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When do franchisors select entrepreneurial franchisees? An organizational identity perspective

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ABSTRACT

In spite of the acknowledged importance of the franchisee selection process, only a few empirical studies have examined this research area. This paper employs organizational identity theory to explain when the franchisor desires to select specifically franchisees that have the potential for entrepreneurial behavior. A mail questionnaire survey was utilized to collect data from a sample of franchisors in the UK. The results revealed that the systems that select entrepreneurial franchisees are those that have entrepreneurial values as part of their organizational identity, as reflected in the institutionalized support given by the franchisor for entrepreneurial activities. Additionally, we found that the performance of the franchise system is positively affected where the franchisor seeks to select franchisees whose entrepreneurial values are congruent with those of the system.

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1. Introduction

Within the franchising and entrepreneurship literature, the notion of entrepreneurial franchisees is often viewed as a paradox (Falbe, Dandridge, & Kumar, 1998). For example, Clarkin and Rosa (2005: 305) argue that franchising is "seldom viewed as a context in which entrepreneurship is possible" and a study by Ketchen, Short and Combs (2011) of thought leaders in the field of entrepreneurship, found little agreement as to whether franchisees can be considered entrepreneurs. Proponents of the view that franchisees are not entrepreneurs argue that franchisees must follow the rules and regulations of the franchise system and, therefore, are similar to non-entrepreneur managers (Seawright, Smith, Mitchell, & McClendon, 2011). Yet, research has shown that entrepreneurial behaviors by franchisees may benefit the system (Baucus, Baucus, & Human, 1996; Dada & Watson, 2013b) and there is evidence to suggest that some franchisors use rhetoric in their franchise promotions to highlight the entrepreneurial aspects of their franchise opportunity to potential franchisees (Zachary, McKenny, Short, Davis, & Wu, 2011). Despite the ongoing debate, little is known about the extent to which franchisors view franchisees as entrepreneurs, or desire entrepreneurial franchisees.

Business format franchising, the focus of this study, "occurs when a firm (the franchisor) sells the right to use its trade name, operating systems, and product specifications to another firm (the franchisee)" (Castrogiovanni, Combs, & Justis, 2006: 27–28). Typically, it is designed around standardization, with the franchisor desiring a uniform replication of his/her standardized business format across the entire franchise system. Standardization involves minimizing variance in operations via the development of work patterns that are constantly applied and consistently adhered to (Gilson, Mathieu, Shalley, & Ruddy, 2005). The provision of a standardized product or service across all locations is crucial to the success of the franchise system (Cox & Mason, 2007) and the franchisor exercises control over the franchisee in order to minimize risk of opportunism, ensure adherence to the franchise contract, and to protect the brand name (Pizanti & Lerner, 2003). Hence, standardization has been associated with image uniformity, quality control, and cost minimization in the franchise system (Kaufmann & Eroglu, 1998). In keeping with the desire for standardization, franchisors need to select franchisees that can ensure the system-wide adoption of a consistent brand image in order to achieve standardization and efficiencies (Wang & Altinay, 2008). As a result, franchisors may avoid selecting prospective franchisees that have high entrepreneurial tendencies, as they are more likely to deviate from the franchisor's standardized procedures.

Whilst it is assumed that franchisees have a greater entrepreneurial orientation than employees (Castrogiovanni & Kidwell, 2010), little is known as to the extent to which franchisors actively seek entrepreneurial franchisees. In fact, given the large body of studies on franchisee incentives to free ride (e.g., Kidwell, Nygaard, & Silkoset, 2007;

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Kidwell & Nygaard, 2011), it seems that the last thing many franchisors want is entrepreneurial franchisees. It has been stressed that franchisees with high entrepreneurial dispositions may be risky for a franchise system as they may exhibit considerable entrepreneurial autonomy in their operations, which may depart from the franchisor's proven methods (e.g., Birkeland, 2002; Boulay, 2008). Consequently, a major concern is that (entrepreneurial) franchisees may display opportunistic behaviors to the detriment of the franchisor, by deliberately ignoring the franchisor's goals as well as deviating from the franchisor's proven procedures in pursuit of their own entrepreneurial interests (Baucus et al., 1996; Gassenheimer, Baucus, & Baucus, 1996). Hence, it has been argued that franchisors "…prefer to select a manager rather than an entrepreneur as a franchisee to protect their business system from unauthorized change" (Falbe et al., 1998: 126–127).

Nevertheless, some prior studies have suggested that franchisees are crucial for new ideas and innovations in the franchise system (e.g., Dada, Watson, & Kirby, 2012; Bürkle & Posselt, 2008; Cox & Mason, 2007; Clarkin & Rosa, 2005; Stanworth, Healeas, Purdy, Watson, & Stanworth, 2003; Bradach, 1998; Darr, Argote, & Epple, 1995). Some recent studies have also demonstrated the important role of entrepreneurial orientation on the franchise relationship (Dada & Watson, 2013a) and on the performance of the franchise system (Dada & Watson, 2013b). These studies suggest that whilst some franchisors may desire entrepreneurial franchisees this could oppose the requirement for standardization, and as such there is little consensus in the literature concerning the extent to which entrepreneurial franchisees are desired within the organizational form of franchising, or the organizational antecedent factors that would influence this desire. By drawing on organizational identity theory, the present paper aims to develop and test a theory that explains the franchisor's desire for 'entrepreneurial franchisee selection'. The central argument in this study is that franchisors will desire to select entrepreneurial franchisees when the franchise organization has entrepreneurial values that form part of its organizational identity (as reflected in the franchisor support systems to willingly endorse and facilitate franchisee entrepreneurial behaviors). Hence, it is these most central, distinctive, and enduring (Albert & Whetten, 1985) entrepreneurial values of the franchise organizations that distinguish them from the typical franchise organization and influence their desires to select entrepreneurial franchisees to fit with their organizational identity.

The main contributions of this study are firstly toward a theory of entrepreneurial franchisee selection. Although the selection of suitable franchisees is considered to be the franchisor's single most pervasive operating problem (Jambulingam & Nevin, 1999), it has generally been an under-researched area (Altinay & Okumus, 2010; Clarkin & Swavely, 2006; Wang & Altinay, 2008). Consequently, "little theory has been developed about how franchisees are chosen" (Combs et al., 2011: 117). The present study fills this void in the academic literature by elucidating the organizational identity factors that influence franchisors to select specifically franchisees that have the abilities to engage in entrepreneurial actions. Secondly, our application of organizational identity theory addresses recent calls to expand the theoretical perspectives used in the franchising literature beyond the two dominant historical theories, agency and resource scarcity theory (see, for example Combs, Michael, & Castrogiovanni, 2009; Combs et al., 2011). Thus far, research exploring identity theory within the franchising context has been limited (Dada & Watson, 2013a; Zachary et al., 2011; Lawrence & Kaufmann, 2011). The study builds upon the work by Zachary et al. (2011) which applied organizational identity theory to explain the use of entrepreneurial rhetoric in franchise branding materials. Whilst they suggest that such rhetoric is used in order to attract franchisees with entrepreneurial values, they did not explore the role of organizational identity on the selection process. Indeed, they suggest that future research should explore whether franchisors do in fact prefer (and therefore actively recruit) entrepreneurial franchisees — that is, franchisees whose values match their own. Thirdly, this study also contributes to the literature on standardization and adaptation in the franchise system. Kaufmann and Eroglu (1998) stressed that establishing the balance between standardization and adaptation remains one of the greatest management challenges facing franchisors. This challenge coexists largely with the difficulties of integrating franchisee entrepreneurial behaviors with the franchisor's desire for standardization. The present study provides insights as to the different forms of support systems used by franchisors to promote willingly franchisee entrepreneurial behaviors within the standardized context of the franchise system.

2. Theoretical background and hypotheses development

Organizational identity can be seen as the collective understanding of that which is central, distinctive and enduring about the organization (Albert & Whetten, 1985). Coughlan, Anderson, Stern, and El-Ansary (2006) suggest that the loss of individual identity is the hallmark of the franchise relationship, and thus in the context of franchising, organizational identity appears to be particularly pertinent, although scarcely researched (although a few exceptions do exist, such as Lawrence & Kaufmann, 2011; Zachary et al., 2011; Ullrich, Wieseke, Christ, Schulze, & Van Dick, 2007). However, there is evidence to suggest (outside of franchising), that there are positive consequences when people identify with the organization for which they work (Li, Xin, & Pillutla, 2002). For example, where identity is strong, it is suggested that there is greater information exchange, more agreement on decisions, increased trust, and organizational citizenship behavior (Li et al., 2002). Thus, it would seem that identification with the franchise organization by franchisees could have potential benefits for the franchise system, particularly around helping prevent free riding behaviors by franchisees. Indeed, Lawrence and Kaufmann (2011: 298) suggest that the degree of franchisee identification with the franchisor "… might serve to align their interests and thus impact franchisee behavior regarding familiar issues as free riding or acceptance of franchisor initiatives".

In the context of franchising Ullrich et al. (2007) suggest that there are multiple levels of identity — what they term 'organizational identity' to refer to the employees' identification with their franchisees, and 'corporate identity' for identification with the franchisor. Whilst their paper explored how corporate identification by franchisee employees could be improved, the current paper focuses on the potential role of organizational (corporate) identity alignment between franchisor and franchisee.[2] Identification in this respect is particularly pertinent, as presumably, if corporate identification were not present, it would seem unlikely that identification will exist at lower tiers of the organization. More specifically the paper explores how franchisor support structures may be used to manage the entrepreneurial identity of the franchise system, the role of franchisee recruitment in achieving entrepreneurial identity congruence, and its impact on system performance.

Although there are a number of potential dimensions to organizational identity, this paper focuses on the entrepreneurial values of the organization. Whilst franchisors suggest that they prefer franchisees with entrepreneurial characteristics (Ramírez-Hurtado, Rondán-Cataluña, Guerrero-Casas, & Berbel-Pineda, 2011), uniformity and standardization are considered the foundations of franchising (Cox & Mason, 2007). Franchisors seek to maintain consistency of the franchise network in order to promote their brand image, and as a means of protecting their systems against franchisee free riding (Kidwell et al., 2007). However, a number of researchers (e.g., Kaufmann & Eroglu, 1998; Bradach, 1998; Falbe et al., 1998; Gillis & Combs, 2009) have

[2] In this paper in order to remain consistent with the wider organizational identity literature, we use the term organizational identity to refer to identification by the franchisee with the franchisor. Under Ullrich et al.'s (2007) terminology though, this would be considered corporate identification, as it relates to identification with the franchisor.

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