise system execution (Falbe et al., 1998). A franchise's brand reputation is the most significant advantage for a potential franchisee because of franchisors' brand transfers (Morhart, Herzog, & Tomczak, 2009; Norton, 1988). Merrilees & Frazer (2013) place franchise brand among top three franchise advantages. Keller & Aaker (1992) and Low & Fullerton (1994) indicate that consumer brand recognition is a major motive for franchisees to choose a franchise chain. Research on franchise brands traditionally adopts a broad management focus and rarely discusses branding issues in franchisees' strategy.

H1. Brand reputation affects franchisees' intention to remain in the franchise system.

In franchising, franchisors provide at least two important resources: brand (Jeng, 2011; Michael, 2000a) and operational routines (Knott, 2003). Brand is critical to competitive advantage in industries that franchise (Combs & Ketchen, 1999b; Ulrich & Smallwood, 2007). Brands are strategic resources, and investments in brand building have cumulative effects and inhibit new competitors' building parity in brand awareness (Aaker, 1997; Weaven, Grace, & Manning, 2009). A franchise shares common brand reputation with its franchisor, and so the franchise benefits directly from franchisors' investments in brand. Building on the resource-based view, this research suggests that firms utilize their unique resources to develop and implement strategic actions to enhance success (Barney, 1991; Paniagua & Sapena, 2014; Rapp et al.,

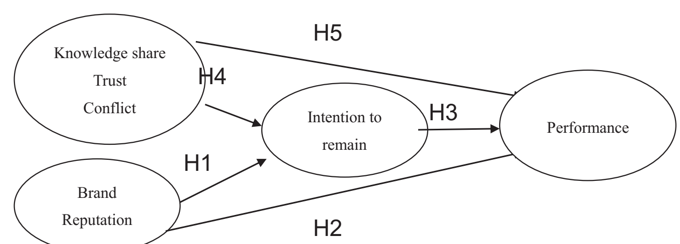

Fig. 1. Research framework.

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