

Identity in Franchise Systems: The Role of Franchisee Associations

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Abstract

Utilizing theories of identity this article presents findings from a qualitative study regarding the significant role independent franchisee associations play within franchise systems. The data reveal that successful franchisee associations help manage the inherent tension that exists between cooperation and conflict in franchise relationships. A distinctive adaptive organizational identity provides an association the capability necessary to reframe its relationship with the franchisor as either combative or cooperative in response to changes in a franchisor's identity. Challenging the views of both franchisor stability and the dyadic form that franchisee–franchisor relationships assume, behavioral insight is provided into the actual functioning of franchise systems and new avenues are suggested for theory building in franchising.

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“For the younger generation, of which I am a part, we must not take for granted ‘The Hard Way’ that our forefathers endured for this brand. They took the high road and worked arduously to pour a solid foundation so that the brand could be sustained. This foundation took years to perfect and must be maintained to preserve our heritage, our rights and our future. It is our responsibility and obligation to understand our heritage and our rights so that we may continue this great brand that the Colonel himself entrusted to us. We are a family, and I think you will see that reiterated throughout every page in this historical reflection. Family is what brought me to KFC and the AKFCF, and I have so many extended family members because of this affiliation.” *Michelle Hunt – Editor AKFCF Quarterly (The KFC Franchisee Association Newsletter)*

The statement above from the KFC franchisee association newsletter highlights an organization that has real impact on the lived experiences of franchisees and the systems in which they operate but has been largely ignored in franchising research – the independent franchisee association. Although relationships among franchisees, have been found to influence franchisee

attitudes and behavior (Dickey 2003; Kalnins and Chung 2006) franchising researchers have just begun to acknowledge the existence of formal organizational structures that embody such relations (see Cochet and Ehrmann 2007; Lawrence and Kaufmann 2010 for examples). Several researchers have recognized the potential countervailing power of these structures (i.e., Argyres and Liebeskind 1999; Carney and Gedajlovic 1991; Grünhagen and Mittelstaedt 2002), but none have examined how these associations actually function within franchise systems.

This lack of research is surprising because independent franchisee associations have emerged as important, influential and prolific structures within modern franchise systems and have aroused a great deal of interest among practicing franchise lawyers (e.g., Barkoff and Green-Kelly 2006; Burzych, Karp, and Satterlie 2004; Selden 2000; Spandorf and Barkoff 2003). Moreover, as confirmed via the authors' research all but eight of the top 20 largest franchise systems have currently active independent franchisee associations. Of the remaining eight McDonalds, Ace Hardware, Marriott, Hilton, Re/Max, Coldwell Banker, and Health Mart all have some kind of advisory councils comprised of franchisees. Furthermore, the Federal Trade Commission has recognized the potential influence of franchisee associations and as of July 1, 2008 amended its Franchise Rule mandating explicit disclosures in each system's Franchise Disclosure Document (FDD) of the existence of any independent association (or alternative form of franchisee group) requesting such recognition. Just as initial explanations of franchising based on the assumption of single-unit franchising failed to con-

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sider the growth and impact of multi-unit franchising (Kaufmann 1996; Kaufmann and Dant 1996), the general assumption that solitary franchisees act alone in dyadic relations with the franchisor ignores the complexity of inter-franchisee relations as they operate today.

For the past 40 years, franchise research has been dominated by two such approaches (1) a focus on the structural characteristics of the franchise form and (2) an examination of the link between psychological traits of franchisees and their attitudes and behavior. Economic theories explaining franchising and the resultant structures of franchise systems enjoy a well deserved prominence in the literature (see Blair and Lafontaine 2005). The primary focus of that approach has been on understanding the incentives that achieve optimal efficiency within the franchise system (Brickley and Dark 1987; Rubin 1978). However, the only relationship of interest is that between franchisor and franchisee and both parties are assumed to be context free economic actors. The second approach has been to examine the psychological traits of franchisees and link those traits to attitudes including satisfaction (Hing 1995; Morrison 1997) and behaviors (Jambulingam and Nevin 1999). Again, the only examined relationship is between franchisor and franchisee, and franchisees are assumed to be individual psychological actors. Neither approach recognizes any social context or formal organization in which inter-franchisee relationships are enacted. With few exceptions the scope of franchising research has been limited to this dyadic model. Formalized inter-franchisee relationships and the potential of such groups in mediating the relationship between individual franchisees and the franchisor have not been considered as important components or influencers in the franchise system.

Each franchise system is comprised of two distinct legal entities, the franchisee and franchisor, who although they are members of a single superorganization (Reve and Stern 1979) have both shared and competing goals. As the often used tagline of franchising, “work for yourself, not by yourself” illustrates, franchising agreements create a unique relationship between franchisor and franchisee. To outsiders the franchisee may resemble a quasi-employee of the firm and has been characterized as giving up his or her own identity to assume the identity of the franchisor (Caves and Murphy 1976). However, unlike an employee working within an authority based hierarchy, franchisees are legally independent contractors that typically view themselves as equal partners with the franchisor. The franchisee association resides within this complex superorganization and provides a way for these independent contractors to interact collectively with the franchisor.

The interdependent relationship between franchisor and franchisees creates significant managerial challenges for both franchisee association leadership and franchise system corporate management as franchisee based organizations enact their unique, collective identity within franchise systems in somewhat the same way that unionized employees do within wholly owned firms. Collaborative relationships between system management and franchisee associations may lead to greater system wide efficiencies. However, associations that focus attention on their collaborative work with the franchisor and on accom-

plishing collective goals may be unable to control member perceptions of co-optation and fail to maintain their identity as legitimate autonomous bodies. Conversely, the countervailing power (Galbraith 1954) afforded such associations and the potential for adversarial relationships arising from in-group/out-group distinctions are a potentially powerful uniting force for franchisees looking to assert their role as autonomous agents. As such, franchisee associations can consciously fortify the identity disparity between franchisee and franchisor, building solidarity among their members by highlighting an adversarial combative relationship. When franchisee associations fail to temper this bias however, conflict between franchisor and franchisee may spiral out of control and destroy any hope for working together for the good of the system.

In examining the management of these franchisee associations, we seek to understand the role organizational identity plays in their maintenance. Because some independent franchisee associations endure while others fail, we ask the following questions: what characteristics give rise, and sustenance, to these organizations and how do these organizations manage the inherent tension between cooperation and conflict? Our data suggest that an adaptive association identity interacts with the perceived instability of franchisor identity to provide the critical factors determining their continued existence. In order to survive, franchisee associations, like labor unions, must strike the balance between cooperative and combative behavior (Hammer and Stern 1986) to assert both their autonomy and interdependence vis-à-vis the franchisor. Such shifts in identity accomplish the dual task of maintaining solidarity and control among their membership while also working constructively with their franchisor management team to foster efficient system operation and enact change when necessary. The purpose of this paper is to develop a theoretical framework to understand such identity dynamics at work within franchising. We propose that the creation and maintenance of an adaptive identity enables associations to react to changes in a franchisor’s corporate identity, facilitating cooperative behavior with the franchisor while also working to temper the in-group/out-group bias that, while enhancing franchisee solidarity, threatens continued franchisee–franchisor collaboration.

Utilizing theories of organizational identity to help interpret our findings in the field we work towards an emic understanding of the functioning of these independent franchisee associations. In doing so, we address the call for research that takes a phenomenological approach to the development of theory that challenges prior conceptualizations of franchising (Dant 2008). First we briefly review the relevant theory and describe the features of franchisee associations. Then in the sections that follow, we use qualitative data to inductively build our conceptualization of a dynamic association identity around three key insights; (1) identity (in)stability (on the part of both franchisee and franchisor) as a key variable in understanding the functioning of franchisee associations, (2) the necessity of an adaptive association identity to temper intergroup bias and foster cooperation while maintaining solidarity among members and (3) the capability for such adaptation rooted in traditions, rituals and artifacts, free spaces, franchisee stability, democratic governance and financial resources. We then discuss our findings

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