

## Entrepreneurial Process in Franchised Outlets: Franchisor's Perspective

**Gowsia Bashir**

Research Scholar,  
The Business School,  
University of Kashmir,  
Hazaratbal, Srinagar.

**Dr. Farooq Ahmad Khan**

Professor,  
The Business School,  
University of Kashmir,  
Hazaratbal, Srinagar.

### **Abstract**

Entrepreneurship has gained much interest in many parts of the world because of its association with the economic development. It is usually believed to be a venture creation process but in the present study the concept has been broadened to include the innovative behaviour within the existing organizations. Various approaches assessing the entrepreneurial behaviour have already been taken but its importance and application in the franchised type business is confined to pencil and paper measures only. The present study thus developed an instrument that purport to measure key entrepreneurship attributes in the franchised outlets from franchisors perspective and relevant empirical evidence is reported. In addition to this the current study also tried to evaluate the main franchisor development dimensions making the franchisors to offer franchises.

**Keywords:** Entrepreneurship traits, Franchisor development.

### **Introduction**

The entrepreneurship development model given by Kuratka and Hodgetts (2004) has introduced entrepreneurship as “an incorporated concept that permeates an individual’s business in an innovative manner”. In highly growing, global and competitive economies, the ability to grow businesses, create wealth, and sustain competitive advantage has become vital (Acs and Varga, 2005). Entrepreneurship involves the change of economic systems and adaptation with those changes, frequently contributing to national economic growth (Bygrave et al., 2004). There are number of strategies available for the entrepreneurs to expand their business. However, one of the most dynamic and well accepted strategies that are often ignored by most of the entrepreneurs is franchising. Franchising provides an opportunity to those organizations whose products/services cannot be exported. It involves the agreement between two parties which gives right to one party (franchisee) to market a product or service using the trademark or trade name of another party (franchisor) (Beshel, 2001). Franchising acts as new mode of entry in the market and can lessen the risk of downside loss for the franchise (Hisrich et al., 2005). Franchising provides an alternative option to the entrepreneurs to expand their business by making the others to pay for it. Franchisors use it as growth mechanism in which others pay for the use of the name, process, product, services and trademark. Both the parties share entrepreneurial vision and work together to convert it into reality.

Business format franchise system makes it easier for companies to diversify their business internationally and is less exposed to the problem associated with conventional business such as staff recruitment and retention and the security of stock and cash (Ike-Okah, 2006). Most of the franchise companies are among the largest multinational corporations in the world. The scope of franchise concept can be local, regional, national, or international (Timmons and Spinelli, 2004). Recent trends in the business environment have brought about innovative ways helping the firms to take the lead in their industry even in greater competitive situations. This is because entrepreneurs using franchising as business expansion strategy are making big profits and are gaining even stronger brand names through it. Franchisees stand a great chance of maintaining their customer's loyalties by following the standards already mentioned and operated by the parent company. The success of McDonald's restaurants round the globe bears the well understood testimony to the appropriateness of this (franchising) as a business expansion vehicle.

### Review of Literature

The success of the franchisor depends on the success of franchisee. Therefore the franchisors attempt to select franchisees that will work hard and take the responsibility for their outlets, yet be willing to listen to advise and cooperate (Otokiti, 2004). The franchisor has the opportunity to acquire a broad base of knowledge concerning local customs and market conditions, economic networks, political affiliations, and industry experience of the franchise alliance which ultimately leads to increase the chances of success for both the franchisor and franchisees.

Caves and Murphy (1976) while studying franchising from the franchisor's perspective concluded that franchisors adopt the franchising business in order to overcome constraints to growth by obtaining financial capital. Hopkinson and Hogarth-Scott (1999) in his study found that the main reason for the franchisors to offer franchise is access to resources in the form of ready source of human capital which is being provided by the franchisees that purchase the franchise. Watson et al. (2005) while conducting a study regarding the relationship between franchising and intellectual capital found that the main reason that motivates the franchisors to go for franchising is the local market knowledge/local managerial expertise provided by the franchisees. Dant (1995) conducted a study on motivations for franchising. The results of the study concluded that Franchising facilitates efficient and rapid market penetration for the franchisor organization by getting the costs of opening new outlets from franchisees i.e. it gives franchisors access to financial capital and acts as source of finance required by the franchisors to expand their business. Dant et al. (1996) in a study concluded that franchisors require information on local market conditions such as

desirable locations for the business, the potential demand, the sources of labor supply and the local culture i.e. increase in informational capital for expanding their business in new and unfamiliar markets as well as rapid growth. Combs et al. (2004) while studying the Strategic Groups Approach to the Franchising-Performance concluded that the franchisees as they come from the local markets thus have insights into local needs. These provide local managerial expertise to the franchisors thereby increasing the franchise's performance.

Julian and Castrogiovanni (1995) tried to study the geographical expansion by franchisors and concluded that main reason encouraging the franchisors to go for franchising is to get access to human resources, opportunism and quality. Castrogiovanni et al. (2006) in their study concluded that one of the most studied factors which enable franchisors to reduce monitoring costs is geographic dispersion provided by the franchising. Minkler (1990) conducted a study on the firm's decision to franchise and concluded that main reason for franchisors to go for franchising is the local market knowledge which is provided by the local franchisees i.e. firms use franchising as a strategy to expand into unfamiliar locations. Dada and Watson (2012) conducted a study to understand how the entrepreneurial orientation (EO) of the franchise system may impact franchisor-franchisee relationship quality, given the conflicting forces for standardization/uniformity and franchisee desire for autonomy. The results revealed that EO was significantly and positively related to relationship quality (as perceived by the franchisor). In addition, the recruitment of entrepreneurial franchisees was found to have a positively significant impact on relationship quality.

H1: Geographical dispersion, local managerial expertise, access to resources and entrepreneurial orientation are significant dimensions of franchisor development.

### The Franchisor's Entrepreneurial Tendencies:

The franchisors being the founders of business format systems meet all the requirements of entrepreneurship as reviewed by Low and MacMillan (1988), which includes creation of new ventures (Gartner, 1985), identification of opportunities (Stevenson et al., 1989) and carrying out new combinations (Schumpeter 1934). As studied by (Aldrich and Auster, 1986; Gartner, 1985), franchisors are involved in introducing new products and services, have openness to change, innovative marketing, outrunning the competition and fast growth.

Kaufmann and Dant (1996) in his study concluded that franchisors are generally characterized as entrepreneurs who typically start by operating a single outlet, or chain, and then grow their businesses by licensing the right to implement their concepts in dispersed geographical locations.

Hoy and Shane (1998) in his study made it clear that creating a franchise network for business shows the opportunistic behavior of franchisors and thus signifies an entrepreneurial act of franchisors. Stanworth et al. (2003) conducted a study and the results of the study concluded that it seems to be very innovative by the franchisors to expand their businesses by means of franchising adjudged from a financial, human resource and ownership perspective by business owners. Hoy (2008) in his research work concluded that franchisors usually create a venture and at some point decide strategically of expanding their ventures and use this franchising as an opportunity for expansion after evaluation of certain expansion models.

**H2:** There is a significant impact of franchisor development on entrepreneurship development.

In order to meet the above hypothesis following sub hypotheses were formulated:

**H2a:** Individuals with high risk taking ability prefer franchise model of business.

**H2b:** Individuals with higher need for achievement prefer franchise model of business.

**H2c:** Individuals with greater inclination towards creativity and innovation prefer franchise model of business.

**H2d:** Individuals with greater desire for autonomy prefer franchise model of business.

**H2e:** Individuals with greater propensity towards opportunism prefer franchise model of business.

### Objectives of the Study

The present study will be based on following research objectives:

- To study the entrepreneurial behaviour of franchisors.
- To study and evaluate the main dimensions of franchisor development.

### Research Methodology

In order to gather the required information to respond the research objectives, a quantitative approach was used. The

study included both primary as well as secondary data and the study was conducted to find out cause and effect relationship between the independent and dependent variables under study. Survey method has been employed to gather the data from the respondents. An instrument has been developed in the form of a self-administered questionnaire which consisted of open and close-ended questions designed in accordance with the research objectives, with the intention to extract most relevant information. The population of the study includes franchisors whose franchises are operating in the Kashmir valley.

The sample size was calculated by using a formula,

For finite population: (Yamane, 1967)

$$SS = \frac{N}{1 + N(e)^2}$$

Here,

SS = sample size

N = population

e = acceptable sampling error

The overall population of franchisors whose franchises are operating in Srinagar was 143. For current study, at 0.05 significance level, percentage proportion of population (p) = 0.5 and margin of error to be 5 per cent. Thus, the final sample size so calculated in context to the above criterion arrived at 105 franchisors. Questionnaire was administered to 105 franchisors out of which 100 were received back.

## Results and Discussions

### Descriptive Analysis of Franchisors

Table 1 gives overall description of variables used in this study and provides the perception of franchisors towards the selected dimensions of franchisor development and entrepreneurship development. The mean scores of all the under study variables are above 3 which indicate the positive impression of entrepreneurship skills possessed by the franchisors.

**Table 1: Overall Descriptive Statistics of franchisors**

Variables	GD	LME	AR	EO	CI	NA	R	DA	OPP
<b>N</b>	102	102	102	102	102	102	102	102	102
<b>Mean</b>	3.83	4.01	3.96	3.90	4	4.01	3.91	3.95	4.03
<b>SD</b>	.881	.871	.891	.808	.746	.835	1.05	.888	.867

Note: SD: Standard Deviation, GD: Geographical Dispersion, AR: Access to Resources, LME: Local Managerial Expertise EO: Entrepreneurial Orientation, CI: Creativity and Innovation, NA: Need for Achievement, R:

Risk Taking Ability, DA: Desire for Autonomy and OPP: Opportunism.

The highest mean score was observed for Local Managerial Expertise (4.01 ± .871) which means that it has greater

inclination towards franchisor development followed by Access to Resources ( $3.96 \pm .891$ ) and Entrepreneurial Orientation ( $3.90 \pm .808$ ) and so on among the franchisor development variables.

**Structural Model Equation and Hypothesis Testing**

**Structural Model I**

Model-I (Figure 1) shows overall relationship between franchisor development and entrepreneurship development. Structural equation modeling (SEM) was used to test the hypothesis. The structural equation model was developed which consists of various franchisor development dimensions (Geographical Dispersion, Local Managerial Expertise, Access to Resources and Entrepreneurial Orientation) as independent variables and entrepreneurship

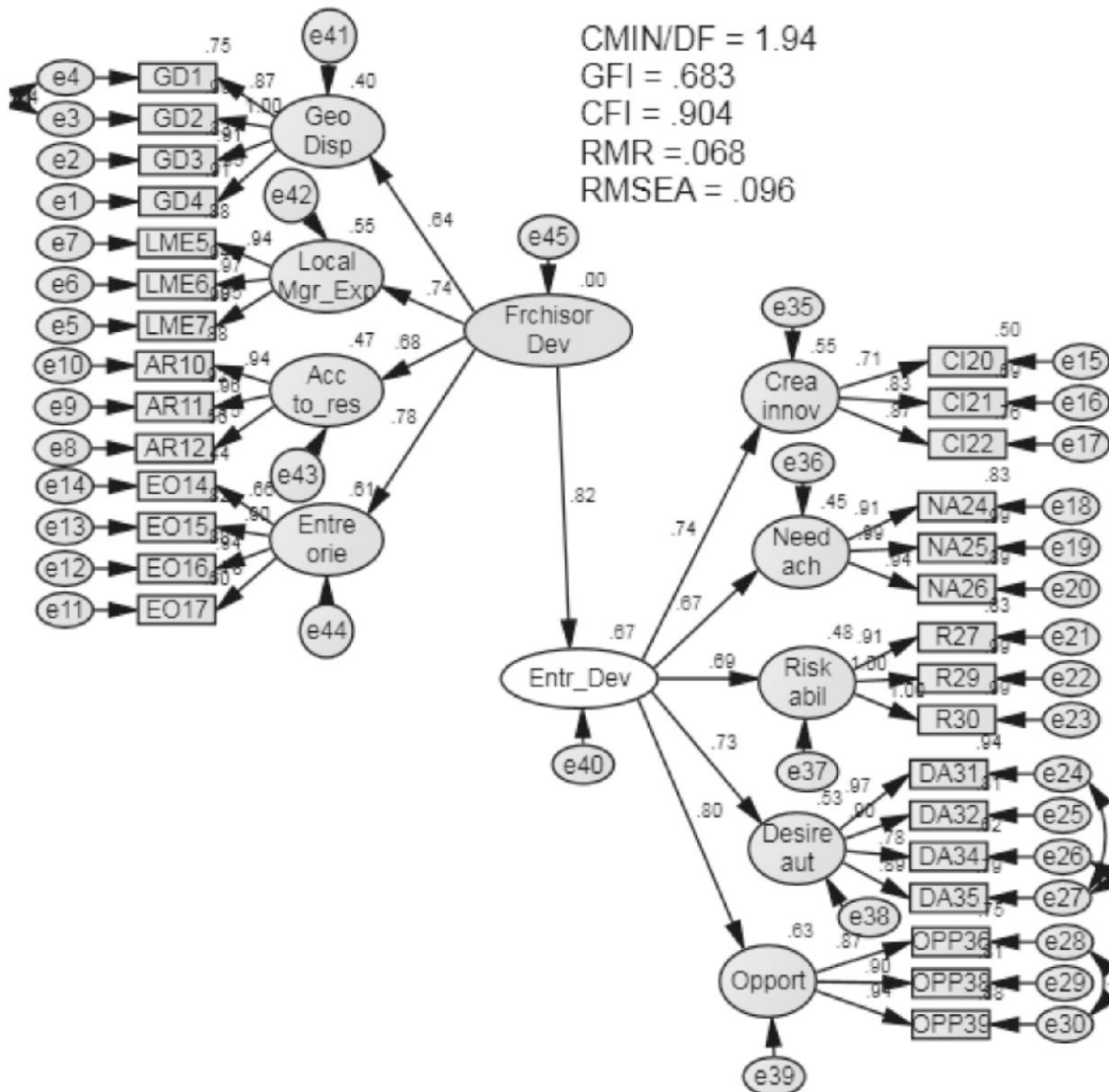
development dimensions (Creativity and Innovation, Need for Achievement, Risk Taking Ability, Desire for Autonomy, Opportunism) as dependent variables.

The hypothesis was tested by analysis and evaluation of model goodness-of-fit to check if the hypothesized model fits the observed data. Further, the significance of the path estimates was evaluated through critical ratios, p-values and coefficient of determination (R<sup>2</sup>). The structural path model I was run to examine the research hypotheses;

**H1:** Geographic dispersion, local managerial expertise, access to resources and entrepreneurial orientation are significant dimensions of franchisor development.

**H2:** There is a significant impact of franchisor development on entrepreneurship development.

**Figure 1: Showing Fit Measures and Impact of Franchisor Development on Entrepreneurship Development**



**NOTE:** Frchisor\_Dev: Franchisor Development, Entr\_Dev: Entrepreneurship Development.

The results of the structural path model of franchisor development and entrepreneurship development are shown in Table 2 (critical ratio = 4.6, p-value = 0.000). In the overall

model, R<sup>2</sup> is 0.67 on entrepreneurship development. Thus, the results provide support for H5 and confirm that franchisor development has got a positive and significant impact on entrepreneurship development.

**Table 2: Results of SEM Model I**

Paths			Std. Estimates	Critical Ratio	P-value	Decision	R <sup>2</sup>
Geographical Dispersion	<-----	Franchisor Development	.636	4.835	***	Supported	
Local Managerial Expertise	<-----	Franchisor Development	.738	5.259	***		
Access to Resources	<-----	Franchisor Development	.683	5.632	***		
Entrepreneurial Orientation	<-----	Franchisor Development	.783	4.991	***		
Entrepreneurship Development	<-----	Franchisor Development	.818	4.60	***	Supported	.67
Creativity and Innovation	<-----	Entrepreneurship Development	.743	5.073	***	Supported	
Need for Achievement	<-----	Entrepreneurship Development	.672	5.576	***		
Risk taking Ability	<-----	Entrepreneurship Development	.689	5.842	***		
Desire for Autonomy	<-----	Entrepreneurship Development	.728	6.105	***		
Opportunism	<-----	Entrepreneurship Development	.797	6.084	***		
Notes: *** p-value < 0.01							

The results in the Table reveal that regression estimates of franchisor dimensions namely geographical dispersion, local managerial expertise, access to resources and entrepreneurial orientation are significant with critical ratio of 4.83, 5.25, 5.63, and 4.99 respectively and support the H1 that geographical dispersion, local managerial expertise, access to resources and entrepreneurial orientation are significant dimensions of franchisor development.

### Structural Model-II

Model-II (Figure 2) shows relationship between franchisor development and entrepreneurship development disaggregated into individual dimensions (Creativity and Innovation, Need for Achievement, Risk Taking Ability, Desire for Autonomy, Opportunism). The structural path model- II was run to examine the research hypotheses,

**H2a:** Individuals with high risk taking ability prefer franchise model of business.

**H2b:** Individuals with higher need for achievement prefer franchise model of business.

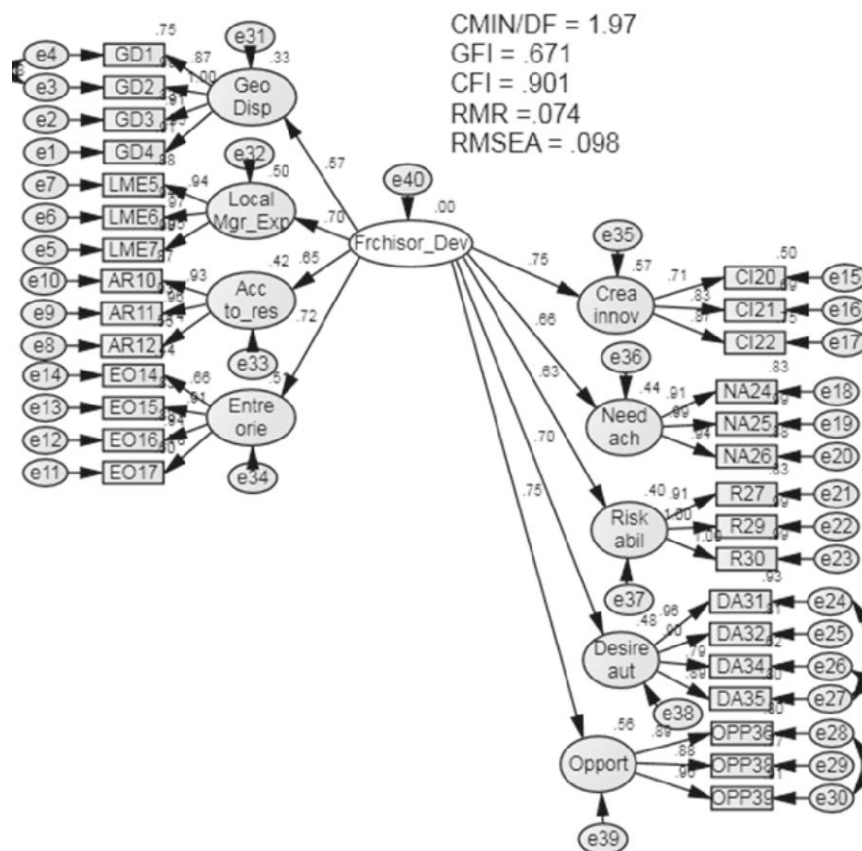
**H2c:** Individuals with greater inclination towards creativity and innovation prefer franchise model of business.

**H2d:** Individuals with greater desire for autonomy prefer franchise model of business.

**H2e:** Individuals with greater propensity towards opportunism prefer franchise model of business.

The model fit indices are in Figure 2 indicating that they well exceeded the threshold values. The structural path findings indicate that there is a significant and positive relationship between the franchisor development and entrepreneurship development dimensions. The results of the structural path model of franchisor development and entrepreneurship development are shown in Table 3.

**Figure 2: Showing Fit Measures and Impact of Franchisor Development and various Dimensions of Entrepreneurship Development Respectively**



**Table 3: Results of SEM Model IV**

Paths			Std. Estimates	Critical Ratio	P-value	Decision	R <sup>2</sup>
Creativity and Innovation	<-----	Franchisor Development	.754	5.303	***	Supported	.57
Need for Achievement	<-----	Franchisor Development	.661	5.722	***	Supported	.44
Risk Taking Ability	<-----	Franchisor Development	.632	5.533	***	Supported	.40
Desire for Autonomy	<-----	Franchisor Development	.696	6.152	***	Supported	.48
Opportunism	<-----	Franchisor Development	.748	6.232	***	Supported	.56

Notes: \*\*\* p-value < 0.01

The findings reveal that franchisors are high in opportunism (critical ratio = 6.23, p-value = 0.000, R2 = 0.56) followed by desire for autonomy (critical ratio = 6.15, p-value = 0.000, R2 = 0.48), need for achievement (critical ratio = 5.72, p-value = 0.000, R2 = 0.44), risk taking ability (critical ratio = 5.53, p-value = 0.000, R2 = 0.40) and creativity and innovation (critical ratio = 5.30, p-value = 0.000, R2 = 0.57). Thus, the findings and results provide support for the hypotheses H2a, H2b, H2c, H2d and H2e and confirm that individuals with greater inclination towards creativity and innovation (Aldrich and Auster 1986), need for

achievement, risk taking ability (Ketchen et al., 2011), desire for autonomy and opportunism (Stevenson et al. 1989) prefer franchise model of business for expansion (Stanworth et al., 2003; Kaufmann and Dant, 1996).

**Conclusion:**

From the above results it can be concluded that franchising has proved to be most effective and successful strategy for business diversification and expansion in unfamiliar markets for the entrepreneurs. It acts as well accepted mode of business development without involving extra capital

from the franchisors perspective. The franchisors believe that the main motivating factors urging them to go for franchising business is the efficient market penetration in international markets which includes geographical dispersion, local managerial expertise, access to capital both human as well as financial which is provided by the franchisees. So far as the entrepreneurship process is concerned the study indicates a significant and positive relationship between franchisor development and entrepreneurship development. The perception of franchisors towards different entrepreneurship development dimensions disaggregated into individual levels reveals that among different entrepreneurship variables franchisors are high in opportunism followed by desire for autonomy, need for achievement, risk taking ability and creativity and innovation. Franchisors possess all the entrepreneurship traits when measured at the entrepreneurship trait matrix. They are usually the real entrepreneurs which enter into the franchising business in order to get the extra benefits offered by it.

#### References:

- Acs, Z.J. and Varga, A. (2005). Entrepreneurship, Agglomeration and Technological Change. *Small Business Economics*, 24(3), 323-334.
- Aldrich, H. and Auster, E.R. (1986). Even dwarfs started small: Liabilities of age and size and their strategic implications. *Research in Organizational Behavior*, 8(2), 165-198.
- Beshel, B. (2001). *An Introduction to Franchising*, Washington: IFA Educational Foundation. USA.
- Bygrave, W.D. (1997). *The Portable MBA in Entrepreneurship*, 2nd Edition, John Wiley: London.
- Bygrave, W.D., Reynolds, P.D. and Autio, E. (2004). *Entrepreneurship Monitor, 2003: Executive Report*, Babson College: London.
- Castrogiovanni, G.J., Combs, J.G. and Justis, R.T. (2006). Shifting imperatives: an integrative view of resource scarcity and agency reasons for franchising. *Entrepreneurship Theory and Practice*, 30(1), 23-40.
- Caves, R.E. and Murphy, W.F. (1976). Franchising: Firms, Markets, and Intangible Assets. *Southern Economic Journal*, 42(4), 572-586.
- Combs, J.G., Ketchen, D.J. and Hoover, V.L. (2004). A strategic groups approach to the franchising-performance relationship. *Journal of Business Venturing*, 19 (6), 877-897.
- Dant, R.P. (1995). Motivations for Franchising: Rhetoric versus Reality. *International Small Business Journal*, 14(1), 10-32.
- Dant, R.P., Paswan, A.K. and Kaufmann, P.J. (1996). What we know about ownership redirection in franchising: A meta-analysis. *Journal of Retailing*, 72(4), 429-444.
- Gartner, W. (1985). A conceptual framework for describing the phenomenon of new venture creation. *Academy of Management Review*, 10(4), 696-706.
- Hisrich, R.D., Peters, M.P. and Shepherd, D.A. (2005). *Entrepreneurship*, (New York: McGraw-Hill Irwin.
- Hopkinson, G.C. and Hogarth-Scott, S. (1999). Franchise Relationship Quality: Micro- Economic Explanations. *European Journal of Marketing*, 33(9), 827-843.
- Hoy, F. (2008). Organizational learning at the marketing/entrepreneurship interface. *Journal of Small Business Management*, 46(1), 152-158.
- Hoy, F. and Shane, S. (1998). Franchising as an entrepreneurial venture form. *Journal of Business Venturing*, 13(2), 91-94.
- Ike-Okoh and March, C. (2006). Franchising: A Forward-Looking Form of Entrepreneurship, *Business Day*, March 28, 2-3.
- Julian, S.D. and Castrogiovanni, G.J. (1995). Franchisor geographic expansion. *Journal of Small Business Management*, 33(2), 1-11.
- Kaufmann, P.J. and Dant, R.P. (1996). Multi-Unit Franchising: Growth and Management Issues. *Journal of Business Venturing*, 11(5), 359-378.
- Ketchen, D.J., Short, J.C., and Combs, J.G. (2011). Is franchising entrepreneurship? Yes, no, and maybe so. *Entrepreneurship: Theory and Practice*, 35(3), 583-593.
- Low, M.B. and MacMillan, I.C. (1988). Entrepreneurship: Past research and future challenges. *Journal of Management*, 14(2), 139-161.
- Minkler, A.P. (1990). An Empirical Analysis of a Firm's Decision to Franchise. *Economic Letters*, 34(1), 77-82.
- Otokiti, S.O. (2004). *International Business: How to Get Started in International Environment*. 1st Edition, PumarNigeria Limited, Lagos.
- Schumpeter, J.A. (1934). *Theory of economic development*. Cambridge, MA: Harvard University Press.

- Stanworth, J., Healeas, S., Purdy, D., Watson, A. and Stanworth, C. (2003). Entrepreneurial teams, intellectual capital acquisition and knowledge management: new perspectives on franchising as a small business growth strategy. Proceedings of the Society of Franchising, San Antonio, Texas.
- Stevenson, H., Roberts, M. and Grousbeck, H. (1989). New business ventures and the entrepreneur. 3rd edition, Irwin Publishing: Homewood, IL.
- Timmons, J.A. & Spinelli, S. (2004). New Venture Creation: Entrepreneurship for the 21st Century. 6th ed. McGraw-Hill Irwin: Boston, Germany.
- Watson, A., Stanworth, J., Healeas, S., Purdy, D., and Stanworth, C. (2005). Retail Franchising: An Intellectual Capital Perspective. *Journal of Retailing and Consumer Services*, 12(1), 25-34.
- Yamane, T. (1967). *Statistics: An Introductory Analysis*, 2nd Edition, New York: Harper and Row.