Intrapreneurial Behaviour Within the Franchising Context

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Abstract

Previous conceptual exploratory and empirical investigations into organisational choice lend support to the contention that, in comparison to corporate ownership, franchising offers a vehicle for Intrapreneurship (corporate entrepreneurship), particularly within the areas of new knowledge acquisition, experimentation and local market adaptation. While previous firm-level analyses have cited performance advantages associated with innovative behaviour in plural organisational forms, little attention has been given to the antecedents of corporate entrepreneurship in franchise networks. In particular, no comprehensive analysis of intrapreneurial activity in franchisee-owned subsystems has been conducted. This research aims to build theory through the presentation of a set of general propositions explaining intrapreneurial behaviour in multiple unit franchise systems as a function of autonomy, communication, control, and organisational support and representation. Overall, the qualitative findings drawn from a sample of McDonald’s restaurant franchisees, confirmed the validity of the general propositions in preparation for empirical testing in the near future.

Keywords: Franchising, Intrapreneurship, Creativity

Introduction

Marketing researchers suggest that unit-level innovation and adaptation is an important component of franchise system success and survival (Kalnins and Lafontaine 1997; Fulop and Forward 1997). Although there has been some recent consensus in firm-level research investigating the management of entrepreneurship in franchise organisations through the simultaneous operation of company-owned and franchised units (for example, Bradach 1997, 1998; Sorenson and Sorenson 2001), research at the individual level has yielded conflicting results (Kaufmann and Dant 1998). Early research concludes that individual entrepreneurial behaviour is constrained by the nature of the franchising relationship, which is highly interdependent, limiting operational autonomy (Felstead 1991; Mendelsohn 1999). Seemingly, less entrepreneurial individuals are attracted to franchising as it entails less risk than self-employment while allowing some flexibility and autonomy at the unit level (Dant 1995). More recent research suggests that franchisees exhibit entrepreneurial traits and behaviours including commitment to work, proactive scanning of market opportunities and the motivation to excel (Morrison 2000). However, no research has been conducted into the role of entrepreneurial behaviour in multiple unit franchising arrangements.

This paper examines the relatively unexplored issues surrounding intrapreneurial behaviour in multiple unit franchising arrangements. Intrapreneurship or corporate venturing refers to the application of entrepreneurial principles within existing organisations and is cited as particularly important in the development of innovative marketing strategies at the firm level (Stanworth & Curran 1999; Timmons and Spinelli 2004). Franchising is defined as a marketing channel governance structure facilitating goods and services exchange (Kotler et al.
2001) and this research investigates the prevalence of intrapreneurial activities within a single quick service restaurant network in Australia. Multiple unit franchising refers to an organisational arrangement in which franchisees are permitted to own and operate more than one unit within a single franchise system (Laurie 1995). Although this is a prevalent organisational arrangement in many franchising systems within the Australian franchising sector (Frazer and Weaven 2002), it has received little attention in the literature (Dant and Nasr 1998; Sen 2001). In the next section of this paper, the research problem is defined and general propositions (derived through an examination of the literature) are presented. Then, the methodology used to conduct the study and the findings are described. Finally, implications for theory and practice are considered.

**Literature Review**

On the face of it, multiple unit franchising is hard to rationalise. If the aim of franchising is to minimise moral hazard effects associated with the employment of managers at the unit level, multi-unit franchising that entails the use of store level employees, remains a curious anomaly (Couglan et al 2001). Franchisors may offset agency cost effects associated with the growth of ‘mini-chains’ (Bradach 1994, p.1) with other advantages associated with rapid system growth, local market innovation and systemwide adaptation to competition (Kaufmann and Dant 1996). In particular, franchisee-owned subsystems may be perceived as a vehicle of intrapreneurship particularly in the design of innovative solutions to traditional problems and changes in the competitive environment (Lloyd 1987; Morrison 2000). This paper argues that franchisee-owned subsystems represent an efficient means of promoting intrapreneurship in organisations, which is cited in the literature as being positively associated with improved system performance (Antoncic and Hisrich 2001). Next a review of entrepreneurial activity in single unit franchise structures is presented.

**Single unit analyses**

Although franchisors are often regarded as entrepreneurs (for example, Kaufmann 1996), there has been little consensus as to the entrepreneurial orientation of franchisees (for example, Anderson et al. 1992; Mescon and Montanari 1981). This is largely due to a belief that franchisees operate a managed outlet in a state of ‘controlled self-employment’ (Felstead 1991, p.39) where their entrepreneurial capacity is limited by formal contractual provisions promoting adherence to standardised policies and procedures (Bradach 1997; Rubin 1978). In addition, franchisees are often viewed as having an aversion towards risk, little supervisory ability, initiative or achievement motivation and are thought to enter franchising as a means of buying a secure job (Kaufmann and Dant 1996). They seem to have a need for security and use franchising as a method of reducing some product-specific demand uncertainty through association with a proven tradename (Williams 1998).

In comparison, other research views franchising as an entrepreneurial endeavour (Falbe et al 1998) in recognising that franchisees are often encouraged to innovate in areas such as local marketing and new product development so as to strengthen the system’s competitive positioning in the marketplace (Baucus et al. 1996). Although their operational freedom is still constrained by contractual provisions many are nevertheless able to instigate strategies that are consistent with their preferences because franchise contracts cannot regulate all future contingencies (Phan, Butler and Lee 1996). While recent franchising studies have revealed that many franchisees have similar experiences and orientations to entrepreneurs who start
their own business (Kaufmann and Stanworth 1994), the nature of the franchising relationship may constrain their intrapreneurial capacity.

While many single unit franchisees join systems without intending to purchase more units in the future, multiple unit franchisees appear to be motivated to grow their unit holdings up to a certain ownership level (Grünhagen and Mittelstädt 2002). These larger franchisees may have greater decision-making power and influence enabling them to pressure concessions from franchisors particularly in areas of operational independence and innovation at the local market and subsystem levels (Weaven 2004). Therefore, multiple unit franchisees could be viewed as intrapreneurs as they learn from their local competitive environments, engage in strategic decision-making and add value to the franchising system through creating value within their own subsystems. This appears consistent with definitions of intrapreneurship as the process of perceiving and exploiting opportunities within existing organisations (Hisrich and Peters 1998; Lumpkin and Dess 1996).

Previous research suggests that intrapreneurial behaviour in firms is moderated by organisational characteristics such as the openness of communication channels, control mechanisms and levels of support within the organisation (Guth and Ginsberg 1990; MacMillan 1986; Pinchot 1985). While many of these factors have been considered in the franchising literature in examinations of the franchising relationship within the single unit context (for example, Kaufmann and Stanworth 1994), no comprehensive model of the antecedents of intrapreneurial behaviour in franchisee-owned subsystems has been presented. Thus, this research addresses gaps in the literature by addressing the following research question: What are the factors that influence intrapreneurial behaviour in franchisee-owned subsystems? Next, general propositions developed through examination of the extant marketing, entrepreneurship and franchising literatures, are presented.

Antecedents to Intrapreneurial Behaviour in Franchise Organisations

Autonomy

Previous research into the expected power relationship between chain franchisees and franchisors has produced conflicting results (Kaufmann and Dant 1998). A United States study found that some franchise systems limit multiple unit ownership because the degree of their operational freedom would result in chain franchisees ‘…aggressively promot[ing] their right to innovate…’ (Kaufmann and Dant 1998, p. 13) which may be inconsistent with the maintenance of the existing brand image. In practice, some franchisors view multiple unit franchisees as beneficial in promoting entrepreneurial activity within their subsystems (Franchising 2001). Perhaps franchisors believe that they can control the size and scope of innovative activity as multiple unit franchisees maintain mini-chains that closely resemble the franchisor and are less likely to exploit opportunities, even though they have greater operational independence and flexibility (Dant and Gundlach 1998). However, United States research suggests that multiple unit franchisees are more likely to use their power position within the franchise system to gain opportunistic advantage in procuring franchisor support for local market initiatives (Zarco and Einhorn 1999). Thus it is postulated that: (P1) Multiple unit franchisees possess greater levels of independence than single unit franchisees, and are more likely to engage in corporate entrepreneurship.
Communication.

There is considerable evidence in the literature which suggests that smaller firms promote corporate entrepreneurship as they have greater flexibility and quick response times due to not having to contend with multiple layers of decision-making authority in gaining approval for instituting new ideas (Block and MacMillan 1993). Although multiple unit structures introduce an additional layer of management, chain franchisees generally have a closer relationship with franchisors, which may facilitate communication, prompt feedback and ultimately the dissemination of new ideas throughout the subsystem and network (Whittemore 1994). In addition, one would assume that chain franchisees have a close relationship with the managers of each unit within their chain (in comparison to the franchisor’s relationship with single unit franchisees in the system) due to the smaller size and limited organisational complexity of most subsystems in Australia (Frazer and Weaven 2002). This should be of advantage in reducing information asymmetry (Sen 2001) and building cooperation between the franchisor and franchisee. This should help facilitate the franchisee’s ability to communicate and gain support for new ideas from the parent franchisor. Thus, based upon the above arguments it is proposed that: (P2): Multiple unit franchisees engage in more open communication with the parent franchisor than single unit franchisees and are more likely to engage in corporate entrepreneurship.

Control.

Early research in the single unit franchising literature suggests that franchisors use coercive measures to monitor performance and maximise incentives alignment between agent and principal, so as to protect the integrity of their system brand (Rubin 1978). More recent research suggests that franchisors use a combination of formal and informal controls in most systems (Hadfield 1991; Stanworth 1995) as excessive levels of control may constrain a franchisee’s desire for independence, autonomy and self-fulfilment (Peterson and Dant 1990). In the multiple unit context, one would expect less use of formal control mechanisms due to their power position within the franchising partnership (Robicheaux, Dant and Kaufmann 1994). Multiple unit franchisees feel more secure in their relationship with their principals and are likely to share information with franchisors, which should signal cooperative intent (Dant and Nasr 1998). In addition, many multiple unit franchisees are of considerable size and have access to substantial financial resources that may result in a preferential power position in the franchising relationship in comparison with their single unit counterparts (Kaufmann and Kim 1993). This power position should allow chain franchisees to control both the degree of innovative activity in their subsystem, and resultant adaptations in response to changing market conditions. Thus, it is posited that: (P3) Multiple unit franchisees are less constrained by formal and informal control mechanisms than single unit franchisees, and are more likely to engage in corporate entrepreneurship.

Organisational support and representation

Research in the entrepreneurship literature suggests that management support, work discretion, rewards and informal intra-organisational boundaries are important factors in promoting intrapreneurship in organisations (Hornsby et al 1990). Franchisors may understand the importance of maintaining open channels of communication and maintaining an equitable consultative approach with franchisees as this promotes cooperation (Gultinan, Rejab and Rodgers 1980), performance and satisfaction (Justis and Judd 2002; Schul, et al 1985). Anecdotal evidence suggests that franchisors should ensure that powerful multiple
unit franchisees do not use their influence to leverage their local market knowledge to damage the system through encouraging participation in guiding the strategic direction of the firm (Franchising 2001). In practice, franchisors encourage larger franchisees to participate in this process and this provides a vehicle for chain franchisees to present their knowledge of future market opportunities at the formal level (Touby 1993; Young 2001). Thus it is postulated that: \( P4 \) Multiple unit franchisees have greater support and representation in the franchise system than single unit franchisees, and are more likely to engage in corporate entrepreneurship.

**Methodology**

This research was exploratory and a series of in-depth interviews was held with an heterogenous sample of five franchisors from the retail services sector in Australia, in order to gain a broader understanding of the issues and build theory (Deshpande 1983; Parke 1993). Confidential telephone interviews were held with eight single unit franchisees and eight multiple unit franchisees in the McDonald’s service restaurant chain in the South East Queensland and Northern New South Wales regions (16 respondents in total). A convergent interviewing technique was used which allowed the researcher to gain detailed and objective insight into relevant research issues (Woodward 1997). In particular, this technique encourages a ‘series of successive approximations’ (Dick 1990, p.3) leading to a consensus through the development and use of probe questions about important information where interviewee agreement or disagreement is tested. Hence, interpretation of the data progressively converged allowing the formation of a picture of issues relevant to intrapreneurial behaviour in single unit and multiple unit franchising networks (Carson et al. 2001; Miles and Huberman 1994).

**Analysis of Research Findings**

**Single unit franchisee respondents**

Eight franchisee respondents believed that formal contractual controls inhibited their ability to control day-to-day or longer-term strategic aspects of franchise operations. Most respondents indicated a lack of interest in local market innovation with the exception of control over local marketing including local radio advertisements, coupons and limited promotional activities with localised businesses. Six franchisees cited financial security, risk reduction and ongoing training and support as more important than personal autonomy within the system, which appears to contrast with overseas findings (for example, Stanworth and Kaufmann 1996). Two interviewees self-identified operational independence and local market innovation as important original motivations to purchase a franchise, but nominated that these factors were less important once they had entered the system and observed the efficiencies with adhering to accepted protocols. All respondents indicated that they had insufficient control or representation to instigate changes in new product or service mix development which seems inconsistent with results from a study conducted in the United Kingdom (Stanworth 1995).

**Multiple unit franchisee respondents**

All propositions were supported, albeit to varying extents. More than half of the chain franchisees interviewed supported the contention that they possessed greater operational
independence since they purchased their second license. This appeared to be a size related issue and five of the respondents (with larger unit holdings) suggested that they had greater latitude in designing and implementing local market initiatives in response to intra-system and external competition since becoming multiple unit holders. In particular, respondents suggested that they had greater relational power to determine the size and duration of promotional discounts (typically 1-2 percent), sponsorships of local sport teams, employment of staff, and bookkeeping methods. Thus proposition 1 was supported.

Proposition 2 received strong support. In particular, eight respondents indicated that the frequency of communication with Head Office and field agents had increased to twice (or more) a week, which had resulted in an increase in discussions concerning potential new product and pricing alternatives.

Proposition 3 received moderate support. Seven multiple unit franchisees agreed that they had greater control over operations as the franchisor was less likely to strictly enforce contractual provisions. However, the remaining respondents believed that the level of franchisor control remained constant including the monitoring of financial information, service quality and supply chain management. Most multiple unit franchisees believed that they had greater involvement in strategic planning at the system level, including future product and service mix offerings, following the purchase of additional licenses. However, interviewees suggested that this was primarily based upon their level of experience and past performance, rather than being a size related issue.

Four franchisee respondents believed that they had similar levels of representation at ‘Macoff’ meetings to that of single unit franchisees. Hence, proposition 4 received relatively weak support.

**Conclusion and Recommendation for Future Research**

This research is the first investigation into intrapreneurial activity within multiple unit franchise arrangements. Generally, the qualitative findings of this research supported the proposed theoretical relationships between identified constructs. However, this research was exploratory and requires future empirical verification. In particular, this study will form the basis for a large-scale quantitative analysis of intrapreneurship in franchising subsystems in the near future.

**References**


