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**Toward a Model of Franchisee Entrepreneurship**

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# **Toward a Model of Franchisee Entrepreneurship**

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This study provides a deeper understanding of the relevance of the entrepreneurship phenomenon to the franchisee context. A number of studies have echoed that the franchisee plays an important role in the generation of new ideas and innovations for the franchise system. But we still do not know how franchisees maximize their entrepreneurial behaviors without jeopardizing the desires for standardization and uniformity, which are building blocks of franchising. We address this research question, using evidence from multiple case studies of UK-based franchisees. The study revealed patterns that were used to develop a theoretical model, which demonstrates the utilization of different forms of formal franchisee networks for maximization of entrepreneurial behaviors through acquisition of relational and informational capital, intra-system competition, and franchisee learning. This study extends the literature on franchising and entrepreneurship, and offers important managerial implications for practitioners. Future research directions are discussed.

**KEYWORDS:** franchisees; entrepreneurial behaviors; standardization; formal internal networks

## **Introduction**

... franchising is seldom viewed as a context in which entrepreneurship is possible, beyond the creation of the concept by a franchisor...

Perhaps because of an apparently uniform and highly constrained context, the potential for entrepreneurship has often been considered inherently illegitimate, and therefore overlooked within franchise firms. (Clarkin and Rosa, 2005: 305-306)

Franchising<sup>1</sup> has developed into one of the fastest growing forms of doing business for the last half century (DiPietro et al., 2007). In the UK, as in many other countries, the franchising industry has been vibrant. It is currently worth an estimated £12.4 billion, consists of 809

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<sup>1</sup> This article focuses on business format franchising, which ‘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 et al., 2006: 27-28).

active franchise systems with 34,200 franchised outlets, and growth in average turnover per outlet and productivity continue to outperform the economy as a whole (British Franchise Directory and Guide, 2009; NatWest/British Franchise Association Survey, 2008). Based on data obtained from the World Franchise Council, Dant (2008) reported that more than 1,500 franchising chains presently operate in the US, constituting over 760,000 franchisees and approximately 18 million employees.

In spite of the increasing significance of franchising as a medium for entrepreneurial wealth creation (Sorenson and Sørensen, 2001), there has been limited studies on the conduct of entrepreneurship within the context of franchising on the whole (Falbe et al., 1998). Yet, the role of entrepreneurial phenomena in existing organizations continues to attract increasing interest in the academic literature (see for example, Antoncic and Hisrich, 2004; Kuratko et al., 2001; Rauch et al., 2009; Tang et al., 2008; Wiklund and Shepherd, 2005; Zahra, 1991). Firm-level entrepreneurial behaviors are now widely acknowledged as a means for revitalizing established firms, and for achieving sustainable competitive advantage and superior performance (Covin and Slevin, 1991; Knight, 1997; Wiklund, 1999; Zahra, 1991; Zahra and Covin, 1995) in organizations of all types and sizes (Antoncic and Hisrich, 2001; 2004). Within the franchising context, however, fostering entrepreneurial behaviors in franchised outlets may be considered worlds apart from the requirements for standardization and uniformity that are keystones of franchising (see Cox and Mason, 2007). Entrepreneurial activity by the franchisee is sometimes viewed as a paradox, with franchisors often stating their preference for selecting a manager, rather than an entrepreneur, as a franchisee in order to protect their business systems from unauthorized change (Falbe et al., 1998). Essentially, franchisees have been characterized as merely purchasing ‘the rights to implement a franchisor’s concept, often in a predetermined area, in a highly prescribed manner, and only for a defined period of time’ (Clarkin and Rosa, 2005: 305). Therefore, it is often argued that

owning a franchise is the antithesis of entrepreneurship as the franchisee follows a model developed by the franchisor and forfeits the independence associated with entrepreneurship as a result of the constraints of the franchise contract (Hoy, 2008). As a franchisor stated:

... [Franchisees] only bought the right to operate our stores under the trademark. That's it. We own the trademark, and their only responsibility is to us, to follow our system and methods ... What we have come to realize is that [franchisees] aren't entrepreneurs; they might think they are entrepreneurs, but they're not. If they were really entrepreneurs, they'd go out and start their own business. (Birkeland, 2002: 140-141)

Such views are commonly expressed amongst franchisors, as reiterated by a Chairman and CEO of a well-established, household name, franchise system who participated in one of our studies:

Franchising is ..., conforming, following set procedures and proven methods, long standing methods. Franchising is not about re-inventing the wheel, but a clone of a successful model. Certainly not the field of an entrepreneur [from a franchisee perspective]...not in the franchise environment. This would encourage confrontation.

Despite the standardization and highly restrictive context often portrayed within the franchising organizational form, it has been reported that restrictive franchise agreements are not always rigorously imposed unless in difficult situations, thus providing opportunities for franchisees to act entrepreneurially (Clarkin and Rosa, 2005). Although franchisees are usually governed by lengthy and detailed agreements, ex-ante contracts can never specify all contingencies (Phan et al., 1996). As such, the franchising relationship often goes beyond the formal interactions dictated by the contract and entrepreneurial-franchisees will always have strategic flexibility (Phan et al., 1996). In addition, a number of studies have echoed that franchisees actually play an important role in innovative and entrepreneurial behaviors required within the franchise system. Kaufmann and Eroglu (1998) argued that it is generally the franchisees who, through their local adaptation efforts, develop new market offerings, transform existing ones, and discover solutions to systemwide problems. Bürkle and Posselt

(2008) also noted that in many systems, franchisees originate ideas for innovations as their proximity to customers provides an opportunity for them to assess customer benefits better.

While franchisees generate and experiment with new ideas, the problem lies in controlling their behaviors to maintain uniformity (Bradach, 1997) and this appears to be the major concern for many franchisors (Cox and Mason, 2007; Kaufmann and Eroglu, 1998). Despite the evidence that franchisees somewhat occupy an entrepreneurial role, we still do not know how they maximize their entrepreneurial behaviors without jeopardizing standardization and uniformity.<sup>2</sup> We address this research question, drawing on multiple case study evidence of UK-based franchisees, in an attempt to provide an in-depth understanding of the dynamics of franchisees' entrepreneurial behaviors within the standardized framework of the franchise system. Our study therefore extends the literature on franchising and entrepreneurship by offering contributions toward the advancement of a theory of entrepreneurship in franchising.

In the next section, we continue with a review of the relevant background literature on standardization and uniformity, and firm-level entrepreneurial behaviors in franchising. This is followed by a discussion of the research design adopted for the study, and a presentation of the research findings. The paper concludes with a summary of the research implications, limitations, and future research directions.

## **Standardization and Uniformity in Franchising**

The fact that franchising is designed around uniformly replicating a standardized business format, across an entire system, has led to much controversy on how entrepreneurial behaviors can thrive within this organizational form. Standardization entails the development of work patterns that are constantly applied and consistently adhered to, with the whole

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<sup>2</sup> We are grateful to an anonymous reviewer for suggesting this research focus for the paper.

essence being to minimize variance in operations (Gilson et al., 2005). Studies by Cox and Mason (2007) and Kaufmann and Eroglu (1998) examined the characteristics of business format franchising, the importance of standardization to these systems, and the standardization-adaptation tension of the franchise system. The provision of a standardized product/service is critical to the success of the franchise system (Cox and Mason, 2007), benefitting the system through image uniformity, quality control, and cost minimization (Kaufmann and Eroglu, 1998). The franchise business model improves efficiencies, and permits economies of scale and scope in marketing, purchasing, and product development (Michael, 1996) that enable both the franchisor and the franchisee to achieve cost minimization (Kaufmann and Eroglu, 1998). In addition, the units in a chain share a common identity and operate under a trademark (Bradach, 1997). Franchise operations therefore exhibit brand name capital that provides substantial informational value to consumers, and some of the more successful franchise chains are recognized for the unusual strength of their brand name (Norton, 1988). 'If franchisees deviate from the system's standard model in pursuit of their own self-interest this will lead to trademark erosion and quality deterioration' (Cox and Mason, 2007:1056). Franchisee compliance to the standardized framework is thus critical to the maintenance and development of the franchise system's desired image (Kaufmann and Eroglu, 1998).

However, the emphasis on the need for standardization in franchising is at odds with the geographically diverse nature of franchisees' markets (Cox and Mason, 2007; Pizanti and Lerner, 2003). As chains face heterogeneous markets, systemwide standards will frequently conflict with the different local market conditions (Sorenson and Sørensen, 2001) that usually characterize franchisees' environments (Clarkin and Rosa, 2005). Most franchisees operate in territorial areas that differ with regard to market and resource conditions, such as income levels, consumer tastes and preferences, levels of competition (Cox and Mason, 2007) and the

nature of demand (Kaufmann and Eroglu, 1998). These conditions cause franchisees to seek idiosyncratic adaptations in various areas of their businesses (Kaufmann and Eroglu, 1998). Adaptation demands become even more evident as the system matures due to mounting resistance from experienced franchisees, which may suggest the need for essential changes to the maturing system (Kaufmann and Eroglu, 1998). Hence, to ensure sustainability, franchise systems must be capable of adapting to new opportunities and threats over time (Bradach, 1997), a situation that would involve the display of entrepreneurial behaviors within local outlets. Indeed, it has been suggested that the ability to adapt to a wide range of environmental conditions and opportunities on a sustained basis is part of building a company that is entrepreneurial in nature (Muzyka et al., 1995).

Kaufmann and Eroglu (1998: 83) argued that ‘franchisors who incorrectly interpret their role of system creator as implying autocratic leadership may ignore, or at least discount, solutions or recommendations from franchisees’, which may be valuable for the growth of their chains. A healthy franchise system should evolve over time with the shifts in its external environment while learning from its franchisees (Kaufmann and Eroglu, 1998) because an important strength of the franchise model is the franchisees’ local knowledge of their respective markets (Hoy, 2008). Under the resource constraint explanations for the adoption of franchising (Oxenfeldt and Kelly, 1968-1969) it is believed that, in addition to both financial and human capital (Caves and Murphy, 1976; Watson et al., 2005), the franchisor requires significant increases in informational capital for rapid growth (Dant et al., 1996). Since franchisees are often from their local markets and thus well versed in local needs (Combs et al., 2004), the franchisor firm transfers the strain of understanding local market conditions to their franchisees by using the franchise organizational form in unknown areas (Minkler, 1990). Therefore, franchisees are likely to be more familiar with the local market conditions

relative to the franchisor (Cox and Mason, 2007) and this may influence the need for entrepreneurial behaviors, as a result of local market adaptations, in franchised outlets.

### **Firm-Level Entrepreneurial Behaviors and Franchising**

Several terms have been used in the literature to describe firm-level entrepreneurial behaviors, the entrepreneurial efforts within an existing organization (Sharma and Chrisman, 1999). As identified in Antoncic and Hisrich (2001, 2004), Covin and Miles (1999), and Sharma and Chrisman (1999), these include terms such as corporate entrepreneurship, corporate venturing, intrapreneurship, firm-level entrepreneurial posture, entrepreneurial orientation, and innovative and entrepreneurial strategy making. Firm-level entrepreneurial behaviors can be viewed broadly as the ‘emergent behavioral intentions and behavior of an organization, which deviate from the customary way of doing business’ (Antoncic and Hisrich, 2004: 520). They constitute novel behaviors that the firm intends to employ in its pursuit of opportunities (Kuratko et al., 2001) and often involve allowing organizational members to operate outside the firm’s existing norms and strategies so as to think and act more independently (Lumpkin et al., 2009).

Examples of franchisees’ firm-level entrepreneurial behaviors, mainly within the fast-food industry sector, have been documented in the literature. Bradach’s (1997) qualitative study of five large US restaurant chains revealed that franchisees constantly searched for ways to improve their businesses; they generated new ideas by proposing products for their local marketplace, which sometimes were later studied and adopted systemwide. According to the CEO of KFC quoted in Bradach (1997: 277), ‘... franchisees provide a spark of entrepreneurship’, a welcoming context for innovation and adaptation. In addition, evidence from a global ‘benchmark’ franchisor, McDonald’s Restaurants Ltd., shows that several of the company’s lead products, including the Big Mac, Filet-O-Fish, and Egg McMuffin were



all originally conceived by McDonald's franchisees (Bradach, 1998; Morrison and Lashley, 2003; Stanworth et al., 1996). Frazer (2004) also reported that a number of product innovations at Pizza Hut, such as the introduction of salad bars and sweets, were introduced at the suggestion of franchisees following a structured process of experimentation. Darr et al. (1995) provided qualitative evidence to demonstrate that franchise store level innovation can provide systemwide benefits through extensive transfer of learning amongst franchisees.

The agency theory explanation for franchising may provide additional rationale for why franchisees are often able to display entrepreneurial behaviors within their outlets, in spite of the desires for standardization and uniformity on which franchising is built. The franchising literature is virtually based exclusively on agency theory (Barthélemy, 2009), which revolves around the fact that when establishing a new outlet, organizations face a critical decision in terms of the choice of an agent that will run the outlet – it can either choose a salaried manager to run a company-owned outlet, or a franchisee who will be allowed to keep the outlet's profits in return for a fee (Tracey and Jarvis, 2007). Although the delegation of responsibility in both cases incurs agency costs (Tracey and Jarvis, 2007), franchisors may opt for the latter alternative in order to minimize monitoring and shirking costs that would have been associated with having company-owned outlet managers (Brickley and Dark, 1987; Mathewson and Winter, 1985). Since the franchisees' rewards are directly related to how well their unit(s) performed in the local marketplace (Bradach, 1997), franchisees tend to have stronger incentives relative to salaried managers (Yin and Zajac, 2004). Therefore, franchisees are likely to be more sensitive to local market conditions and the financial performance of their local outlets (Yin and Zajac, 2004) by continually looking for means to advance their businesses (Bradach, 1997). This often involves behaving in an entrepreneurial manner by seeking new opportunities.

The major differences between company ownership and franchising (Barthélemy, 2009), which provides further insights for the potential for entrepreneurial behaviors in the latter, are shown in studies on the Plural Form. Bradach (1997) examined the governance structures adopted by chains, referred to as the Plural Form, a mix of both company outlets and franchised outlets. As Bradach (1997: 277) stated, the company arrangement involves an authority relationship that binds managers to the chain, but ‘... franchisees are bound to the chain with a relational contract, with explicit and implicit rights and obligations, which provides the motivation and autonomy to generate and experiment with new ideas’. In general, company-owned arrangements are much more hierarchical and are subject to much more control and monitoring from the franchisor, and the scope of decision-making rights is typically centralized and specialized, unlike in franchised arrangements which involve a decentralized decision-making process (Yin and Zajac, 2004). Consequently, company-owned outlets have local compliance, while franchised outlets have local choice that enables franchisees to demonstrate a high level of local autonomy and self-management (Yin and Zajac, 2004) which could increase the franchisee’s potential for entrepreneurial behaviors.

Sorenson and Sørensen (2001) analyzed a longitudinal dataset of US-based restaurant chains to show that the choice of governance structures influences the process of organizational learning and the types of effort expended by managers and franchisees. Managers of company-owned outlets focus on exploitation learning (the refinement of *existing* routines) due to the high levels of monitoring that discourages innovation and provides incentives for them to focus on the maintenance of established standards. On the other hand, franchisees tend to search more broadly through exploratory learning (the development of *new* routines) because they more frequently adapt the outlet to local conditions. Hence, franchisees have a better tolerance for risk relative to the managers of

company-owned outlets, and they are more willing to invest in innovations that can generate returns under longer time horizons.

Although it may seem that the franchisee role inherently provides a scope for entrepreneurial behaviors that could benefit the entire system, this situation could become problematic (Baucus et al., 1996; Gassenheimer et al., 1996). Increasing levels of autonomy on the part of franchisees can raise the costs from agency problems (notably free riding) present in any franchisor-franchisee dyad (Cochet et al., 2008). Opportunistic franchisees may be tempted to increase their short-term profitability by free riding on the brand name (Barthélemy, 2009). As Kidwell et al. (2007) argued, free riding can damage brand reputation and firm survival, and thus franchisee free riding can have negative consequences on franchise performance. The franchisor's critical role of system protector therefore makes many franchisors become rather rigid and formalistic in their maintenance of every detail (Kaufmann and Eroglu, 1998). This reinforces why it is important to understand ways in which franchisees maximize their entrepreneurial behaviors, without jeopardizing the standardization and uniformity of the franchise system. To the best of our knowledge we are not aware of any in-depth study that has examined how this goal is accomplished.

## **Methodology**

### ***Research Design***

To address our research question, a phenomenological research paradigm, involving multiple case study (holistic) design, was adopted 'to capture the complexity and subtlety of actual business practice' (Elango and Fried, 1997: 77). The literature has reiterated the need for more qualitative methods in the fields of general management (Gill and Johnson, 1997), entrepreneurship (Gartner and Birley, 2002), and franchising (Elango and Fried, 1997; Gauzente, 2002). The case study approach was particularly appropriate for this study given

the ambiguities surrounding the research issues. As noted by Ghauri and Grønhaug (2002: 88-89), 'carrying out intensive case studies of selected examples, incidents or decision making processes is a useful method when the area of research is relatively less known'. Moreover, this approach was suitable since our aim was to provide an in-depth understanding of the meanings and explanations that individuals place upon their experiences, rather than measuring (Cope, 2005; Easterby-Smith et al., 1991). Our focus was on identifying patterns in human behaviors and activities which may be repeated in other similar situations (Collis and Hussey, 2003). Accordingly, phenomenological inquiry, involving case studies, was 'a robust research approach' for the purpose of this study in order 'to generate theory that is both useful and credible' (Cope, 2005: 169 & 171).

### ***Case Selection***

Based on the replication logic (Yin, 2003), six cases (franchisees) from three different franchise systems were purposely selected (Patton, 2002) for this study. As Eisenhardt (1989) noted, it is common and sometimes necessary for researchers to plan the number of cases in their study in advance. Although there is no perfect number of cases, selecting between 4 and 10 cases usually works well, as less than 4 cases may produce unconvincing empirical grounding and more than 10 cases lead to difficulty in coping with the complexity and volume of the data (Eisenhardt, 1989). This recommendation for case selection has been followed in studies examining entrepreneurial franchisees (for example, Merrilees and Frazer, 2006).

The cases for our study comprised franchisees from our networks of prior research participants who took part in a related research project that we conducted. In ensuring consistency with the purpose of this study, the franchisees were selected solely because they operated within systems that fostered entrepreneurial behaviors in franchised outlets and they

were all entrepreneurial individuals who had undertaken different entrepreneurial activities, including the introduction of new products, new services and new methods of operations. Thus, ‘ultimately, each participant was chosen for the unique and highly interesting story that they would bring to the research process’ (Cope, 2005: 175), rather than being chosen to be representative of the entire population of franchisees. According to Patton (2002: 230), the ‘... logic and power of purposeful sampling lies in selecting *information-rich cases* for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the inquiry ...’.

Our focus on franchisees as key informants is consistent with the state of the literature that the franchisee’s behavior constitutes the core of the debate surrounding franchising as the antithesis of entrepreneurship (see for example Falbe et al., 1998; Hoy, 2008). By purposefully selecting franchisees as key informants, our study also addressed a major limitation associated with most franchising research. A recent study by Dant (2008), on key research gaps in franchising studies, indicated that much of what we know about this field is based on studies of the franchisors to the virtual exclusion of research conducted from the franchisee perspective. Thus, ‘... questions constantly arise about ... the applicability of franchisor-based research findings to the mindset of franchisees’ (Dant, 2008: 92).

All the franchisees selected for this study were operating within the Property Services sector (based on the European Franchise Federation (EFF) classification). Their services involved three distinct but related franchising activities: (1) Estate Agents and Property Management; (2) Property and Maintenance Services, Home Improvements; (3) Property Surveys and Risks Assessment (British Franchise Directory and Guide, 2009; NatWest/British Franchise Association Survey, 2008). Over the past seven years, the Property Services sector has experienced the highest level of system growth (62%) amongst UK-based franchise systems and is now the largest sector in terms of number of franchise

systems, accounting for a quarter of the total number (NatWest/British Franchise Association Survey, 2008). By drawing on evidence from franchisees operating within the property based sector, we were able to extend the literature on entrepreneurial behaviors amongst franchisees, beyond the fast-food sector. As evident from our literature review, most of the studies that have examined issues related to franchisees' entrepreneurial behaviors were based on investigations of the fast-food sector. We therefore addressed another important research gap identified in Dant's (2008) recent study suggesting the need for researchers to examine other franchising sectors as a futuristic research agenda, because an extensive number of empirical investigations have been based on the fast-food industry data.

Furthermore, a study of franchisees within the UK context enabled us to extend prior studies, as most franchising research and the ensuing theory development have focused virtually exclusively on the US (Dant, 2008).

### ***Data Collection***

To enhance the reliability and the validity of the case study evidence, the following techniques suggested by researchers such as Eisenhardt (1989) and Yin (2003) were employed:

Multiple sources of evidence were used to enable triangulation of data and stronger corroboration of constructs. These involved (a) semi-structured interviews with key informants. In most cases, the interviews were carried out at the franchisees' outlets to facilitate on-site observations. The interviews were tape-recorded, lasted between 1 and 1.5hrs, and the questions centered on franchisees' views regarding entrepreneurship within their outlets and systems. Questions were asked regarding the culture of the franchise system with respect to fostering/preventing entrepreneurial behaviors, respondents' understanding of the term entrepreneurship, and the nature and impacts of any entrepreneurial behaviors

displayed or entrepreneurial activities undertaken. (b) Focused interviews with franchisors and/or key representatives from the franchisor headquarters such as the Research and Development Managers, and the Franchise Managers. These set of interviews were used to corroborate the findings from the franchisee perspective. The interviews focused on franchisors' attitudes towards entrepreneurial behaviors in their businesses and amongst their franchisees. (c) To further validate our analysis, both the franchisors and franchisees completed similar questionnaires, prior to the interviews, to confirm the extent to which their systems were entrepreneurial. (d) Document analysis of relevant franchise brochures and the organizations' websites.

Furthermore, a case study protocol was created in advance to provide directions for the researchers. This contained the procedures and the general rules to be followed throughout the data collection to ensure consistency. In addition, a case study database was developed as a formal assembly of evidence distinct from the final case study report. This included information obtained prior to the interviews from documents and websites, notes taken during the interviews, and transcribed text from interview tapes. A chain of evidence was maintained to show explicit links between the questions asked, the data collected, and the conclusions drawn. On completion of the data collection, the case study reports were reviewed by the corresponding key informants.

### ***Data Analysis***

The analytical process was data driven via content analysis (Patton, 2002). It comprised four levels of analysis suggested by Cope (2005) for analysing phenomenological inquiry. The first level involved a detailed transcription of the interviews as well as within-case analysis for the independent cases, in order to gain familiarity with the data as a stand-alone entity (Eisenhardt, 1989). These involved repeated readings of the transcripts, and note taking of the

key themes within the margins of the transcripts (Patton, 1990). The second level of analysis entailed writing out a comprehensive description of the separate cases. Hence, we built up a more coherent and manageable report, from a somewhat cluttered and disjointed transcript, thereby enabling more structured content analysis across the cases (Cope, 2005). For the third level of analysis, we undertook cross-case comparison by looking for patterns and themes that cut across individual experiences (Patton, 2002). To aid theory-development, visual representations were used to graphically depict emerging set of relationships (Whetten, 1989). A resulting model was derived by comparing the visual maps of the different cases, and identifying common sequences and themes (Zerbinati and Souitaris, 2005). Finally, the fourth level of analysis involved comparing emergent themes with the existing literature (Eisenhardt, 1989).

### *Description of the Cases*

Table 1 presents the profiles of the six cases studied. The exact names of the participants are not disclosed as they were promised confidentiality.

**Insert Table 1 about here.**

**EstateLeaders-1 & -2.** These franchisees are both from the same franchise system, EstateLeaders, which is one of the UK's leading lettings agent and property management franchises. The organization is a full member of the British Franchise Association (BFA), the only independent accreditation body promoting ethical franchising in the UK. It offers a specialist service in property rental, residential lettings and buy-to-let for tenants and landlords. The organization was founded in the 90s and the first franchise was launched the year after the inauguration. It currently has over 140 franchised outlets and is now arguably the fastest growing and largest specialist lettings franchise company in the UK.



EstateLeaders-1 was the second individual to buy a franchise in the organization in 1996 and owns a single outlet, and is also ranked as the top franchisee in this organization based on factors such as income generation and business development. EstateLeaders-2 owns two outlets and became a franchisee in 2004.

**ElectricalMasters-3, -4, & -5.** These three franchisees are from the same franchise system, ElectricalMasters, which is a leading specialist electrical contractor, working with major blue chip organizations, local authorities, schools, and high security institutions. The organization was established in the 1970s, began franchising in early 2000, and currently has over 20 franchised outlets in the UK. The organization is a full member of the BFA. As part of the franchise offering, franchisees cover portable appliance testing, fire extinguisher maintenance, fire alarm systems, and emergency lighting/signs installation and maintenance. ElectricalMasters-3 was the first individual to buy a franchise in this organization in 2001 and owns a single outlet. ElectricalMasters-4 owns a single outlet and has been with the organization since 2005. ElectricalMasters-5 has also been with the organization since 2005 and owns 2 outlets.

**SurveyorManagers-6.** Founded in 2003, SurveyorManagers franchise system is driven by health and safety legislation, and currently has over 20 franchised outlets in the UK. The organization is a provisional member of the BFA. The franchisees within this organization provide surveys and management plans to help companies comply with government legislations, stipulating that all commercial premises should have a particular health and safety register. SurveyorManagers-6 has been operating within this system since 2004 and owns a single outlet.

## **Toward a Theoretical Model of Entrepreneurial Behaviors amongst**

### **Franchisees**

Evidence from all the cases demonstrated that entrepreneurial behaviors amongst franchisees were maximized (without jeopardizing standardization) through the use of formal franchisee networks – internal networks and regular networking activities – within the franchise systems. Networks represent forms of voluntary cooperation that involve information sharing, mutual learning, social control, and exchange between their members (Johannisson et al., 2002). As Houghton et al. (2009) noted, networks internal to the firm serve as a medium for relatively safe corridors of conversation for organizational actors to digest external information and reach a consensus for action.

Findings from our cases showed that the franchisee networks involved the utilization of franchisee forums, working groups, and regional and national meetings for franchisee-interaction activities. These provided avenues for franchisees to work in clusters to disseminate knowledge, which in turn, maximized entrepreneurial behaviors in three ways: (1) Acquisition of relational and informational capital – boosting franchisees' stock of system-specific asset; (2) Promotion of intra-system competition – fostering internal competitive aggressiveness amongst franchisees; and (3) Facilitation of franchisee learning – enhancing the generation of new knowledge. This process produced important organizational outcomes for both the franchisees and their systems, in terms of business growth, systemwide adaptations, market leadership, and solutions to business problems. A model of maximization of entrepreneurial behaviors among franchisees is shown in Figure 1. This is explained below in detail, using relevant quotes from the key informants for illustration.

**Insert Figure 1 about here.**

## *Influence of Franchisee Networks on Maximization of Entrepreneurial Behaviors*

**Acquisition of Relational and Informational Capital.** As highlighted by Watson et al. (2005: 26), “[s]ervice sector businesses [such as our case organizations], by their very nature, have relatively few assets that are tangible, and therefore much of their success relates to the ability to effectively manage and maximize the value of their intangible assets”. These intangible assets include both relational and informational capital. Relational capital can be conceptualized as an organizational member’s business relationships, connections, acquaintances, and networks both internal and external to the organization (Griffith and Lusch, 2007). Informational capital involves an organizational member’s knowledge of his or her firm’s products or services, customers, competitors, and industry (Griffith and Lusch, 2007). Our study demonstrated that the franchisee networks enabled franchisees to boost their stock of both relational and informational capital facets, as the franchisees stated:

...we have franchisee forums ...We just had one, I was at [the venue] on Tuesday, just this week ... As part of the franchisee network ... we discuss issues relating to entrepreneurship at the forum ... In other words, some people ... want to do more, like, to stretch the boundaries ..., *we share ideas and we talk to one another enough ... and through that you get additional information as to whether that’s a good idea, so you go and look at that.* (SurveyorManagers–6)

... we all have a forum once every three months ... we discuss how we want to move things forward ... there is a lot of ideas coming out from franchisees obviously to develop their business, and that all comes back ... so in that kind of way, people are bringing in ideas ... we are now more networked than we were before ... *We are all kind of working with this forum to set up new ideas to develop the business ... we talk and we send information across. So you are kind of talking to people with the same situation. They are saying, well, I’ve found that this does work ...* (ElectricalMasters–3)

They [the franchisor] have ... started a thing called forum, where the franchise manager and a representative from the South East, the South West, and Northern region, go and have a meeting once or twice a year to talk about developments and anything that the franchisees want to try and bring in, or develop, or expand ... *this was a formal way ... for us to put ideas forward and get them discussed.* (ElectricalMasters–4)

... we ... get a lot more interaction with the other franchisees because we get together quite often. You know these ideas bounce backwards and forwards, and we sort of take ideas ... We have what is called a national forum. I have a seat on the national forum ... The forum is very good because it means we can help direct the business in the right direction ... They [the franchisor] don’t have the day to day experience ... *so we bring along experience on a day to day basis of running a franchise, and what the market is like... I would say for the last year*

*the majority of the ideas that have been brought forward have come from the forum. It's us franchisees helping to take the business forward. So it's very good. (EstateLeaders-1)*

Relevant external agencies were sometimes invited to the franchisee networks to provide additional information, for example:

*We also at the regional meetings get outside agencies in to, like, if someone has a good idea, then they will bring along information to hand out to everybody ... So, again our next regional meeting is on the 12<sup>th</sup> of June, I've invited [an external agency] to come and give a presentation on the new product that we are just about to launch. (EstateLeaders-1)*

These findings are consistent with extant literature that individuals tend to possess different stocks of information which are produced through idiosyncratic life experience (Shane, 2000) and networks facilitate knowledge acquisition and sensemaking activities (Houghton et al., 2009). As such, entrepreneurs usually receive motivations from other entrepreneurs and networking is vital for a venture's growth (Evans and Volery, 2001). Our findings also provide support for those of Cox and Mason (2007) where it was reported that some franchisors had formal committees with franchisee involvement to generate ideas for future development of the business.

**Intra-System Competition.** A high degree of competitiveness was observed amongst the franchisees, as they strived to be the best within their systems through their entrepreneurial behaviors. The franchisees' competitive aggressiveness was attributed to the networking schemes that had been designed by franchisors, as shown in the following excerpts:

*... the way they [the franchisor] bring people [franchisees] together and make people aware of what other people are doing [in the system] ... makes it like a ... competition. So you almost think that, right, I want to prove to myself and get another three places up the league table, and things like that. So it's sort of a bit of a drive forward. (EstateLeaders-2)*

There is also what he [the franchisor] calls the 'High Achievers' Club', judged on how much an individual brings to the group, our ideas and that sort of stuff ... It's [made up of] the top 12 franchisees, ... and they have awards like the 'Franchisee of the Year', and I've got that ... So for a franchisee to win, he would have to give more than just being a franchisee. It will

have to be on a forum and our ideas ... *I would say it's trying to better yourself, trying to be the best ... I am ... the top franchisee, so he pays particular attention to me.* (EstateLeaders-1)

*[Franchisee X], I would say, is the most dynamic out of all the franchisees. He really wants to move the business forward. He works very closely with the corporate side at the head office, and they [the franchisor] treat him, and see him, as the best franchisee. He got the award this year for being the best franchisee. He is the top man, and with the development of [our new product] he is actually doing all the trials, he is trying it out.* (ElectricalMasters-3)

These findings provide some support for Cox and Mason's (2007) study, where one-quarter of the franchisors used competitions amongst franchisees to generate new ideas and held award ceremonies with cash prizes to reward the best ideas. The above illustrations also suggest that entrepreneurially distinct franchisees seem to enjoy a closer bond with the franchisor. A franchisee further explained how standing out, in terms of entrepreneurial behaviors, enables outstanding franchisees to obtain lower royalty rates – the proportion of revenue paid to the franchisor by franchisees (Michael and Combs, 2008) – from the franchisor. While most of the other franchisees in this system paid a royalty of 30 percent on sales on monthly basis, only a few franchisees were allowed to pay a royalty of 10 percent. This was mainly because the latter brought more entrepreneurial initiatives to the forum which had huge, positive knock-on-effects on individual franchised outlets as well as the entire system, with regard to increase in sales.

Furthermore, our study revealed that franchisees extended their intra-system competitiveness to their external environments by competing aggressively to be the best in their local marketplace. This involved continual search for ways to lead, rather than follow the market. As a franchisee explained:

*One of the other jobs I've got is that we set up working groups to look at specific areas of the business to make sure we are the leaders in the market ... it's just trying to do something different to your competitor, that's what entrepreneurship is, doing something different, having a USP, Unique Selling Point. That's what we try to look at all the time.* (EstateLeaders-1)

In essence, it was stressed that:

... they [the franchisor] ... try and make you see that you've got to be different to everyone else out there. You know, *there is competition in every marketplace and in every field. So the only way you gonna get forward is to be different and bring different qualities to the forefront of the market, ...* (EstateLeaders-2)

Indeed Falbe et al. (1998) argued that franchisors experiencing increased competition are more likely to implement entrepreneurial strategies and to encourage their franchisees to be innovative.

**Franchisee Learning.** Learning is the process by which knowledge is generated (Harrison and Leitch, 2005). According to Hult et al. (2003: 542), it can be broadly defined as 'the values and beliefs associated with the development of new knowledge that has the potential to influence behavior'. This definition follows from Huber (1991: 89) that 'an entity learns if, through its processing of information, the range of its potential behaviors is changed'. Learning at an organizational level continues to be an important issue for all types of firms (Lumpkin and Lichtenstein, 2005) and it depends on the development of personal knowledge and skills, and having effective systems for knowledge sharing (Jones and Macpherson, 2006).

Evidence from our cases indicated that the networks were essentially facilitating learning processes through franchisees' experiences of operating similar concepts in different markets/territorial areas. According to the franchisees:

... the biggest support [obtained from the franchisor] is putting you in contact with other franchisees to enable you to sort of bring ideas together and discuss them ... *A lot of the time, in the forums, it's more of I've done this, why don't you see if it can work for your business and things? There is more of that, rather than, how about try this ...* (EstateLeaders-2)

For instance, ... *I have been looking at [a new product], and from November I'm introducing the new product, which is my idea. And I have taken it to the forum, and I did all my research before, like you are doing now. So I have got a product and how much it's going to cost and what it's going to do, and I have given them the details in the forum and they all said thank you very much we love it ...* So in November, when we have a big renewal it's gonna be launched then ... So, I'm organizing training at the moment and everything else because we have to give them not only the product but how to sell it. (EstateLeaders-1)

These findings are consistent with Miller and Friesen's (1982) argument that organizations operating in several different markets tend to learn from their broad experience, while borrowing ideas from one market and applying them in another.

In addition, the franchisee networks provided avenues for evaluation of ideas and problem solving:

*It [the forum] is almost like a sounding board, I suppose, to say, I've had this idea, do you see any flaws in it? So you've got like-minded individuals there that could turn round and say, well it's a great idea, but what if this happens, which you might not have thought about when you are sitting in your office on your own. This wonderful idea that you've come up with and then somebody says actually there is no way it's gonna work because of this sort of thing that you had by-passed. (EstateLeaders-2)*

*... So those kinds of problems, if you put it out on the network, there is always simply someone else who have to come up and help with it. (ElectricalMasters-3)*

Another franchisee explained how, within their forum, they were able to learn about a solution to a longstanding operational problem, associated with the system's growth over the years. After several failed attempts at trying to solve the problem, which was affecting all the franchisees, the system's first franchisee put forward a novel idea. This eventually provided a solution to the problem, and also led to the development of a major technological innovation, which was now classed as an invention within the system and their industry sector.

According to the franchisee:

*I kept talking to them [other franchisees] about it ... I mean, ... we've got to get this sorted ... So when I came up with the idea ... we worked quite well together ... We sat down with the manufacturers and said, look this is what we want, can you do this? .... we pushed it forward ... The market has been opened up by us really ... It's new idea, no one is doing this at all ... It's not just me personally who introduced [the new product], we've worked together to join it together ... (ElectricalMasters-3)*

In addition, franchisees highlighted the effects of the age of their outlets (that is, the length of time they had been in operation) on learning within the franchisee networks, and

how this factor influences the ability of the franchisees to be entrepreneurial. According to a franchisee who was the second individual to purchase a franchise in his system:

I think that there is a process you go through, I'm probably an entrepreneur now because of the ideas that I bring to the table. *In the early days, franchisees set about doing what they are doing and learning from others, as opposed to bringing up ideas themselves.* (EstateLeaders-1)

Another franchisee stated that:

I think as you become more experienced you become bolder in your approach to these things [entrepreneurial behaviors] you know. *When you first start up you are really learning ... you need someone to support you on these ... things. But as you become more experienced, and confident, I think you become more entrepreneurial in your willingness to try new things and be a bit bolder.* (SurveyorManagers-6)

In line with our findings, Kaufmann and Eroglu (1998) argued that as franchisees mature, so does their experience and most of them tend to develop an expertise in their local markets which may even exceed that of the franchisor.

Franchisors' interests in using the franchisee networks as a learning medium were also emphasized:

... there are always opportunities there to explore ... *the franchisor wants us to engage in entrepreneurial activities ... because they like us to report back to the group. So if you have done something which works out well, in say [your area], and you take it back to everyone else it can affect the whole group.* (EstateLeaders-2)

*They [the franchisor] have employed a franchise coordinator for the franchisees because before there wasn't any. He [the franchise coordinator] is now joining us [franchisees] all together. So we all have a forum once every 3 months. So, there is one person who represents the region down here. There is another person who does the West County part, another person the Midlands, etc., and they all meet up. Basically, we discuss ... how we want to move things forward, ..., that kind of thing, and then, come to an agreement on what we could possibly do about it, and then try and move that forward.* (ElectricalMasters-3)

### ***Entrepreneurial Behaviors and Standardization***

Our findings suggest that the franchise systems appeared to have a somewhat formal procedure that could ensure that standardization was not jeopardized in the process of



maximizing entrepreneurial behaviors amongst the franchisees. This revolved around the roles of designated franchisee representatives. For instance:

We have one representative for each region. So, basically, you talk to that person. That one representative of the region will go and then have a meeting for that area with our head office [franchisor] and another person. (ElectricalMasters-3)

The representatives were regarded as ‘the voice of the other franchisees’ (ElectricalMasters-5), and they were usually the older franchisees who had been in operation for a longer period of time. In addition, some of the systems had representatives specifically assigned from the franchisor headquarters. These involved the delegation of franchise coordinators and franchise managers to coordinate the franchisee networks. As the franchisees commented:

When you’ve got at least 30 franchisees around the country, with the amount of information we are producing, you need someone to tie them up together. (ElectricalMasters-3)

We have ... three seats on the forum from central office [the franchisor], the rest of the seats are made up of franchisees. (EstateLeaders-1)

Although entrepreneurial behaviors were maximized through the franchisee networks, franchisees emphasized that they were expected to display such behaviors within the boundaries of the franchise, implying that standardization is key to the franchisor:

They [the franchisor] allow you to have a certain amount of entrepreneurial freedom, they like you to develop your own business and work with as much freedom as possible. But ... *they don’t want you to be too adventurous; they want you to stay within the remit of the franchise*, but to expand the business as best as you can within the fields that they operate. (ElectricalMasters-4)

*We can’t do anything outside the contract that affects [the franchise system]*, and the other one is that we have guidelines; we have certain guidelines to follow when doing certain activities. (EstateLeaders-1)

*If I decided to do something completely different, from an entrepreneurial point of view, they [the franchisor] wouldn’t want that ...* They wouldn’t sanction that at all. I have to stick within the rules of what I do ... It depends on how broad a spectrum I want to seek opportunities in. (SurveyorManagers-6)

## ***Organizational Outcomes of Franchisees' Entrepreneurial Behaviors***

Evidence from the cases demonstrated that franchisees were generally creating new value through their entrepreneurial behaviors. These encompassed business growth, systemwide adaptability of their entrepreneurial initiatives, solutions to persistent operational problems, and market leadership. According to one of the franchisees:

The concept that we had when I first started ... was a cottage industry type business, ... working from home, earning about 60,000 a year, no shop, no vans, no staff, nothing. Look where I am today, I've got 11 staff, 500 properties, four vans ... So *we have helped him [the franchisor] tremendously get to where we are today.* (EstateLeaders-1)

Another franchisee argued that:

*We are leading the market* in what we want to do. Just by putting this forward, no one else has thought of this, you see, not even the people that manufactured the box. We have now combined the paperwork with the box. So it's all in one unit now ... *we have moved a whole industry forward* now because of this ... problem that we've got ... , putting an idea like that in place, and there, we've got a new product which is available for everyone in the country. (ElectricalMasters-3)

Evidence from another franchisee also revealed the following:

... the outcome is that *I have a larger network of people from whom I can get business* ... So I think it's worth going out there and doing it [being entrepreneurial]. (SurveyorManagers-6)

Following successful trials, franchisees' ideas were rolled out systemwide:

It's very rare for central office [the franchisor] to come to us [franchisees] with an idea. It's actually us going back to them with an idea. We then look at it, then *we trial it in a specific area, and if it works then it is put out to all the other franchisees* ... We've got [someone] in central office that looks after this sort of stuff ... So he would come to us and say, right, this is the sort of response we got from this new product, this is how much it costs us. So when it goes to franchisees, franchisees can see if they spend that amount of money, then they are going to get that much money back. Then it's worth doing. (EstateLeaders-1)

These findings agree with studies that have suggested that franchisees can be useful sources of new ideas and innovations for product/service development (Cox and Mason, 2007).

We found that the outcomes of franchisees' entrepreneurial behaviors were parallel to the reasons why their franchisors seemed to want entrepreneurial behaviors within their systems, as highlighted in the following response:

... the franchisor ... wants us to engage in entrepreneurial activities because obviously it is to their benefit ... *that's how they grow and that's how we are meant to grow.* (ElectricalMasters-3)

The results were also similar to the franchisees' motivations for exhibiting entrepreneurial behaviors. For instance:

Well, the motivating factor is *to generate more business, which generates more income.* That's the simple part of it ... *Just to drive the business forward, to make it more successful, and to keep me gainfully employed, make money.* (SurveyorManagers-6)

To earn a bit of money. We are not doing it [being entrepreneurial] for the love of it. It's *to earn a bit of money at the end of the day.* (ElectricalMasters-3)

## **Concluding Remarks**

This study aids the development of a theory of entrepreneurship within the context of franchising. The findings yielded a theoretical model for the conceptualization of the process of maximizing entrepreneurial behaviors amongst franchisees. This involved the utilization of formal franchisee networks (forums, working groups, and regional and national meetings) to facilitate acquisition of relational and informational capital, intra-system competition, and franchisee learning. The culmination of franchisees' entrepreneurial behaviors encompassed business growth, systemwide adaptability of their entrepreneurial initiatives, solutions to persistent operational problems, and market leadership. Although much of the literature has focused on external networking activities, research suggests that a strong internal network capability is an effective technique for improving firm performance (Sawyer et al., 2003; Walter et al., 2006), consistent with our findings.

Bradach's (1997) seminal study of five US franchise chains indicated that once franchisees became part of the system, chains maintained constant contact with them through, for example, annual, biannual or quarterly meetings, and through the use of committees of franchisees. Also, in 2006, the Natwest/ British Franchise Association Annual Survey, the principal study on franchising in the UK, showed an increase in the prevalence of associations and support networks for franchisees. According to the survey, two in five franchisees reported that their franchisors had an association for them. Of those for whom it was available, 76 percent were members. It is believed that the use of franchisee associations and councils has played a crucial role in enhancing franchisees' power in recent years (Alon, 2001). These venues are important for developing relationships with franchisees and for influencing their behaviors (Bradach, 1997). While all the preceding studies have suggested the use of different forms of gatherings to bring franchisees together, the exact role of franchisee networks remains underexplored in the academic literature. Our findings therefore open new directions for future researchers to contribute to this promising research area, given that the franchise framework in itself represents a network. The importance of networks has been documented extensively in the entrepreneurship and management literature (e.g. Birley, 1985; Houghton et al. 2009; Jack, 2005; Walter et al., 2006) and such studies could offer more insights for studying this phenomenon within the franchising context.

For practitioners, this research offers important managerial implications for both the franchisee and the franchisor. Evidence from the cases show that franchisees can make the most of their entrepreneurial behaviors through formal interactions with their fellow franchisees to boost their stock of system-specific asset, facilitate intra-system competitiveness, and enhance the generation of new knowledge. For the franchisor, this study offers implications in two key areas: (1) the management of entrepreneurial behaviors among franchisees, and (2) the mechanisms for stimulating an entrepreneurial culture within

franchised outlets. In line with the purpose of this paper, all the systems that we studied had recognised the importance of fostering entrepreneurial values amongst franchisees. However, many franchisors still uphold the argument that entrepreneurial behaviors would be damaging to the franchise system, as these go against the whole essence of the franchise concept, which requires standardization and uniformity. In fact, a series of exploratory interviews that we conducted with some franchisors, prior to undertaking the present study, revealed the extent to which some of them were strongly against the idea of nurturing an entrepreneurial climate across their systems. The main concern seems to be: how to control franchisees' behaviors to maintain uniformity (Bradach, 1997) while simultaneously granting them entrepreneurial autonomy. Our findings suggest that entrepreneurial behaviors amongst franchisees can be fostered and managed, without jeopardizing standardization and uniformity, through the use of formal franchisee networks. These could enable franchisor firms to formally scrutinize franchisees' entrepreneurial initiatives in order to guide against them going beyond the remit of the business.

The main limitations of this study relate to the small sample size, attributable to the case study approach. Given the extensiveness and diversity of the franchising sector, the results may not be representative of franchise systems as a whole, in terms of organizational characteristics such as franchise age and sector. However, our aim was not to generalize but to provide detailed understanding of the issues under consideration, and an in-depth qualitative research, involving multiple cases was considered appropriate. Nevertheless, it would be interesting if future researchers could contribute to this research area through the use of large scale quantitative surveys to test hypotheses on the patterns recognized in this study. Future research can also examine the impacts of the history and size of the system on the entrepreneurship phenomenon within the context of franchise firms. These research avenues may be relevant in verifying and generalizing the results of the present study.

## Note

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Table 1. Profile of the Cases

Franchise System	Case	Franchising Activity	Territorial Area in the UK	Year of Establishment of Franchise Outlet
<i>EstateLeaders</i> is arguably the fastest growing property lettings and management franchise in the UK	EstateLeaders-1	Estate agents & property management	East Midlands (Lincoln)	1996 ( <i>Second individual to buy a franchise in this organization; also ranked as the top franchisee in terms of factors such as income generation and business development</i> )
	EstateLeaders-2	Estate agents & property management	East of England (Essex: Romford & Chelmsford)	2004
<i>ElectricalMasters</i> is a leading specialist electrical contractor, working with major blue chip organizations, local authorities, and high security institutions	ElectricalMasters-3	Property & maintenance services, home improvements	South East England (West Sussex County)	2001 ( <i>First individual to purchase a franchise in this organization</i> )
	ElectricalMasters-4	Property & maintenance services, home improvements	North West England (Cumbria)	2005
	ElectricalMasters-5	Property & maintenance services, home improvements	South West England (Devon & Cornwall)	2005
<i>SurveyorManagers</i> is driven by health and safety legislation, and provides surveys and management plans to assist organizations in keeping with government legislations.	SurveyorManagers-6	Property surveys & risks assessment	Scotland (Aberdeen)	2004

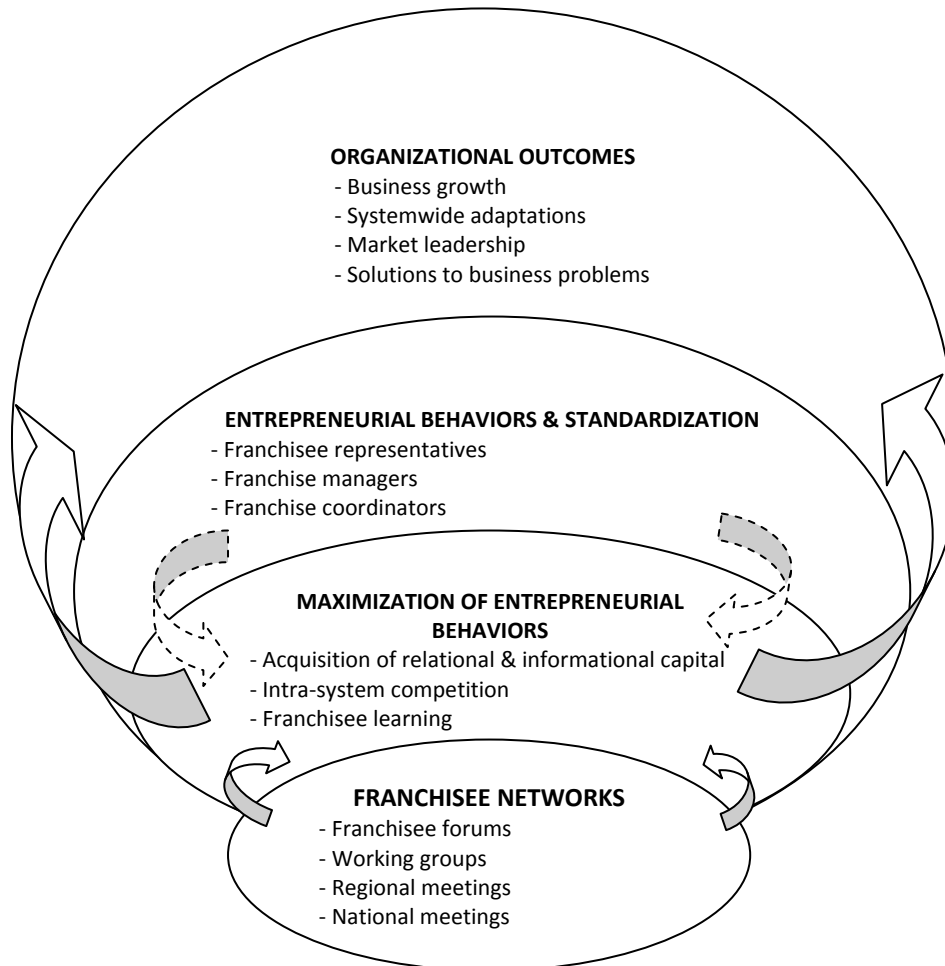


Figure 1. Model of maximization of entrepreneurial behaviors amongst franchisees