



Lancaster University
MANAGEMENT SCHOOL

Lancaster University Management School
Working Paper
2010/012

**Entrepreneurial Orientation and the Franchise System:
Organisational Antecedents and Performance Outcomes**

O Dada and A Watson

Institute for Entrepreneurship and Enterprise Deve
Lancaster University Management School
Lancaster LA1 4YX
UK

© O Dada and A Watson

All rights reserved. Short sections of text, not to exceed
two paragraphs, may be quoted without explicit permission,
provided that full acknowledgement is given.

The LUMS Working Papers series can be accessed at <http://www.lums.lancs.ac.uk/publications/>
LUMS home page: <http://www.lums.lancs.ac.uk/>

Entrepreneurial Orientation and the Franchise System: Organisational Antecedents and Performance Outcomes

Olufunmilola (Lola) Dada ^{1,2}
Institute for Entrepreneurship and Enterprise Development
Lancaster University Management School
United Kingdom

Anna Watson
Principal Lecturer
London College of Fashion
University of the Arts London
United Kingdom

¹ Dada gratefully acknowledges the financial support of the Economic and Social Research Council (ESRC), Grant number PTA-026-27-1853.

² Corresponding author. Tel: +44 (0) 1524 510711; Fax: + 44 (0)1524 594743; Email: l.dada@lancaster.ac.uk.

Executive Summary

The purpose of this paper is to understand the franchisor's perception of the role of entrepreneurial strategic orientation (EO)—innovative, risk-taking, and proactive actions—within the special case of franchised firms, given the opposing forces for standardisation/uniformity and system innovation/adaptation. 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 the performance outcomes of franchise systems, both from financial and non-financial perspectives. In addition, both franchisor support and franchise contract clauses were positively and significantly related to EO. The external contexts of the franchise system—environmental hostility and environmental dynamism—were not found to be significant moderators in the relationship between EO and performance outcomes. This study extends our knowledge of the EO—performance outcomes relationship to the franchising context where the role of EO is presently underexplored.

Keywords Entrepreneurial orientation, Franchise system, Standardisation

Introduction

Current interest in firm-level entrepreneurial efforts stems from its potential value in renewing established organisations and in boosting their competitiveness in their chosen markets (Zahra and Covin, 1995). With the soaring levels of competition in local and global markets, many firms are increasingly exhibiting an entrepreneurial strategic orientation (EO). Indeed, Rauch *et al.* (2009) suggest that the entrepreneurial strategy-making processes that key decision makers employ are key for achieving their firm's purpose, sustaining its organisational vision and creating competitive advantage. EO describes how a firm operates (Lumpkin and Dess, 1996), capturing "specific entrepreneurial aspects of decision-making styles, methods, and practices" (Wiklund and Shepherd, 2005, p.74). The EO concept is relevant to any firm, irrespective of its size and type (Knight, 1997). To date, over 100 studies have been conducted on EO, which has led to wide acceptance of its relevance for enhancing firm performance (Rauch *et al.*, 2009). Moreover, due to the present huge popularity of the term entrepreneurship, there is a tendency to view entrepreneurship as something that is fundamentally good, which firms should always pursue (Wiklund, 1999).

It has been noted, however, that not all firm-level entrepreneurial efforts may be beneficial to company performance (Zahra and Covin, 1995). Empirical studies have produced mixed results which question whether EO is always an appropriate strategic orientation or whether its relationship with firm performance is more complex (Li *et al.*, 2009). As Wiklund and Shepherd (2005, p.73) commented: "Although differences in findings may be attributed to differences in research design or methodological idiosyncrasies, such differences apparently reflect the fact that EO may sometimes, but not always, contribute to improved performance". This line of reasoning has been a popular argument amongst both academics and practitioners in the field of franchising, a context in which the role of EO is underexplored.

Empirical studies have examined the EO concept in various ‘entrepreneurial’ organisational settings, such as in small and medium-sized enterprises (Avlonitis and Salavou, 2007; Keh *et al.*, 2007; Moreno and Casillas, 2008), in technological start-ups (Lee *et al.*, 2001), and in spin-offs (Walter *et al.*, 2006). But only a few published studies have examined issues relating to EO in franchised firms (e.g. Falbe *et al.*, 1998), and even in a retail context (e.g. Griffith *et al.*, 2006) where franchising is common. This may be attributed to the fact that the franchise concept is built on standardisation, a notion that runs counter to the flexible strategies required for fostering EO. While the franchisor endeavours to maintain standardisation and control of franchisees in order to protect brand reputation, franchisees seek autonomy in the operation of their local outlets (Kidwell *et al.*, 2007). Yet increasing levels of autonomy on the part of franchisees can raise the costs from agency problems (notably free riding) present in any franchisor-franchisee dyad (Cochet *et al.*, 2008). As Kidwell *et al.* (2007) argued, free riding can damage brand reputation and firm survival, and thus franchisee free riding can have negative consequences on franchise performance. Thus the franchisor’s desire for uniformity may partly explain why there are limited studies on EO in franchise systems even though franchising plays an important role in many economies.

The increasing competition in the retail marketplace (Griffith *et al.*, 2006), where a significant number of franchise systems operate, warrants an understanding of the role of EO in franchised firms. Falbe *et al.* (1998) argued that the need for entrepreneurial activity in franchising is likely to increase significantly as the environment becomes more competitive; the franchisor’s challenge will lie in managing new ideas while simultaneously maintaining the integrity of the franchise system. Grewal and Levy’s (2007) review paper highlighted that a major topic for additional research is the role of managerial orientation, such as EO, on retail performance metrics, as this is an organisational issue that retail and service managers encounter.

In an attempt to fill the identified gap in the literature, this study aims to understand the franchisor's perception of the extent to which EO is germane to franchise systems. In particular, we examine (1) the organisational antecedents and performance outcomes of EO in franchise systems, and (2) the moderating effect of the external context (i.e. the environment) of franchise systems on the EO-performance outcomes relationship. In the next section we review the relevant background literature on franchising, EO, and performance; the related hypotheses are then developed. This is followed by a discussion of the research methodology, prior to presenting the research results. We conclude by highlighting the implications of the study, its limitations and the future research directions.

Literature review and hypotheses development

Franchising

Franchising³ is a popular business model amongst firms with a geographically dispersed customer base that needs to be served through a network of local outlets (Cox and Mason, 2007). The majority of franchise studies have focused on two broad and competing theories – resource scarcity and agency – to explain the reason a firm chooses to adopt the franchise model (Combs *et al.*, 2004a; Grunhagen and Mittelstaedt, 2005; Castrogiovanni *et al.*, 2006). Resource scarcity affirms that franchisors can use franchising to obtain access to key resources (financial capital, human capital, and local market knowledge) required for rapid growth and for building economies of scale (Combs *et al.*, 2004b). On the other hand, agency theory explanations revolve around the fact that franchisors opt for the franchising strategy in order to minimise monitoring and shirking costs that would have been associated with having company-owned outlet managers (Mathewson and Winter, 1985; Brickley and Dark, 1987).

³ This article focuses on business format franchising, which “occurs when a firm (the franchisor) sells the right to use its trade name, operating systems, and product specifications to another firm (the franchisee)” (Castrogiovanni *et al.*, 2006, p.27-28).

By adopting the franchise model, the franchisor grows the business in a way that allows efficient turnkey transfer to franchisees, through licensing the right to reproduce the proven business concept in dispersed geographical locations (Kaufmann and Dant, 1996; Kaufmann and Dant, 1999). While the franchisee provides the capital for the franchise outlet, the decision-making power rests with the franchisor over many items quite important to the success of the outlet (Elango and Fried, 1997). Thus, the “... critical role of system protector places even the most experienced franchisor in the unenviable position of constantly divining the point at which he or she must resist pressure from individual franchisees to alter the format....[and] Many franchisors become rigid and formalistic in their maintenance of each detail” (Kaufmann and Eroglu, 1999, p.83). Given the franchisor’s interest in protecting the trade name and public image (Stanworth, 1991), standardisation and uniformity are typically imposed as the foundations of franchising (Cox and Mason, 2007). However, a major concern is that franchisees may behave opportunistically to the disadvantage of the franchisor, by willfully disregarding the franchisor’s goals as well as deviating from the franchisor’s proven procedures, in pursuit of their own entrepreneurial interests (Baucus *et al.*, 1996; Gassenheimer *et al.*, 1996).

There are several indications in the literature that franchisees are important sources of new ideas for the franchise system (Darr *et al.*, 1995; Bradach, 1998; Cox and Mason, 2007; Bürkle and Posselt, 2008). Kaufmann and Eroglu (1999) argued that it is generally the franchisees who, through their local adaptation efforts, develop new market offerings, transform existing ones, and discover solutions to systemwide problems. Nevertheless, there is no consensus on the extent to which franchisors really want their franchisees to be entrepreneurial. Franchisors often state that they prefer to select a manager, rather than an entrepreneur, as a franchisee in order to protect their business systems from unauthorised change (Falbe *et al.*, 1998). In their qualitative study of 40 UK-based franchisors, Cox and

Mason (2007) found that, although most franchisors recognised their franchisees as an important source of innovation, systemwide implementation of franchisee ideas was indicated in only a few cases. The franchisor's desire for standardisation and control of franchisees (Kidwell *et al.*, 2007) may support Clarkin and Rosa's (2005, p.306) argument that "[p]erhaps because of an apparently uniform and highly constrained context, the potential for entrepreneurship has often been considered inherently illegitimate, and therefore overlooked within franchise firms". Thus, little is presently known about the role of EO in franchise systems.

The EO construct

The concept of EO emanated from the research of scholars such as Miller (1983, p.770) who defined an entrepreneurial firm as one that "engages in product market innovation, undertakes somewhat risky ventures and is first to come up with 'proactive' innovations, beating competitors to the punch". On the basis of Miller's definition, there is consensus amongst various researchers that EO comprises three dimensions: innovativeness, risk taking, and proactiveness (Wiklund and Shepherd, 2005). The *innovativeness* dimension involves the search for novel, unusual, or creative solutions to challenges facing a firm (Morris *et al.*, 2002). This includes 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* involves a firm's propensity to support projects in which the expected results are uncertain (Walter *et al.*, 2006) such as moving into unfamiliar new markets, committing substantial resources to ventures with vague outcomes, and/or incurring huge debts (Lumpkin and Dess, 2001). These behaviours are usually motivated by high returns (Li *et al.*, 2008, 2009). *Proactiveness* has been linked with aggressive posturing relative to the firm's competitors (Knight, 1997). It relates to efforts associated with being the

first mover (Li *et al.*, 2008). A proactive firm is characterised by “an opportunity-seeking, forward-looking perspective involving introducing new products or services ahead of the competition and acting in anticipation of future demand to create change and shape the environment” (Lumpkin and Dess, 2001, p.431).

The three dimensions above are commonly used as indicators of the extent to which the firm is entrepreneurial (Knight, 1997). Extant research suggests that firms can exhibit varying degrees of EOs, which can be grouped on opposite extremes of a continuum (Avlonitis and Salavou, 2007). For example, at the one end are the *entrepreneurial organisations* that include as part of their product market strategies, an agenda to undertake aggressive, regular and extensive innovations while taking considerable related risks (Miller and Friesen, 1982). In contrast, positioned at the other end are the *conservative organisations* that innovate infrequently and reluctantly while taking little risks (Miller and Friesen, 1982). Understanding the divergent EO profiles of firms is particularly vital as these can have different performance outcomes for organisations (Atuahene-Gima and Ko, 2001; Avlonitis and Salavou, 2007).

EO and performance outcomes

The theoretical linkage between EO and performance has long been implied in the literature (Zahra and Covin, 1995). Firms with EO display behaviours that are stimulated by the search for high returns (Li *et al.*, 2008) in order to promote and sustain corporate competitive postures (Knight, 1997; Covin and Miles, 1999). Being a pioneer in an industry, through introducing new products or technologies to the market first, has many benefits (Zahra, 1993; Zahra and Covin, 1995). Pioneers are 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). Such actions, which significantly rejuvenate organisations, their markets, or industries (Covin and Miles, 1999), can strengthen their market share (Zahra and Covin, 1995) and enable them to capture high profits (Walter *et al.*, 2006). It is no surprise that several empirical studies have justified the EO-performance theoretical proposition by reporting that an EO positively influences firm performance (see e.g. Lee *et al.*, 2001; Wiklund and Shepherd, 2005; Keh *et al.*, 2007).

Previous studies have used various measures of performance to examine the relationship between EO and firm performance. These include financial measures such as profit growth, sales growth, and market share growth (De Clercq *et al.*, 2009). For each of these financial measures, some studies have used objective indicators such as information from the firms' annual accounts (Moreno and Casillas, 2008) or information gathered directly from the organisations' accounting offices (Walter *et al.*, 2006). Other studies have employed subjective indicators by asking respondents to assess their perceptions of the firm's performance relative to its main competitors during a certain time period, e.g., the past three or five years (Wang, 2008; Tang *et al.*, 2008; De Clercq *et al.*, 2009). Although there are limitations to perceptual data with regards to increased measurement error and possibility for mono-method bias (Keh *et al.*, 2007), prior research suggests that subjective performance measures can accurately reflect objective measures (Lumpkin and Dess, 2001). Moreover, respondents are often very reluctant to give (objective) figures relating to firm performance (Walter *et al.*, 2006), providing justification for the use of alternative subjective measures.

Researchers have also included non-financial performance measures in their studies. For example, in their examination of the effects of EO and marketing information on the performance of SMEs, Keh *et al.* (2007) employed perceptual subjective data to capture non-financial performance. They used 3 items pertaining to (1) realising the start-up goals, (2) providing secure job to employees, and (3) satisfaction with the overall company

performance. Walter *et al.* (2006) also included perceptual subjective measures in their investigation of the impact of network capability and EO on organisational performance. Their non-financial measures included perceived customer relationship quality, realised competitive advantages, and securing long-term survival.

In spite of the evidence that EO positively influences firm performance, there is little evidence to suggest that such a relationship extends to the franchising context. This research area appears to have received less focus in the academic literature partly due to the standardisation inherent in franchise systems. Thus this research seeks to explore how the opposing forces for standardisation/uniformity and system innovation/adaptation impact franchise systems. Using both financial and non-financial measures of performance outcomes, we therefore hypothesise that:

H1: EO is positively related to the performance outcomes of franchise systems.

Antecedents of EO and moderators of the EO-performance outcomes relationship

As Zahra and Covin (1995) observed, an increasing number of scholars suggest that contextual influences are critical factors in the extent to which firms achieve success on the basis of their engagement in entrepreneurial practices. These contextual influences can be categorised into two broad groups: (1) internal factors (such as organisational culture, structure, and systems); and (2) external factors (such as influences from the firm's environment) (Zahra and Covin, 1995). The relevance of contextual factors, for the field of franchising, has also been highlighted by researchers such as Falbe *et al.* (1998, p.137; emphasis added). The authors stressed the importance of directing research efforts to developing a model of entrepreneurial activity that can incorporate both *industry* and *franchisor context* because "... industry, particularly degree of competition, may also

influence strategy or moderate the effects of the franchisor variables”. Our study advances this area of research by examining the internal antecedents of EO and the moderating effects of the external contexts on the EO–performance outcomes relationship of franchise systems.

Internal context

The literature has emphasised the internal environment of the firm as the defining factor of entrepreneurship within an existing organisation (Antoncic and Hisrich, 2001). When a firm is committed to an entrepreneurial strategic vision, senior management bears much of the responsibility for developing and communicating cultural norms for fostering entrepreneurial processes and behaviours among organisational members (Ireland *et al.*, 2009). Top-level managers create a philosophical modus operandi for the type of firm they look forward to leading in the future – “an organisation that is opportunity-focused, innovative, and self-renewing” (Ireland *et al.*, 2009, p.25). Considerable attention has been devoted to identifying the organisational antecedents of entrepreneurship in an established organisation. Some of the most consistently cited internal factors that influence firm-level entrepreneurial behaviours include management support, autonomy/work discretion, rewards/reinforcement and organisational boundaries (Hornsby *et al.*, 1993).

Prior research suggests that the internal factors that influence firm-level entrepreneurial behaviours may advance understanding of the relationship between EO and performance. Walter *et al.* (2006) stated that the success of EO may be affected by the firm’s corporate culture as well as organisation structure. In another study by Lumpkin and Dess (1996), a conceptual framework was presented to show the organisational factors that may affect the relationship between EO and performance. These include culture, strategy, strategy-making processes, firm resources, and top management team characteristics. De Clercq *et al.* (2009) examined how the firm’s internal social context affects the EO-

performance relationship, drawing on a sample of 232 Canadian-based firms. Findings from their study demonstrated that the effective implementation of an EO depends on the social nature of the processes that link managers together. In another recent study by Schjoedt (2009) it was reported that job characteristics (notably autonomy, variety, and feedback) were significant predictors of entrepreneurial job satisfaction.

In the case of franchising, Falbe *et al.*'s (1998) study suggest that support for entrepreneurial activity by franchisees may be embedded into the system from the franchisor perspective. In order to develop a measure of franchisor support for entrepreneurial activity, Falbe *et al.* (1998) found that the most frequently mentioned methods by which this behaviour was supported were the use of a franchise council, the recognition of new ideas at the annual meeting of the franchise system, and the presence of a champion for innovation at franchisor headquarters. In addition to these measures of franchisor support, we posit that franchise contract clauses may demonstrate franchisor perspective for entrepreneurial behaviours amongst franchisees. Although contracts play a major role in managing relationships with franchisees, franchising research has largely taken them for granted (Cochet and Garg, 2008). Our premise is that entrepreneurial franchise systems may have explicitly stated (entrepreneurially focused) contract clauses to govern the franchisee's operations. Thus, it is hypothesised that:

H2: *Franchisor perspective will positively influence EO in franchise systems:*

H2a: *Franchisor support will be positively related to EO in franchise systems.*

H2b: *Franchise contract clauses will be positively related to EO in franchise systems.*

External context

A number of studies (e.g., Zahra and Covin, 1995) suggest that the firm's external environment moderates the EO-performance relationship. Two environmental constructs—*dynamism* and *hostility*—are widely used to explain this moderation effect (see, e.g., Lumpkin

and Dess, 2001). Entrepreneurial firms are often positioned in dynamic and hostile environments as their enterprising managers tend to have a preference for a milieu full of opportunities – with potentials for rapid growth, high risks and huge returns (Miller and Friesen, 1982).

Dynamic environments are characterised by instability, uncertainties, and changes in the firm's markets (Antoncic and Hisrich, 2001, 2004). Wiklund and Shepherd (2005) stressed that firms in dynamic settings experience constantly shifting demands, which create a wealth of avenues for them to pursue new opportunities by aligning their strategic orientation with the environment, an argument corroborated by Rauch *et al.* (2009) and others. "Such opportunity seeking is more likely to be successful in changing and uncertain environments where the cost and risks associated with novelty and originality can be recouped by capturing new product-market niches" (Lumpkin and Dess, 2001, p.436). Thus, we would expect the association of an EO and a dynamic environment to result in positive performance outcomes (Wiklund and Shepherd, 2005); that is, firms operating in dynamic industries are more likely to benefit from entrepreneurial initiatives (Rauch *et al.*, 2009). However, firms that are more satisfied with current operations are less likely to reap the gains from a dynamic environment, because continuing changes in the firm's markets may shift demand away from the products of such firms, a situation that should result in negative performance implications (Wiklund and Shepherd, 2005). Therefore, with regards to the dynamism of the environment, the common argument is that the effect of EO on performance becomes more intense for firms that act in a dynamic environment (Moreno and Casillas, 2008). For example, Lumpkin and Dess (2001) found that firms that exhibit proactiveness (one of the dimensions of EO assessed in the present study) are more likely to be successful in dynamic environments.

On the other hand, hostile environments generate threats to the firm through increased rivalry or decreased demand for the firm's products (Wiklund *et al.*, 2009). Firms are subjected to more uncertainty, as the environment becomes more hostile (Tan and Litschert, 1994). Empirical evidence has been documented on the moderating effect of hostility on the EO-performance relationship. Zahra and Covin (1995) assessed the longitudinal impact of corporate entrepreneurship on firm's financial performance, using Miller and Friesen's (1982) index as a measure of corporate entrepreneurship (capturing aspects such as innovativeness and risk-taking, the dimensions of an EO). Corporate entrepreneurship was found to be a significantly better predictor of financial performance amongst firms operating in hostile environments relative to firms in benign environments. Based on a study of 98 US companies, Zahra and Garvis (2000) explored the moderating effect of perceived hostility of the international environment on the relationship between international corporate entrepreneurship and company performance. The firm's international corporate entrepreneurship activities were captured using a modified version of Miller's (1983) measure (this captured aspects such as risk-taking and proactiveness, consistent with the dimensions of an EO). According to the authors, the results indicate that the rewards from international corporate entrepreneurship were moderated by executives' perceived hostility of their firm's international business environment, supporting previous findings from companies with domestic operations (e.g. Zahra and Covin, 1995). These findings demonstrate that international corporate entrepreneurship can enhance company performance when hostility is high (Zahra and Garvis, 2000).

In a recent study by Rauch *et al.* (2009), they conducted a meta-analysis to explore the magnitude of the EO-performance relationship and assess potential moderators influencing this relationship. Their analysis was based on 53 samples, comprising 51 studies with an N of 14,259 companies. They found that industry represents a valuable moderator

variable, supporting prior studies where constructs of task environment such as dynamism and hostility have been shown to moderate the EO-performance relationship. The authors concluded that continued efforts along these routes can enhance understanding of the relationship between EO and performance.

On the basis of the foregoing discussion, it is expected that:

H3: *Environmental factors will moderate the relationship between EO and performance outcomes:*

H3a: *The performance outcomes of franchise systems will increase with EO, but the effect will be stronger for those systems operating in dynamic environments.*

H3b: *The performance outcomes of franchise systems will increase with EO, but the effect will be stronger for those systems operating in hostile environments.*

Research methods

Sample and data collection

The sampling frame for this study comprised the franchisors listed in a major UK franchise publication, the *British Franchise Directory and Guide* (2009). This contains comprehensive listings of franchises in the UK. Although over 1,100 franchises were listed in the directory, some franchisors operate multiple brands and some may no longer be in operation. The recent Annual NatWest/British Franchise Association Survey (2008), the principal study on franchising in the UK, reported that there are an estimated 809 active franchisors in the country. A cross-sectional research design, involving a mail questionnaire survey, was employed for data collection.

In order to ensure face and content validity, the questionnaire was reviewed and pre-tested (Hughes and Morgan, 2007) by sending copies to ten franchisors who participated in a previous related research project conducted by the authors. A feedback form was included to obtain the franchisors' comments on the structure and contents of the questionnaire.

Following this, the final version of the questionnaire was mailed to all the franchisors listed

in the *British Franchise Directory and Guide* (2009). The mailing also included a postage-paid reply envelope and a personalised cover letter to the franchisor. We believe franchisors “are well suited as key informants because they are expected to possess sufficient knowledge and have an adequate level of involvement with regard to our study’s focal constructs” (Simsek *et al.*, 2007, p.1407). 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) franchisor perspective, notably franchisor support and franchise contract clauses, (3) performance of the franchise system, and (4) environment of the franchise system. Therefore, as owners of the franchise system, we believe franchisors were the most appropriate key informants to provide the required information.

We employed several strategies in an attempt to increase response rate. First, prior to the survey, we endeavoured to publicise the research project as part of the pilot study, by sending the details to (a) the Director General of the British Franchise Association (BFA), the only independent accreditation body promoting ethical franchising in the UK, and (b) the Head of Franchising at a leading legal firm in the UK. Second, in line with Morris and Jones (1993), we offered to send a copy of the results of the complete study to interested respondents. Seventy four percent of the franchisors expressed an interest in this and provided their full contact details. This initiative may also improve the conscientiousness and reliability of responses (Hambrick *et al.*, 1993).

Following two reminders, a total of 97 completed questionnaires were received. Two questionnaires were excluded because they were not sufficiently complete, bringing the total number of usable questionnaires to 95. These comprised 70 questionnaires received from the original mailing, 25 from the first round of reminders, and none from the second round of

reminders. Thus, the overall response rate was 11.74 percent of the total number of active UK-based franchisors. This response rate is consistent with “the 10 to 12 percent typical for mailed surveys to top executives in large American firms” (Hambrick *et al.*, 1993, p. 407). Similar response rate has also been reported in mailed surveys to CEOs of SMEs (e.g. Simsek *et al.*, 2007). Our sample size is reasonably comparable with those of 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 organisation’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.

We assessed the possibility of non-response bias by comparing early respondents with late respondents; the latter are assumed to be similar to non-respondents (Simsek *et al.*, 2007). This approach, ensuing from Armstrong and Overton (1977), has been used in several studies, e.g. Simsek *et al.* (2007) and Witt *et al.* (2008). We divided our sample into two groups (1) early respondents being questionnaires received before the first round of reminders, and (2) late respondents being questionnaires received after the first round of reminders. 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 franchise outlets that the company has in the UK ($t=0.661$, $p=0.510$), did not reveal statistically significant differences. Therefore,

we concluded that non-response bias is not likely to be a concern in the interpretation of the findings from this study.

The average age of respondents' 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 dimensions of the franchise systems operating in the UK. The characteristics of the sample are presented in Table I (similar to Keh *et al.*, 2007). Respondents were from 12 industry sectors. We also included an 'other' category. The industry sectors were defined according to the information provided in the *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] these ... findings should have a high degree of generality" (Miller and Friesen, 1982, p.7).

Insert Table I about here.

Measurement of constructs

Table II presents all the measures of the constructs used in this study, as contained in our extensive questionnaire. Consistent with Sapienza *et al.* (2005), 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), summated scales were

employed for the constructs. Test for reliability was done using Cronbach's alpha. The values for all scales were above 0.60 (Shi and Wright, 2001), the recommended minimum standards (Bagozzi and Yi, 1988; Baker *et al.*, 2002).

(1) **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. As shown in Table II, 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). Others were developed by the authors, drawing on inferences from Schumpeter (1934). A 5-point Likert scale (1: Strongly disagree to 5: Strongly agree) was used.

(2) **Performance outcomes.** Following Wiklund and Shepherd (2005, p.80) we "... ascribe to the view that performance is multidimensional in nature, and it is therefore advantageous to integrate different dimensions of performance in empirical studies". Therefore, both financial and non-financial measures of performance outcomes were employed subjectively according to the perception of the respondent (Keh *et al.*, 2007). Financial performance was measured using items that asked respondents to compare their franchise systems to that of their competitors in the last 3 years, in terms of profitability, sales growth, market share, and overall financial performance. A 5-point Likert scale (1: Much weaker to 5: Much better) was used. These measures were adapted from Keh *et al.* (2007). Non-financial performance was also measured using items mostly adapted from

Keh *et al.* (2007). These related to provision of secure jobs for franchisees, satisfaction with franchisees' overall performance, realisation of franchising goals, and satisfaction with the growth in the number of franchised outlets. Only the final item was developed by the authors. A 5-point Likert scale (1: Strongly disagree to 5: Strongly agree) was used to assess respondents' degree of agreement with each of the items, in the last 3 years.

(3) **Franchisor support.** This was measured through the use of items relating to methods instituted to encourage entrepreneurial activity in franchised outlets. A 5-point Likert scale (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), Falbe *et al.* (1998) and Ajayi-Obe (2007).

(4) **Franchise contract clauses.** Measures for entrepreneurially focused franchise contract clauses were developed based on inferences from Schumpeter (1934) and Keh *et al.* (2007). The items relate to the inclusion of procedures for entrepreneurial activity (such as the introduction of new products/services, new methods of production/operation, and new sources of supply) in franchise contracts. A 5-point Likert scale (1: Not at all to 5: To a large extent) was used to assess respondents' degree of agreement with each of the items.

(5) **Environmental hostility.** We measured environmental hostility by adapting Zahra's (1993) measure of industry rivalry (price and non-price competition). A 5-point Likert scale (1: Very low to 5: Very high) was used to assess respondents' degree of agreement with each of the items. Zahra and Garvis (2000) noted that rivalry can cause hostility. Various studies (e.g. Miller and Friesen, 1982, 1983) have also explained environmental hostility in terms of the degree of threat to the firm caused by factors including intensity of the competition in the firm's industry. Miller and Friesen (1983, p.233) included "price, product, technological and distribution competition" in their definition of the hostility variable in their sample. Miller and Friesen (1982) measured environmental hostility with

regard to the degree of threat to the firm as a result of factors including tough price competition and competition in product quality or novelty. As Zahra (1991, p.263) argued, “[a] hostile environment creates threats to a firm’s mission, through increasing rivalry in the industry or depressing demand for a firm’s products (or services), thereby threatening the very survival of the firm”. Therefore, we measured environmental hostility through one of its causes.

(6) **Environmental dynamism.** This was measured using five items from Miller and Friesen (1982). Each item had a 7-point semantic differential type scale anchored by descriptive statements (Lumpkin and Dess, 2001). The items enquired about the frequency of changes in marketing practices, the rate at which products/services are getting obsolete, predictability of competitors’ actions, predictability of demand and consumer tastes, and the frequency of changes in modes of production/service.

(7) **Control variables.** We included a set of control variables in order to make sure that the models were properly specified and allow for likely alternative explanations for variations in performance (De Clercq *et al.*, 2009). As noted by Wiklund and Shepherd (2005), firms of different size and age operating in different industries, may demonstrate different organisational and environmental characteristics that may in turn influence performance. Therefore, we added age, size and industry sectors of the franchise systems as controls. Measurement/definition of each of these variables was explained earlier in this section.

Insert Table II about here.

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 by Hughes and Morgan (2007) to test the validity of the scales adopted to examine the

relationship between EO 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) (Hughes and Morgan, 2007).

Since we relied on single respondents to assess all of the study constructs, this approach may introduce a common method bias (Simsek *et al.*, 2007) which can threaten the psychometric properties of questionnaire measures (Tepper and Tepper, 1993). In order to address concerns relating to common method biases, response anonymity and confidentiality was guaranteed to reduce respondents' evaluation apprehension; this procedural technique was suggested by Podsakoff *et al.* (2003) and adhered to in studies such as Wang (2008). We also employed an additional statistical technique. This 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; Wang, 2008; Li *et al.*, 2008; Rhee *et al.*, 2009). 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 multiple factors with eigenvalues greater than 1 (Sapienza *et al.*, 2005). These factors accounted for 78.23% of the total variance, with the first factor accounting for only 16.65% of the variance. Therefore, no single factor emerged from the factor analysis and no one factor accounted for the majority of the variance. 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 (Stam and Elfring, 2008; Rhee *et al.*, 2009).

Analysis and results

The means, standard deviations, and correlations of the variables are displayed in Table III. Correlations between the independent variables are relatively modest. However, to alleviate

the potential threat of multicollinearity, we mean centered all the independent variables required for the interaction terms before creating the interaction terms, and applied multicollinearity diagnostics (Wiklund and Shepherd, 2005). The maximum condition index was 17.670. Typically, correlations over 0.70 and condition index statistics 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).

Insert Table III about here.

The hypotheses were tested using regression analyses, including moderated regression analyses (Cohen and Cohen, 1983) as described in Zahra and Garvis (2000). First, to test H1 (the effect of EO on performance outcomes), Model 1 involved regressing the dependent variable, performance (PERF), on the control variables and EO. Second, to test H2a (the effect of franchisor support (SUPPORT) on EO) and H2b (the effect of franchise contract clauses (CONTRACT) on EO), Model 2 involved regressing the dependent variable (EO) on the control variables, SUPPORT and CONTRACT. Third, to test H3a (the effect of environmental hostility (HOSTILITY) on the EO-PERF relationship), Model 3a involved regressing the dependent variable (PERF) on the control variables, EO, HOSTILITY, and an interaction term generated by multiplying EO and HOSTILITY. Lastly, to test H3b (the effect of environmental dynamism (DYNAMISM) on the EO-PERF relationship), Model 3b involved regressing the dependent variable (PERF) on the control variables, EO, DYNAMISM, and an interaction term generated by multiplying EO and DYNAMISM.

The regression results are presented in Tables IV and V. The results corresponding to Model 1 indicates that this model was significant ($p < 0.05$) and explained approximately 27%

of the variance in performance outcomes. EO was significant and positively related ($p < 0.10$) to performance outcomes. These results support H1.

With regard to Model 2, the results show that this model was also significant ($p < 0.01$) and explained 39% of the variance in EO. SUPPORT was positive and statistically significant ($p < 0.001$), supporting H2a; and CONTRACT was also positive and statistically significant ($p < 0.10$), supporting H2b. Although not within the scope of this paper, we further explored two rival models comprising (1) the interactive effects of EO and SUPPORT, and EO and CONTRACT, on PERF. Their interactive effects were both positive and negative respectively (but not significant), suggesting that SUPPORT and CONTRACT are not moderators of the EO-performance outcomes relationship; and (2) the effect of CONTRACT and SUPPORT on PERF, both were positive but not significant.

With respect to Model 3a, the results show that this model was also significant ($p < 0.10$) and explained 28% of the variance in performance outcomes. The interaction term EO*HOSTILITY had a negative sign and was not significantly related to performance outcomes. Therefore, H3a was not supported. Finally, as with the other models, Model 3b was also significant ($p < 0.05$) and explained 32% of the variance in performance outcomes. The interaction term EO*DYNAMISM had a positive sign and was not significantly related to performance outcomes. Therefore H3b was not supported. Wiklund and Shepherd (2005) also found that the role of environmental dynamism was insignificant as a moderator in the EO-small business performance relationship. Lumpkin and Dess (2001) found that environmental hostility did not moderate the relationship between proactiveness and firm performance. In addition, a recent study by Wei *et al.* (2009) found that environmental uncertainty was insignificant as a moderator in the relationship between EO and firm innovation. Our findings are fairly consistent with these prior studies.

Insert Tables IV and V about here.

Discussion and conclusion

“The academic interest in entrepreneurship has virtually exploded in recent years. For example, the number of studies on EO and performance increased more than five-fold in the past decade compared to the previous one” (Rauch *et al.*, 2009, p.778). In spite of the increasing interest on EO, only a few studies have been published in academic journals on issues relating to EO in franchise systems. Our study attempted to fill this void in the literature by examining the role of EO on the performance outcomes of franchise systems, the organisational antecedents of EO, and the moderating effects of the external context (i.e., the environment) of franchise systems on the EO-performance outcomes relationship. The results demonstrated that EO was significantly and positively related to performance outcomes. These findings are consistent with the results of prior studies that have examined the EO-performance relationship in the context of the so called ‘entrepreneurial’ firms. For example, Wiklund and Shepherd (2005) investigated the EO of small businesses; their findings suggested that EO (i.e. innovativeness, proactiveness, and risk taking) is positively associated with small business performance. In another study of SMEs, Moreno and Casillas (2008) found that EO and growth are positively related. The recent meta-analysis conducted by Rauch *et al.* (2009) also demonstrated that the correlation of EO with performance is fairly large ($r=0.242$).

Moreover, prior studies (e.g. Lumpkin and Dess, 1996) have suggested that contextual factors may advance our knowledge of the EO concept. We found both franchisor support and franchise contract clauses to be positively and significantly related to EO. The external contexts of the franchise system—environmental hostility and environmental dynamism—were not found to be significant moderators in the relationship between EO and performance outcomes.

This study offers managerial implications to franchising practitioners. Although standardisation is the keystone of franchising (Cox and Mason, 2007; Kidwell *et al.*, 2007), our findings suggest that the development of a system which allows for flexibility to foster the dimensions of EO may improve both financial and non-financial performance outcomes of franchise systems. Nevertheless, “[of] the many types of management issues faced by franchisors, perhaps one of the most difficult is defining the appropriate boundaries of their format, i.e., maintaining the required level of uniformity, while avoiding the danger of stifling efficient local market adaptation” (Kaufmann and Eroglu, 1999, p.69) through, for example, nurturing EO in franchised outlets. The standardisation inherent within the franchise organisational form was apparent in the EO index (the overall sample mean of the EO scale) reported in our study. The higher the EO index, the more entrepreneurial the strategic posture of the firm (Chaston *et al.*, 2001; Tang *et al.*, 2008). However, the EO index of the franchise systems in our sample was 2.362 out of a possible 5, which implies a fairly low entrepreneurial strategic posture. Based on the positive relationship between EO and performance outcomes, our findings therefore suggest that franchisors could provide a scope for more entrepreneurial strategic posture within the standardised framework of the franchise system. This could involve the use of more flexible strategies to foster the dimensions of EO, e.g., employing the antecedents of EO–franchisor support and franchise contract clauses–found in this study. In all, this study suggests that EO is relevant within the franchising context and could be beneficial to the entire system.

As with all studies (Wiklund and Shepherd, 2005), ours is not free from limitations. First, since the questionnaires were self-completed, 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). In particular, our choice of subjective measures to assess financial performance restricted us to use

perceptual measures (Keh *et al.*, 2007). However, prior research suggests that subjective performance measures can accurately reflect objective measures (Lumpkin and Dess, 2001). Moreover, to our knowledge, there is no publicly available/archival data in the UK on the performance indicators of franchise firms as well as for other constructs of interest like their contract terms. Hence, we had no other option than to rely on subjective data. Second, because our sample was drawn across several industry sectors, this might increase generalisability but eliminate 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 generalisability (as a result of sampling across industry sectors) should have been accounted for.

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 performance (see Rauch *et al.*, 2009). Nonetheless, our findings are consistent with prior studies that used similar EO scales to examine the EO-performance outcomes relationship in firms operating in different countries, such as in the US (Zahra and Covin, 1995), Sweden (Wiklund and Shepherd, 2005) and Singapore (Keh *et al.*, 2007). Moreover, the meta-analysis conducted by Rauch *et al.* (2009, p.779) did not reveal any statistically significant differences between continents, leading them to conclude that “the relationship between EO and performance is of similar magnitude in different cultural contexts”. Furthermore, future studies may consider including other dimensions of EO, notably competitive aggressiveness and autonomy (Lumpkin and Dess, 1996) and larger samples. It would be interesting to also examine the long-term effect of EO on the performance of franchise systems which will entail a longitudinal analysis (see Zahra and Covin, 1995).

Note

The authors are grateful to the anonymous reviewers for their valuable comments.

References

- Ajayi-Obe, O.O. (2007), *Franchising: The Entrepreneurial Paradox*. PhD Thesis, Surrey.
- Antoncic, B. and Hisrich, R.D. (2001), "Intrapreneurship: Construct refinement and cross-cultural validation", *Journal of Business Venturing*, Vol. 16 No. 5, pp. 495–527.
- Antoncic, B. and Hisrich, R.D. (2004), "Corporate entrepreneurship contingencies and organisational wealth creation", *Journal of Management Development*, Vol. 23 No.6, pp. 518–550.
- Armstrong, J.S. and Overton, T.S (1977), "Estimating non-response bias in mail survey", *Journal of Marketing Research*, Vol. 14, pp. 396–402.
- Atuahene-Gima, K. and Ko, A. (2001), "An empirical investigation of the effect of market orientation and entrepreneurship orientation alignment on product innovation", *Organisation Science*, Vol. 12 No. 1, pp. 54-74.
- Avlonitis, G.J. and Salavou, H.E. (2007), "Entrepreneurial orientation of SMEs, product innovativeness, and performance", *Journal of Business Research*, Vol. 60, pp. 566–575.
- Bagozzi, R.P. and Yi, Y. (1988), "On the evaluation of structural equation models", *Journal of the Academy of Marketing Science*, Vol 16 Spring, pp. 74-94.
- Baker, J., Parasuraman, A., Grewal, D. and Voss, G.B. (2002), "The influence of multiple store environment cues on perceived merchandise value and patronage intentions", *Journal of Marketing*, Vol. 66 April, pp. 120-141.
- Baucus, D.A., Baucus, M.S. and Human, S.E. (1996), "Consensus in franchise Organisations: A cooperative arrangement among entrepreneurs", *Journal of Business Venturing*, Vol. 11 No. 5, 359-378.
- Bohrstedt, G.W. (1969), A quick method for determining the reliability and validity of multiple-item scales. *American Sociological Review*, Vol. 34, No. 4, pp. 542-548.
- Bradach, J.L. (1998), *Franchise Organisations*, Harvard Business School Press, Boston, Massachusetts.
- Brickley, J.A. and Dark, F.H. (1987), "The choice of organisational form: The case of franchising", *Journal of Financial Economics*, Vol. 18, pp. 401-420.
- Bürkle, T. and Posselt, T. (2008), "Franchising as a plural system: A risk-based

- explanation”, *Journal of Retailing*, Vol. 84 No. 1, pp. 39–47.
- Castrogiovanni, G. J., Combs, J.G. and Justis, R.T. (2006), “Resource scarcity and agency theory predictions concerning the continued use of franchising in multi-outlet networks”, *Journal of Small Business Management*, Vol. 44 No. 1, pp. 27–44.
- Chaston, I., Badger, B. and Sadler-Smith, E. (2001), “Organisational learning: An empirical assessment of process in small UK manufacturing firms”, *Journal of Small Business Management*, Vol. 39 No. 2, pp. 139–151.
- Clarkin, J.E. and Rosa, P.J. (2005), “Entrepreneurial teams within franchise firms”, *International Small Business Journal*, Vol. 23 No. 3, pp. 303–334.
- Cochet, O. and Garg, V.K. (2008), “How do franchise contracts evolve? A study of three German SMEs”, *Journal of Small Business Management*, Vol. 46 No.1, pp. 134-151.
- Cochet, O., Dormann, J. and Ehrmann, T. (2008), “Capitalising on franchisee autonomy: Relational forms of governance as controls in idiosyncratic franchise dyads”, *Journal of Small Business Management*, Vol. 46 No.1, pp. 50-72.
- Cohen, J. and Cohen. P. (1983), *Applied Multiple Regression/Correlation Analysis for the Behavioural Sciences*, L. Erlbaum Associates, Hillsdale, N.J.
- Combs, J.G., Michael, S.C. and Castrogiovanni, G.J. (2004a), “Franchising: A review and avenues to greater theoretical diversity”, *Journal of Management*, Vol. 30, pp. 907-931.
- Combs, J.G., Ketchen, D.J. and Hoover, V.L. (2004b), “A strategic groups approach to the franchising-performance relationship”, *Journal of Business Venturing*, Vol. 19, pp. 877–897.
- Covin, J.G. and Slevin, D.P. (1989), “Strategic management of small firms in hostile and benign environments”, *Strategic Management Journal*, Vol. 10, pp. 75–87.
- Covin, J.G. and Miles, M.P. (1999), “Corporate entrepreneurship and the pursuit of competitive advantage”, *Entrepreneurship Theory and Practice*, Spring, pp. 47-63.
- Cox, J. and Mason, C. (2007), “Standardisation versus adaptation: Geographical pressures to deviate from franchise formats”, *Service Industries Journal*, Vol. 27 No. 8, pp. 1053-1072.
- Darr, E.D., Argote, L. and Epple, D. (1995), “The acquisition, transfer, and depreciation of knowledge in service organisations: Productivity in franchises”, *Management Science*, Vol. 41 No. 11, pp. 1750-1762.
- De Clercq, D., Dimov, D. and Thongpapanl, N. (2009), “The moderating impact of internal social exchange processes on the entrepreneurial orientation–performance relationship”, *Journal of Business Venturing* (forthcoming).

- Durham University Business School (1988), *The General Enterprising Tendency Test*, Durham, UK.
- Elango, B. and Fried V.H. (1997), “Franchising research: A literature review and synthesis”, *Journal of Small Business Management*, Vol. 35, pp. 68-81.
- Falbe, C.M., Dandridge, T.C. and Kumar, A. (1998), “The effect of organisational context on entrepreneurial strategies in franchising”, *Journal of Business Venturing*, Vol. 14 No. 1, pp. 125-140.
- Franchise World: British Franchise Directory and Guide* (2009), Franchise World, UK.
- Gassenheimer, J.B., Baucus, D.B. and Baucus, M.S. (1996), “Cooperative arrangements among entrepreneurs: An analysis of opportunism and communication in franchise structures”, *Journal of Business Research*, Vol. 36 No. 1, pp. 67-79.
- Green, K.M., Covin, J.G. and Slevin, D.P. (2008), “Exploring the relationship between strategic reactiveness and entrepreneurial orientation: The role of structure–style fit”, *Journal of Business Venturing*, Vol. 23, pp. 356–383.
- Grewal, D. and Levy, M. (2007), “Retailing research: Past, present, and future”, *Journal of Retailing*, Vol. 83 No. 4, pp. 447 – 464.
- Griffith, A., Noble, S.M. and Chen, Q. (2006), “The performance implications of entrepreneurial proclivity: A dynamic capabilities approach”, *Journal of Retailing*, Vol. 82 No. 1, pp. 51 – 62.
- Grünhagen, M. and Mittelstaedt, R.A. (2005), “Entrepreneurs or investors: Do multi-unit franchisees have different philosophical orientations?” *Journal of Small Business Management*, Vol. 43 No. 3, pp. 207-225.
- Gupta, V.K. and Moesel, D. (2009), “Impact of EO and alliance capability on knowledge creation in strategic alliances of SMEs”, Academy of Management Annual Meeting.
- Hambrick, D.C., Geletkanycz, M.A. and Fredrickson, J.W. (1993), “Top executive commitment to the status quo: Some tests of its determinants”, *Strategic Management Journal*, Vol. 14 No. 6, pp. 401-418.
- Hornsby, J.S., Naffziger, D.W., Kuratko, D.F. and Montagno, R.V. (1993), “An interactive model of the corporate entrepreneurship process”, *Entrepreneurship Theory and Practice*, Winter, pp. 29-37.
- Hughes, M. and Morgan, R. (2007), “Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth”, *Industrial Marketing Management*, Vol. 36 No. 5, pp. 651-661.
- Ireland R.D., Covin, J.G. and Kuratko, D.F. (2009), “Conceptualising corporate

- entrepreneurship strategy”, *Entrepreneurship Theory and Practice*, January, pp. 19-46.
- Kaufmann, P.J. and Dant, R.P. (1996), “Multi-unit franchising: Growth and management issues”, *Journal of Business Venturing*, Vol. 11 No. 5, pp. 343-358.
- Kaufmann, P.J. and Dant, R.P. (1999), “Franchising and the domain of entrepreneurship research”, *Journal of Business Venturing*, Vol. 14 No. 1, pp. 5-16.
- Kaufmann, P.J. and Eroglu, S. (1999), “Standardisation and adaptation in business format franchising”, *Journal of Business Venturing*, Vol. 14, pp. 69-85.
- Keh, H.T., Nguyen, T.T.M. and Ng, H.P. (2007), “The effects of entrepreneurial orientation and marketing information on the performance of SMEs”, *Journal of Business Venturing*, Vol. 22, pp. 592–611.
- Kidwell, R.E., Nygaard, A. and Silkoset, R. (2007), “Antecedents and effects of free riding in the franchisor–franchisee relationship”, *Journal of Business Venturing*, Vol. 22, pp. 522–544.
- Knight, G.A. (1997), “Cross-cultural reliability and validity of a scale to measure firm entrepreneurial orientation”, *Journal of Business Venturing*, Vol. 12, pp. 213-225.
- Kuratko, D.F., Montagno, R.V. and Hornsby, J.S. (1990), “Developing an intrapreneurial assessment instrument for an effective corporate entrepreneurial environment”, *Strategic Management Journal*, Vol. 11, pp. 49-58.
- Lee, C., Lee, K. and Pennings, J.M. (2001), “Internal capabilities, external networks, and performance: A study on technology-based ventures”, *Strategic Management Journal*, Vol. 22, pp. 615–640.
- Li, Y., Zhao, Y., Tan, J. and Liu, Y. (2008), “Moderating effects of entrepreneurial orientation on market orientation-performance linkage: Evidence from Chinese small firms”, *Journal of Small Business Management*, Vol. 46 No. 1, pp. 113–133.
- Li, Y., Huang, J. and Tsai, M. (2009), “Entrepreneurial orientation and firm performance: The role of knowledge creation process”, *Industrial Marketing Management*, Vol. 38, pp. 440–449.
- Lumpkin, G.T. and Dess, G. (1996), “Clarifying the entrepreneurial orientation construct and linking it to performance”, *Academy of Management Review*, Vol. 21 No. 1, pp. 135-172.
- Lumpkin, G.T. and Dess, G. (2001), “Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment and industry life cycle”, *Journal of Business Venturing*, Vol. 16, pp. 429–451.
- Mathewson, G.F. and Winter, R.A. (1985), “The economics of franchise contracts”, *Journal of Law and Economics*, Vol. 28, pp. 503-526.

- Miller, D. (1983), "The correlates of entrepreneurship in three types of firms", *Management Science*, Vol. 29 No. 7, pp. 770-791.
- Miller, D. and Friesen, P.H. (1982), "Innovation in conservative and entrepreneurial firms: Two models of strategic momentum", *Strategic Management Journal*, Vol. 3, pp. 1-25.
- Miller, D. and Friesen, P.H. (1983), "Strategy-making and environment: The third link", *Strategic Management Journal*, Vol. 4, pp. 221-235.
- Moreno, A.N. and Casillas, J.C. (2008), "Entrepreneurial orientation and growth of SMEs: A causal model", *Entrepreneurship Theory and Practice*, May, pp. 507-528.
- Morris, M.H. and Jones, F.F. (1993), "Human resource management practices and corporate entrepreneurship: An empirical assessment from the USA", *International Journal of Human Resource Management* Vol. 4 No. 4, pp. 873-896.
- Morris, M.H., Schindehutte, M. and LaForge, R.W. (2002), "Entrepreneurial marketing: A construct for integrating emerging entrepreneurship and marketing perspectives", *Journal of Marketing Theory and Practice*, Fall, pp. 1-20.
- National Westminster Bank/British Franchise Association Survey (2008), British Franchise Association, London.
- Podsakoff, P.M. and Organ, D.W. (1986), "Self-reports in organisational research: Problems and prospects", *Journal of Management*, Vol. 12 No. 4, pp. 531-544.
- Podsakoff, P.M., MacKenzie, S.B., Lee, J., and Podsakoff, N. (2003), "Common method biases in behavioural research: A critical review of the literature and recommended remedies", *Journal of Applied Psychology*, Vol. 88, pp. 879-903.
- Rauch, A., Wiklund, J., Lumpkin, G.T. and Frese, M. (2009), "Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future", *Entrepreneurship Theory and Practice*, May, pp. 761-787.
- Rhee, J., Park, T. and Lee, D.H. (2009), "Drivers of innovativeness and performance for innovative SMEs in South Korea: Mediation of learning orientation", *Technovation* (forthcoming).
- Sapienza H.J., De Clercq, D., and Sandberg, W.R. (2005), Antecedents of international and domestic learning effort, *Journal of Business Venturing*, Vol. 20, pp. 437-457.
- Schjoedt, L. (2009), "Entrepreneurial job characteristics: An examination of their effect on entrepreneurial satisfaction", *Entrepreneurship Theory and Practice*, May, pp. 619-644.

- Schumpeter, J.A. (1934), *The Theory of Economic Development*, Harvard University Press, Cambridge, MA.
- Shi, X. and Wright P.C. (2001), “Developing and validating an international business negotiator’s profile: The China context”, *Journal of Managerial Psychology*, Vol. 16 No. 5, pp. 364-389.
- Simsek, Z., Veiga, J.F. and Lubatkin, M.H. (2007), “The impact of managerial environmental perceptions on corporate entrepreneurship: Towards understanding discretionary slack’s pivotal role”, *Journal of Management Studies*, Vol. 44 No. 8, pp. 1398-1424.
- Stam, W. and Elfring, T. (2008), “Entrepreneurial orientation and new venture performance: The moderating role of intra- and extraindustry social capital”, *Academy of Management Journal*, Vol. 51 No. 1, pp. 97–111.
- Stanworth, J. (1991), “Franchising and the franchise relationship”, *International Journal of Retail Distribution and Consumer Research*, Vol. 1 No. 2, pp. 175-199.
- Tan, J.J. and Litschert, R.J. (1994), “Environment-strategy relationship and its performance implications: An empirical study of the Chinese electronics industry”, *Strategic Management Journal*, Vol. 15, pp. 1-20.
- Tang, J., Tang, Z., Marino, L.D., Zhang, Y. and Li, Q. (2008), “Exploring an inverted U-shape relationship between entrepreneurial orientation and performance in Chinese ventures”, *Entrepreneurship Theory and Practice*, January, pp. 219-239.
- Tepper, B.J. and Tepper, K. (1993), “The effects of method variance within measures”, *Journal of Psychology*, Vol. 127 No. 3, pp. 293–302.
- Walter, A., Auer, M. and Ritter, T. (2006), “The impact of network capabilities and entrepreneurial orientation on University spin-off performance”, *Journal of Business Venturing*, Vol. 21, pp. 541– 567.
- Wang, C.L. (2008), “Entrepreneurial orientation, learning orientation, and firm performance”, *Entrepreneurship Theory and Practice*, July, pp. 635-657.
- Weaven, S., Grace, D. and Manning, M. (2009), “Franchisee personality: An examination in the context of franchise unit density and service classification”, *European Journal of Marketing*, Vol. 43 No.1/2, pp. 90-109.
- Wei, L., Wu, L. and Yang, J. (2009), “Entrepreneurial orientation and firm innovation: The moderating effects of SHRM and environment”, Academy of Management Annual Meeting.
- Wiklund, J. (1999), “The sustainability of the entrepreneurial-orientation performance relationship”, *Entrepreneurship Theory and Practice*, Fall, pp. 37-48.
- Wiklund, J. and Shepherd, D. (2005), “Entrepreneurial orientation and small business

- performance: A configurational approach”, *Journal of Business Venturing*, Vol. 20, pp. 71–91.
- Wiklund, J., Patzelt, H. and Shepherd, D. (2009), “Building an integrative model of small business growth”, *Small Business Economics*, Vol. 32, pp. 351–374.
- Witt, P., Schroeter, A. and Merz, C. (2008), “Entrepreneurial resource acquisition via personal networks: An empirical study of German start-ups”, *Service Industries Journal*, Vol. 28 No. 7, pp. 953–971.
- Zahra, S. (1991), “Predictors and financial outcomes of corporate entrepreneurship: An explorative study”, *Journal of Business Venturing*, Vol. 6 No. 4, pp. 259–285.
- Zahra, S. (1993), “New product innovation in established companies: Associations with industry and strategy variables”, *Entrepreneurship Theory and Practice*, Winter, pp. 47-69.
- Zahra, S. and Covin, J.G. (1995), “Contextual influences on the corporate entrepreneurship performance relationship: A longitudinal analysis”, *Journal of Business Venturing*, Vol. 10, pp. 43-58.
- Zahra, S. and Garvis, D.M. (2000), “International corporate entrepreneurship and firm performance: The moderating effect of international environmental hostility”, *Journal of Business Venturing*, Vol. 15, pp. 469–492.

Franchise system characteristics	Frequency	Cumulative frequency	Percentage	Cumulative percentage
<i>Age of franchise system:</i>				
Less than 5 years	34	34	41	41
6–10 years	14	48	17	58
More than 10 years	35	83	42	100
<i>Size of franchise system:</i>				
1–50 outlets	62	62	65	65
51–100 outlets	16	78	17	82
More than 100 outlets	17	95	18	100
<i>Industry sector:</i> ^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	52
Parcel and courier services	1	60	1	53
Printing, copying, graphic design	2	62	2	55
Retailing	20	82	18	73
Vehicle services	9	91	8	81
Other	23	114	20	101

Table I.
Characteristics
of the sample

^a Some franchisors operated in more than one industry sector.

Constructs	Measurement items	Sources of measurement items	Cronbach's α values
<i>Section I</i> <i>Entrepreneurial orientation</i>			0.82
Innovativeness	(1) In my franchise system, there exists a very strong emphasis on franchisee-driven research & 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. (4) My franchisees have introduced new products/services in the past 5 years. (5) My franchisees have introduced new methods of production/ operation in the past 5 years. (6) My franchisees have introduced new sources of supply in the past 5 years. (7) My franchisees have opened up new markets in the past 5 years.	Adapted from Keh <i>et al.</i> (2007); the measures were originally extracted from Covin and Slevin (1989) and Miller and Friesen (1982). Items 3, 5, 6, and 7 were developed by the authors, drawing on inferences from Schumpeter (1934).	
Proactiveness	(8) My franchisees, by themselves, are typically the first to initiate actions to competitors, for which the competitors then respond. (9) Very often, my franchise outlets are the first to introduce new products/services, techniques, technologies etc.		
Risk-taking	(10) My franchisees tend to have a strong preference for high-risk projects (with chances of very high return). (11) 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.		
<i>Section II</i> <i>Performance outcome</i>			0.84
Financial ^a	(1) Profitability. (2) Sales growth. (3) Market share. (4) Overall financial performance.	Adapted from Keh <i>et al.</i> (2007).	
Non-financial ^b	(5) My system provides secure jobs to franchisees. (6) My system is realising its franchising goals. (7) I am satisfied with my franchisees' overall performance. (8) I am satisfied with the growth in the number of my franchise outlets.		Developed by the authors.

Table II
Questionnaire:
Constructs and
measurement
items

<i>Section III</i>				
<i>Internal Context</i>				
Franchisor support	(1) My franchise system encourages franchisees to undertake entrepreneurial activity. (2) My franchise system encourages decision-making power by franchisees. (3) My franchise system encourages franchisees to bend rules. (4) My franchise system sponsors the implementation of franchisees' new ideas. (5) Individual risk-takers are often recognised amongst franchisees, whether eventually successful or not. (6) My franchise system encourages calculated risk taking amongst franchisees. (7) 'Risk-taker' is considered a positive attribute in a franchisee. (8) Small and experimental projects of franchisees are supported by my franchise system. (9) My franchise system uses the following to encourage entrepreneurial activity in franchised outlets: <ul style="list-style-type: none"> (a) franchisee forum (b) the recognition of new ideas at regional/annual meetings (c) the presence of a champion for innovation at franchisor headquarters (d) rewarding of franchisees who make entrepreneurial contributions. 	Adapted from Kuratko <i>et al.</i> (1990).	0.85	
Franchise contract clauses	(10) My franchise contract explicitly includes the following: <ul style="list-style-type: none"> (a) procedures for franchisees who want to introduce new products/services, techniques, or technologies (b) procedures for franchisees who want to introduce new methods of production/ operation (c) procedures for franchisees who want to introduce new sources of supply (d) procedures for franchisees who want to open up new markets (e) procedures for franchisees who want to undertake low/high risk projects (f) procedures for franchisees who want to undertake any type of entrepreneurial activity. 	Adapted from Falbe <i>et al.</i> (1998) and Ajayi-Obe (2007).	0.87	Developed by the authors, drawing on inferences from Schumpeter (1934) and Keh <i>et al.</i> (2007).
<i>Section IV</i>				
<i>External context</i>				
Environmental hostility ^b	(1) Industry-wide competition based on price. (2) Emphasis on price as a means of competition. (3) Intensity of price-type competition. (4) Level of competition based on quality. (5) Level of competition based on customer service. (6) Level of competition based on after-sale service.	Adapted from Zahra (1993).	0.68	
Environmental dynamism ^b	(1) The frequency of changes in marketing practices. (2) The rate at which products/services are getting obsolete. (3) Predictability of competitors' actions. (4) Predictability of demand and consumer tastes. (5) The frequency of changes in modes of production/service.	Adapted from Miller and Friesen (1982).	0.74	

Table II (Cont'd).
Questionnaire:
Constructs and measurement items

^a Measured relative to those of competitors in the last 3 years.

^b Measured with regards to the last 3 years.

Variables	N	M	S.D	1	2	3	4	5	6
Performance Outcomes (PERF)	95	3.532	0.643	1.000					
Entrepreneurial orientation (EO)	95	2.362	0.657	0.208*	1.000				
Franchisor support (SUPPORT)	95	3.027	0.686	0.064	0.473**	1.000			
Franchise contract clauses (CONTRACT)	94	2.723	1.041	-0.029	0.234*	0.311**	1.000		
Environmental hostility (HOSTILITY)	93	3.219	0.794	0.035	0.019	0.102	0.023	1.000	
Environmental dynamism (DYNAMISM)	93	3.225	1.020	-0.122	0.201	0.169	0.157	0.318**	1.000

Table III.
Means,
standard
deviations,
and
correlations

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Variable	Model 1	Model 3a	Model 3b	
Constant				
Size of franchise system	0.208 [^]	0.201	0.189	
Age of franchise system	0.209 [^]	0.214 [^]	0.217 [^]	
Industry sector:				
Property and maintenance services, home improvements	0.028	0.034	0.012	
Catering and hotels	0.003	-0.012	0.055	
Cleaning and renovation services	0.019	0.011	-0.037	
Commercial services	0.015	0.005	0.069	
Direct selling, distribution, wholesaling, vending	-0.129	-0.155	-0.146	
Domestic, personal, health and fitness, caring, and pet services	0.182 [^]	0.192 [^]	0.184 [^]	
Employment agencies, executive search, management consultancy, training and teaching	-0.072	-0.089	-0.039	
Estate agents, business transfer agents, financial services and mortgage brokers	-0.195 [^]	-0.207 [^]	-0.197 [^]	
Parcel and courier services	0.042	0.065	0.011	
Printing, copying, graphic design	0.116	0.115	0.129	
Retailing	-0.145	-0.145	-0.124	
Vehicle services	-0.047	-0.054	0.017	
EO	0.184 [^]	0.160	0.246***	
HOSTILITY		0.316		
DYNAMISM			-0.459	
EO*HOSTILITY		-0.355		
EO*DYNAMISM			0.237	
F value	1.840***	1.631 [^]	1.997***	
R ²	0.269	0.278	0.320	
Adjusted R ²	0.123	0.108	0.160	

Table IV.
Regression results

Standardised coefficients are reported in the table;

***p <0.05;

[^]p<0.10.

Variable	Model 2
Constant	
Size of franchise system	0.020
Age of franchise system	0.102
Industry sector:	
Property and maintenance services, home improvements	-0.134
Catering and hotels	0.016
Cleaning and renovation services	0.198 [^]
Commercial services	0.078
Direct selling, distribution, wholesaling, vending	0.092
Domestic, personal, health and fitness, caring, and pet services	0.289**
Employment agencies, executive search, management consultancy, training and teaching	0.081
Estate agents, business transfer agents, financial services and mortgage brokers	-0.038
Parcel and courier services	0.100
Printing, copying, graphic design	-0.089
Retailing	0.098
Vehicle services	0.086
SUPPORT	0.441*
CONTRACT	0.202 [^]
F value	2.990**
R ²	0.393
Adjusted R ²	0.261

Table V.
Regression results

Standardised coefficients are reported in the table;

*p<0.001;

**p<0.01;

[^]p<0.10.