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The effect of entrepreneurial orientation on the franchise relationship

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Abstract

This article aims 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. A cross-sectional research design, involving a mail questionnaire survey, was employed to collect data from a sample of franchisors operating in the UK. The hypotheses specified in the study were tested using regression (including moderated regression) analyses. 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. The structural support systems used by franchisors to encourage franchisee entrepreneurial activities were not found to moderate the relationship between EO and relationship quality. The results suggest that systems with EO and entrepreneurial franchisees may enjoy better relations.

Keywords

Entrepreneurial orientation, franchise relationship, franchisee selection, franchise structural support systems

Introduction

Franchising has emerged as a highly significant strategy for business growth and economic development both within domestic and international contexts (Watson and Johnson, 2010). In the United States for example, there are in excess of 900,000 franchised business establishments, resulting in 21 million jobs and $2.31 trillion of annual output (PricewaterhouseCoopers, 2008). It is perhaps

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unsurprising therefore, that a significant stream of research has emerged exploring the choice of franchising as an organizational form. Whilst franchising should reduce many of the opportunistic behaviors associated with operating large networks (Brickley and Dark, 1987; Mathewson and Winter, 1985; Norton, 1988), it does not eliminate them, and a common theme in the franchising literature relates to the inherent difficulties in successfully managing the franchisor–franchisee relationship. Studying this research area is critical; indeed, Sashi and O'Leary (2003) commented that the franchisor's relationship with its network of franchisees is central to the success of the (franchised) organization. Although there are a number of potential sources of conflict within the relationship (see Watson and Johnson, 2010 for a discussion), one of the key issues is for franchisors to maintain system uniformity without curtailing franchisee ambition (Davies et al., 2011). Thus, a central challenge for franchisors is to 'balance franchisee aspirations for entrepreneurial autonomy with the franchisor's efforts to enforce compliance to operational standards' (Davies et al., 2011: 1).

The franchisor's desire for enforcement of operational standards stems from their desire to maintain consistency across the network to help promote their brand image and as a means of protecting their system against franchisee free riding (Kidwell et al., 2007). If franchisees are given greater freedom to behave entrepreneurially there is the potential that the outcomes of their entrepreneurial behavior (such as their innovations) may not be advantageous to the system as a whole – indeed they may lead to inconsistencies in brand image. Thus, franchisors may attempt to quash franchisee autonomy, which may cause conflict and be detrimental to the system. However, since franchisees can provide local market knowledge, enabling them to have some flexibility and opportunity to innovate in order to meet the needs of their local markets may be beneficial to the system (Falbe et al., 1998).

It would seem that the impact of franchise system entrepreneurial orientation on the franchisor–franchisee relationship quality is not immediately clear. On the one hand, allowing franchisees greater freedom to engage in entrepreneurial behaviors may lead to a more harmonious relationship, as franchisees will welcome greater autonomy, and the system will potentially benefit from their entrepreneurial efforts. On the other hand, the potential benefits of franchisee entrepreneurial behaviors has to be offset by the potential for franchisee free riding and other forms of misdirected efforts (Watson and Johnson, 2010), which may create conflict and damage system integrity. The impact therefore, of an entrepreneurial orientation (EO) on the quality of the franchisor– franchisee relationship is unclear. This article seeks to understand how EO influences relationship quality, as perceived by the franchisor, given its importance to long-term system success. Additionally, the article considers the potential effects of entrepreneurially focused franchisee recruitment criteria on relationship quality, and examines whether the structural support systems used by franchisors to encourage franchisee entrepreneurial activities may moderate the effect of EO on relationship quality.

The contributions of this article are mainly with regard to the use of stewardship theory and organizational identity theory in explaining franchise relationship quality.[1] First, unlike most prior studies that have largely explored franchising as a form of agency relationship (Barthélemy, 2011), this study incorporates stewardship theory, which has been largely ignored in the franchising management literature, into the franchising relationship. This contribution helps management research to better understand franchising and stewardship theory. Indeed, a recent study by Zachary et al. (2011) has found that franchisors look for franchisees that are of similar levels of entrepreneurial orientation as themselves. Second, as highlighted in a recent study by Lawrence and Kaufmann (2011), research exploring identity theory in a franchising context has also been limited. In particular, the authors note that organizational identity and its effect on the management of the franchise system have not been considered important. Our results however, strengthen Lawrence and Kaufmann's findings that franchisors would benefit by carefully managing this aspect of the franchise relationship. In particular, our findings demonstrate that franchisors would seek to recruit potential franchisees that align with the values incorporated in the franchisor's organizational identity. Third, by exploring these theories, drawing on a sample of franchise systems from the UK, the present article broadens the scope of prior franchising studies which have tended to focus on North American contexts (Dant, 2008). Finally, based on comparisons with a recent comprehensive qualitative review and evaluation of the empirical EO literature by Wales et al. (2011), our study is the first known article to examine franchise relationship quality as an outcome of EO. Thus, we also contribute to the growing stream of literature on EO by extending the scope of the consequences of EO beyond the frequently studied financial performance outcomes.

We commence this discussion by explaining the EO construct, and consider its influence on the franchise relationship through a review of relevant literature. Within this, the potential effects of entrepreneurially focused franchisee recruitment criteria are also explored, because if EO is an important determinant of relationship quality then the entrepreneurial tendencies of franchisees may also impact relationship quality. A number of hypotheses are developed through the review. The research methodology is then explained prior to presenting the research results. The article concludes by highlighting the key implications of the study, its limitations and the future research directions.

Entrepreneurial Orientation (EO)

The concept of EO seeks to explore the extent to which firms are involved in entrepreneurial behaviors such as engaging in product market innovation, undertaking risky ventures and developing 'proactive' innovations (Miller, 1983). EO can be defined as the decision-making styles, processes, and methods that inform a firm's entrepreneurial activities (Lumpkin and Dess, 1996). Some authors such as Lumpkin and Dess (1996) and Hughes and Morgan (2007) have suggested that there are five dimensions of EO: namely, autonomy, competitive aggressiveness, innovativeness, proactiveness, and risk-taking. However, there appears to be some consensus amongst researchers (Wiklund and Shepherd, 2005) of the primacy of the latter three dimensions (innovativeness, risk-taking, and proactiveness). Wiklund et al. (2009) stressed that even in recent studies scholars have decided to use the original and well-validated scale of Miller (1983), with innovativeness, risk-taking, and proactiveness as the underlying dimensions of EO. This article will focus on these dimensions in exploring EO in franchise organizations. The innovativeness dimension reflects a tendency to search for novel, unusual, or creative solutions to challenges (Morris et al., 2002). Examples would include the development of new products and services (Walter et al., 2006) as well as new administrative techniques, technologies, and practices for the firm's operations (Knight, 1997). Risk-taking reflects an acceptance of uncertainty and relates to the firm's propensity to support projects and commit resources where the costs of failure may be high (Wiklund and Shepherd, 2005) such as moving into unfamiliar new markets, committing substantial resources to ventures with vague outcomes, and/or incurring substantial debts (Lumpkin and Dess, 2001). Proactiveness refers to a forward-looking perspective where companies actively try to anticipate future market opportunities, introducing new products or services ahead of the competition, thereby creating first-mover advantage over competitors (Lumpkin and Dess, 1996).

Previous studies have used both financial and non-financial performance measures to examine the relationship between EO and firm performance (see, for example, De Clercq et al., 2009; Keh et al., 2007). In the context of the present study, franchise relationship quality can be considered a non-financial measure of performance. Whilst the empirical evidence is not entirely conclusive, there is evidence to suggest that a firm's EO is related to its business performance, whereby those firms which are more entrepreneurially oriented perform better (Wiklund and Shepherd, 2005). The relationship between EO and performance can be explained by the potential benefits of innovative behaviors in a complex business environment. Firms with an EO possess a readiness to innovate and revitalize market offerings, take risks to try out new and uncertain products/ services and markets, and be more proactive than their competitors toward new opportunities in the marketplace (Wiklund and Shepherd, 2005). As such they are often pioneers in their industry and are therefore, able to command high prices, target the most lucrative market segments, control distribution channels, launch their products as benchmarks in the marketplace or industry (Zahra and Covin, 1995) and establish a reputation as technological leaders (Walter et al., 2006). Thus, it would seem that developing an EO is important given its apparent relationship with performance.

Although there have been some studies on EO in the franchising context (Dada and Watson, 2012), it appears that there is the potential for franchise systems to develop EO in an attempt to influence performance. In a study of three case franchise systems Nelson and Coulthard (2005) suggested that franchise systems exhibit all of the EO dimensions, although how each of these may impact performance was not explored. Nevertheless, from a financial perspective, the franchisors' innovative behaviors are demonstrated in their decision to expand their firms through the use of franchising (Stanworth et al., 2003). Indeed, franchisors are known to innovate brands, create the business model, and develop organizational processes and innovations to create value for the customer in a way that generates a profit (Ketchen et al., 2011). Following the implementation of the franchise concept, franchisees also become an important source of innovative behaviors. Flint-Hartle and de Bruin (2011) reported that almost all of the franchisees in their study described innovative ways of doing business alongside franchisor innovative system processes. Kaufmann and Eroglu (1999) argued that it is generally the franchisees who, through their local adaptation efforts, develop new market offerings and transform existing ones. Cox and Mason (2007) found that most franchisors recognize that franchisees, as a result of their daily customer interaction, are a source of innovative ideas which can benefit the system. In addition, Dada et al. (2009) found that both franchisors and franchisees have moderately high levels of risk-taking tendency. Indeed, the franchisor's risk-taking is displayed in their attempt to build a franchise system (Ketchen et al., 2011) while franchisees run the risk of introducing the franchisor's concept into new and untried markets, and also risk resources devoted to the development of the local markets (Kaufmann and Dant, 1999). Furthermore, the decision to franchise itself could be seen as evidence of proactiveness, given that franchising is a technique to bring together resources so as to rapidly create large chains and gain first-mover advantage (Michael, 2003). Dada et al.'s (2011) case based study also suggested elements of proactiveness in the franchisees' actions in an attempt to be the leaders in their local marketplace.

While there is some evidence here to suggest that franchise systems can have EO, its impact on franchise relationship quality (a central aspect of system performance) is not known. Wiklund and Shepherd (2005) suggest that the strength of the relationship between EO and performance will be dependent on internal characteristics of the firm. The internal characteristics of franchise organizations, namely their network of semi-autonomous franchisees, means that developing EO may present a particular challenge.

The franchise relationship and EO

Franchising can be seen as a form of relational exchange (Watson and Johnson, 2010). Therefore, the relationship maintained by the franchisor with the network of franchisees is a crucial element in the recipe for long-term success (Clarkin and Swavely, 2006). Of issue here, is how the franchisor's attempts to develop an EO will impact that relationship. Stewardship theory can provide insights into this process as it, '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: 21). In other words, stewardship theory maintains that managers are motivated to act pro-organizationally; it is the opposite view to the agency theory view of the manager as a cheating and untrustworthy agent who realizes his or her self-interest to the detriment of the organization (Donaldson, 2008). Franchising is often explored as a form of agency relationship (Mathewson and Winter, 1985; Michael, 2003) and, therefore, the focus of attention centres around controlling opportunistic behaviors by franchisees (Dant and Nasr, 1998). In such a context, greater franchisee autonomy may lead to incidences of free riding, which franchisors will seek to punish (Kidwell et al., 2007). Thus, EO may lead to deterioration in franchisor–franchisee relationship quality. However, franchising could perhaps be better characterized as a stewardship relationship. If franchisees can be considered as stewards, then 'given the choice between self-serving behavior and pro-organizational behavior, a steward's [franchisee's] behavior will not depart from the interests of his or her organization' (Davis et al., 1997: 24). Drawing on Davis et al., if franchisees are motivated as stewards, empowering governance structures and mechanisms are appropriate, and the granting of greater autonomy to franchisees through these means should have positive relationship impacts.

Davis et al. (1997) argued that stewardship is more likely to be present when managers identify with the organization, accepting the organization's missions, vision and objectives. In a franchise context, given the franchisee will select (and invest) in the franchise organization from an array of different franchise (and other investment) opportunities, it seems probable that identification will be strong. In such a case, empowering governance structures, whereby the steward's (franchisee's) autonomy is deliberately extended, should have positive outcomes (Davis et al., 1997). If franchisors limit franchisee autonomy, franchisees are likely to become frustrated. Indeed, Combs et al. (2004: 919) suggested that co-ordination attempts by franchisors to ensure chain consistency may create conflict because 'unlike employees who can be fired, franchisees are legally independent businesspeople who must be persuaded'. Given that franchising is often sold with connotations denoting entrepreneurial autonomy (e.g. a route to owning your own business and being your own boss) and a motivation for becoming a franchisee is the desire for independence (Knight, 1986; Kaufmann and Stanworth, 1995), it is expected that franchisees will be satisfied when their entrepreneurial activities are supported by their franchisors. Indeed, franchisees desire entrepreneurial activity to enable local market adaptations and generate innovations, and prior studies have shown that franchisees, as a result of their daily customer interaction, are a major source of innovative ideas in the franchise system (see e.g. Cox and Mason, 2007; Dada et al., 2011). Hence, it is argued here that franchisors will improve their relationship with their franchisees when they support their entrepreneurial activity, and, conversely, will suffer lower relationship quality if they restrict franchisees from being entrepreneurial. Dada et al.'s (2011) study found franchisees responded positively to having franchisor support for franchisee entrepreneurial activity, supporting this supposition. Also, research by Strutton et al. (1995) suggested that innovativeness and autonomy are positively associated with franchisor–franchisee solidarity (that is, they enhance the likelihood that the franchise relationship is valued and considered worthy of preservation). Hence, on balance we argue that systems with EO are more likely to see improved relationship quality, as franchisees, as stewards of the system, will welcome greater autonomy, and it will enable a true entrepreneurial partnership between the franchisor and the franchisee. Accordingly it is posited that:

H1: EO is positively related to franchise relationship quality.

Franchisee recruitment

The selection of suitable franchisees is considered to be the franchisor's single most pervasive operating problem (Jambulingham and Nevin, 1999). For example, in a recent NatWest/British Franchise Association Survey (2008), the principal study on franchising in the UK, finding suitable franchisees remained the most significant barrier to growth in UK franchised outlets. A number of authors (Jambulingam and Nevin, 1999; Weaven et al., 2010) have also suggested that poor recruitment practices by franchisors create conflict within the system. It would seem that the careful selection of appropriate franchisees is critical to franchisor–franchisee relationship quality, although, as Jambulingam and Nevin (1999) commented, there has been little research to determine the most appropriate selection criteria for franchisees. What research there is, however, does suggest that entrepreneurial characteristics, such as innovativeness and risk-taking (Jambulingam and Nevin, 1999) and need for achievement (Hing, 1995) are associated with important relational behaviors such as franchisee co-operation and opportunistic behavior as well as franchisee satisfaction. This can perhaps be explained through organizational identity theory. An organizational identity refers to the central, distinctive, and enduring aspects of an organization that distinguish it from other organizations (Albert and Whetten, 1985). If franchise systems have an entrepreneurial orientation, which forms part of the system's organizational identity, then it is important that they recruit franchisees who can identify with these values. Zachary et al. (2011) found evidence that franchise systems often use entrepreneurial rhetoric in their recruitment material, suggesting that EO may be an important part of system (organizational) identity. This would imply that it is important to recruit franchisees that share these values. So, recruiting franchisees who are entrepreneurial should improve relationship quality in the same manner that EO will improve franchise relations. However, if the system does not hold an entrepreneurial orientation, then it could be argued that entrepreneurial franchisees will become frustrated by the restrictions that the franchise arrangement may place on their autonomy. As such, it seems of relevance to consider how recruitment of franchisees with entrepreneurial characteristics impacts relationship quality. If EO does positively impact relationship quality (as is posited above), then it is important that franchisors recruit franchisees with the requisite entrepreneurial skills. Thus, it is hypothesized that:

H2: Entrepreneurial franchisee selection is positively related to franchise relationship quality.

Moderating influences

Drawing on the stewardship theory above, if franchisees are motivated as stewards, having support structures to facilitate the process of granting greater autonomy to franchisees is important. As Cochet and Garg (2008) suggested, franchisors need to ensure that where franchisees are granted autonomy there are strong incentives in place to ensure appropriate behavior. Systems with clear processes by which franchisee innovations are assessed may, therefore, be more likely to enjoy a positive relationship between EO and relationship quality. In addition, the ability of the franchisor to persuade franchisees not to engage in free riding is likely to be a function of their communication skills. Gillis and Combs (2009) argued that knowledge-sharing routines, such as franchise councils and local and regional meetings which celebrate franchisee innovations, are important to achieve innovation while maintaining standardization. Similarly, Kidwell et al. (2007) suggested that the franchise interactions with franchisees are important for developing mutual trust and respect within the system. Support structures such as those mentioned above may therefore play an important role in managing expectations around entrepreneurial autonomy granted to stewards (franchisees). So, it is posited that:

> H3: The relationship between EO and franchise relationship quality is positively moderated by franchise structural support systems such that increases in franchise structural support systems lead to stronger positive EO effects on franchise relationship quality.

In other words, we suggest that franchise relationship quality improves with EO but at a faster rate for those systems with franchise structural support systems.

Methodology

Sample and data collection

To test the hypotheses, a mail survey method was used to collect data from UK-based franchisors from late 2008 to early 2009. This formed part of a large-scale research project aimed at examining the role of EO in franchise systems. Since our population of interest is known and clearly defined (as all UK-based franchisors) and we had access to complete and reliable listings of all active franchisors, we decided to survey the entire population. It is estimated that around 809 franchisors were actively operating in the UK at the time of the survey (NatWest/British Franchise Association Survey, 2008). We used the comprehensive franchise listings provided in a major franchise publication, the *Franchise World: British Franchise Directory and Guide* (2009), to obtain the franchisors' contact details. This is an annual UK franchise directory, now in its 25th year, and regarded as the most reliable. Our decision to survey the entire population of franchisors is also justified given that the population is just over 800. Doing otherwise, such as selecting a smaller segment of this population, may lead to fewer respondents and a sample deemed unusable for rigorous analyses; this is based on our experience of surveying UK-based franchisors. Although our sample selection may be viewed as non-random by design, we found no statistically significant evidence of nonresponse bias in this study as discussed below. This demonstrates that our sample selection does not jeopardize the validity of this research in the light of the other reliability and validity measures and tests undertaken (also discussed below).

Similar to Barthélemy (2008, 2011), the questionnaire was developed via a four-stage process. First, we designed a preliminary version of the questionnaire. Wherever possible, we used measurement items that have proved to be reliable and valid in several previous studies (Atuahene-Gima and Ko, 2001) by adapting the measures to the franchising context. Second, we obtained valuable comments on this earlier version of the questionnaire from a distinguished professor, internationally renowned for research in the fields of entrepreneurship and franchising. The feedback received was used to improve the questionnaire significantly. Third, the revised version of the questionnaire was pre-tested by sending copies to the Managing Directors of ten franchise organizations who participated in a previous 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 pre-test is consistent with the number of organizations/ business managers used in previous studies (e.g. Barthélemy, 2008, 2011; Tajeddini, 2010). Fourth, we designed the final version of the questionnaire drawing on the feedback from the prior stage. Overall, the questionnaire development process generated revisions in the measurement items, ensuring the face and content validity of the survey (Hughes and Morgan, 2007). The final version of the questionnaire was then mailed to all the franchisors operating in the UK, using the comprehensive franchise listings provided in the major franchise publication mentioned above, the *Franchise World: British Franchise Directory and Guide* (2009). The questionnaire pack also included a postage-paid reply envelope and a covering letter to the franchisor.

The survey was specifically addressed to the Managing Director of each of the franchise organizations. There was also an optional section in the questionnaire enquiring about 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 with sufficient knowledge of the orientations of the firm's franchise policies – e.g. the Managing Director, Chairman, CEO, Owner, Vice President, Head of Franchise and National Franchise Manager. Franchisors were specifically targeted as key informants because they are expected to have sufficient familiarity with the research issues and the information sought (Avlonitis and Salavou, 2007; Simsek et al., 2007) and could therefore respond accurately (Zahra and Covin, 1995). In particular, our constructs of interest are: the (1) EO of the franchise system – which should reveal how the franchisor operates (see Lumpkin and Dess, 1996) and capture specific entrepreneurial aspects of the franchisor's decision-making styles, methods, and practices (see Wiklund and Shepherd, 2005); (2) franchise relationship quality; (3) entrepreneurial franchisee selection; and (4) franchise support structures. Therefore, as owners of the franchise system, we believe franchisors were the most appropriate key informants to provide the required information.

Seventy-two completed questionnaires were received from the original mailing, 25 from the first round of reminders, and none from the second round of reminders, bringing the total number of completed questionnaires received to 97. Two questionnaires were excluded because they were not sufficiently complete. Therefore, our final sample comprised 95 franchise systems, an overall response rate of 11.74 percent of the total number of active UK-based franchise systems. Considering this study's requirement for top executives' direct involvement (Lee et al., 2001), our response rate is considered adequate and consistent with those reported in prior studies for this type of research (e.g. 10.7 percent in Messersmith and Wales, 2011; 10.3 percent in Moreno and Casillas, 2008). It is also in line with the 10–12 percent response rate typical for mailed surveys to top executives in large, medium- and small-sized firms (Hambrick et al., 1993; Simsek et al., 2007, 2010). In addition, our sample size is suitable for the empirical investigations carried out in this study and is reasonably comparable with many prior studies that have examined issues on, or related to, EO in different contexts (see Gupta and Moesel, 2009). For example, Zahra and Covin (1995) had 108 firms, Falbe et al. (1998) had a sample size of 50 participants, Zahra and Garvis (2000) had 98 firms, Green et al. (2008) had 110 firms, and Gupta and Moesel (2009) had 100 firms. In addition, our response rate is offset to some extent by the fact that many potential respondents were unable to participate for different reasons (Hughes and Morgan, 2007) that were attached to the uncompleted returned questionnaires. The reasons included notes/letters explaining that it was against the organization's policies to take part in external research. Also, about 100 questionnaires were returned undelivered due to reasons such as addressee not found, addressee has gone away, and addressee has closed down.

The average age of respondent 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

Table 1. Characteristics of the sample.

Franchise system characteristics	Frequency	Cumulative frequency	Percentage	Cumulative percentage
Age of franchise system: UK				
Less than 5 years	34	34	41	41
6–10 years	14	48	17	58
More than 10 years	35	83	42	100
Size of franchise system: UK				
1–50 outlets	62	62	65	65
51–100 outlets	16	78	17	82
More than 100 outlets	17	95	18	100
Industry sector: [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 operated in more than one industry sector.

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 percent had been operating for up to 10 years, and 42% had been operating for more than 10 years. Sixty five percent had up to 50 outlets, and 35% had more than 50 outlets. Although we do not claim to have a random sample, the broad representation of types and sizes of businesses suggests that our findings should have a high degree of generality (Miller and Friesen, 1982).

Two important issues associated with survey methodology are non-response bias and common method variance (Li et al., 2008). Non-response bias is the difference between the answers of non-respondents and respondents; the larger the bias, the more the caution that should be exercised in generalizing results of the respondent sample to the entire population (Lambert and Harrington, 1990). To examine the possibility of non-response bias in this study, respondents were divided into two groups according to when they responded to the survey: (1) 'early respondents' being those who responded to the original mailing, and (2) 'late respondents' being those who responded after the original mailing: that is, respondents to the first round of reminders. It was assumed that 'late respondents' are similar to non-respondents (Armstrong and Overton, 1977). *T*-test comparisons of the two groups on age of the franchise system, defined as the number of years the company has been franchising in the UK (t=0.650, p=0.517), and the size of the franchise system, defined as the number of franchised outlets that the company has in the UK (t=0.661, p=0.510), did not reveal statistically significant differences. Thus, we found no significant evidence of non-response bias in this study.

A common method variance problem can occur from collecting both dependent and independent variables from the same respondent in the same survey (Li et al., 2008) and can threaten the psychometric properties of questionnaire measures (Tepper and Tepper, 1993). Since this study relied on single respondents to assess all of our study's constructs, this approach may introduce a common method bias (Simsek et al., 2007). In order to address concerns relating to common method biases, different procedural and statistical techniques have been recommended in the literature (Podsakoff and Organ, 1986; Podsakoff et al., 2003). For our study, response anonymity and confidentiality was guaranteed to reduce respondents' evaluation apprehension, a procedural technique suggested by Podsakoff et al. (2003), and adhered to in prior studies such as Wang (2008). Although the use of procedural techniques can minimize or completely eliminate the potential effects of common method variance on research findings (Podsakoff et al., 2003), we also employed an additional statistical technique. The latter involved the use of the Harman one-factor (or single-factor) test (Podsakoff and Organ, 1986; Podsakoff et al., 2003) that has been used in several studies (e.g. Avlonitis and Salavou, 2007; Li et al., 2008; Rhee et al., 2010; Wang, 2008). As described in Podsakoff et al. (2003), all items from all of the constructs in our study were included in a factor analysis. The results yielded 6 factors which accounted for 68.10% of the total variance, with the first factor accounting for 17.19% of the variance. Therefore, no single factor emerged from the factor analysis and no one factor accounted for the majority of the variance (Rhee et al., 2010). These results demonstrate that common method variance is unlikely to be a major problem in our data, and provide support for the validity of the measures used in this study (Rhee et al., 2010; Stam and Elfring, 2008).

Variables and measures

All the measures of the constructs used in this study are grounded in the literature. Consistent with Sapienza et al. (2005) and many others, we employed previously validated measures wherever possible, and most were re-worded to fit the franchising context; where there were no prior scales, we developed measures based on inferences from the literature. In accordance with Hughes and Morgan (2007) and others, summated scales were employed for the constructs. The p values from the Shapiro-Wilk test of normality for all the variables were non-significant ($p > 0.05$), indicating that there is no difference between the distribution of the data set and a normal one.

Dependent variable. The franchise relationship quality (RELQUALITY) was measured using a two-item scale, with a 5-point Likert scale response that ranged from 1 (*low*) to 5 (*high*). The items pertained to 'the degree of team cooperation between franchisor and franchisees' and 'overall satisfaction with the franchisor–franchisee relationship'. The first item was adapted from Morrison (1997) and the second item was developed by the authors. These items are consistent with the indicators of relationship quality examined in previous studies (e.g. Crosby et al., 1990), especially the dimensions of relationship quality included in 'the most important contributions to the study of the relational aspects in a collaboration context' as summarized in Monroy and Alzola (2005: 592). Since our dependent variable is RELQUALITY, we adopted two supplementary steps to ensure its measurement validity (Simsek et al., 2007). These involved correlating RELQUALITY with two contrasting but related items. In the first instance, we correlated RELQUALITY with an item pertaining to 'the degree of conflict between me and my franchisees'. Secondly, we also correlated RELQUALITY with another item relating to 'the number of disagreements about operations between the franchisor and the franchisees'. Both items were adapted from Morrison (1997) and they had the same response scale as our two-item scale for measuring RELQUALITY. Consistent with our expectations, the items were significantly and negatively correlated at the 0.01 and 0.05 levels (2-tailed), respectively. In addition, respondents were asked to assess all the four items relating to RELQUALITY with regards to the last 3 years. This time frame was used for responses so as to avoid respondents assuming some limited, unspecified time frame, and to more fully capture the more generalized trends that their franchise systems were experiencing (Simsek et al., 2007). Moreover, this time frame is consistent with many studies that have examined the relationship between EO and firm performance by measuring performance with a benchmark relating to the last 3 years (e.g. Li et al., 2009; Lumpkin and Dess, 2001; Tang et al., 2008). Also, in a study examining the impact of human resource management practices and corporate entrepreneurship on firm performance, Kaya (2006) measured different dimensions of performance with reference to the past 3 years. With regard to the franchising context, Monroy and Alzola (2005) argued that relationship quality reflects the performance of the franchisor and the franchisee in the long term and includes variables that need time to be developed. It is thus worth considering a time order when assessing the quality of the franchise relationship (Monroy and Alzola, 2005).

Independent variables. The first independent variable, entrepreneurial orientation (EO), was measured with three dimensions: innovativeness, proactiveness and risk-taking (Lee et al., 2001; Wiklund et al., 2009). As noted by Wiklund et al. (2009), although Lumpkin and Dess (1996) conceptually introduced competitive aggressiveness and autonomy as potentially important aspects of the EO construct, many scholars including recent studies have measured EO in terms of innovativeness, proactiveness and risk-taking. Most of the measures for the three dimensions of EO used in the present study were adapted from Keh et al. (2007); the measures were originally extracted from Covin and Slevin (1989) and Miller and Friesen (1982). A 5-point Likert scale, ranging from 1 (*Strongly disagree*) to 5 (*Strongly agree*) was used. Innovativeness was assessed with 3 items: namely (1) In my franchise system, there exists a very strong emphasis on 'franchisee-driven' research and development, technological leadership, and innovations; (2) The changes in product lines (e.g. types/number of products) by my franchisees have usually been dramatic; (3) My franchisees have introduced many innovations in the past 5 years. Only item 3 was developed by the authors based on inferences from Keh et al. (2007) and Schumpeter (1934). Proactiveness was assessed with 2 items: namely (1) My franchisees, by themselves, are typically the first to initiate actions to competitors for which the competitors then respond; and (2) Very often, my franchised outlets are the first to introduce new products/services, techniques, technologies, etc. Risk-taking was assessed with 2 items: namely (1) My franchisees tend to have a strong preference for high-risk projects (with chances of very high return); and (2) Owing to the nature of the environment, my franchisees believe that bold wide-ranging acts are necessary on their part in order to achieve my franchise system's objectives. To further validate our EO measure, we also measured the extent of entrepreneurial orientation (innovativeness, proactiveness and risk-taking) in the franchisor's franchisee recruitment Web page texts by means of content analysis, following Zachary et al. (2011). The EO measure obtained from the franchisor's franchisee recruitment Web pages correlated positively with the EO measure obtained from our survey, with a moderately large correlation ($r = 0.30$, p=0.002) (De Clercq et al., 2009). The mean of the EO measure obtained from the franchisor's franchisee recruitment Web pages (M = 2.40) is also consistent with the mean of the EO measure obtained from our survey (M = 2.30). Furthermore, T-test comparison of the two EO measures did not reveal statistically significant differences (t=1.291, p=0.205) (Zahra and Covin, 1995). Therefore, it was concluded that the franchisor's assessment of their level of EO from our survey did not differ significantly from the extent of EO used to attract potential franchisees as displayed on the franchisor's franchisee recruitment Web pages (Zachary et al., 2011).

The second independent variable, entrepreneurial franchisee selection (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; and (3) creative people. These are some of the most-established personality constructs that have been frequently associated with an entrepreneurial role in both theoretical and empirical research (e.g. Cromie, 2000; Rauch and Frese, 2007a,b). The items were developed drawing on inferences from the Durham University General Enterprising tendency (GET) test (1988), which measures a respondent's propensity along similar entrepreneurial dimensions as depicted above. As noted by Cromie (2000), the GET test is comprehensive, it has criterion and convergent validity and good internal consistency. This test has also been utilized in previous entrepreneurship studies such as Henry et al. (2004), Kirby (2004) and Caird (1991).

The third independent variable, franchise structural support systems (SUPPORT), was measured through the use of items relating to the structural mechanisms used to encourage entrepreneurial behaviors and activities in franchised outlets. A 5-point Likert scale that ranged from 1 (*Not at all*) to 5 (*To a large extent*) 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 are 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.

Control variables. We included a set of control variables in order to make sure that the models are properly specified and allow for likely alternative explanations for variations in franchise relationship quality (De Clercq et al., 2009). Firms of different age and size, and also those operating in different industries, may exhibit different organizational characteristics (Wiklund and Shepherd, 2005). Therefore, we added age, size and industries of the franchise systems as controls. Measurement/definition of each of these variables was explained earlier in this section.

Additional checks for validity and reliability

To examine the criterion-related validity of the measures, we used item-to-total correlation, usually termed item analysis (Bohrnstedt, 1969). This approach was also used in a study by Hughes and Morgan (2007) to test the validity of the scales adopted to examine the relationship between EO

Table 2. Measurement items of constructs.

Constructs	Measurement items	Factor loadings
Franchise relationship quality (RELQUALITY)	(1) The degree of team cooperation between me and my franchisees	.87
	(2) My overall satisfaction with the franchisor–franchisee relationship	.87
Entrepreneurial orientation (EO)	(1) In my franchise system, there exists a very strong emphasis on franchisee-driven research & development, technological leadership, and innovations.	.53
	(2) The changes in product lines (e.g. types/number of products) by my franchisees have usually been dramatic.	.66
	(3) My franchisees have introduced many innovations in the past 5 years.	.64
	(4) My franchisees, by themselves, are typically the first to initiate actions to competitors, for which the competitors then respond.	.71
	(5) Very often, my franchise outlets are the first to introduce new products/services, techniques, technologies etc.	.55
	(6) My franchisees tend to have a strong preference for high-risk projects (with chances of very high return).	.74
	(7) Owing to the nature of the environment, my franchisees believe that bold wide-ranging acts are necessary on their part in order to achieve my franchise system's objectives.	.66
Entrepreneurial franchisee selection (SELECTION)	When selecting my franchisees I usually look for people with the following qualities:	
	(1) Ambitious people	.76
	(2) Independent people	.77
	(3) Creative people	.79
Franchise structural support systems (SUPPORT)	(1) My franchise system encourages franchisees to bend rules	.60
	(2) My franchise system sponsors the implementation of franchisees' new ideas	.65
	(3) Individual risk-takers are often recognized amongst franchisees, whether eventually successful or not	.67
	(4) My franchise system encourages calculated risk-taking amongst franchisees	.81
	(5) 'Risk-taker' is considered a positive attribute in a franchisee	.78
	(6) Small and experimental projects of franchisees are supported by my franchise system	.65

and business performance. All item-to-total correlation coefficients in our study were reasonably high, in the expected direction, and statistically significant at the 0.01 level (2-tailed).

Principal Components Analysis was utilized to examine the factor structure of the scales used to represent each construct (Weaven et al., 2009). All scales exhibited satisfactory factor structures with all items having factor loadings above 0.50 (Table 2) and all factors with eigenvalues greater than 1 (Shi and Wright 2001; Weaven et al., 2009). Test for reliability was done using Cronbach's alpha. As shown in Table 3, the values for all scales were above 0.60 (Shi and Wright, 2001), the recommended minimum acceptable standard (Bagozzi and Yi, 1988; Baker et al., 2002), which is also deemed acceptable in prior studies on EO (e.g. Wiklund and Shepherd, 2005). Thus, we found satisfactory evidence to suggest that the data were appropriate for analysis (Weaven et al., 2009).

Table 3. Means, standard deviations, Cronbach's α values and correlations.

Variables	M	S.D	Cronbach's α values	1	2	3	4
Franchise relationship quality (RELQUALITY)	3.75	0.83	0.69	1.00			
Entrepreneurial orientation (EO)	2.30	0.68	0.76	0.26*	1.00		
Entrepreneurial franchisee selection (SELECTION)	3.81	0.79	0.65	0.24*	0.08	1.00	
Franchise support structures (SUPPORT)	2.79	0.75	0.79	0.11	0.45**	0.27**	1.00

N=95
*Correlation is significant at the 0.05 level (2-tailed);** correlation is significant at the 0.01 level (2-tailed).

Analysis and results

The means, standard deviations, and correlations of the variables are displayed in Table 3. We also applied multicollinearity diagnostics to ensure that multicollinearity was not a problem in the data. We mean centered the independent variables required for the interaction term before creating the interaction term. The maximum variance inflation factor (VIF) value was 1.542, and the maximum condition index statistics was 20.813 (Hughes and Morgan, 2007). Typically, correlations over 0.70, VIFs over 10, and condition numbers over 30 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 regression tests that are discussed below (Hughes and Morgan, 2007).

We estimated two different models. In Model 1, multiple regression analysis was used to assess the effect of the control variables as well as EO and SELECTION on RELQUALITY. In Model 2, moderated regression analysis, as described in Zahra and Garvis (2000), was used to test the effect of SUPPORT on the relationship between EO and RELQUALITY. With regards to the moderated regression analysis for Model 2, the dependent variable (RELQUALITY) was regressed on the control variables, EO, SUPPORT and an interaction term generated by multiplying EO and SUPPORT.

The results are displayed in Table 4. The results corresponding to Model 1 indicate that this model was statistically significant (F statistic=1.850, p=0.041) and explained 29% of the variance in franchise relationship quality. EO was positively and significantly (β=0.315, p=0.005) related to RELQUALITY. Thus, H1 was supported. SELECTION was also positively and significantly related (β=0.231, p=0.039) to RELQUALITY, supporting H2. In the moderated effects model, Model 2, EO was positively and significantly (β=0.305, p=0.019) related to RELQUALITY as expected. Although the relationship between SUPPORT and RELQUALITY, as well as the relationship between the interaction term EO*SUPPORT and RELQUALITY were positive as predicted, these were not statistically significant, nor indeed was the model (F=1.458). Therefore, only hypothesis 3 was not supported.

Discussion

The ability of franchisors to develop and maintain long-term, mutually committed relationships with their franchisees is critical to the success of franchise systems (Strutton et al., 1995). This study responds to recent calls for additional theoretical diversity in franchising research (e.g. Barthélemy, 2011; Combs et al., 2004) by applying stewardship theory and organizational identity theory to improve understanding of the franchise relationship. Franchising is a particularly interesting

Table 4. Regression results.

Variable	Model 1	Model 2
Constant	(0.006)**	(0.000)***
Size of franchise system: UK	0.083	0.079
Age of franchise system: UK	0.173	0.127
Industry sector:		
Property and maintenance services, home improvements	0.088	0.087
Catering and hotels	0.030	0.006
Cleaning and renovation services	0.050	0.048
Commercial services	0.015	0.007
Direct selling, distribution, wholesaling, vending	0.064	0.018
Domestic, personal, health and fitness, caring, and pet services	0.235 (0.040)*	0.194 (0.096)^
Employment agencies, executive search, management consultancy, training and teaching	–0.017	–0.017
Estate agents, business transfer agents, financial services and mortgage brokers	–0.103	–0.171
Parcel and courier services	–0.040	–0.026
Printing, copying, graphic design	0.129	0.133
Retailing	–0.134	–0.129
Vehicle services	–0.152	–0.163
EO	0.315 (0.005)**	0.305 (0.019)*
SELECTION	0.231 (0.039)*	
SUPPORT		0.020
EO*SUPPORT		0.115
F value	1.850 (0.041)*	1.458
R^2	0.294	0.262
Adjusted R^2	0.135	0.082

Standardized coefficients are reported in the table; *p* values are in parentheses with:***$p < 0.001$; **$p < 0.01$; *$p < 0.05$; ^ $p < 0.10$.

context to study the management of organizational identity and stewardship relationship, given that franchisees are neither full-time employees nor independent entrepreneurs (Lawrence and Kaufmann, 2011). Our results indicate that systems with EO are more likely to see improved relationship quality, as franchisees, as stewards of the system, will welcome greater autonomy, and that they will enable a true entrepreneurial partnership between the franchisor and the franchisee. As such, franchisors may improve relationship quality by developing a system with a more entrepreneurial orientation, enabling franchisees to exploit their entrepreneurial talents – that is, systems with EO are more likely to develop committed strong relationships with their franchisees. Research by Dada and Watson (2012) further suggests that EO is positively related with system performance, and thus, this combined with the findings here, provides a compelling case for franchisors to develop entrepreneurially oriented systems. Of course, in so doing, they will need to consider carefully how to ensure that franchisees are motivated as stewards. It was suggested that franchise structural support systems may be a means of facilitating the process of granting greater autonomy to franchisees, so, enabling harmonious relations. In other words, we suggest that franchise relationship quality improves with EO but at a faster rate for those systems with franchise support structures. The results do not appear to support this which might perhaps be explained by looking at the relationship between support structures and EO. Previous research by Dada and Watson (2012) shows that support structures are significant in creating EO. It would seem that while support structures do not moderate the relationship between EO and relationship quality, they are important antecedents for system EO.

The findings also highlight the importance of franchisee recruitment criteria for relationship quality. If franchise systems have an entrepreneurial orientation, which forms part of the system's organizational identity, then it is important that they recruit franchisees who can identify with these values. Given that identification represents a sense of unity with an organization, where there is an emphasis on the collective over the individual, and one's own identity overlaps with the organization's identity (Lawrence and Kaufmann, 2011), recruiting entrepreneurial franchisees should provide beneficial outcomes for franchise relationships. Drawing on organizational identity theory, we argue that franchisors recruit entrepreneurial franchisees in line with the franchisor's organizational identity, and this franchisee selection approach has positive effects on franchise relationship quality. Our results are consistent with those reported by Zachary et al. (2011) which found that franchisors look for franchisees that are of similar levels of entrepreneurial orientation as themselves. In particular, they found that franchisors use entrepreneurial rhetoric to attract potential franchisees, implying that franchisors either view franchisees as being similar to entrepreneurs or they prefer those franchisees that are. Given the long standing debate as to the entrepreneurial role of the franchisee (see for example, Clarkin and Rosa, 2005; Dada et al., 2011) and indeed, the desirability of entrepreneurial attributes among franchisees (see Ajayi-Obe, 2007, for a discussion), the findings here are important. They suggest that franchisors who recruit more entrepreneurial franchisees perceive their relationship with their franchisees to be better than those who do not. The results support other studies which have explored relationship quality from the franchisees' perspective (Hing, 1995 and Jambulingam and Nevin, 1999) which have also found some evidence to suggest that entrepreneurial dimensions, such as need for achievement and innovativeness, are positively related to franchisee satisfaction. Zachary et al. (2011) also found that entrepreneurial rhetoric in franchise branding materials and franchise performance are positively related. This further strengthens our findings on the central role of entrepreneurial franchisee recruitment on franchise system performance (in this context measured as franchise relationship quality). Overall, our results demonstrate that both the level of entrepreneurial orientation in the franchise system and the recruitment of entrepreneurial franchisees are important for better franchise relationship quality.

Limitations and future research

While the results do appear to suggest that EO and recruitment of entrepreneurial franchisees will be beneficial for franchise systems, there are limitations which potentially constrain the generalizability of the findings. Since we have only used measures of the franchisor's perception of the relationship quality, a dyadic measure may provide further insights. However, our approach is in keeping with a number of studies which have explored the franchisor–franchisee relationship from only one perspective. Indeed, given that much of the research on franchisor–franchisee relationships has focused on franchisee perspectives (see for example, Davies et al., 2011; Hing, 1995; Jambulingham and Nevin, 1999; Strutton et al., 1995), exploring franchisor perspectives is of particular interest. Ultimately, it is the franchisor who makes the decision to franchise, and who is concerned with the long-term performance of the system as a whole and so, understanding their perceptions is important. The fact that the findings suggest EO does improve relationship quality from the franchisor perspective, is, in itself, of interest. This is an avenue of research which warrants further exploration so that the impact of EO on franchisee perceptions can also be better understood.

A further limitation arises as questionnaires were self-completed; as such, the results from the measurement instruments may depend on the extent to which respondents were able to accurately report their level of agreement or feelings with regards to the survey items (Weaven et al., 2009). Also, the sample was drawn across several industry sectors, and although this might increase generalizability, it may mask significant differences. However, we did not focus on a single industry sector given the nature of the data available on the UK-based franchisors which may generate few respondents within each sector. Since industry sector was included as a control variable, we believe the issues around generalizability (as a result of sampling across industry sectors) were accounted for. In addition, as noted by Grace and Weaven (2011), there have been a number of published techniques to assist with the assessment of common method bias; but, none of the tests is without its disadvantage. While we have used a popular procedural technique (response anonymity and confidentiality) in addition to a commonly used statistical technique (the Harman one-factor test) to address concerns relating to common method biases, worries about common method variance may still be an issue. However, the results from the Harman one-factor test demonstrate that common method variance is unlikely to be a major problem in our data.

Furthermore, the R^2–values for the study are relatively low (under 0.3); but this is not unusual for studies of this nature (see for example Aragón-Sánchez and Sánchez-Marín, 2005; Avlonitis and Salavou, 2007; Hughes and Morgan, 2007; Li et al., 2008), particularly where new concepts are being tested (Mellewigt et al., 2011). Further, the F value of 1.850 in model 1 is statistically significant (p-value = 0.041). Therefore, we can be confident that this model possesses good explanatory power (Hughes and Morgan, 2007).

Future research may consider exploring the role of EO in franchise systems in different international settings to see whether national culture moderates the strength of the relationship between EO and relationship quality. In addition to cultural effects, different regions may exhibit different franchise structures, which may influence the effects of EO. For example, in the UK (and indeed within Europe) multi-unit franchising is not typical. Rather, most franchise systems are operated by single unit franchisees, and where franchisees do own multiple units, these typically only extend to 2–3 units (Watson et al., 2007). This can be compared with the USA, where multi-unit franchising is more prevalent, and where multi-unit franchisees can be responsible for networks of several hundred units (Kaufmann and Dant, 1996). This may impact the effect of EO on the franchisor–franchisee relationship. Research by Grünhagen and Mittelstaedt (2005, 2002) suggested that franchisees may decide to take on additional units as a mechanism for obtaining more 'say' with the franchisor. Weaven et al. (2009) found that multi-unit franchisees scored significantly lower than single unit franchisees on the Big-Five factors of conscientiousness, emotional stability, the empathy dimension of empathic perspective taking, and emotional intelligence. They suggested that this may be because multi-unit franchisees tend to closely follow franchisor administrative practices (Weaven et al., 2009) and resemble managers of their own mini-chains (Bradach, 1997). Thus, the relational exchange dynamics within systems characterized by large multi-unit franchisees may be very different than systems characterized by single unit franchisees. This would be an interesting area to explore in the future.

Given that franchise relationship quality measured at a particular point in time (with reference to a particular time frame) can be affected by the typical extent of entrepreneurial orientation in the franchise system, a cross-sectional research was considered appropriate for this study. Nevertheless, since the franchise relationship is an on-going long-term exchange, exploring the long-term effect of EO on relationship quality through a longitudinal analysis may provide further insights. Indeed, Carroll and Mosakowski (1987) suggested that longitudinal studies of entrepreneurship will give very different insights from cross-sectional research and Ketchen et al. (2011) argued that the stage of development of the franchise system may impact the extent to which it can be considered entrepreneurial. Thus, this research highlights a number of interesting avenues for further investigation, and as such provides a catalyst for future research.

Conclusion

Our study draws on stewardship theory and organizational identity theory in explaining franchise relationship quality. The evidence suggests that viewing franchisees as stewards of the franchise organization is valid when the orientations of both the franchisor and the franchisee are matched. Our results also demonstrate that franchisors would seek to recruit potential franchisees that align with the entrepreneurial values incorporated in the franchisor's organizational identity. Overall, our findings suggest that franchise systems that develop an EO, and recruit entrepreneurial franchisees, will enjoy better relations with their franchisees. This study opens up directions for future research to advance knowledge of the management of the franchise relationship based on management theory (such as stewardship theory) and organizational theory (such as organizational identity theory).

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Note

1. We are grateful to an anonymous reviewer for recommending these theoretical directions.

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