



# Internal branding: Franchisor leadership as a critical determinant<sup>☆</sup>

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## ABSTRACT

Franchising and branding are almost interchangeable as concepts, yet a dearth of academic branding research in the franchising sector prevails. The aim of the study is to understand why franchisees vary in attitude toward the franchisor brand. A further aim is to give guidance to franchisors on how they can achieve greater franchisee brand buy-in. A conceptual model provides a foundation to the study. The main dependent variable is the level of positive attitudes of the franchisee toward the franchisor brand. The independent variables draw upon the internal branding literature and include brand commitment and culture. Transformational leadership moderates the model. The results show that brand commitment and marketing support for the brand are the two main influences on getting franchisee support for the franchisor brand. However, transformational leaders have a different pattern of getting franchisee buy-in, with greater reliance on culture and facilitating brand commitment.

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## 1. Introduction

Franchising is a business format, which franchisors have designed to reflect and manage a brand across a set of semi-independent contractors known as franchisees. Despite the essential role of branding in franchising, the franchising branding literature is minimal (see Pitt, Napoli, & van der Merwe, 2003; Wright, Frazer, & Merrilees, 2007). Many of the world's best-known brands are franchises, built on highly reputable brand systems (Light & Kiddon, 2009). Yet awareness about how these brand systems work is scant. Similarly scant is an understanding of how to control or motivate large numbers of semi-independent franchisees across a vast network.

The current study is pioneering in the sense that the research is among the first major quantitative studies of internal branding in franchising. The aim is to understand better the antecedents of franchisee buy-in to a franchisor brand. What factors contribute to franchisees having a positive attitude toward their franchise brand? This question is non-trivial because the economic welfare of franchisees closely allies to the strength of the franchise brand. Despite considerable franchisor and

franchisee investment in the franchise brand, variable levels of franchisee support for the brand exist. Franchisor brands have to earn the respect of the franchisees and gain their buy-in to the franchise brand. The current study investigates the mechanisms for doing so.

The conceptual model here draws upon best practice from the internal branding literature. Special consideration applies to the potential role of culture and brand commitment as antecedents of internal branding (Baumgarth, 2010; Burmann, Zeplin, & Riley, 2009; Vallaster & de Chernatony, 2005, 2006). A key franchising variable, marketing support for the brand, provides another determinant. Special consideration attaches to the role of franchisor leadership as a major guiding and implementing force in internal branding (Sydow, 1998). In other contexts, leadership is a major influence on internal branding (Morhart, Herzog, & Tomczak, 2009; Vallaster & de Chernatony, 2006). Leadership moderates rather than just adds to the set of independent variables (see also Morhart et al., 2009), implying that effective leaders use a different suite of mechanisms to motivate, guide and manage the franchise brand.

## 2. Literature review

Analysis of the relevant literatures spans internal branding and franchising, to demonstrate an important gap in the research to date. Despite the critical role of branding to the essence of franchising, limited franchising brand research exists. Internal branding, the process of transferring brand knowledge and passion from the leaders downwards in the organization, is absent from franchising research. However, non-franchising literature on internal branding guides the

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study. A novel research contribution from the current study is the conceptualization of leadership as a determinant of internal branding.

### 2.1. Franchising branding

Franchising research usefully does consider the franchisor management function that supports franchisees (Doherty, 2000, 2007; Doherty & Alexander, 2004; Mukherjee, 2003; Quinn, 1999; Quinn & Doherty, 2000). However, franchisor support research has a broader management emphasis and rarely discusses branding issues.

Brands are an integral part of franchising. Franchise brands are an indirect part of the theme of many books. For example, McDonald's dominates the interesting book by a former McDonald's Chief Marketing Officer Larry Light (Light & Kiddon, 2009). The trade name of the franchise is the most significant advantage to a potential franchisee because of the goodwill of the brand that the franchisor's brand transfers (Hunt, 1977). In the more than three decades since Hunt (1977) advocated this view, few franchising academic articles discuss branding in depth. Norton (1988) briefly discusses brand name capital as part of the agency theory free rider problem. Peterson and Dant (1990) in their study combined with three earlier franchisee studies place franchise brand name as consistently one of the top three advantages of a franchise. Wu (1999) debates the matter of whether franchised brands can attract a price premium compared to independent businesses in the same industry. Franchises are the basis of a study of the effect of brand country of origin knowledge of western franchise brands entering emerging markets (Paswan & Sharma, 2004). Combs, Ketchen, and Hoover (2004) use brand name reputation to help cluster franchisors into three different strategic groups. Wright et al. (2007) discuss the McDonald's McCafe co-branding initiative, analyzing the motivational and inhibiting forces that contribute to successful co-branding. Roh and Yoon (2009) indicate that brand recognition by the consumer is a major motive for outsiders to become franchisees.

Most of the above franchising brand research provides a useful but narrow perspective. A final study by Pitt et al. (2003) is an important exception. Their study of 159 franchisees in a single franchise system uses 10 measures by which franchisees assess their franchisor's brand. The 10 measures factor analyze into two broad categories, effective external brand positioning and effective brand management practices. Only the latter has predictive validity. Pitt et al. (2003) provide a relevant point of departure for the current study. The aim of the current research focuses on franchisees' overall assessment of the franchisor brand and the franchisor's internal branding actions that influence such assessment. Essentially, internal branding literature assists in this goal. Additionally, multiple franchise systems are necessary to assess the effectiveness of different franchisor internal branding methods. To summarize, currently no previous franchising research examines the potential role of internal branding in strengthening franchise brands.

### 2.2. Internal branding

Internal branding refers to internal management processes by which employees understand the brand concept, commit to the brand and thus live the brand. Ind (2007, p.1) popularizes the notion of living the brand and its importance in corporate branding. A number of papers now allude to the potential for employees becoming brand champions (Fram & McCarthy, 2003) or their opposite, brand saboteurs (Wallace & de Chernatony, 2007). Comprehensive models of internal branding are scarce, although Burmann and Zeplin (2005) is an exception. The latter paper combines brand-centered human resource management, brand communication and brand leadership with culture, employee knowledge and resources as building blocks of internal brand management.

Subsequent research broadly supports such a model (Burmann et al., 2009). Other studies reinforce the importance of culture (Baumgarth, 2010; de Chernatony & Cottam, 2008). An additional major study in the related area of internal marketing shows the importance of leaders identifying with the organization. Wieseke, Ahearne, Lam, and van Dick (2009) show that closer organizational identification of top and middle-level leaders can influence financial performance.

### 2.3. Leadership role in internal branding

One view of leadership is as just another determinant of internal branding (Burmann & Zeplin, 2005; Burmann et al., 2009) or a different conceptualization is as a major, over-arching organism, designing, motivating and implementing the internal branding process (Morhart et al., 2009; Vallaster & de Chernatony, 2006). The current study adopts the latter approach.

Leadership is a dominant theme in organizational studies (McColl-Kennedy & Anderson, 2002), but has little presence in the franchising field. One of the few relevant franchising articles identified is Sydow (1998) who uses case methods research to examine six franchise networks in Germany. Sydow (1998) positions the franchisor as the center firm in an interorganizational network that also includes franchisees. Across the six franchise systems, Sydow finds differing levels of performance in interpersonal relationship management, though many details are lacking.

The current study adds franchisor transformational leadership as a foundation, essentially another driver, to the internal branding system. The construct used is McColl-Kennedy and Anderson (2002). In short, transformational leaders use a method of empowering and motivating their subordinates to take responsibility rather than simply commanding required tasks. In contrast, transactional leaders focus on the self-interest of the subordinate, using targets and rewards to achieve performance. Transactional leaders intervene as a last resort, when something goes wrong (Bass, 1985).

In the non-franchising context, the Vallaster and de Chernatony (2006) seminal study shows leadership helps internal branding through brand concept clarity, supportive communication and role model behaviors. Morhart et al. (2009) demonstrate a link between transformational leaders and employee relatedness to the brand community and their brand role identity. The impact of transformational leaders in a financial services setting contrasts with that of transactional leaders. Transactional leaders are more task orientated. Ulrich and Smallwood (2007), and Yakimova and Beverland (2005) emphasize the benefits of leadership in corporate branding.

### 2.4. Conceptual model

The conceptual model places the franchisee's attitudes toward the franchisor brand as the prime dependent variable. Internal branding literature informs the selection of the antecedents of the franchisee brand attitudes. Specifically, brand commitment by the franchisee and culture are two key antecedents. Both variables exert a positive influence on franchisee attitudes toward the franchisor brand. An additional determinant, marketing support by the franchisor, is a franchise-specific variable. Franchisee attitudes toward the franchisor brand are positive if franchisors are more willing to invest greater amounts on advertising and other promotion to support the brand (Merrilees & Frazer, 2006).

Leadership is another component of the model. Rather than specifying franchisor leadership as just another independent variable, a moderator specification applies in the current model, with separate treatment of high and low levels of franchisor transformational leadership. Leadership is unlikely to be a simple continuous impacting variable, but rather a situation where strong transformational leadership is either present or absent. Theoretically, transformational leaders are

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