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Managing Entrepreneurial Tensions in Franchise Systems

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Abstract

The role of entrepreneurship in franchise systems has been a complex issue. This Chapter aims to provide a better understanding on this issue by focusing on the entrepreneurial tensions that exist in franchise systems and the associated coping mechanisms for minimizing these tensions. It draws on a range of classic and emergent theoretical explanations, which are substantiated with empirical evidence. The Chapter highlights notable contributions in this research area and offers directions to guide future studies in order to provide clarity on the entrepreneurial paradoxes in franchising.

Introduction

There has been much debate over the last few decades as to the extent to which franchising, or franchisees in particular can be deemed as entrepreneurial. Entrepreneurial is used in this context to capture both individual-level and firm-level studies on the personalities and behaviors of franchisees and franchisors in relation to entrepreneurship, with entrepreneurship defined as 'the discovery and exploitation of profitable opportunities' (Shane and Venkataraman, 2000, p. 217). Commonly used entrepreneurship terminologies such as entrepreneur, entrepreneurial behaviors and entrepreneurial orientation are all captured by the broad entrepreneurial concept. Whilst there is perhaps some agreement that franchisors can be deemed entrepreneurs, the extent to which franchisees are, or exhibit entrepreneurial behaviors, or whether entrepreneurial behaviors by franchisees are desirable is an aspect on which no real consensus has been reached. That said, there is increasing research evidence that franchisees can and do engage in entrepreneurial behaviors (Dada et al., 2012, 2015). In this Chapter, we argue that in fact the reason for the lack of consensus in this regard, is because franchising is an entrepreneurial paradox: that is to say, it is both entrepreneurial and not entrepreneurial at the same time. As Mick and Fournier (1998) note, a paradox exists when something is both X and not-X at the same time, and these competing forces create anxiety and the development of coping mechanisms.

The Chapter will examine why franchising might be considered both entrepreneurial and unentrepreneurial, drawing on empirical evidence from the literature. Particular attention will be paid to the role of the franchisee, although the role of the franchisor will also be considered. The Chapter begins by exploring the source of the paradox, based on a number of competing entrepreneurial tensions within the franchise system. Having identified the source of potential tensions and the nature of the paradox, the Chapter will then explore how franchise systems cope with these entrepreneurial stresses, and in particular consider how these impact system performance. By examining the foregoing research issues, it is intended that this will enable a better understanding of how to manage entrepreneurial tensions between franchisors and franchisees.

Entrepreneurial tensions

Despite franchising being described as an entrepreneurial partnership (Shane and Hoy, 1996, Kaufmann and Dant, 1999 and Grewal et al., 2011), the extent to which franchising, and in particular whether franchisees can be deemed entrepreneurial, continues to be a contested issue. Indeed in a recent article Ketchen et al. (2011) asked the question ‘Is franchising entrepreneurial? Yes, no and maybe so’, highlighting divergent opinions on the subject.

The centre of the debate pertains to the extent to which franchising represent a highly standardized business model. As Kaufmann and Dant (1999, p. 6) note, for some, franchising ‘… represents the lamented homogenization of our culture, and is singularly responsible for the lack of variety in a number of retail sectors’. This view stems from a perception of franchise systems as being typically designed around a standardized business format, where the franchisor seeks to ensure a uniform replication of his/her business operations across the entire franchise network. As Winter et al. (2012) highlight, there may be good reasons for adopting a standardized approach. Replicating the business template should maximize performance, and attempts to adapt may mean wasted effort on changes which damage performance. Furthermore, they suggest that the procedures and processes set out by the franchisor '…create an interlocking set of activities that discourage improvisation' (op. cit., p. 673). Standardization should facilitate quality control, cost minimization (through scale economies) and image uniformity (Kaufmann and Eroglu, 1999). Ensuring consistency and uniformity across the system ensures customers have a common image about the franchise network (Pardo-del-Val et al., 2014) and helps promote and protect the brand image (Dada and Watson, 2013a). Thus, as some authors have suggested, standardization 'is critical to the success of the franchise system' (Cox and Mason, 2007, p. 1054).

Within a highly standardized system it is difficult to see how entrepreneurial activities, such as autonomy (for the franchisee), proactiveness and innovation can flourish. As Clarkin and Rosa (2005, p. 306) comment, this highly restrained context means 'the potential for entrepreneurship has often been considered inherently illegitimate'. The role of the franchisee would seem to be reduced to simply executing standardized practices and procedures set out for them by their franchisors. Yet, franchising is often sold to franchisees as the opportunity to be their own boss (Dada and Watson, 2013a), and franchisees have local market knowledge which can be harnessed. Indeed, the emphasis on standardization would seem to contradict with the geographically diverse nature of franchisees' markets (Cox and Mason, 2007) as a homogenous offering may not be compatible with the needs of different local market conditions (Sorenson and Sorenson, 2001). As Winter et al. (2012, p. 674) note 'uniform operating procedures cannot possibly provide an optimal solution for all locations'. Thus, tensions are created between the franchisors' desire for standardization and the efficiencies this creates, and the franchisees desire for local market adaptations (innovations). Franchisees possess the most relevant knowledge of local market conditions, and therefore will seek to improve their performance through adaptations (Hoy, 2008, Winter et al., 2012). Indeed, as Dada and Watson (2013a) argue, providing franchisees with greater autonomy to pursue local entrepreneurial opportunities in situations where the franchisor knows little of the local market, is likely to be beneficial for the system.

It would seem that there may be some scope for franchisees to engage in local market innovations, but that standardization remains at the core of franchising. Hence the entrepreneurial paradox is created. Franchisees may engage in entrepreneurial activities, but these are limited to ensure some consistency across the system. A tension exists as to how to adapt the system to maximize performance at a local level, whilst ensuring that system performance is not damaged. The next section will consider different theoretical approaches which help further explain the entrepreneurial paradox within franchise systems, and provide insights into how these tensions can best be managed.

Theoretical foundations

The most prominent theories that are used to explore franchising are resource scarcity and agency or transaction cost economics. However, as contended by Combs et al. (2011) there is a need to move beyond these dominant perspectives, and authors such as Wu (2015) have argued that franchising research must become more theoretically robust. Thus it is important to consider how classic and emerging theories can provide insights into entrepreneurial tensions. Before exploring potential insights from emerging theories, we will begin by exploring insights from the classical agency theory, given its dominance in the literature.

Agency theory or transaction cost economics, posits that franchising may help align the incentives of principal (franchisor) and agent (franchisee), thus reducing monitoring costs. Franchisees, as residual claimants, are incentivised to maximise the performance of their own outlet, and thus it is believed they will require less monitoring than, for example, salaried managers (Mathewson and Winter, 1985, Brickley and Dark, 1987). Furthermore they are likely to be more sensitive to local market conditions, and seek to improve the performance of their outlet by seeking means to advance their business. In so doing, franchisees may engage in entrepreneurial behaviors (Dada and Watson, 2013a). However, this may lead them to behave opportunistically as profit maximising behavior at unit level, may not maximise profits at system level. Opportunistic behavior may entail suboptimal effort (Watson and Johnson, 2010) where the franchisee freerides on the reputation of the system and engages in activities that may be injurious to the brand (Dant and Nasr, 1998). Franchisees may consider it acceptable to ‘cut corners’ if they believe it will improve their competitiveness (Evanschitzky et al., 2016). Such behaviors may be more prevalent where the franchisee’s outlet is characterized by non-repeat trade (Brickley and Dark, 1987). Opportunistic behavior could also take the form of what Shane (1996) terms misdirected effort – that is to say the franchisee seeks to adapt the business format in the belief that it will improve their performance. As Brookes et al. (2015, p. 126) note, franchisees may deviate from the operating system ‘with a genuine desire to improve the “performance” of their unit’ where, due to the idiosyncrasies of their local market, the current operating systems does not serve their customers well. However, such behaviors, whilst possibly well intentioned, may lead to a deterioration in performance at system level. Although, as Evanschitzky et al. (2016) suggest, the franchise contract can be used to ensure adherence to system standards, this implies monitoring costs to ensure that franchisees adhere to system protocols. The enforcement of such formal controls may lead to a deterioration of franchisor-franchisee relationships, as franchisees may perceive restrictions as unfair if they believe they are not being given the autonomy they need to ensure their unit’s performance is maximized. In this way agency theory highlights the reason for entrepreneurial tensions; the incentives created by linking reward to unit performance, may mean that profit maximising behaviors locally are incompatible with system level profit maximization.

Whilst agency theory proposes that franchisee attempts to maximize their profitability derive from opportunistic tendencies, stewardship theory provides an emerging alternative perspective. Unlike agency theory which views the manager (or in this case the franchisee) as a cheating and untrustworthy agent ‘who realizes his or her self-interest to the detriment of the organization’ (Dada and Watson, 2013a, p. 959), stewardship theory ‘defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals’ (Davis et al., 1997, p. 21). As Dada and Watson (2013a) highlight, franchisees may become stewards of the system when they identify with it. They argue that if franchisees can become stewards, then their behavior will not depart from the interests of the franchise system as a whole. Indeed, Brookes et al. (2015) found evidence that where the relationship between franchisee and franchisor was strong, franchisees became brand advocates and sought to protect and promote the brand image. Of course, the question arises as to how to move franchisees from agents to stewards, an issue that will be explored more fully in the later section when considering coping mechanisms to deal with entrepreneurial tensions. In this regard, organizational identity theory, which is another emerging perspective in franchising research, may provide some insights given the link between organizational identification and stewardship behavior (Davis et al., 1997). Organizational identification occurs when an individual's beliefs about the organization (or in this case franchise system) become self-referential or self-defining (Ashforth and Mael, 1989), and has been linked with brand advocacy and brand commitment behaviors (Nyadzayo et al., 2015).

Resource scarcity proposes that franchisees provide valuable resources to the franchise system which enables small business to expand more rapidly and achieve first mover advantage (Michael, 2003). Whilst this is often considered in terms of the financial resources that franchisee provide, as Norton (1988) notes, it is unlikely that it is the franchisees' financial resources alone which make franchising attractive. Rather, franchisees provide additional resources in the form of human and relational capital (Watson et al., 2005). Whilst often within the franchising literature franchisees are seen as possessing superior local market knowledge and local contacts which can be harnessed by the franchisor, more recently the franchisee as a source of entrepreneurial capital has also been considered – that is to say, franchisees possess not just the local market knowledge but the entrepreneurial flair to exploit that knowledge (Grewal et al., 2011, Chien, 2014). Indeed, in considering the potential impact of entrepreneurial orientation (EO) within franchise systems, the combination of franchisor and franchisee entrepreneurial proclivity is seen as a potentially unique resource, and thus, from a resource based view (RBV), a source of competitive advantage (Grewal et al., 2011). As Grewal et al. (2011, p. 550) comment '…competitive advantage in franchising derives from the combined effect of entrepreneurial actions and firm-specific knowledge resources'. Whilst the RBV may suggest potential advantages from franchisee entrepreneurial activities, it is less clear how opportunistic behavior by franchisees can be safeguarded against. However relational resources, such as knowledge sharing, trust and conflict management (Wu, 2015) may help ensure that franchisees act in the best interest of the system. Indeed, social exchange and relationship marketing theory may help us to understand more fully how to best align and manage franchisees to ensure that their entrepreneurial activities enhance system performance.

From the preceding discussion, it can be seen that from the dominant theory in franchising, agency theory, there are potentially damaging consequences to allowing franchisees the autonomy to engage in entrepreneurial behaviors. It is perhaps for this reason there has been a perceived wisdom, that the role of the franchisee should largely be restricted to executing the franchisors' business system. Entrepreneurial behaviors become the purview of the franchisor: it is they who have responsibility for developing the system and creating new innovations. Yet, some consider franchising to be an entrepreneurial partnership (Shane and Hoy, 1996, Kaufmann and Dant, 1999 and Grewal et al., 2011) where the '…franchise partnership enables identification and exploitation of new market opportunities, and interdependence enables mutual and cooperative interest in expanding the "value pie" that the partners eventually share' (Grewal et al., p. 543). Thus, the entrepreneurial partnership becomes a source of competitive advantage, and entrepreneurial behaviors by franchisees contribute to system success. Given these divergent perspectives, the next section will consider the empirical evidence with regard to the extent to which franchisees engage in entrepreneurial behaviors, and the resulting impact on system performance.

Empirical research evidence

Empirical studies exploring issues of entrepreneurship within franchising can largely be divided into those which have considered entrepreneurial traits of franchisees (Boulay and Stan, 2013, Dada et al., 2015) or franchisors (Dada et al., 2015), and those which have considered entrepreneurial behaviors (for example, Withane, 1991, Falbe et al., 1998). In considering entrepreneurial behaviors, the concept of entrepreneurial orientation (EO), and its associated dimensions of innovativeness, proactiveness and risk-taking (Wiklund and Shepherd, 2005), has been applied by a number of authors (Grewal et al., 2011, Zachary et al., 2011, Dada and Watson 2013a, 2013b, Grunhagen et al., 2014, Evanschitzky et al., 2016). EO encompasses the 'strategy-making processes that provide organizations with a basis for entrepreneurial decisions and actions' (Rauch et al., 2009, p. 762), and as such is usually considered a firm-level construct (Covin and Wales, 2011). Whilst earlier studies exploring entrepreneurial activities in franchising were more concerned with the extent to which franchisees possess entrepreneurial characteristics and the type of entrepreneurial activities they engaged in, more recent studies have begun to explore the performance implications of the presence of entrepreneurial franchisees and their entrepreneurial activities. That is to say, to some extent the debate has shifted away from questioning whether franchisees are entrepreneurial, to the desirability of such activities.

One of the early studies in this area was conducted by Withane (1991), based on an analysis of 65 Canadian franchisees. It found that relative to the entrepreneurial characteristics reported to be necessary for successful franchise management (such as need for achievement, autonomy, internal locus of control, risk-taking, initiative and self-reliance), franchisees had lower self-manifested levels on virtually all the entrepreneurship dimensions. Anderson et al. (1992) compared the entrepreneurial traits of "real" entrepreneurs (in this case the owners of companies cited in the Inc. 100 list) and franchisees. They found that franchisees exhibited lower levels of achievement motivation, supervisory ability, initiative, and self-actualization whilst having a greater need for security. They therefore conclude that franchisees are not "real" entrepreneurs. Others have argued that 'franchisees are entrepreneurs drawn from the lower tail of the skill distribution of entrepreneurs, and independent business owners' (Williams, 1998, p. 121). A recent study by Seawright et al. (2013) employs a slightly different approach to explore if and how franchisees differ from independent entrepreneurs. Their research explores cognitive processes through Expert Information Processing Theory (EIPT). It is suggested (op. cit.) that entrepreneurs possess unique knowledge structures that facilitate information processing, enabling them to use information significantly better than non-entrepreneurs. Their findings suggest that whilst franchisees possess comparable knowledge structures to independent entrepreneurs regarding funding and financial resources to enable venturing, 'they lack comparable expertise in areas such as risk taking, opportunity recognition, and venture diagnostic ability' (Seawright et al., 2013, p. 216).

Whilst a number of studies as highlighted above have compared franchisee entrepreneurial proclivity to those of independent entrepreneurs, Dada et al. (2015) would seem unique in comparing the entrepreneurial characteristics of franchisees to franchisors. Interestingly they found no significant differences between franchisee and franchisor's entrepreneurial tendencies using the General Enterprising Tendency (GET) test, and both franchisees and franchisors were found to be exhibiting above average scores.

On balance it would seem that perhaps instead of considering whether franchisees do or do not possess entrepreneurial personalities, the question becomes how entrepreneurial are they? For example, although franchisees may have a greater need for security than independent entrepreneurs, as Clarkin and Rosa (2005) note, franchisees typically risk their resources in developing their local markets. Thus the paradox emerges – franchisees are both risk takers and not risk takers. Similarly franchisors take risks in launching and developing their brand, but the risks associated with growth are reduced, as the franchisee assumes the risk associated with the development of their individual outlets.

The studies of franchisee entrepreneurial personalities also raise questions about the extent to which franchisors desire entrepreneurial franchisees. Boulay and Stan (2012) gathered data through franchisor interviews, and found some evidence that franchisors do seek entrepreneurial franchisees, although the extent to which entrepreneurial attributes are sought (and the type of entrepreneurial attributes) does vary, with differences between older and younger systems. Whilst Falbe et al. (1998, p. 126-127) note that 'franchisors often state that they prefer to select a manager rather than an entrepreneur as a franchisee', Dada et al.'s (2015) survey of UK franchisors found evidence that franchisors do seek to recruit franchisees with entrepreneurial tendencies, notably that they seek franchisees who are ambitious, independent, creative, risk takers and like to be in control. Furthermore Watson et al. (2015) found evidence of entrepreneurial language in franchisor's recruitment advertising messages to franchisees, although their results suggest differences in the extent to which an entrepreneurially oriented language is used across different cultures.

It would seem the empirical evidence provides a rather mixed picture as to the extent to which franchisees possess entrepreneurial characteristics, and the desirability of those characteristics. However, it would seem, on balance, that whilst franchisees may not be as entrepreneurial as independent business owners, they do possess at least some level of entrepreneurial proclivity. Within the confines of a standardized franchise system, how do such proclivities manifest themselves?

Although there have been case studies of franchisee led innovations being adopted within franchise systems for many years (see for example, Darr et al., 1995, Bradach, 1997, 1998, Dada et al., 2012, Paro-del-Val et al., 2014), it is only more recently that researchers have explored franchisee entrepreneurial activities on a larger scale. Simon et al. (2015) found in their survey of 99 French franchisors that almost 70% of the surveyed systems suggested that their franchisees are sources of ideas for innovations. Winter et al. (2012) found significant evidence that franchisees made adaptations to the business format in the form of stocking nonstandard products. Given the focus of their study was on the effect of adaptations on franchise performance, they did not consider the extent to which these products might be considered innovations (in particular whether new to market, or just new to system). However, they found that in some outlets nonstandard products accounted for as much as 78% of the outlets total revenue. Of course, product adaptation is just one form of entrepreneurial behavior. Croonen et al. (2014) suggest that entrepreneurial opportunities for franchisees are likely to derive from one of four sources, namely, offering new goods and services (what Winter et al., 2012, term nonstandard products), adding new suppliers, improving organizational methods, and targeting new markets in the form of new customer groups. Croonen et al.'s (2014) survey of 119 franchisees (albeit from a single Dutch franchise system) found evidence to suggest that franchisees engaged in entrepreneurial behaviors across these four dimensions, but that the most common type of innovation was in the form of improving organizing methods. Within the context of a franchise system, perhaps this is unsurprising, as changes in this type of innovation are likely to be hidden from the consumer, and therefore will not impact the uniformity of brand image, and as such, are more likely to be tolerated by the franchisor. Indeed, evidence by Grunhagen et al. (2014) and Croonen et al. (2015) suggest that franchisees often have significant autonomy with regards to human resource management (HRM) practices.

It would seem, therefore, that there is some evidence to suggest that franchisees do engage in entrepreneurial behaviors. However, it has been suggested that in some cases, franchisee entrepreneurial behaviors are associated with a deviation from the franchisor's standard business system. This raises the important question of how entrepreneurial activities impact the performance of the franchise, and in particular, the performance of the system as whole. This is particularly pertinent given the potential conflict between unit and system profit maximising strategies, as highlighted in the previous section. With regards to system level performance, the majority of the evidence comes from studies of franchise system EO, where systems with high EO 'would prefer franchises that can bring their innovative abilities and other capabilities to fruition' (Grewal et al., 2011, p. 540). Whilst an EO may in part reflect the firm's entrepreneurial disposition, essentially EO refers to the exhibition of sustained entrepreneurial behavioral patterns (Covin and Wales, 2012). Zachary et al. (2011) in their study of US franchise systems found that high-performing franchisors were more likely to convey EO in their recruitment web sites than lower-performing franchisors, where performance was measured using the rankings from *Entrepreneur* magazine's 'Franchise 500'. Similarly Dada and Watson's (2013b) study of UK franchisors, found systems which exhibited a higher EO performed better than those with low EO. In their research, performance was measured using self-reported data, and included both financial (market share, profitability, sales growth) and non-financial (job security, achievement of goals, overall satisfaction with performance) measures within the overall performance metric. In a related study Dada and Watson (2013a) also found a positive relationship between EO and franchisor-franchisee relationship quality (as perceived by the franchisor). Previous research has highlighted the role of franchisees' trust (in their franchisor) to ensure that franchisees do not behave opportunistically (Brookes et al., 2015). Thus, collectively, it would seem that there may be a reciprocal affect: franchisees that trust and feel supported by their franchisor, will engage in entrepreneurial behaviors which are beneficial to the system as a whole, which in turn, enables the franchisor to trust their franchisees and provide them with greater autonomy, creating a mutually co-operative relationship. Furthermore, Croonen and Brand (2015) highlight the importance of franchisee trust in the franchisor if franchisees are to accept franchisor led changes to the system.

Whilst the extant evidence suggests that franchise EO is positively linked with performance, the relationship is perhaps more complex than initially implied by these findings. It would seem, that although EO may be positively related to performance, the absolute levels of EO exhibited by franchise systems tend to be low (Dada and Watson, 2013b). Further studies are needed to determine if in fact the relationship between performance and EO is linear, as, given the potential for a loss of system uniformity and the difficulty in controlling highly entrepreneurial franchisees to ensure they do not behave opportunistically, there may be a tipping point at which the performance benefits either diminish or become negative. Indeed, in a more recent study, Watson et al. (2016) suggest that organizational identification by franchisees has important implications for franchise performance. They find that where franchisee and franchisors' entrepreneurial identities are matched, there are positive performance outcomes, but what is noteworthy here is that at the extreme positions (very low EO and very high EO), performance is weakest. They suggest, following Gillis and Combs (2009), that different franchise strategies may lead to differences in the most appropriate levels of EO. For what Gillis and Combs term chain builders, who grow using a combination of company owned and franchised outlets (plural form), a strong entrepreneurial identity may be the most appropriate, whilst turnkeys (which are entirely franchised) will benefit from maintaining a highly standardized system (Watson et al., 2016). The outcomes of EO may also differ depending on the age of the system. For example, whilst Winter et al. (2012) find evidence that the introduction of nonstandard products by franchisees has a negative impact on performance, their findings were based upon a large, well-established US chain. They suggest that small young systems may 'not have sufficiently refined and stabilized their formula' (op. cit., p. 682) and therefore may benefit from adaptation and innovation. It is also important to highlight that the empirical research exploring entrepreneurial activities within franchise systems has been dominated by studies of single unit franchisees (Grewal et al., 2011). However, within the US it is suggested that more than 50% of all franchise units are owned by just 20% of franchisees (Grewal et al., 2011). Whilst these large scale multi-unit franchisees are a particular feature of the US, smaller scale multi-unit franchisees are an increasing feature of franchise systems globally. The role and impact of entrepreneurial behaviors is likely to differ for multi-unit franchisees, and also potentially between sequential multi-unit franchisees (where the franchisor grants the right for the franchisee to open an additional unit, with each unit typically being governed by a separate contract), and area developers (where there is a contractual obligation to open a specified number of units within a set time frame) (Grünhagen and Mittelstaedt, 2005). It might be expected that the entrepreneurial proclivities of multi-unit franchisees may be somewhat different from single unit franchisees, and the impacts of their entrepreneurial activities may also differ. Furthermore, as Grünhagen and Mittelstaedt (2000) argue, there may be differences in the entrepreneurial tendencies of area developers compared with sequential multi-unit franchisees.

These caveats aside, it is clear that the nature and level of entrepreneurial activities within the franchise system has implications for both unit and system performance. As such it becomes critical for the franchisor to develop appropriate mechanisms to manage entrepreneurial activities within their system. Given the paradoxical nature of entrepreneurship within franchising, as with any paradox, coping mechanisms are key (Mick and Fournier, 1998). The next section will therefore explore how franchisors can best manage entrepreneurial activities within their systems to cope with the competing forces for standardization and control of franchisees on one hand, and the need for adaptation and franchisee ambitions on the other.

Coping mechanisms

One of the greatest challenges for franchise systems is how to ensure that the core business format remains clear in the customers' mind, whilst leveraging the entrepreneurial capabilities of franchisees. Franchisors need to generate systems and processes which can militate against franchisees acting opportunistically, and ensure that some degree of standardization prevails. Dada and Watson (2013b) find that franchisor support systems are important in the development of system EO, and others have highlighted the importance of support structures in promoting organizational learning. For example Grewal et al. (2011, p. 682) contend that the ‘long-term success of a replicating organization is contingent on the availability of mechanisms that ensure the accurate replication of existing knowledge as well as mechanisms enabling learning and the development of new knowledge’. Thus, whilst franchisees may be the source of innovations, the franchisor must develop systems to ensure that their know-how becomes embedded within the system.

Dada et al. (2012) identify a number of possible support structures which can be used to maximise positive organizational outcomes from entrepreneurial activities. Firstly they propose that franchisors need to acquire (for the system) the relational and informational capital that franchisees possess; that is, their local market knowledge and local networks. They argue that franchisee forums can be an important mechanism through which this can be obtained. Indeed, Lawrence and Kaufmann (2011, p. 4) argue that franchisee based communities (such as forums or associations) can be ‘rich repositories of institutional knowledge’ which can be ‘very useful in the creation, dissemination, and maintenance of firm specific intelligence’. Thus, knowledge-sharing routines, such as franchise councils, and local and regional meetings that celebrate franchisee innovations, have a critical role in ensuring that standardization can be maintained whilst promoting innovative behaviors (Gillis and Combs, 2009, Wu, 2015). Without these knowledge-sharing routines there is a danger that many of the innovations franchisees develop will not be communicated to the franchisor (de Resende Melo et al., 2013), which will have implications for brand image uniformity. Thus, ‘…franchisors must stimulate internal debate among franchisees, creating a relationship that will generate a higher level of trust, which will in turn facilitate the identification and implementation of local adaptations’ (op. cit., p. 406).

In addition to highlighting the importance of knowledge-sharing mechanisms, Dada et al. (2012) suggest that franchisees can be encouraged to engage in entrepreneurial behaviors which will benefit the system through intra-system competition. For example, franchisors may use competitions amongst franchisees to generate new ideas and hold award ceremonies to celebrate the best ideas and reward franchisees (Cox and Mason, 2007). Dada et al. (2012) found evidence that the intra-system competition had spill over effects, such that franchisees also became highly aggressive competitors in their local market place, finding ways to lead rather than follow the market.

Given the potential for franchisees to act opportunistically, as Cochet and Garg (2008) suggest, franchisors need to ensure that where franchisees are granted autonomy there are strong incentives in place to ensure appropriate behavior. It is critical, therefore, that franchise systems develop clear processes by which franchisee innovations are assessed. Dada and Watson (2013a) argue that the ability of the franchisor to persuade franchisees not to engage in free riding is likely to be a function of their communication skills, again highlighting the potential role of franchisee associations and regular regional and national meetings. Of course, it should be remembered that franchisees will not be the only source of innovation, and using the Gillis and Combs (2009) typology, for turnkeys in particular, it may be that it is the franchisor who is the principle source of innovation. Here too, though, franchise forums provide a critical mechanism by which the benefits of new product, service or process innovations can be communicated to franchisees.

A number of studies have highlighted the role of trust, and more generally the quality of the franchisor-franchisee relationship in ensuring that entrepreneurial behaviors can be managed effectively (Kidwell et al., 2007, Dada and Watson, 2013a, de Resende Melo et al., 2013, Croonen and Brand, 2015). Support structures, such as those mentioned above, have an important role in managing expectations around entrepreneurial autonomy granted to franchisees (Dada and Watson, 2013a) and creating a true entrepreneurial partnership, indeed creating ‘stewards’ of the system, rather than ‘agents’.

It would seem that to cope with the entrepreneurial paradoxes associated with franchising, franchisors must be careful to develop knowledge management systems; that is, to put in place structures which facilitate communication between franchisor and franchisee and ultimately trust. Such systems will also enable local tacit knowledge to be codified and transformed into explicit knowledge which can be transferred across the system. Thus, whilst franchisees may create innovations, it is the responsibility of the franchisor to adapt these (where necessary) and determine if/how these will be implemented across the system (de Resende Melo et al., 2013).

Conclusion

This chapter has shown that entrepreneurship in franchising is a complex issue. We have brought some clarity to this research area by highlighting a number of theoretical perspectives and empirical evidence to show why entrepreneurial tensions are intrinsic in franchising and how these tensions can be managed effectively. Tensions arise between the franchisors' desire for standardization across a franchise network and the franchisees' desire for entrepreneurial behaviors (e.g. local market adaptations and innovations). The inherent desire for standardization needs to be balanced with the entrepreneurial aspirations of the franchisee in order to maximize the performance of franchise units and the entire system. Thus, as with any paradox, tensions are created which cannot be resolved *per se*, but rather coping mechanisms can be employed to minimize them. In this regard, franchisor support structures, such as franchisee forums, local and national meetings and intra-system competitions, can be used to carefully manage and control entrepreneurial activities of franchisees (Dada et al., 2012).

We have alluded to the fact that the nature and scope of entrepreneurial tensions may differ for different types of franchise (plural form, multi-unit, international) and at different stages of the systems' growth. There are also likely to be implications dependent on the diversity of the system's markets. For example, international brands are likely to face greater environmental differences (Winter et al., 2012) and thus franchisees in international markets may be given more entrepreneurial latitude. Indeed, the entrepreneurial behavior of master franchisees is an area which has received relatively little attention in the extant literature, although Grewal et al. (2011) provide some useful directions for future research. It is also worth noting that cultural contexts may play an important role in the expectations and desire of franchisees to engage in entrepreneurial behaviors. As Watson et al. (2015) note, national culture has been found to influence levels of entrepreneurial behaviors, with some cultures more closely aligned with an EO than others (Mueller and Thomas, 2000). It is also possible that industry sectors or categories of franchise (e.g. retail versus service, or product versus business format) may influence the need for entrepreneurial behaviors in franchise systems. An exploration of these potential drivers can provide directions for future scholars. Thus, whilst our understanding of entrepreneurship in franchising is improving, we still have much to learn. We hope that this chapter has helped clarify what is a complex issue, whilst providing directions for future research to help close the gaps in our knowledge.

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