



When do franchisors select entrepreneurial franchisees? An organizational identity perspective



Anna Watson ^{a,*}, Olufunmilola (Lola) Dada ^{b,1}, Marko Grünhagen ^c, Melody L. Wollan ^d

^a Hertfordshire Business School, University of Hertfordshire, Hatfield, Hertfordshire AL10 9AB, UK

^b Lancaster University, Management School, Institute for Entrepreneurship and Enterprise Development, Lancaster LA1 4YX, UK

^c Eastern Illinois University, School of Business, 4002 Lumpkin Hall, Charleston, IL 61920, USA

^d Eastern Illinois University, School of Business, 3625 Lumpkin Hall, Charleston, IL 61920, USA

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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;

* Corresponding author.

E-mail addresses: a.watson5@herts.ac.uk (A. Watson), l.dada@lancaster.ac.uk (O.L. Dada), mgrunhagen@eiu.edu (M. Grünhagen), mlwollan@eiu.edu (M.L. Wollan).

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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, & Epplé, 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 & Swavelly, 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.

suggested that franchisees can play an important role in helping their systems innovate and become more competitive. Indeed Love (1986), and more recently Dada et al. (2012) have found evidence that franchisees are often a source of new products, services or processes. It would seem therefore, that different franchise systems have different entrepreneurial values, yet the impact this has on their recruitment strategy is not known.

Organizational identification is positively related to individuals' attitudes and behaviors, including cooperation, organizational commitment, organizational satisfaction, job involvement and organizational loyalty, and negatively related to individuals' intent to leave the organization (Jones & Volpe, 2011; Foreman & Whetten, 2002; Dutton, Dukerich, & Harquail, 1994). Thus, it seems logical that franchisors should seek to recruit franchisees whose identity is congruent to those of the franchise organization. Although there is some evidence to suggest that franchise organizations seek franchisees with entrepreneurial attributes (Ramírez-Hurtado et al., 2011), little is known about if/how these preferences differ between different types of franchise systems. Given the importance of organizational identification though, it may seem logical that those systems with entrepreneurial values will seek franchisees with entrepreneurial traits.

2.1. Management support and organizational identity

As Antoncic and Hisrich (2001) note, the internal environment of the firm is important in determining the extent to which an organization holds entrepreneurial values. When a firm is committed to an entrepreneurial strategic vision (identity), senior management has an important role in developing and communicating cultural norms for fostering entrepreneurial processes and behaviors among organizational members (Ireland, Covin, & Kuratko, 2009). Indeed, Hornsby, Kuratko, and Zahra (2002) suggest that management support, work discretion, rewards, time availability, and organizational boundaries are the key factors that influence firm-level entrepreneurial behaviors. Their study of an education institute and manufacturing, service, and financial organizations in the United States and Canada suggests that management support has the greatest influence on corporate entrepreneurship. Thus, management support, defined by Hornsby et al. (2002: 259) as “the willingness of managers to facilitate and promote entrepreneurial activity in the firm” is believed to be an indicator of the entrepreneurial identity of the franchise organization. In a franchise context, given it is the franchisor that enforces and creates the franchise contract by which franchisee behaviors are determined (Dada & Watson, 2013b), we propose that franchisor support will be key in determining the entrepreneurial identity of the franchise system. Thus, analogous with Hornsby et al. (2002) we define franchisor support as the willingness of the franchisor to facilitate and promote entrepreneurial activity within the franchise system. Just as Hornsby et al. (2002) suggest that managerial support refers to a range of forms, including championing innovative ideas, providing appropriate resources, or institutionalizing entrepreneurial activity within the firm's system and processes, similarly it is argued here that franchisor support will take a number of forms, namely franchisor managerial support, franchisor structural support and franchisor institutionalized support. The first two of these dimensions of franchisor support relate to more informal mechanisms by which franchisors may seek to encourage (quash) entrepreneurial values.

Franchisor managerial support reflects the extent to which entrepreneurial autonomy is encouraged within the franchise system. This includes the degree of freedom fostered in the system with regards to franchisee entrepreneurial activity. As Gillis and Combs (2009) highlight, the franchisees' local market knowledge places them in a strong position to create value through local adaptations and innovations. Enabling franchisees to have some flexibility and autonomy in order to meet the needs of their local markets may, therefore, be beneficial to the system. However, a more rigid approach facilitates quality control

and brand image consistency, and enables the efficiencies of standardization to be fully realized (Kaufmann & Eroglu, 1998), thus some franchisors may seek to limit franchisee autonomy. *Franchisor structural support* captures the degree of risk taking tolerance and innovation reflected in the franchise system's structure. Gillis and Combs (2009: 558) suggest that particularly for plural form franchise systems (which they term chain builders) there may be benefits in encouraging franchisees “...to unleash their entrepreneurial spirit by experimenting...”, so that the innovations can be disseminated across the system. Whilst the first dimension focuses on autonomy, this second dimension suggests a further step where the franchisor encourages franchisees to experiment and take risks in order to innovate. The final dimension of franchisor support, *franchisor institutionalized support*, captures those formalized mechanisms that may be installed into the franchise system to reinforce an entrepreneurial climate, and corresponds with Hornsby et al.'s (2002) notion of institutionalizing entrepreneurship within the firm's system and processes. Falbe et al.'s (1998) study suggest that franchisors may install a number of mechanisms to support entrepreneurial activity by franchisees, such as the use of a franchise council, recognition of new ideas at the annual meeting of the franchise system, and the presence at franchisor headquarters of a champion for innovation. Lawrence and Kaufmann (2011: 14) argue that franchisee based communities (such as franchise associations) can be “rich repositories of institutional knowledge” which can be “...very useful in the creation, dissemination, and maintenance of firm specific intelligence”. Further, Gillis and Combs (2009) highlight the importance of knowledge-sharing routines, such as franchise councils and local and regional meetings that celebrate franchisee innovations, in promoting innovation while maintaining standardization. Thus, it would seem that franchisor institutionalized support for entrepreneurial activity indicates the presence of an entrepreneurial organizational identity. Indeed, Dada and Watson (2013b) found such support mechanisms to be positively related to the entrepreneurial orientation of the franchise system.

Whilst intuitively one would expect franchisors to recruit franchisees whose entrepreneurial values match those of the franchise system, and indeed, that is what is hypothesized here, a number of authors (see for example, Baucus et al., 1996; Davies, Lassar, Manolis, Prince, & Winsor, 2009; Mellewigt, Ehrmann, & Decker, 2011) suggest that franchisees are often frustrated by their franchisors' attempts to curtail their autonomy, suggesting that there could be a mismatch in entrepreneurial identities. Inherent in the decision to become a franchisee is an element of risk-taking, given that franchisees run the risk of introducing the franchisor's concept into new and untried markets (Kaufmann & Dant, 1999). Whilst franchisors may seek to control franchisees' autonomy, some degree of autonomy and independence is needed given that the franchisee will be required to take control of the day-to-day running of the business. Thus, even those franchisors that do not seek to create an entrepreneurial identity within their organization, may seek to recruit individuals with entrepreneurial proclivities. Conversely, franchisors that seek to create an entrepreneurial identity within their system may still feel conflicted with the desire to control their franchisees' behavior to ensure brand consistency and facilitate quality control. Thus, even those franchisors that seek to encourage innovation within the system may be reluctant to recruit highly entrepreneurial franchisees. However, on balance, it is proposed here that franchisors that create an entrepreneurial organizational identity through their support structures will seek to recruit franchisees that are more entrepreneurial.

Thus, the following hypotheses are proposed:

H1a. Franchisor managerial support is positively related to entrepreneurial franchisee selection.

H1b. Franchisor structural support is positively related to entrepreneurial franchisee selection.

H1c. Franchisor institutionalized support is positively related to entrepreneurial franchisee selection.

2.2. Organizational identity/congruence

Whilst there is some evidence to suggest that franchise systems which seek to recruit entrepreneurial franchisees perform better than those who do not, both in financial terms (Zachary et al., 2011) and in terms of the franchisee–franchisor relationship quality (Dada & Watson, 2013a), organizational identity theory would suggest that this relationship may not hold across all systems. Rather, it is the level of congruence between the franchisor and franchisee identity that is important. This can be explained by the concept of person–organization (P–O) fit. This refers to the compatibility between people and the organizations they work for (Kim et al., 2013: 3719), and is positively associated with individual and organizational outcomes such as job satisfaction, organizational commitment, organizational identification, job performance, citizenship behavior, creativity, and intention to remain (Kim et al., 2013; Saraç, Efil, & Eryilmaz, 2014; Edwards & Cable, 2009). Of particular relevance here is the notion of supplementary fit, which exists when a person and an organization possess similar values (Saraç et al., 2014). It is argued that when the values of a person are incongruent with their organization this leads to cognitive dissonance and negative work attitudes (Cable & Edwards, 2004). Conversely, where values are congruent there is evidence that positive behavioral outcomes, such as improved job performance and organizational citizenship behavior, result (Kim et al., 2013).

Whilst previous literature on P–O fit has focused on fit between employees and the organizations they work for, it would seem logical that this would apply in a franchising context too. A highly entrepreneurial franchisee who joins a highly standardized system is likely to become frustrated. Indeed, Davies et al. (2009: 332) found evidence that dissatisfaction and conflict within the franchise system derive (at least in part) “...from the obstruction of franchisee aspirations for autonomy in the pursuit of entrepreneurial success”. Thus, entrepreneurial franchisees who feel they have insufficient autonomy (through franchisor managerial support), have their efforts to experiment and innovate thwarted (through franchisor structural support), or who feel there are no processes by which their creativity can be harnessed (institutionalized support) may become demotivated and frustrated. Equally, franchisees with low entrepreneurial aspirations may find themselves unable to cope with too much autonomy and become dissatisfied with the level of franchisor (managerial) support. For example, Hing (1995) suggests that franchisees with a low internal locus of control may fail to assume personal responsibility for their outlet’s success and become dissatisfied with the support they receive from the franchisor. Franchisees who are more risk averse may lose trust in their franchisor if they feel they are being pushed to experiment and take risks (structural support), and may not feel equipped or believe it is their role to identify and develop new market offerings (institutionalized support). Thus, it is suggested here, that franchisors should seek to recruit franchisees who are congruent in their entrepreneurial values. Certainly, there is evidence from non-franchised contexts to suggest that congruence affects relational aspects of performance. For example, congruence has positive effects on organizational commitment (Foreman & Whetten, 2002), co-operative behaviors (Dukerich, Golden, & Shortell, 2002), and job satisfaction (Van Dick et al., 2004), and evidence from Zachary et al. (2011) in a franchise context suggests that this may translate into financial performance outcomes.

Therefore, the following hypotheses are proposed:

H2a. The extent of the alignment (congruence) of franchisor managerial support for entrepreneurial values and entrepreneurial franchisee selection positively influences the performance of the franchise system.

H2b. The extent of the alignment (congruence) of franchisor structural support for entrepreneurial values and entrepreneurial franchisee selection positively influences the performance of the franchise system.

H2c. The extent of the alignment (congruence) of franchisor institutionalized support for entrepreneurial values and entrepreneurial franchisee selection positively influences the performance of the franchise system.

3. Research methodology

3.1. Data collection and sample

This study forms part of a large scale research project on entrepreneurship and franchising. The sampling frame for the study comprised all the franchisors itemized in a major UK franchise publication, the Franchise World: *British Franchise Directory and Guide* (2009). Although this directory lists over 1100 franchisees, some franchisors have multiple brands and some may no longer be in operation. The *NatWest/British Franchise Association Survey* (2008) indicates that there were about 809 active franchisors in the UK at the time of the survey. Using the comprehensive franchise listings provided in the Franchise World: *British Franchise Directory and Guide* (2009), we surveyed the entire population of franchisors in the UK.

A cross-sectional research design, involving a mail questionnaire survey, was employed for data collection. We used measurement items that have been shown to be reliable and valid in prior studies (Atuahene-Gima & Ko, 2001), adapting the items to fit the franchising context. The questionnaire was pretested by sending copies to the Managing Directors of ten franchise organizations who had participated in a prior related research project conducted by the authors. A feedback form was enclosed in addition to a covering letter. Our use of ten franchise organizations for the pretest is consistent with the number of organizations/business managers used in prior studies (e.g., Barthélemy, 2008, 2011; Tajeddini, 2010). The final version of the questionnaire was mailed to all the franchisors operating in the UK as explained above. The questionnaire pack also included a postage-paid reply envelope and a cover letter to the franchisor.

The survey was specifically addressed to the Managing Director of each of the franchise organizations. Additionally, there was a non-compulsory section in the questionnaire that asked for the name and the position of the respondent. The information provided in this section confirmed that the questionnaires were completed by our target respondents (or ‘informants’). These included top executives of the franchise organizations with sufficient knowledge of the organization’s policies – e.g. the Managing Director, Chairman, CEO, Owner, Vice President, Head of Franchise and National Franchise Manager. Franchisors were our specific target for key informants because they are expected to have ample knowledge about the research issues being examined (Avlonitis & Salavou, 2007; Simsek, Veiga, & Lubatkin, 2007) and they should be able to provide accurate responses (Zahra & Covin, 1995).

In addition to surveying the entire population of UK franchisors as explained above, we employed additional strategies to maximize the response rate. Before the survey commenced, efforts were made to publicize the study by sending the details to (a) the Director General of the British Franchise Association (BFA), the only independent accreditation body promoting ethical franchising in the UK, and (b) the Head of Franchising at a leading legal firm in the UK. Furthermore, as explained in the cover letter, a copy of the results of the complete study was offered to respondents, in line with Morris and Jones (1993). Seventy four per cent of the franchisors expressed an interest in this and gave their full contact details on their completed questionnaires. This initiative may also enhance the conscientiousness and reliability of responses (Hambrick, Geletkanycz, & Fredrickson, 1993).

After two reminders, we received a total of 97 completed questionnaires. Two questionnaires were excluded because they were not sufficiently complete, bringing the total number of usable questionnaires to 95. These consisted of 70 questionnaires received from the original mailing, 25 from the first round of reminders, and none from the second round of reminders. Our sample size is comparable with those of prior franchising studies, published in leading journals. For example, Gillis et al. (2011 in *Entrepreneurship Theory and Practice*) had a sample size of 68 franchise organizations; Falbe et al. (1998 in the *Journal of Business Venturing*) had a sample size of 50 participants. The overall response rate in the present study was 11.74%; this is adequate considering the size of the population of active UK-based franchisors, which are only 809. This response rate is consistent with the 10–12% response rate typical for mailed surveys to top executives in large, medium and small sized firms (Hambrick et al., 1993; Simsek et al., 2007; Simsek, Heavey, & Veiga, 2010). Although similar response rates have been reported in previous franchising research (e.g., Grace & Weaven, 2011 in the *Journal of Retailing* had a response rate of 9%; Grünhagen & Mittelstaedt, 2005 in the *Journal of Small Business Management* reported a response rate of 10.5%), our sample size may be a potential limitation of this study. The possibility of non-response bias was assessed by comparing early respondents with late respondents; the latter are assumed similar to non-respondents (Simsek et al., 2007). This approach ensuing from Armstrong and Overton (1977) has been used in several studies (e.g., Simsek et al., 2007; Witt, Schroeter, & Merz, 2008). The sample was divided into two groups: (1) early respondents being questionnaires received before the first round of reminders, and (2) late respondents being questionnaires received after the first round of reminders. T-test comparisons of the two groups on the key constructs did not reveal statistically significant differences. Therefore, non-response bias is not likely to be a concern in the interpretation of the findings from this study.

The average age of respondents' systems was approximately 10 years and the average size was approximately 79 outlets. We were unable to conduct any statistical significance tests to ascertain the representativeness of the sample because there is no complete information on the age and size dimensions of the franchise systems operating in the UK. The characteristics of the sample are presented in Table 1. Respondents were from 12 industry sectors. We also included an

'other' category. The industries were defined according to the information provided in the *Franchise World: British Franchise Directory and Guide* (2009). The highest percentage of respondents were from the Retailing sector (18%), followed by Catering and Hotels (11%). The sample included both well established and young franchise systems, with very large as well as very small franchised outlets. Fifty eight per cent had been operating for up to 10 years, and 42% had been operating for more than 10 years. Sixty five per cent had up to 50 outlets, and 35% had more than 50 outlets. The broad representation of types and sizes of businesses suggests that our findings should have a high degree of generalization (Miller & Friesen, 1982).

3.2. Variables and measures

In line with prior studies (e.g., Sapienza, De Clercq, & Sandberg, 2005 and many others), previously validated measures which were reworded to fit the franchising context were utilized in this study. Measures were developed based on insights from prior studies in situations where there were no prior measurement scales. The reliabilities and validities of the measurement scales were assessed by means of principal components analysis using the varimax rotation procedure with a criterion of eigenvalue greater than 1.0, item-total correlations and Cronbach alphas (Hughes & Morgan, 2007; Kaya, 2006; Keh, Nguyen, & Ng, 2007; Weaven, Grace, & Manning, 2009). The factor loadings of all the items were greater than the common acceptance threshold of 0.40, and all items within each scale displayed high loadings unto their respective factors (Kaya, 2006). All item-total correlation coefficients were acceptably high, in the expected direction, and statistically significant at the 0.01 level (2-tailed) (Hughes & Morgan, 2007). For all scales, Cronbach alphas were above .60 (Shi & Wright, 2001; Wiklund & Shepherd, 2005), the recommended minimum acceptable standard (Bagozzi & Yi, 1988; Baker, Parasuraman, Grewal, & Voss, 2002). Confirmatory factor analysis (CFA) was additionally employed to further ensure the validity of the constructs. The results of the CFA for the measurement models for each construct indicate that the fit indices are appropriate: incremental fit index (IFI) and comparative fit index (CFI) exceeded the recommended guideline of 0.90. Overall, satisfactory evidence was found to suggest that the data were appropriate for analysis (Weaven et al., 2009).

Table 1
Characteristics of the sample.

Franchise system characteristics	Frequency	Cumulative frequency	Percentage	Cumulative percentage
<i>Franchise age</i>				
Less than 5 years	34	34	41	41
6–10 years	14	48	17	58
More than 10 years	35	83	42	100
<i>Franchise size</i>				
1–50 outlets	62	62	65	65
51–100 outlets	16	78	17	82
More than 100 outlets	17	95	18	100
<i>Industry sector:</i> ^a				
Property and maintenance services, home improvements	9	9	8	8
Catering and Hotels	13	22	11	19
Cleaning and renovation services	7	29	6	25
Commercial services	3	32	3	28
Direct selling, distribution, wholesaling, vending	8	40	7	35
Domestic, personal, health and fitness, caring, and pet services	4	44	4	39
Employment agencies, executive search, management consultancy, training and teaching	8	52	7	46
Estate agents, business transfer agents, financial services and mortgage brokers	7	59	6	50
Parcel and courier services	1	60	1	51
Printing, copying, graphic design	2	62	2	53
Retailing	20	82	18	71
Vehicle services	9	91	8	79
Other	23	114	20	99

^a Some franchisors were operating in more than one industry sector.

3.2.1. Dependent variables

The first dependent variable, entrepreneurial franchisee selection, was measured using a three-item scale with a 5-point Likert scale response that ranged from 1 (*Not at all*) to 5 (*To a large extent*). Respondents were asked to assess the extent to which they usually look for people with the following entrepreneurial tendencies when selecting franchisees: (1) ambitious people; (2) independent people; (3) creative people. The scale was developed by drawing on some of the most established constructs that have been frequently associated with an entrepreneurial role in both theoretical and empirical research (e.g., Rauch & Frese, 2007a, 2007b; Cromie, 2000; Durham University General Enterprising tendency (GET) test, 1988). The overall Cronbach's alpha value of the entrepreneurial franchisee selection scale was 0.65 (see Table 2). The second dependent variable, franchise system performance, was measured by employing a seven-item scale capturing financial and non-financial measures of performance, which was adapted from Keh et al. (2007) (see Table 2). The items measuring financial performance asked respondents to compare their franchise systems to that of their competitors in the last 3 years, using a 5-point Likert scale (1: *Much weaker* to 5: *Much better*). A 5-point Likert scale (1: *Strongly disagree* to 5: *Strongly agree*) was also used to assess respondents' degree of agreement with each of the items relating to non-financial performance. We specifically chose to use subjective financial performance measures because of the widely acknowledged difficulty associated with obtaining objective financial performance figures. Respondents are often very reluctant to give objective figures relating to firm performance (Walter, Auer, & Ritter, 2006); this is particularly difficult in the franchise context. In general, prior research suggests that subjective performance measures can accurately reflect objective measures (Lumpkin & Dess, 2001).

3.2.2. Independent variables

The independent variables comprised three different forms of support systems used by the franchisor to endorse, facilitate and promote entrepreneurial behaviors on the part of franchisees. The first independent variable, franchisor managerial support which measured the extent to which entrepreneurial autonomy was encouraged within the system, was developed using a two-item scale, drawing on Kuratko, Montagno, and Hornsby (1990), with a 5-point Likert scale response that ranged from 1: *Not at all descriptive* to 5: *Very descriptive*. The scale comprised the following items: (1) My franchise system encourages franchisees to undertake entrepreneurial activity, and (2) My franchise system encourages decision-making power by franchisees. The scale exhibited high reliability with a Cronbach's alpha value of 0.82. The second independent variable, franchisor structural support, used a 6 item scale to measure the degree of risk taking tolerance and innovation within the system structure. A 5-point Likert scale (1: *Not at all descriptive* to 5: *Very descriptive*) was used to assess respondents' degree of agreement with each of the items. The measures were adapted from Kuratko et al. (1990). Respondents were asked to assess the extent to which the following items were descriptive of their franchise systems: (1) My franchise system encourages franchisees to bend rules; (2) My franchise system sponsors the implementation of franchisees' new ideas; (3) Individual risk-takers are often recognized amongst franchisees, whether eventually successful or not; (4) My franchise system encourages calculated risk-taking amongst franchisees; (5) 'Risk-taker' is considered a positive attribute in a franchisee; (6) Small and experimental projects of franchisees are supported by my franchise system. The Cronbach's alpha value of the scale was 0.79. The third independent variable, franchisor institutionalized support, was measured through the use of a four-item scale relating to systems

Table 2
Measurement items of constructs.

Constructs	Measurement items	Cronbach's α values
<i>Franchise system performance</i>	(1) Profitability ^a . (2) Sales growth ^a . (3) Market share ^a . (4) Overall financial performance ^a . (5) My system provides secure jobs to franchisees ^b . (6) My system is realising its franchising goals ^b . (7) I am satisfied with my franchisees' overall performance ^b .	.82
<i>Franchisor managerial support</i>	(1) My franchise system encourages franchisees to undertake entrepreneurial activity (2) My franchise system encourages decision making power by franchisees	.82
<i>Franchisor structural support</i>	(1) My franchise system encourages franchisees to bend rules (2) My franchise system sponsors the implementation of franchisees' new ideas (3) Individual risk-takers are often recognized amongst franchisees, whether eventually successful or not (4) My franchise system encourages calculated risk-taking amongst franchisees (5) 'Risk-taker' is considered a positive attribute in a franchisee (6) Small and experimental projects of franchisees are supported by my franchise system	.79
<i>Franchisor institutionalized support</i>	My franchise system uses the following to encourage entrepreneurial activity in franchised outlets: (1) franchisee forum (2) the recognition of new ideas at regional/annual meetings (3) the presence of a champion for innovation at franchisor headquarters (4) rewarding of franchisees who make entrepreneurial contributions	.77
<i>Entrepreneurial franchisee selection</i>	When selecting my franchisees I usually look for people with the following qualities: (1) Ambitious people (2) Independent people (3) Creative people	.65

^a Respondents were asked to rate these financial performance items relative to those of competitors in the last 3 years.

^b Measured with regards to the last 3 years.

Table 3
Means, standard deviations, and correlations.

Variables	M	S.D	1	2	3	4	5
Entrepreneurial franchisee selection	3.81	0.79	1.00				
Franchise system performance	3.63	0.62	−0.11	1.00			
Franchisor managerial support	3.47	1.04	0.23*	0.14	1.00		
Franchisor structural support	2.79	0.75	0.26*	−0.11	0.45**	1.00	
Franchisor institutionalized support	3.16	0.97	0.31**	0.17	0.36**	0.40**	1.00

N = 95.

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

instituted to promote entrepreneurial activity in franchised outlets. This factor sought to measure the extent to which formalized mechanisms had been installed to reinforce an entrepreneurial climate within the franchise system. A 5-point Likert scale (1: *Not at all* to 5: *To a large extent*) was used to assess respondents' degree of agreement with each of the following items. My franchise system uses the following to encourage entrepreneurial activity in franchised outlets: (1) franchisee forum, (2) the recognition of new ideas at regional/annual meetings, (3) the presence of a champion for innovation at franchisor headquarters, and (4) rewarding of franchisees who make entrepreneurial contributions. The measures were adapted from Dada et al. (2012) and Falbe et al. (1998). Kuratko et al. (1990) discussed all the items we used for measuring the franchisor managerial support and the franchisor structural support scales under a single scale capturing management support. However, our review of the items suggests they comprise separate components, at least in the franchising context. Additionally, the principal components factor analysis (for all the items measuring the three independent variables in the present study), using a varimax rotation, produced a three-factor solution and confirmatory factor analysis further supported this interpretation. In other words, items relating to management support within the specific context of franchising produced three separate factors.

Table 4
Multiple regression results (hypothesis 1).

Variable	Model 1	Model 2
	<i>Dependent variable is entrepreneurial franchisee selection</i>	<i>Dependent variable is entrepreneurial franchisee selection</i>
Constant	(0.350)***	(0.538)***
Franchise size	0.046 (0.001)	−0.002 (0.001)
Franchise age	−0.167 (0.010)	−0.150 (0.010)
Industry sector:		
Property and maintenance services, home improvements	0.075 (0.374)	0.075 (0.353)
Catering and Hotels	−0.065 (0.353)	0.047 (0.338)
Cleaning and renovation services	−0.089 (0.402)	−0.028 (0.381)
Commercial services	−0.216 (0.602)	−0.183 (0.573)
Direct selling, distribution, wholesaling, vending	−0.026 (0.419)	0.101 (0.410)
Domestic, personal, health and fitness, caring, and pet services	−0.258 (0.528)*	−0.254 (0.496)*
Employment agencies, executive search, management consultancy, training and teaching	0.089 (0.392)	0.067 (0.371)
Estate agents, business transfer agents, financial services and mortgage brokers	−0.226 (0.460)	−0.211 (0.441)
Parcel and courier services	0.139 (2.509)	0.008 (2.375)
Printing, copying, graphic design	0.013 (0.859)	−0.027 (0.810)
Retailing	0.089 (0.317)	0.185 (0.303)
Vehicle services	0.009 (0.413)	0.128 (0.397)
Other	0.135 (0.357)	0.196 (0.338)
Franchisor managerial support		0.128 (0.088)
Franchisor structural support		0.103 (0.125)
Franchisor institutionalized support		0.270 (0.096)*
F value	1.212	1.887*
R ²	0.195	0.321
Adjusted R ²	0.034	0.151

Standardized coefficients are reported in the table; Standard errors are in parentheses.

*** $p < 0.001$;

* $p < 0.05$.

3.2.3. Control variables

We included a set of control variables in order to ensure that the models were properly specified and allowed for likely alternative explanations for variations (De Clercq, Dimov, & Thongpapanl, 2010) in the dependent variables. Firms of different age and size, and those operating in different industries, may exhibit different organizational characteristics (Wiklund & Shepherd, 2005). Therefore, as controls, we added franchise age (measured as the number of years the organization has been franchising in the UK), franchise size (measured as the number of franchised outlets the organization has in the UK) and industries (defined as stated earlier).

3.3. Assessing common method bias

Various procedural and statistical techniques have been recommended in the literature for dealing with common method biases (Podsakoff & Organ, 1986; Podsakoff, MacKenzie, Lee, & Podsakoff, 2003); but there are no techniques without disadvantages (Grace & Weaven, 2011). In this study, respondents were assured anonymity and confidentiality to reduce respondents' evaluation apprehension, a procedural technique suggested by Podsakoff et al. (2003), and adhered to in previous studies (e.g. Wang, 2008). Additionally, we employed the

Harman one-factor (or single-factor) test (Podsakoff & Organ, 1986; Podsakoff et al., 2003) that has been utilized in several studies (e.g., Rhee, Park, & Lee, 2010; Li, Zhao, Tan, & Liu, 2008; Wang, 2008; Avlonitis & Salavou, 2007). All the items from all of the constructs in this study were included in a factor analysis, as described in Podsakoff et al. (2003). The results produced 5 factors that accounted for 62.67% of the total variance, with the first factor accounting for 13.99% of the variance. Therefore, the factor analysis did not produce a single factor and no sole factor accounted for the majority of the variance (Rhee et al., 2010). These results indicate that common method bias is not a major problem in the data, and offer further support for the validity of the measures used in this study (Rhee et al., 2010; Stam & Elfring, 2008).

4. Analysis and results

The means, standard deviations, and correlations of the variables are displayed in Table 3. The maximum variance inflation factor (VIF) value was 1.509. Typically, correlations over 0.70 and VIFs over 10 are signs of serious multicollinearity problems (Walter et al., 2006), which were not the case in our data. These statistics therefore provide confidence in the test results that are discussed below (Hughes & Morgan, 2007).

Multiple regression analysis was used to test hypotheses 1a-c; the results are displayed in Table 4. In Model 1, multiple regression analysis was used to assess the effects of the control variables; the independent variables were added in Model 2. The results corresponding to Model 1 indicate that the model was not statistically significant (F statistic = 1.212, $p > 0.10$). In Model 2, the results show that this model was statistically significant (F statistic = 1.887, $p < 0.05$) and it explained 32% of the variance in entrepreneurial franchisee selection. However, support was only found for one of the sub-hypotheses. Neither of the informal mechanisms that promote entrepreneurial values (franchisor managerial support and franchisor structural support) were significantly related to entrepreneurial franchisee selection. The results did, however, support H1c – as predicted, franchisor institutionalized support was positively and significantly related to entrepreneurial franchisee selection ($\beta = 0.270$, $p < 0.05$).

In addition, we adhered to the recommendation in Woodside's (2013) recent editorial published in the *Journal of Business Research* which drew on prior studies, in particular, Armstrong (2012), suggesting the need for scholars to focus on estimating relationships for few independent variables when using multiple regression analysis. In line with this recommendation, in Table 5, we report the findings for the parsimonious model (Model 3), i.e. the model contains only significant variables from Table 4. As shown in Table 5 the parsimonious model provides support for H1c, and is consistent with the findings reported in Table 4.

In addition, Woodside (2013) called for studies using multiple regression analysis to not just test for fit validity, but also test for predictive validity of models with holdout samples. In line with

Woodside's guidelines for accomplishing this, we split our total sample into two nearly equal (sub) samples (with the first sample $n = 47$ and the second sample $n = 48$). The test for predictive validity of the first model (from the first sample) on the second holdout sample demonstrates that the model had acceptable predictive validity. Here, the correlation for the comparison of predicted and actual scores for the parsimonious model comprising the variables in Model 3 was $r = 0.277$ ($p = 0.066$). Similarly, the test for predictive validity of the second model (from the second sample) on the first holdout sample indicates that the model had acceptable predictive validity. Here, the correlation for the comparison of predicted and actual scores for the parsimonious model comprising the variables in Model 3 was $r = 0.503$ ($p = 0.000$). In all, the results of the models taken together provide support for H1c.

To test hypotheses 2a-c, we employed polynomial regression with response surface analysis. This is a sophisticated statistical approach that can be used for examining the extent to which combinations of two predictor variables relate to an outcome variable (Shanock, Baran, Gentry, Pattison, & Heggstad, 2010). We followed the detailed procedures outlined in Shanock et al. (2010); Shanock, Baran, Gentry, Pattison, and Heggstad (2014). This included running individual polynomial regression analyses for each of the hypotheses H2a-c. If the R^2 is significantly different from zero, the results of the polynomial regression are evaluated in relation to surface test values. As recommended by Edwards (1994), the predictors for the polynomial regression (i.e. the three measures of franchisor support and the measure of entrepreneurial franchisee selection) were centered (using the point halfway between their means). Shanock et al. (2010) notes that centering helps interpretation and reduces the likelihood of multicollinearity.

In Model 4 (see Table 6), the response surface analysis results show that agreement (congruence) in franchisor managerial support / entrepreneurial franchisee selection had a positive and significant relationship with system performance. It is interesting to note that this relationship is non-linear (as indicated by the positive and significant value for a_2 : $a_2 = 0.30$, $p = 0.01$), with a convex (upward curving) surface. As can be seen from the graph (Fig. 1) performance is at its lowest in the mid-range; this implies that when the entrepreneurial identity of both system and franchisees are more ambiguous, performance is lower than for either a highly entrepreneurial system, or a tightly controlled one. As Model 5 shows (see Table 7 and Fig. 2 for the surface graph), a similar relationship was found between franchisor institutionalized support / entrepreneurial franchisee selection and system performance

Table 5
Multiple regression results for parsimonious model (hypothesis 1).

Variable	Model 3 Dependent variable is entrepreneurial franchisee selection
Constant	(0.264)***
Industry sector:	
Domestic, personal, health and fitness, caring, and pet services	-0.254 (0.079)*
Franchisor institutionalized support	0.319**
F value	8.615***
R ²	0.159
Adjusted R ²	0.141

Standardized coefficients are reported in the table; standard errors are in parentheses.

*** $p < 0.001$;

** $p < 0.01$;

* $p < 0.05$.

Table 6
Results for entrepreneurial franchisee selection–franchisor managerial support congruence and franchise system performance (hypothesis 2a).

Variable	Model 4 Dependent variable is franchise system performance
Constant	3.452 (0.092)***
Franchisor managerial support	0.155 (0.071)*
Entrepreneurial franchisee selection	-0.139 (0.089)
Franchisor managerial support squared	0.109 (0.054)*
Franchisor managerial support X Entrepreneurial franchisee selection	0.129 (0.087)
Entrepreneurial franchisee selection squared	0.057 (0.065)
R ²	0.133*
<i>Surface tests</i>	
a_1	0.02
a_2	0.30*
a_3	0.29
a_4	0.04

N = 95.

Unstandardized regression coefficients are reported in the table; Standard errors are in parentheses.

*** $p < 0.001$.

* $p < 0.05$.

System performance as predicted by franchisor managerial support and entrepreneurial franchisee selection congruence

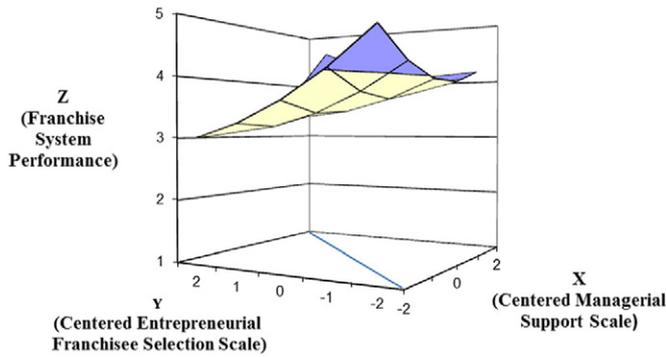


Fig. 1. System performance as predicted by franchisor managerial support and entrepreneurial franchisee selection congruence.

System performance as predicted by franchisor institutionalized support and entrepreneurial franchisee selection congruence

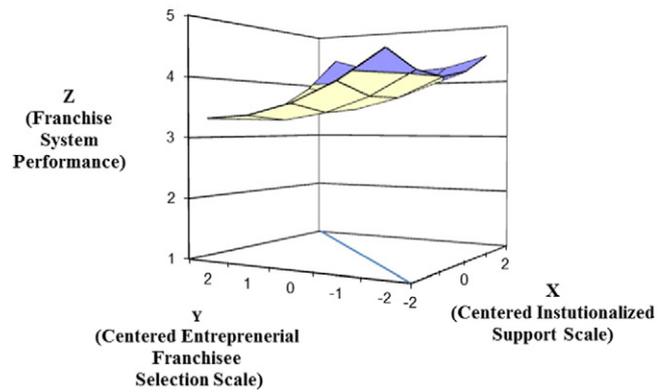


Fig. 2. System performance as predicted by franchisor institutionalized support and entrepreneurial franchisee selection congruence.

($a_2 = 0.23$, $p < 0.05$). Thus, hypotheses H2a and H2c were supported. The R-squared from the polynomial regression pertaining to franchisor structural support was not significant, suggesting that congruence effects cannot explain the variance (Edwards, 1994), and thus no support was found for hypothesis H2b.

5. Discussion

The selection of suitable franchisees is vital to the success of franchise systems (Watson, 2008) and franchisors can use franchisee selection criteria as a key input control to improve the outcomes of their future franchisees (Jambulingam & Nevin, 1999). In spite of the acknowledged importance of franchisee selection, minimal scholarly attention has been devoted to the relevant theory development, and published research in this area is sparse (Wang & Altinay, 2008; Clarkin & Swavely, 2006; Jambulingam & Nevin, 1999). The present study advances knowledge on the link between the franchise system's organizational identity and the franchisor's desire to select entrepreneurial franchisees. Our findings suggest that franchisors that have institutionalized entrepreneurial activity within the firm's systems and processes will seek entrepreneurial franchisees; that is to say, there is evidence to suggest that they will seek franchisees whose entrepreneurial values match their own. However, it is interesting to note that where

franchisors adopted informal mechanisms to support entrepreneurial activities no statistically significant relationship with entrepreneurial franchisee recruitment was found. This may suggest that it is the formal mechanisms (rather than informal) which indicate a clear commitment to entrepreneurial values within the system. This finding can perhaps be explained by signaling theory. It is the formal mechanisms that can be observed, and thus through institutionalized support franchisors can signal their entrepreneurial values to both potential and current franchisees. Indeed, Lucia-Palacios, Bordonaba-Juste, Madanoglu, and Alon (2014) suggest that signaling firm values enables franchisors to attract appropriate franchisees.

In keeping with organizational identity theory, the results also found that the performance of the franchise system is positively impacted when the franchisor seeks to select franchisees whose entrepreneurial values are similar to those of the system. This relationship was found to be non-linear, such that performance increased as entrepreneurial values (as indicated by both franchisee selection and franchisor support) became high or low – that is to say, performance was weakest for those systems whose entrepreneurial identity was less pronounced. Gillis and Combs (2009) argue that franchise systems tend to follow one of two strategies – chain builders, who grow using a combination of company owned and franchised outlets, or turnkeys, who only operate franchised outlets. Their study suggested that chain builders should encourage franchisees "... to unleash their entrepreneurial spirit" (op. cit.: 558), whilst turnkeys should maintain a highly controlled system. Thus, the results here may reflect these two strategic positions – chain builders will benefit from maintaining a strong entrepreneurial identity, whereas turnkeys will benefit from maintaining a highly standardized system. Where the entrepreneurial identity is less pronounced, performance will be weaker.

Although the results suggest that congruity in identities positively affects system performance, it is interesting to note that discrepancies in identity do not have a significant impact on performance (as indicated by a_4). On the surface, this may seem a little incongruous, but the P-O fit literature suggests that an excess supply of an attribute by an organization (in this case entrepreneurial support) may not negatively impact employees (Cable & Edwards, 2004). The surface graphs suggest performance is weaker when franchisees are more entrepreneurial than the system (as reflected by franchisor support), but not when the entrepreneurial values of the system are greater than the franchisees, and in the case of institutionalized support, this relationship is statistically significant (as indicated by the a_3). Systems that have developed support structures to encourage entrepreneurial activities yet recruit franchisees who do not have an entrepreneurial disposition, may simply find that the potential benefit of such structures remains

Table 7
Results for entrepreneurial franchisee selection–franchisor institutionalized support congruence and franchise system performance (hypothesis 2c).

Variable	Model 5 Dependent variable is franchise system performance
Constant	3.480 (0.093)***
Franchisor structural support	0.170 (0.073)*
Entrepreneurial franchisee selection	−0.121 (0.090)
Franchisor structural support squared	0.100 (0.066)
Franchisor structural support X Entrepreneurial franchisee selection	0.064 (0.127)
Entrepreneurial franchisee selection squared	0.068 (0.071)
R ²	0.120*
<i>Surface tests</i>	
a_1	0.05
a_2	0.23*
a_3	0.29*
a_4	0.10

N = 95.

Unstandardized regression coefficients are reported in the table; standard errors are in parentheses.

*** $p < 0.001$.

* $p < 0.05$.

underexploited. The P–O fit literature also suggest that some degree of incongruity across the organization may be beneficial – Chatman (1989) argues that if there are very high levels of fit, inertia may result, and thus organizations may become less able to adapt to new environmental contingencies.

5.1. Implications for research

The current state of the literature suggests that not all franchisors desire to select entrepreneurial franchisees, because within the context of franchising, standardization is its distinct organizational identity. However, findings from the present study demonstrate that in some systems the organizational identity may be more entrepreneurial, and thus franchisors in such systems may desire to select entrepreneurial franchisees. Indeed, the results suggest that for those franchise systems with an entrepreneurial organizational identity, performance will be improved through employing entrepreneurial recruitment selection criteria. These results are in keeping with Zachary et al. (2011) who found evidence that franchise systems often use entrepreneurial rhetoric in their recruitment material, suggesting that entrepreneurial values may be an important part of system (organizational) identity.

Much of the literature on organizational identity theory has focused on one type of agency relationship – that of managers within an organization. This research adds to this literature by exploring the role of organizational identity in a different agency setting. Traditionally, franchising is seen as a form of agency relationship (Caves & Murphy, 1976; Brickley & Dark, 1987) where the franchisor (principal) seeks to limit opportunistic behavior by the franchisees (agents). However, whilst franchisees are agents of the franchisor, because they are residual claimants their interests should be more aligned than that of a traditional agency relationship between manager and principal. The results here suggest that even where there are other mechanisms in place to help align interests between principal and agent (in this case reward incentives), that organizational identification (or more specifically congruence in identities) will still result in performance benefits. In fact, drawing on Davis, Schoorman, and Donaldson (1997) it is posited here that where identification is present franchisees may become stewards of the system: that is the organizational identification further aligns franchisees' motives with their principal (franchisor) such that franchisees do not engage in self-serving behavior to the detriment of the system.

Whilst the results suggest that identification does have positive performance outcomes, it suggests a complex relationship, and so further research is needed to explore more fully the identification process, utilizing franchisee perspectives.

5.2. Implications for practice

A franchise chain often earns its reputation based on successfully standardizing and replicating the chain's operating procedures, and this reputation can give the chain's outlets an advantage over competitors in their local markets (Castrogiovanni & Kidwell, 2010). This may suggest that the selection of an entrepreneurial franchisee can be at odds with the standardization required within a franchised business environment. However, the franchisor's desire for standardization often conflicts with the need for adaptations and entrepreneurial behaviors in the franchisee's local outlets, given the geographically diverse nature of franchisees' markets (Cox & Mason, 2007; Pizanti & Lerner, 2003). The business environment for franchising operations has also become highly competitive, experiencing rapid changes, perhaps becoming riskier than in previous times (Falbe et al., 1998). These changes, alongside recent evidence suggesting the important role of franchisee entrepreneurial behaviors on the franchise system as a whole (e.g. Dada et al., 2012), may signal the need to incorporate entrepreneurial values within the standardized context of the franchise system.

5.3. Limitations and future research directions

"All studies have limitations that shape their implications and direct future inquiry" (Michael & Combs, 2008: 84), and thus the limitations of this paper need to be considered. Whilst the sample size achieved is comparable with other franchising studies (e.g., Gillis et al., 2011; Falbe et al., 1998), and represents over 10% of the franchise systems operating in the UK, the small sample size does represent a potential limitation of the study.

This study focused on the organizational identity with respect to entrepreneurial values, and as such this may limit the extent to which we can ascertain the effects of other elements of the franchise system's organizational identity. Future studies can extend this stream of research by looking at the impact of other aspects of the franchise system's organizational identity and organizational identification by franchisees. Although the paper suggests some potential performance benefits of identity alignment, further research is needed to understand fully the long term impacts of misalignment, as highlighted by Zachary et al. (2011). Given the franchise relationship is an on-going long term exchange, exploring the long term effect of alignment on different organizational outcome variables (e.g. franchisee performance, commitment, organizational learning, and intention to remain and grow within the network (Weaven et al., 2009) through a longitudinal analysis may provide further insights. The P–O literature suggests that where there are discrepant values between person and organization, either the person changes their values (to match those of the organization), they leave, or the organization changes its values (Chatman, 1989). Longitudinal research would enable these dynamics to be explored, in addition to considering performance effects.

A further limitation may also arise from the factors taken into consideration in the development of the core construct, entrepreneurial franchisee selection. Given the lack of a standard definition of what constitutes entrepreneurship, different franchisors may capture the selection of an entrepreneurial franchisee using diverse variants of the entrepreneurship concept. Future research could use other dimensions of entrepreneurship to capture entrepreneurial franchisee selection.

This research was specifically designed around the franchisor's perspective given that the franchisor is the most knowledgeable in terms of the approved organizational identity for the franchise system s/he has created. However, the results here suggest a potentially complex relationship between identification and system performance. A study that explored identification from the franchisee's perspective would enable further insights into how identity congruence or misalignment affects performance.

6. Conclusion

Although franchising continues to be a significant business model globally, the issue of entrepreneurship within the franchise chain has been a dominant debate amongst both academics and practitioners (see e.g. Dada et al., 2012; Ketchen et al., 2011; Seawright et al., 2011). This study has shown that the organizational identity of the franchise system is central to developing a theory of entrepreneurial selectivity in franchisee recruitment. In particular, the entrepreneurial values contained in the franchise system's organizational identity distinguish the organizations that desire entrepreneurial franchisee selection from those that would not. Fruitful directions to extend this research area have been highlighted.

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