

Acts of hidden franchisee innovation and innovation adoption within franchise systems

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Abstract

Franchising, as an imitative business model, provides a challenging context to create and manage innovation, as franchisors may wish to limit their franchisees' innovative activities to ensure network consistency. Drawing on data from two related empirical studies of franchisees operating in the UK, we seek to understand how franchisees contribute to innovation within their systems. Our first quantitative study reveals that although many franchisees develop innovations, these innovations are not always adopted by the franchise system, suggesting acts of hidden innovation. These findings motivated our second, qualitative study. Through a case analysis of 29 franchisees from 7 different franchise systems, we identify a number of organizational and relational factors that influence both franchisee engagement in innovation, and the extent to which their innovations are disclosed to the network. From these, we develop a theoretical framework of franchisee-led innovation processes, which contributes to the role of social exchange theory in innovation practices within business-to-business contexts. Our findings extend emerging research on innovation in franchise systems, and also provide practical insights on how franchisees can be best supported in creating and disclosing innovations to benefit the franchise system.

Key words: Franchise organizations, innovation, organizational support, corporate entrepreneurship, social exchange theory

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1. INTRODUCTION

Franchising, as a replicator organizational form (Karmeni et al., 2018; Szulanski and Jensen, 2008), creates value through the franchisee's application of the franchisor's standardized business format in providing consistent customer experience (Pardo-del-Val et al., 2014; Watson and Dada, 2017). Yet, in increasingly "dynamic" environments (Eisenhardt, et al., 2010: 1263), franchise systems have to innovate to grow and survive. Franchisors often develop novel solutions and product offerings which are distributed within the franchise system and sold through individual outlets (Falbe et al., 1999). However, franchisees, at the coalface of customer-centric activities, also have the potential to offer valuable customer insights and develop important innovations within their franchise systems (Bürkle and Posselt, 2008; Kaufmann and Eroglu, 1999). Indeed, there are numerous examples of franchisee-led innovations adopted within franchise systems. For example, several of McDonalds key products, such as Big Mac, Filet-O-Fish and the Egg McMuffin were originally conceived by McDonalds franchisees (Bradach, 1998; Dada et al., 2012). Other examples of innovation initiated by franchisees include a new pricing strategy at Jack in the Box (Karmeni et al., 2018) and new pizza production processes within a pizza franchise (Darr et al., 1995). These would suggest, in keeping with other business to business (B2B) contexts, that innovation performance can be enhanced by collaboration between network partners (Kim et al., 2017). Yet, it is difficult for franchisors to know how best to respond to franchisee innovations as these innovations may create inconsistencies within the system, and changes to the franchise 'blueprint' could compromise brand integrity and brand equity (Streed, 2007; Weaven et al.,

2012). The challenge, therefore, for franchisors, is how to harness the innovative capabilities of franchisees without compromising system uniformity.

Whilst the above examples of franchisee-led innovations suggest that franchisees have the ability to contribute to innovation within their systems, there is also evidence that many franchisees would like the opportunity to do so. As Croonen et al. (2016) note, franchisees are often entrepreneurially motivated, and desire some degree of autonomy in the running of their outlets. Franchisors, however, may want to restrict franchisee autonomy in order to preserve system uniformity (Evanschitzky et al., 2016). In response to these tensions, franchisors adopt varying stances towards autonomy and innovative behaviors by their franchisees, with some systems adopting a more flexible approach whilst others are much more restrictive, limiting franchisees' ability to deviate from the standardized processes (Croonen et al., 2016; Dada and Watson, 2013; Pizanti and Lerner, 2003). However, there is a lack of clarity in the extant literature as to how franchisees respond to franchisor directives about their innovative behaviors. Darr et al. (1995) suggest that franchisees do not always share their innovations with their franchisors. Although the reasons for this are not elaborated on, their findings raise questions as to whether franchisees may engage in hidden innovation and indicate that current literature, which has tended to focus on franchisor perspectives (Dant et al., 2011), may not present a comprehensive picture of franchisee innovation activities. Therefore, we seek to address the following research question: How do franchisees contribute to innovation within their franchise systems? In answering this overarching question, we investigate three key elements:

- (1) What types of innovations do franchisees generate within franchise systems?
- (2) What factors within franchise systems influence the extent of franchisee involvement in innovation?
- (3) Do franchisees engage in innovative activities which are not shared with the franchisor?

It should be noted that within the innovation literature, a multitude of different classifications and forms of innovation exist (Garcia and Calantone, 2002). For example, the different forms of innovation include product innovation, process innovation, marketing innovation and market innovation; whilst the different typologies of innovation focus on the magnitude of innovativeness or novelty, relative to existing offerings such as incremental and discontinuous innovations (Ettlie et al., 1984; Lewin-Solomons, 1999; Mallapragada and Srinivasan, 2017). In this research, we intentionally sought to capture broad descriptions of innovation (in terms of both form and magnitude), including successes and failures, with a focus on novel responses, or the ways franchisees diverge from established operations, processes, products/services, suppliers or markets. We used these extended descriptions of innovation, given the dearth of franchise literature which has explicitly explored innovation within franchise systems. Whilst a number of franchising studies refer to the degree of autonomy or flexibility given to franchisees (Kaufmann and Eroglu, 1999; López-Bayón and López-Fernández, 2016; Pardo-del-Val et al., 2014; Szulanskia and Jensen, 2008), if/how this results in innovation has received much less attention. Of those studies which have explicitly explored innovation within franchising, often franchisor or franchisee innovations are not differentiated between in the empirical data, but rather factors which influence system innovativeness as a whole are assessed (Mallapragada and Srinivasan, 2017; Karmeni et al., 2018; Shockley and Turner, 2016). Colla et al. (2019) is notable in that it does differentiate between franchisee-led and network innovation, but these are then combined to form an overall assessment of system level innovativeness. Thus, while franchisee contributions are assumed, in the existing research we observed, franchisee innovation is not directly measured, and therefore the processes by which franchisee ideas are translated into system-wide innovations are not fully understood. Only one extant study (Croonen et al., 2016) was found to have focused exclusively on franchisee-led innovations. Whilst their paper provides insights into franchisee motivations to engage in

entrepreneurial behaviors, and potential environmental determinants of innovative behaviors, it is based on a single franchise organization. As a result, there might be omissions about the factors which might influence innovation, and the process of franchisee-led innovation, across franchise systems.

To address our research questions, we draw on data from two related empirical studies of franchisees operating in the UK, using a mixed method approach. The first study, using quantitative data, examines the prevalence of franchisee innovation activity, and empirically tests whether key factors identified by the extant literature (e.g. autonomy and franchisee-franchisor relationship quality) can better explain patterned variations in innovation activity by franchisees. However, given quantitative variables are often ambiguous (Toomela, 2008), and variables are stripped of context (Guba and Lincoln, 1985), we also undertook a second, qualitative study. Qualitative research suffers less issues of ambiguity as it enables an in-depth understanding of behavior in situ “from the point of view of those being studied” (Bryman, 1988: 46), enabling deeper underlying meanings associated with the phenomenon. Our second study therefore enables us to gain deeper insights into the franchisee innovation process, and the organizational practices and relational norms that may facilitate/impede innovation adoption and sharing. Whilst critics highlight the lack of generalizability of qualitative research owing to small samples (Miles and Huberman, 1994), by combining both quantitative and qualitative approaches, we seek to minimize the limitations of each method (Jick, 1979; Cresswell et al., 2003).

In our qualitative analysis, we focus on the practices and relationships that shape the innovation process, by drawing on social exchange theory and the corporate entrepreneurship literature. As Croonen et al. (2016) argue, the corporate entrepreneurship literature may be particularly

useful in a franchising context, given it seeks to explain entrepreneurial behaviors of individuals within established organizations (Hornsby et al., 2009). In so doing, we contribute to the limited research exploring innovation processes within franchising, by developing and integrating theoretical and empirical knowledge on franchisee innovation behaviors. Franchising, as a network system of interdependent firms (Nyadzayo et al., 2011), provides a unique context in which to explore innovation and the relationships which shape innovation processes. Although franchisees are independent owners, and not employees, often with their own entrepreneurial ambitions (Davies et al., 2011), they are contractually obligated to adhere to the business template provided by the franchisor. In this regard, they sit at the nexus of business to business (B2B) (Nyadzayo et al., 2011) and corporate entrepreneurship contexts (Ketchen et al., 2011). Building on the studies by Grace et al. (2016), Harmon and Griffiths (2008), Meek et al. (2011), Nyadzayo et al. (2011), that evaluate social exchange perspectives in franchising, we offer novel contributions through the application of social exchange theory (SET) in innovation practices within franchise systems. Whilst there are some ex-ante studies which have considered what innovations franchisees create (Bürkle and Posselt, 2008; Cox and Mason, 2007; Karmeni et al., 2018; Mallapragada and Srinivasan, 2017), our research evaluates both the relational influences and critical internal organizational factors which shape innovation creation, sharing (or concealment), and adoption. In addition to its contribution to theory, the findings also have important implications for practice, by providing insights for franchisors as to how best to manage and support innovative practices within their systems.

In the next section, we examine the relevant corporate entrepreneurship and SET literature on organizational and relational factors that may encourage (or limit) franchisee innovation. Then, we discuss the methodology and findings from both the quantitative and qualitative studies. Finally, we consider the implications of our findings for research and franchise practice.

2. FRANCHISE INNOVATION IN THE MIDST OF ORGANIZATIONAL CONTROL

There has been some debate within the franchise literature around the extent to which franchisees are, or should be, involved in innovation. As Kaufmann and Eroglu (1998: 83) note, franchisors who “...incorrectly interpret their role of system creator as implying autocratic leadership may ignore, or at least discount, solutions or recommendations from franchisees”. Ignoring franchisee innovation ideas may be detrimental to the system given franchisees are often closest to their customers, and as such may have greater insights as to the needs of their markets. Franchisors may fear that if they rely on franchisees for innovation ideas, franchisees will feel they are not getting value for their management fee (Kaufmann and Eroglu, 1998), and may also seek further flexibility if small concessions are granted. However, if franchisee ideas are discounted, given their potential desire for autonomy and innovativeness (Davies et al., 2011), they may still innovate, yet not reveal their ideas to the franchisor. Such acts of hidden innovation have several implications. For the franchisor, if the innovation is unsuccessful, it may have negative consequences in terms of brand uniformity, customer satisfaction and revenue. If successful, it means the benefits the innovation offers are unlikely to be enjoyed system-wide. Thus, whilst previous studies (Karmeni et al., 2018; Mallapragada and Srinivasan, 2017) have considered the tensions involved in franchisee-led innovation, how these are resolved in practice, and in particular how franchisees respond to franchisor attempts to extend or quash innovative behaviors, has not been explored in the literature.

Entrepreneurial activity by both franchisors and franchisees indicates a partnership in adapting to the environment that can give rise to competitive advantage (Falbe et al., 1999). However, to ensure franchisee innovations do not threaten the uniformity and success of the system, franchisors need to ensure that innovation is carefully managed. As Feldman (1989) argues,

innovation in an organization requires the simultaneous regulation of autonomy and control in order to encourage outcomes with impact. Given the requirement for this careful balance between autonomy and control, relationships within the franchise system are likely to be critical. Social exchange perspectives enable us to explore how the innovation process is facilitated and supported. As Meek et al. (2014) argue, SET provides a relevant theoretical framework for studying entrepreneurial relationships in the franchising context. Franchising, like many other B2B contexts, involves a power imbalance, with the franchisor usually deemed to be the more powerful exchange partner as compared to the franchisee (Dant et al., 2011; Shaikh et al., 2018). Where there is power imbalance, relational aspects such as trust, respect and fairness are important for the vulnerable partner with regards to their willingness and motivation to engage in generating new ideas, find new solutions and work together with their network partner to improve innovation performance (Kim et al., 2017). However, there is limited research on how franchise relationships develop via social exchange (Altinay et al., 2014) and how this impacts innovation.

Social exchange processes are adaptable social systems, which evolve over time (Malmström and Johansson, 2016). As Croonen notes (2010: 192), social exchange is “an ongoing reciprocal process in which exchanges between parties result in social norms of obligation among the parties for future exchange”. In other words, SET attempts to offer explanations for individual goal seeking behavior, within the confines of a partnership, with regards to interrelated interests (Davies et al., 2011). Whilst research which has directly explored how social exchange processes may influence innovation activities is limited, studies such as those by De Clercq et al. (2010) and Malmström and Johansson (2016) have highlighted the importance of social exchanges for knowledge exchange, critical for innovation. Other studies

within the B2B context have proposed that strong social capital¹ between partners improves innovation performance (Kale et al., 2000; Kim et al., 2017; Krause et al., 2007), where social capital reflects the trust, information sharing, knowledge exchange and interactions present between actors (Kim et al., 2017).

Managing the competing demands for standardization and innovation requires relationships that encourage trust and knowledge sharing (Gillis and Combs, 2009). El Akremi et al. (2011) find that franchisees are less likely to deviate from standards and withhold information from a franchisor, when franchisees operate in chains that they perceive as cohesive. Trust has a critical role within the franchisor-franchisee relationship because it entails implicit obligations and minimizes the risk of free riding (Croonen, 2010) and opportunistic behavior (Harmon and Griffiths, 2008; Yakimova et al., 2019). When the franchisor has good relationships with his/her franchisees, the franchisor is likely to have a high level of trust in these franchise partners (Griessmair et al., 2014), enabling franchisees greater voice and influence in the franchise innovation process. Indeed, De Clercq et al (2010) find that trust, by enhancing the amount of information shared between parties, increases a firm's ability to exploit entrepreneurial opportunities successfully.

Thus, it would seem that strong network relations are likely to be important in managing innovation effectively. However, relational factors alone may not fully enable us to understand the innovation process. Whilst the B2B literature suggests that relational social capital may affect the innovation process in inter-organizational relationships with power imbalance (Jean et al., 2016; Kim et al., 2017), franchising is a unique context, as franchisees operate within the

¹ Social capital can be defined as “the sum of the actual and potential resources embedded within, available through, and derived from, the network of relationships possessed by an individual or social unit” (Nahapiet and Ghoshal, 1998: 243).

boundaries of the franchisor's business system. In this regard, franchisee behaviors may be shaped by intra-organizational norms beyond those associated with typical B2B relationships. We thus consider intra-organizational factors which may affect entrepreneurial behaviors, by exploring the corporate entrepreneurship literature to identify potentially relevant influences on innovation process in franchise systems.

3. ORGANIZATIONAL DRIVERS OF INNOVATION

There is some consensus in the corporate entrepreneurship literature that a number of internal factors influence the development and implementation of new ideas into the organization. In their proposed model for sustained corporate entrepreneurial strategy, Kuratko et al. (2004) identify a number of organizational antecedents, namely top management support, work discretion, rewards/reinforcement, time availability and organizational structure (boundaries) that shape innovation activities.

Top management support is defined by Hornsby et al. (2002: 259) as “the willingness of managers to facilitate and promote entrepreneurial activity in the firm”. Watson et al. (2016: 5936) use an analogous concept, franchisor support, which they define “as the willingness of the franchisor to facilitate and promote entrepreneurial activity within the franchise system”. This sets the overall innovation climate within the system, and as such may influence the extent to which franchisees are engaged in innovation processes.

Work discretion refers to the extent to which an organization provides “decision-making latitude and freedom from excessive oversight” (Hornsby et al., 2009: 238). Within a franchising context, this could be interpreted as the extent to which the franchisee is permitted to make small adaptations without prior permission. Grünhagen et al. (2014) suggest that even

within the confines of a seemingly standardized franchise system, some areas of the franchise system are left to the discretion of the franchisee. They find evidence that franchisee autonomy in human resource operations has positive performance outcomes. Franchisee autonomy may also be apparent in other aspects of the franchise business, particularly ‘back of house’ elements (Grünhagen et al., 2014; Terry and DiLernia, 2011). However, whilst some latitude in decision-making has been found to have a positive effect on entrepreneurial behaviors for senior and middle level managers (Hornsby et al., 2009), alternate research highlights the benefits of organizational control in innovation. Cardinal (2001) provides evidence that organizational control enhances incremental and radical innovations. Furthermore, recent research by Karmeni et al. (2018) demonstrates that control encourages knowledge creation and innovation within a franchise network.

A number of researchers have suggested that the appropriate use of *rewards* encourages entrepreneurial behaviors (Hornby et al, 2002; Sathe, 1989). Franchisees, as more dependent partners within the franchisor-franchisee relationship (Harmon and Griffiths, 2008), may be concerned that franchisors will unfairly appropriate the benefits (rewards) of their innovations. The absence of distributive fairness (perceptions of fairness based on how earnings and outcomes are distributed [Gassenheimer et al., 2007]) may mean that franchisees either do not engage in innovation, or do not share their innovations so that the benefits cannot be appropriated by the franchisor.

Time availability to innovate has also been found to be an important determinant of corporate entrepreneurship (Hornsby et al., 2002; 2009). Employees (or in this case franchisees) must perceive that time is available to them to engage in innovative activities. For example, time is needed to scan the external environment for new market opportunities, or to develop new

business processes. With single unit franchisees still prominent in many countries, such as the UK, time availability becomes even more important for franchisees that are sole operators of their outlets or where they have few employees.

The final factor, *organizational structure*, refers to the extent to which the organization provides administrative mechanisms by which ideas are evaluated, chosen and implemented (Hornsby et al., 2002). Organizational architectures can be used to facilitate social exchanges (Oparaocha, 2016), which may promote innovation activities. Such structures, by facilitating information exchange, should assist structural social capital accumulation.² Given the association between structural social capital and innovation performance (Kim et al., 2017), organizational structures may have implications for the extent to which franchisees are engaged in innovation processes. In franchising, a number of studies have highlighted the potential of Franchise Advisory Councils (FACs), “an elected or selected group of franchisees who meet with representatives of the franchise headquarters to discuss and provide advice on issues of importance to all franchisees” (Dandridge and Falbe, 1994: 43), as an important organizational structure to facilitate (and control) franchise innovation activities (Dada et al., 2012; Watson et al., 2016). It has been suggested that franchisee-based communities (such as franchise associations or FACs) can be “rich repositories of institutional knowledge” which can be “very useful in the creation, dissemination, and maintenance of firm specific intelligence” (Lawrence and Kaufmann, 2011: 14). Gillis and Combs (2009) suggest that in addition to franchise councils, local and regional meetings can also be important in encouraging and controlling innovation. Dada et al. (2012) argue that structures which provide franchisees with the opportunity to share and discuss ideas, are important for organizational learning and control.

² Structural social capital is defined as “the patterns of the social ties characterizing a group of actors, it concerns the properties of the social system and the network of relations as a whole” (Nahapiet and Ghoshal, 1998: 244).

4. STUDY 1

Our first study drew on data collected as part of a wider survey exploring entrepreneurial behaviors, in which there were auxiliary questions that considered social exchange quality, and franchisees' innovation activities. This quantitative study sought to investigate how widespread franchisee innovation activities are, the types of innovation they were responsible for, and to provide some initial insights as to factors which may influence their participation in innovation activities within the system. From the extant franchise literature, two key factors which may impact franchisee innovation are often discussed, and thus provide the focus of this initial investigation; these are the *autonomy* which franchisees are granted to make adaptations to the business processes (Colla et al., 2019; López-Bayón and López-Fernández, 2016), and the *quality of the franchisee's relationship* with the franchisor (Colla et al., 2019). Both can be deduced from the SET and corporate entrepreneurship literature as discussed above. Whilst López-Bayón and López-Fernández (2016) propose that franchisee autonomy will result in innovations, they do not directly test this, but rather focus on performance outcomes. Colla et al.'s (2019) study measures innovativeness by considering system level innovation (either innovations adopted by the system created by franchisees, or franchisor innovations), and thus does not consider innovations which the franchisee may have kept concealed. In this regard, we extend these studies. Where franchisees are granted autonomy in aspects of decision-making, we propose that they may use this autonomy to introduce new innovations into the system. However, it is possible that franchisees may still engage in innovation without such

autonomy. In this case, the innovations would not be adopted by the system, but rather restricted to the franchisee's unit. Thus, we propose that:

H1a Franchisee autonomy is positively related to innovation activity by franchisees.

H1b Franchisee autonomy is positively related to adoption of franchisee innovations across the system.

Colla et al. (2019) suggest that the strength of the relationship franchisees have with their franchisor will impact their propensity to share knowledge and be innovative. They find evidence to suggest a positive relationship between system level innovation (either franchisee or franchisor initiated) and affective commitment (emotional tie to the network). We thus propose that:

H2a Franchisee-franchisor relationship quality positively influences innovation activity by franchisees.

H2b Franchisee-franchisor relationship quality is positively related to innovation adoption across the franchise system.

4.1 Sample and data collection

The data for the first study was collected via an online survey using Qualtrics software. A link to the survey was sent to 1,145 UK franchisees, in some cases directly (where email addresses had been provided by the franchisor, or were publicly accessible), or via the franchisor who forwarded the link to their franchisees. We received 159 responses, representing a 13.9% response rate. The franchisees came from a range of sectors, as shown in Table 1. In the UK, personal services and business services represent the largest sectors (by number of franchise units), whilst retail ranks fifth (British Franchise Association/NatWest, 2018), suggesting our sample is over represented by retail franchisees, but otherwise broadly representative. The

median age of the franchise system was 13 years, but ranged from 3 to 40 years, and the median size 55 units. In the UK over 80% of franchise systems have fewer than 60 units (British Franchise Association/NatWest, 2018), and thus the size profile of the sample reflects that of the sector. The franchisees also ranged in experience, from less than one year, to 35 years, with an average of 5 years. Consistent with the UK franchise sector, the majority of franchisees (73%) were single unit franchisees. Of those that owned more than one unit, the average number of units was 2, although this ranged from 2 to 16.

<< Table 1 about here >>

4.2 Constructs

As stated earlier, the data from the first study comes from a wider survey of entrepreneurial attributes of franchisees, and thus, the auxiliary questions reported here were included to gain some initial insights into the extent of innovative activity by franchisees. In an approach consistent with Ajayi-Obe (2007) and Croonen et al. (2016), franchisees were asked whether they had introduced innovations into their own units, with regards to a range of innovation types (product, service, processes or operations, new markets and new sources of supply) in order to determine the level of participation in innovation activity. Total innovation was thus calculated by the sum of the different innovation types. Where innovation had taken place, franchisees were asked to indicate if this was new to the system, or new to the industry. To assess whether the innovations had been adopted, for those franchisees who had innovated, they were also asked if none, some, or all of their innovations had been introduced more widely across their franchise system. Relationship quality was measured using items adapted from Dada and Watson (2013) and Weaven et al. (2014), whilst franchisee autonomy was measured using items adapted from Lumpkin et al. (2009). Table 2 shows the measurement items used for these two constructs as well as their standardized factor loadings (SFL), alphas (α),

composite reliability (CR) and average variance extracted (AVE). The values of α and CR for the relationship quality and autonomy scales were the same, 0.91 and 0.88 respectively. All the SFLs are acceptable and significant at the $p < 0.001$ level, indicating convergent validity (Walter et al., 2006). The minimum and maximum SFLs were 0.60 and 0.96 respectively. Both the relationship quality and autonomy constructs have an AVE greater than 0.50, indicating convergent validity (Bagozzi and Yi, 1988). In addition, the AVE of each construct was higher than its squared correlation with the other construct, indicating that both constructs have good discriminant validity (Stenholm et al., 2016).

<< Table 2 about here >>

4.3 Results

Table 3 shows the means, standard deviations and the correlations of the key constructs. Table 4 provides evidence of the scope of innovation activities by franchisees from the survey data. Looking across all forms of innovation, approximately 60% of franchisees had undertaken at least one form of innovation. Perhaps unsurprisingly the type of innovation which franchisees undertook most, were process based innovations, with almost half of the surveyed franchisees (47.4%) having introduced a process innovation. Some significant differences were found by sector, with business service franchisees more likely to introduce innovations (across all types) compared with other sectors.³

<< Table 3 and Table 4 about here >>

³ To avoid low counts, franchisees were recategorized into one of three sectors: retail (including fast food), business services, and other services when testing for differences between sectors.

The majority of franchisees (67%) believed that at least one of their innovations had been introduced more widely across the system. However, 32% believed that none of their innovations had been introduced, suggesting that a number of these innovations had only remained within unit/s of individual franchisees. Of course, from this data it is not possible to tell whether this was because the franchisor was unaware of the innovation, or whether it was only deemed relevant to the franchisee's local market. However, the results presented in Table 5 in relation to the role of relationship quality and autonomy on franchisee innovation activity and adoption (controlling for length of time operating in the system), suggest that there are instances where franchisee innovations may not be disclosed and/or enacted.

To test the hypotheses, we used multiple and hierarchical regression analysis. Checks were undertaken for multicollinearity. The maximum variance inflation factor (VIF) value was 1.447, and the maximum condition index was 15.069. Usually, 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. A plot of the standardized residuals against the standardized predicted values of the dependent variable shows evidence of homoscedasticity. Multiple regression was used in the first model, where total innovation was the dependent variable, with autonomy, relationship quality and length of time in system as the independent variables. In keeping with H1a, autonomy was found to be positively related to the number of different forms of innovation activity. Interestingly, in contrast with H2a, which hypothesized that relationship quality is positively related to innovation activity, the results indicate the reverse (i.e., a negative relationship for H2a). Hierarchical regression was then used for Models 2 and 3, where innovation implemented was the dependent variable. Model 2 used the same independents as the first model, and then in Model 3, total innovation was added as an independent. The significant F change between Models 2 and 3 indicated that the new

variable added (i.e. total innovation activity) produced a significant improvement in explaining innovation implemented systemwide. In all, Model 3 provided the better explanation for innovation implemented systemwide, with both relationship quality and total innovation activity having a significant positive relation with innovation implemented systemwide. Autonomy was no longer significant when total innovation was added, suggesting that total innovation mediates the relationship between autonomy and innovation implementation (i.e., partial support for H1b). Cumulatively, the results pertaining to H2a and H2b suggest that where relationship quality is poor, franchisees may engage in acts of hidden innovation, which remain in-house (i.e., within their units).

The findings from our first study suggest that innovation activity is relatively prevalent among franchisees. Whilst these results suggest that the autonomy granted to the franchisee, and the quality of the relationship between franchisee and franchisor has implications for both the scale of innovation activity, and its adoption, study 1 raised questions as to why a substantial number of innovations may not be adopted across the system. Are innovations not adopted because they are only relevant to the franchisee's local market, or are franchisees engaging in innovations which are hidden from the franchisor? What relational and organizational factors influence the disclosure (sharing) of innovations? We therefore sought to undertake a second, qualitative study, to enable an in-depth understanding of these complex innovation processes (Grünhagen et al., 2018). In this regard, the research undertook a sequential approach where the quantitative phase is followed by the qualitative phase, with the qualitative findings used to enhance and enrich the findings (Mason, 2006) and help generate new explanations and knowledge relating to the factors which influence franchisee innovation activity, and innovation sharing.

<< Table 5 about here >>

5. STUDY 2

5.1 Sampling

Twenty-nine franchisees operating within seven different franchise systems from a range of sectors were interviewed. The sample for the study partially drew on participants of the earlier quantitative research in study 1, or franchisees for whom details were provided by franchisors, as franchisees' representative of their system. Participants ranged in experience; in some cases they were older, more established franchisees (among the first franchisees in the system), to those who had been operating less than one year. Tables 6 and 7 present descriptions of the franchise brands, and the participating franchisees.

<< Tables 6 and 7 about here >>

5.2 Data collection

Given the abductive nature of the second study and our interest in evaluating assessment of actions, a case study design was considered most relevant (Yin, 2009). The majority of interviews were conducted face-to-face, although for logistical reasons, some were conducted via telephone and Skype. All interviews were recorded, in addition to which hand-written notes were also taken. The interview questions examined the journey of the innovation, including its creation and implementation, probing around communication (or otherwise) of the idea, innovation trials, and the overall climate of the system, and organizational support structures. The duration of the interviews ranged from 21 to 75 minutes, with an average of 39 minutes.

5.3 Data analysis

To interpret the data, we used an abductive analytical approach. In particular, this method is useful to understand innovative behaviors in context (Welter, 2011). The abduction approach commenced with a basic theoretical knowledge before data collection (Dubois and Gadde, 2002). Then, the analytical process moved frequently back and forth between theory and data (Hahn and Ince, 2016), and ended with an extension of existing theorizing (Andreewsky and Bourcier, 2000) facilitated by NVivo 11 plus software. Thus, the coding was guided by the data, instead of following a set of predefined theoretical concepts, whilst still theoretically sensitive (Hahn and Ince, 2016), given our knowledge of the literature.

Following Gioia et al. (2013), we conducted four primary steps in the data analysis when comparing interviews and innovation processes within franchise systems: (1) we generated first-order codes by making comparisons between and within case analysis (Gioia et al., 2013), (2) we identified sub-theoretical categories, (3) we identified theoretical dimensions, and (4) we aggregated theoretical dimensions within the data (Gioia et al., 2013; Shepherd and Williams, 2014).

We began the analysis using ‘open coding’ (Locke, 2000) to identify conceptual issues embedded in the data (Saldaña, 2009). At this stage, a sample of the data was independently coded by three researchers, generating a long list of unstructured phenomena and concepts. We then moved from open coding to more abstract coding of the data into theoretical categories (steps 2 and 3 of the analysis) (Shepherd and Williams, 2014). This was undertaken by two coders. At this stage, instances of similar phenomena were linked together along a logical axis, codes condensed, and relationships identified (Hahn and Ince, 2016). In the final step of the analysis, we considered the relationships between the categories in the original framework for

analysis and more abstract themes developed through the analysis. This enabled a more comprehensive framework which linked the categories and themes that emerged from the data (Gioia et al., 2013). Throughout the process, we repeatedly navigated between the data-driven codes and the theory (Timmermans and Tavory, 2012). Test for interrater reliability found Cohen's Kappa at 0.7, indicating substantial agreement between coders (McHugh, 2012).

5.4 Findings

To identify franchisee innovations, we considered instances where franchisees had been responsible for the introduction of a new (or significantly improved) product/service, process, marketing or organizational method, to the franchise (Karmeni et al., 2018). We found evidence of typically "small scale" franchisee innovation within their units, consistent with prior results of Sundbo et al. (2011). In addition, franchisees were also involved in contributing ideas that ultimately generated new franchisor innovations which were trialed by the franchisor.

As we expected, the results indicate that franchisee-led innovation tended to focus on process, and were often in the form of 'fixes' in response to perceived inadequacies in management information systems and/or customer relationship management processes. In contrast to Mallapragada and Srinivasan (2017: 1168) who describe franchisee innovation disclosure as mandatory, franchisees often did not share innovations with the franchisor, or other franchisees. Table 8 provides examples of these incremental innovations. To preserve anonymity of the systems, we do not detail specific product/service or new market innovations here.

Whilst franchisee process-based innovations were primarily motivated by perceived inadequacies in the system and a desire to create efficiencies, product and service innovations

were also prompted by market opportunities, which they believed would enable them to grow their business. Product/service-based innovations were more likely to be shared with the franchisor, and to be subject to some form of trial and assessment before being rolled out across the system. In this regard, there was compelling evidence to believe that franchisees had a clear vision that forward-facing innovations had the potential to impact (either positively or negatively) the system, and therefore could not be adopted without prior approval from the franchisor.

<< Table 8 about here >>

Our analysis revealed that the variations in both the quantity of franchisee-led innovation activity, and the extent to which innovations were shared (with the franchisor) could be explained by differences in the overall system climate, organizational factors, and relational norms, as detailed in the following sections. The emergent framework is presented in Figure 1.

<< Figure 1 about here >>

5.4.1 The drivers of innovation

5.4.1.1 System climate

We found that the overarching system climate had implications for how innovation was created, implemented and leveraged within the system. Whilst climate is rather an amorphous concept (White, 2010), we concern ourselves here with the innovation climate. In so doing, we focus on four particular facets that appear to contribute to the overall innovation climate (see Table 9 for supporting quotations). Firstly, *innovation culture* reflected the extent to which franchisees are considered as integral to the innovation process, and innovation is actively encouraged (or discouraged) by the franchisor. In this respect, we found differences across the

different systems, where some were far more encouraging of innovation than others. Secondly, we consider the extent to which the *boundaries* for franchisees are rigid, i.e. the extent to which adaptations to the system are permitted. As Pizanti and Lerner (2003) note, some franchise systems tend to be far more controlling and rigid than others. The consequences to franchisees when they broke the rules (i.e. made adaptations to the system without prior approval) was particularly relevant. The extent to which incremental changes are accepted by the franchisor, we suggest, signals through normative expectations, the extent to which other innovations may be accepted. As one franchisee commented:

“But it's just better to get in trouble, isn't it, than just have to jump through a million hoops. I was saying, we stay within guidelines, we're making the money, we're growing, we're successful so I think they're a bit lenient with us” (Franchisee 13, System C).

The third dimension pertains to the notion of *organizational justice*; the extent to which the organizational climate is perceived as ‘right, just and fair’ (Ruppel and Harrington, 2000) in its treatment of franchisees. Notions of justice may be particularly important in the presence of power imbalance, as fairness facilitates trust between the two parties and has been found to improve innovation performance (Kim et al., 2017). We thus focus here on the degree to which decisions by the franchisor on franchisee’s innovation ideas are seen as fair and transparent. In instances where franchisees see franchisor decisions to permit innovations as inflexible and autocratic, or without due consideration to the needs of the franchisee, this often led to hidden innovation. Similarly, where franchisors mandated changes to the system without prior consultation with the franchisees, this impacted their perceptions of organizational justice.

The fourth dimension refers to *formalized engagement and knowledge communication processes*, that is the extent to which franchisees are given a voice within the system through communication structures, such as franchise advisory councils and regional meetings. The development of norms and practices which facilitate social exchanges, can create social capital

(Oparaocha, 2016), in turn enabling franchisee innovation, and increasing the likelihood of disclosure within the system. The dimensions of the overall system innovation climate were thus found to influence the relational norms within the system, as well as the organizational factors, which are used to encourage/limit innovation activities by franchisees.

<< Table 9 about here >>

5.4.1.2 Organizational support

As highlighted earlier, previous studies of corporate entrepreneurship have suggested that there are a number of organizational factors which have implications for innovation and other entrepreneurial activity (Hornsby et al., 2002; Kuratko et al., 2005). Within the context of our study, we found four key dimensions critical for franchisee innovation. Representative quotations in support of these factors are shown in Table 10.

Franchisee autonomy

The first dimension, franchisee autonomy, captures the extent to which entrepreneurial autonomy is encouraged within the franchise system. This is similar to what Hornsby et al. (2013) term work discretion, which captures the extent to which managers have authority delegated to them, and latitude in decision-making. Consistent with our quantitative data, we found that where franchisees were granted greater autonomy and flexibility to make small adaptations, innovation activities were more likely to be shared. Some degree of autonomy was present in a number of systems. As one franchisee commented:

“It's not...it's not something I have to do, say I'm doing it this way, is that OK? Yes. It's more of a...I do it this way and then if they think it's a good idea, then that's fantastic, if not they would say, well, I would prefer that you did it the way we do it, but it's very rare that happens, so far it's been received quite well” (Franchisee 3, System B).

Institutional support

Institutional support, analogous to Hornsby et al.'s (2002) organizational structure, refers to the formalized mechanisms that are used to support franchisee innovations (Watson et al., 2016). These included structures through which franchisees could raise innovative ideas for review, processes by which franchisee ideas could be trialed (either just within the franchisee's own unit, or across a number of units within the system), and formalized opportunities for regular sharing of ideas and best practice. Of particular importance was the use of a Franchise Advisory Council (FAC) – this enabled franchisees to make suggestions for new products/services, or alternatively, the franchisor could get initial feedback on innovation ideas (either franchisee or franchisor-led innovations). Of course, the simple presence of a FAC was not sufficient, but rather it had to be a genuine, proactive, receptive forum for open debate and discussion of innovations. This was not always the case, as some respondents questioned how representative the FACs were, and if they provided franchisees with a real “voice”. As one franchisee puts it:

“... so we have an Advisory Board which purports to represent franchisees at, with the franchisor...but my view is they [FACs] don't represent me.... they do have a place and we probably should have one, but they're pretty toothless” (Franchisee 10, System E).

The presence of regional meetings also helped encourage sharing of ideas and best practice across the network. Again, those systems which had created platforms for franchisees to regularly meet, appeared to generate more substantive innovations, and these were more likely to be shared with the network. For smaller systems, the annual general meeting (AGM) was the key platform for franchisees to have the opportunity to raise and share ideas.

The importance of institutional support for driving innovation is consistent with other studies of B2B relationships. Kim et al. (2017) recommend that enhancing social structural capital, i.e. the pattern of connections between actors, has a positive impact on innovation performance as it can help the weaker partner feel less vulnerable. Institutional support, through FACs, regional meetings and online forums, enables the development of ties (Granovetter, 1977) that connect franchisee partners, creating information and knowledge flows. It also enables existing relationships to deepen, creating better communication through more embedded relationships.

Rewards

Rewards explore the extent to which franchisees who innovate are rewarded for their contributions, or their contributions recognized and celebrated within the system. A number of studies have highlighted the importance of rewards to enhance entrepreneurial activity within corporate settings (Hornsby et al., 2002; Kuratko et al., 1993). Yet, it would seem from our data that within franchise systems, the innovative activities by franchisees often go unrewarded and unacknowledged. Interestingly, none of the franchisees expected, or argued for, any form of financial reward from their franchisors if they came up with a new idea which was subsequently adopted by the system. This is consistent with Croonen et al. (2016) who found that franchisees are primarily motivated to engage in entrepreneurial activities (such as innovation) by intrinsic goals. In keeping with these intrinsic motivations, franchisees did feel that there should at least be some acknowledgement in the system as to where the idea had originated from. Where franchisees were involved in trialing new ideas (their ideas, ideas of other franchisees, or indeed the franchisor), franchisees felt that there should be greater acknowledgement by the franchisor of the risks they took when piloting new innovations. As one franchisee puts it:

“...the franchisor seems to just inherently expect that franchisees will give their time and expertise to the bigger business free of charge. And I don't understand that. No other

business organization in the world would expect that, would they?” (Franchisee 12, System C).

Some suggested that a fee reduction during piloting could be an appropriate approach to recompense them for their time.

Time availability

With respect to ‘time availability’ there were three key issues. Two issues were around finding time to think more creatively (that is, limits on time acted as an impediment to ideation and innovation), and the time resource required to develop and test ideas for implementation. The final issue related to the potential detrimental effect of the time invested in trialing or sharing new ideas. Investing in innovative activities detracted from franchisees’ core business and generating sales of current products and services. Thus, time availability acted as an impediment to the whole innovation process, including creation, prototyping, testing and rollout. It also limited sharing innovations with franchisors. This particular issue created a sense of frustration because franchisees had invested a non-trivial amount of time in the initial development, and then also had to explain their innovations to either Head Office or other franchisees (or indeed, both). None of this time was acknowledged. As one franchisee lamented:

“And it's nice to feel it's...nice to be kind and everything, but sometimes like, I've done four or five things in the past few months and actually I just want to get on with my business today; I'm not going to spend an hour writing an email explaining all this cool stuff I'm doing” (Franchisee 23, System F).

<< Table 10 about here >>

5.4.1.3 Relational norms

Franchisee-franchisor relationships

The case findings indicate that franchise relationships matter: relationship quality and the depth of connection between relationship actors via social ties (Granovetter, 1973) influenced both the amount, and sharing of innovation activities. Those systems whose franchisees felt more connected to their franchisor saw greater engagement by franchisees in innovative activities, and a greater propensity to share their ideas and solutions, not just with other franchisees, but with their franchisor. Our research inductive theorizing highlighted five dimensions that strengthened this relationship quality and enhanced franchisee connectedness with their franchisor, namely: (1) franchisee personal trust in the franchisor; (2) franchisee trust in the competency of the franchisor; (3) franchisor openness to new ideas; (4) franchisor approval of innovative behaviors; (5) franchisor accessibility. Examples of quotations supporting these dimensions are shown in Table 11.

<< Table 11 about here >>

The franchisees personal trust in the franchisor was often established from their initial perceptions of the franchisor, during the recruitment process. Interestingly, in one system, the franchisor was a former franchisee, and this engendered perceived competencies and substantial trust from the franchisees. In keeping with SET perspectives, the results indicate that trust is reciprocal in nature – where franchisees felt that they were not trusted, this created similar lack of trust in the franchisor. This was particularly evident in System A, and meant that innovative activity was less prevalent, and less likely to be shared with the franchisor.

In exploring issues of trust, a number of authors have suggested that trust can be seen in terms of two dimensions, trust in the character of an individual, and trust in their competence

(Croonen, 2010; Yakimova et al., 2019). Within the context of franchise systems, competence pertains not just to that of the individual franchisor, but their Head Office team also. It was clear from the interviews with franchisees, that their relationship with the franchisor was not just a function of their assessment of their franchisor's character, but also the collective competence of the franchisor (as an individual) and Head Office. In this regard, when we refer to competency of the franchisor, this includes franchisee assessments of the competence of Head Office. Both forms of trust were evident for some franchisees, as shown by Franchisee 3, System B:

“It's always great to have your back per se by the franchisor but then also to be given that freedom as your own business” (Trust in character).

“we trust them to know what they're doing” (Competence trust).

A number of the incremental innovations, tended to evolve because of perceived shortcomings in the processes and systems provided by Head Office, i.e. a lack of competence trust. The following quotation exemplifies the issue:

“But there are perceived shortfalls from our perspective in how management information is sliced and diced within [Franchise System C] and so we've put in place our own processes and procedures that we feel do the job very efficiently” (Franchisee 12, System C).

Thus, perceived incompetency resulted in incremental innovations, and they were predominantly process related. Competency of the Head Office to make decisions quickly about proposed innovations, also influenced the extent to which franchisees would seek permission before introducing innovations into their system. Where franchisors were perceived to be slow to respond to requests, franchisees were more likely to proceed without franchisor permission. As one franchisee commented:

“...but it was a bit of um-ing and ah-ing from there [Head Office] and I was like, by the time you make a decision, it's going to come and go; just do it” (Franchisee 13, System C).

The connectedness franchisees felt with their franchisors was also a function of how valued they felt their ideas were. Franchise systems where franchisees perceived the franchisor (and by extension Head Office) to be receptive to ideas, were more likely to not only talk to Head Office in advance of making any incremental changes at the unit level, but to propose novel ideas for system-wide implementation. Thus, the system climate also shaped franchisee trust. As Kingshott (2006) highlights, an appropriate climate and atmosphere in an exchange relationship is critical to the formation of trust. Where franchisees felt that the franchisors were closed to innovation ideas, and innovations or ideas were refused on spurious grounds, this was more likely to lead to hidden innovations. For example, one franchisee (Franchisee 14, System C) spoke about a new (successful) social media marketing initiative they had introduced:

“and ... I go out and actively do it and spend some money and other bits and pieces, suddenly someone comes back going, ooh, we never approved that!”.

The franchisee further commented that they are now “...working on a theory of...I'll beg for forgiveness rather than ask for permission”. Our findings thus suggest that whilst franchisors might feel that strong restrictions will promote uniformity, in fact, they may have the opposite effect, i.e. instead of ceasing franchisee innovations, it simply drives them underground.

The final determinant of franchisee-franchisor connectedness pertained to the perceived accessibility of the franchisor. The ability to communicate directly with the franchisor, reinforced trust and receptiveness perceptions. Over time, however, as the network grew, opportunities for direct access to the franchisor reduced. In this regard, early franchisees tended to feel greater connectedness, as they had already established close personal relationships with the franchisor. Franchisee 2 (System B) was an example of an early franchisee, who therefore, had close ties:

“I know most of the guys there [the founders], you know, a lot of these new franchisees, they won't know ... [one of the founders]...they'll have never heard of him, they don't know who the boss is. I know all these guys because I worked with them. They're my colleagues and some of them are my friends so I always have that mentality and attitude that if something's not right, I'm just going to get hold of him and I'm going to tell him and that probably isn't the right way, actually.”

Franchisee-franchisee relationships

The interconnectedness that franchisees felt with each other was found to vary across the different systems investigated. We identified three key determinants of franchisee interconnectedness: mentoring and leadership, shared vision and values, and proximity. Mentoring and leadership and proximity were important in forging strong personal and local networks, whilst shared vision and values were important in network-wide connectedness. See Table 12 for supporting data.

<< Table 12 about here >>

As new franchisees entered the system, a key component of their initial activities was more established franchisees “showing them the ropes”. This process enabled franchisees to build connections, and more established franchisees were considered mentors who helped and supported newer franchisees, with innovations shared between mentor and mentee.

Many franchisees felt that as part of a franchise system, they were part of the same team, or even part of the same family. For example, one franchisee commented: “everyone's accessible, which is good, you know, it's...a big family kind of thing” (Franchisee 20, System A). Responses indicated that this similarity of shared goals and that the system benefits when ‘we work together’, shaped the ways they engaged in innovation processes. More connected franchisees were more willing to disclose and discuss new ideas through the camaraderie developed across the network.

Another dimension that emerged in our analysis was the importance of proximity. Discussions around solutions for identified problems were often discussed with the respective franchisees' closest neighboring franchisees. Social events helped build stronger connections, as they provided the opportunity to discuss problems and potential solutions/innovations in an informal setting.

Overall, the strength of ties that franchisees felt both to their franchisor and to each other was found to influence to whom innovations were shared, and their willingness to be involved in innovation trialing.

6. DISCUSSION

Whilst a number of studies have acknowledged the important role that franchisees play in the innovation process (Bürkle and Posselt, 2008; Cox and Mason, 2007; Karmeni et al., 2018; Sorenson and Sørensen, 2001) little is understood as to how franchisee ideas are embedded and leveraged across the system. Indeed, implicit in much of the discussion of franchisee innovation, is that franchisees are mandated to reveal innovations to the franchisor for approval or refusal (Mallapragada and Srinivasan, 2017). Our results indicate a number of implications for research and practice.

6.1 Research implications

Although research on innovation in inter-organizational relationships is burgeoning, the antecedents to innovation participation and the impact of power-dependence asymmetry of partner organizations on innovative activities is less well understood (Jean et al., 2016). This

study therefore broadens and deepens our understanding of how innovation activities occur, and the factors which influence engagement in innovation, by dependent and contractually controlled B2B partners, as is the case in franchising. By evaluating more complex relationships, which sit at the nexus of inter/intra organizational exchanges, we have developed a more nuanced picture of both relational and organizational factors that shape innovation activities.

It is clear from our findings that despite the potential restrictions to deviate from the franchisor's stipulated systems and processes, many franchisees actively contribute to innovation. Whilst this finding in itself is not new (see Croonen et al., 2016) our research builds upon previous studies by exploring how system differences may engender different innovative practices by franchisees. Our resultant framework (Figure 1) suggests that both relational and organizational factors influence innovation practices. Further, unlike previous studies of franchisee entrepreneurial behaviors, we examine not just the innovations themselves, but also the extent to which these are shared with the franchisor and the overall franchise system. Although limited franchise literature does acknowledge that franchisees may engage in behaviors which may remain hidden from the franchisor (Darr et al., 1995), the focus has been on franchisee opportunism, with an assumption that such behaviors may be detrimental to the system. However, our data revealed that franchisees were often motivated to innovate in response to perceived inadequacies in existing systems and processes, and thus undertook innovations in order to generate process efficiencies. Franchise studies, such as Winter et al. (2012), have highlighted the importance of replication of the business template for franchise performance, based on the assumption that the template is comprised of a perfected set of interlocking activities, where modifications to any element, may have a deleterious effect (Winter et al., 2012). The reality, however, particularly for younger systems, such as those

included in this study, is that the business systems and processes may not have been fully developed during the initial period of being a franchise. In this regard, our study suggests that franchisees may have a potentially valuable role in honing business processes.

Our quantitative study revealed evidence that a substantial number of franchisee innovations are not implemented across the system. This motivated our second study, which, by adopting a qualitative approach, enabled us to gain new and deeper insights into the organizational and relational dynamics which facilitate or inhibit innovation sharing by franchisees. We found that franchisee innovations, particularly those that were micro and process-based in nature, were often not implemented as they had not been revealed to the franchisor. Thus, not only did the system not benefit from franchisee innovations, but there was some evidence that this led to a duplication of effort, with franchisees (or eventually the franchisor) essentially creating similar solutions independently of each other.

We found that franchisee (non) disclosure of innovations took a number of forms – at one extreme it remained hidden from the rest of the network, whilst at the other, it was revealed to the franchisor through formal channels and processes. In some cases, innovations were revealed more informally through personal and network ties. These different forms of innovation disclosure that franchisees adopted are depicted in Figure 2.

<< Figure 2 about here >>

As Figure 2 highlights, in some cases, innovations were shared with other franchisee, but remained hidden from the franchisor. Although Grace et al. (2016) suggest that franchisee camaraderie (though both with franchisees and the franchisor) is an important component of a team culture, which in turn helps create trust in the franchisor, the franchise literature is largely

silent on the role of franchisee-franchisee relationships. This finding therefore provides new insights into the role of franchisee-franchisee networks on sharing of innovation ideas. In keeping with SET, which suggests that connectedness is likely to promote the reciprocation of beneficial exchanges between individuals (Nowlin et al., 2018), how franchisees shared their experiences and innovations tended to be influenced by the scope of their connectedness. Where there was strong network-wide connectedness, online platforms, such as Facebook, were used to share experiences. For franchisees where ties were stronger to personal or local networks, sharing was limited to those networks.

Similar to other B2B contexts with power asymmetry, relational and structural social capital were found to be important for innovation. Consistent with Corsaro and Cantù's (2015) assertion that interactions are a central means of gaining and transferring knowledge for innovation in B2B contexts, the use of franchise advisory councils, or regional or national meetings as a source of idea generation, led to greater sharing of innovations across the network.

Although previous research has identified the potential role of social exchanges for the information sharing necessary for the successful exploitation of innovation ideas (De Clercq et al., 2010; Malmström and Johansson, 2016), these have implicitly assumed that without information sharing, the innovation does not move beyond the idea generation phase. Our research shows that the absence of information sharing does not necessarily obstruct the realization of the innovation, but rather it means that the innovation may be created yet not disclosed; thus, it remains hidden from one of the exchange partners. This finding suggests that SET not only has implications for the amount and scope of innovation activities, but also the transparency of these activities. Whilst it is possible that this finding is particular to the

franchising context, it would seem plausible that the potential for hidden innovation is equally applicable to other corporate organizations. For example, Sakdari and Bidakhavidi (2016) suggest that staff in corporate settings, when faced with a lack of formal support for elaborating their creative ideas may resort to creative deviance (Mainemelis, 2010) and innovate “underground” (Aram, 1973). We further identify that, consistent with other corporate entrepreneurship contexts, internal factors also play a role, especially regarding the autonomy granted to franchisees, and the time made available for innovation.

6.2 Implications for franchise practice

Our findings suggest that franchisors should be careful in their approach to franchisee autonomy, particularly if they are attempting to develop a strong innovation climate. Dant et al. (2011) suggest that some franchisors will be more receptive to innovation ideas from their franchisees than others, and we found evidence to support this. Where franchisors were considered unreceptive to franchisee suggestions, or limited their autonomy, this tended to force franchisee innovation activities ‘underground’. This presents a challenge to the system as franchisees will be less likely to disclose their innovative activities, and thus the potential benefits of the innovation will not be embedded or leveraged by the system. Interestingly, and in contrast to much of the franchise literature which focuses on the dangers of a lack of uniformity and the creation of unauthorized innovations, our findings suggest that franchisee innovations are unlikely to be detrimental in this respect (given their back-of-house and process nature). Such activities thus represent a lost opportunity for system-wide benefits, and the potential duplication of effort, of both other franchisees, or indeed Head Office. In this regard we contribute to a key dilemma in franchising, i.e. the extent to which franchisees should be granted autonomy (Evanschitzky et al., 2016). We propose that franchisors should consider more fully how franchisees can be involved as collaborative partners in the innovation process

to enable cocreation of value. The proximity of franchisees to customers and competitors means they may have knowledge critical to generating innovation ideas which the franchisor does not have, especially for fully franchised systems (i.e. where there are no company-owned units). Similarly, the franchisor may have access to greater resources to enable innovation ideas to be commercialized. Thus, an innovation partnership, where knowledge and resources are shared to facilitate innovation, should add value. The use of Franchisee Advisory Councils, could be one important mechanism by which to promote such collaborative innovation activities. Furthermore, the use of regional network meetings could be used to facilitate knowledge-sharing and relational ties between franchisees. In the business services sector, where in comparison to other sectors franchisees were found to be the most engaged in innovation activities, an innovation partnership may be particularly valuable. However, we would argue that collaborative approaches would benefit any franchise system where the complexities of the business operation provide franchisees with substantial scope for innovation, or where there is likely to be considerable variation in the needs of customers.

The other key issue for franchisors to consider are the perceived lack of support and potential frustration that franchisees feel when their innovative contributions to the system are not fully acknowledged. A number of authors have highlighted the importance of rewards and reinforcement in encouraging innovative activity by employees in corporate entrepreneurship settings (Kuratko et al., 2005), and it would seem that recognition at least, is equally important within franchise systems. None of the franchisees suggested a desire for financial reward, but rather that their contributions be acknowledged and celebrated, so that the network members would be aware of the origin of new innovations. Recognition also helped reinforce perceptions of the franchise system as being 'right, fair and just' (Ruppel and Harrington, 2000). Where innovations (either franchisor or franchisee instigated) are trialed, franchisees also felt that

franchisors did not always fully acknowledge the costs to the franchisees involved, in terms of time and risk to their business. Whilst this was not an issue for franchise systems with company-owned outlets which could be used to trial innovations, for those that are reliant on the goodwill of franchisees to do so, they should be mindful that the willingness of franchisees to assist in this regard, is not without limits. Offering a fee reduction, or some other form of recognition, could be helpful in this respect.

7. CONCLUSION

Studies of innovation within franchising are limited, and studies of franchisee innovation are rare. Our research provides novel contributions to the franchising and interfirm networks literature through empirical tests of innovation in franchising and the development of a framework which identifies organizational and relational factors that determine the role of franchisees in innovation. However, our research is not without limitations. For example, as the sample of franchise systems from which franchisees were drawn in study 2 had all agreed to be part of the earlier study, it is possible that those franchise systems which agreed to participate, were more predisposed to innovative activities. These franchisees operated micro businesses, with fewer than 10 employees. Whilst this is typical of the franchise industry in the UK, it is possible that franchisees who own larger, more complex franchise outlets, may differ in their approach to innovation. Furthermore, our case franchisees all owned between 1 and 4 outlets. This may not be representative of franchise systems in other country settings, such as the US, where large, multi-unit (and indeed multi-brand) franchisees, with responsibility for hundreds of units, are more common (Grünhagen and Mittelstaedt, 2005). Large scale multi-unit franchisees may have a very different power dynamic with their franchisor, and this could have implications for the innovation process. Exploring franchisee-led innovation and disclosure for such franchisees could be a useful future avenue for research.

Future research could test the model developed in this paper through survey data. Our results suggest that innovation behaviors may evolve as the system develops. Longitudinal studies could be undertaken to provide insights into how organizational dynamics, or the impact of shocks or changes to the system (such as take-over or merger), influence innovation processes and activities. Furthermore, given the importance of relational ties, not just between franchisee and franchisor, but across the franchise network, these aspects could be further explored using social network research methods, to explore how density and centrality impact franchisee's innovation activities and sharing. Eklinder-Frick et al. (2014) suggest that network configurations, and in particular the centrality of actors within the network have important implications for innovation collaborations. Future research could explore this within the context of franchise networks.

Despite this, we believe the research provides novel contributions to the literature. Through our interviews with franchisees, we provide new insights into how franchisees innovate, and the ways organizational support influences innovative behaviors and disclosure. Franchising provides an interesting context to explore how both relational and organizational dynamics impact innovation behaviors, as franchising, whilst characterized by a dependence asymmetry typical in many B2B environments, also contains contractual restrictions to the dependent partner which are less common: franchisees must operate within the boundaries of their franchisors' system. Thus, a major contribution of this study is that it extends our understanding of SET to consider not just how social exchanges may facilitate innovation realization, but also the disclosure of innovations to network partners.

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Figure 1: Framework of franchisee-led innovation processes in franchise networks

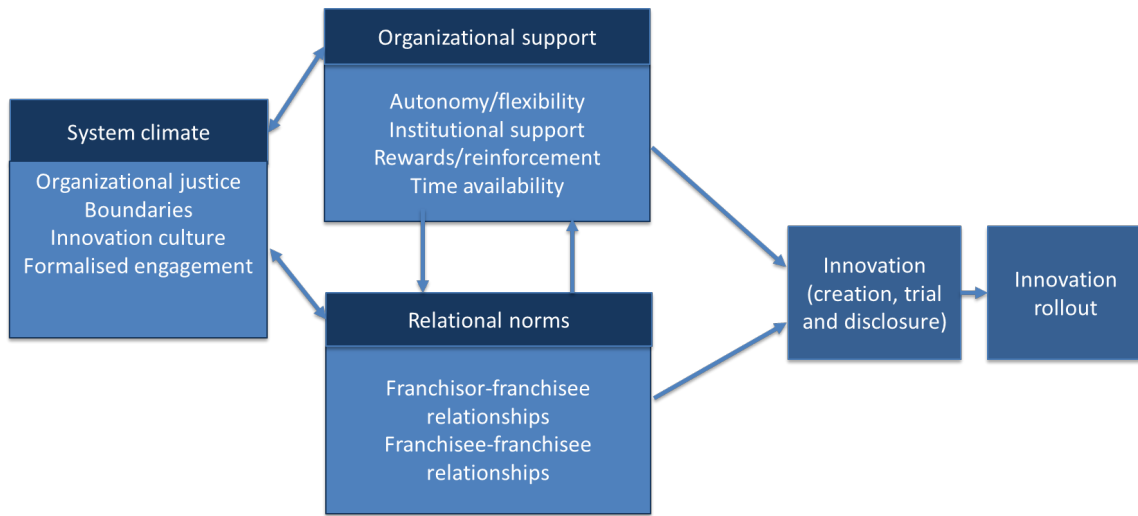


Figure 2: Transparency of innovation disclosure

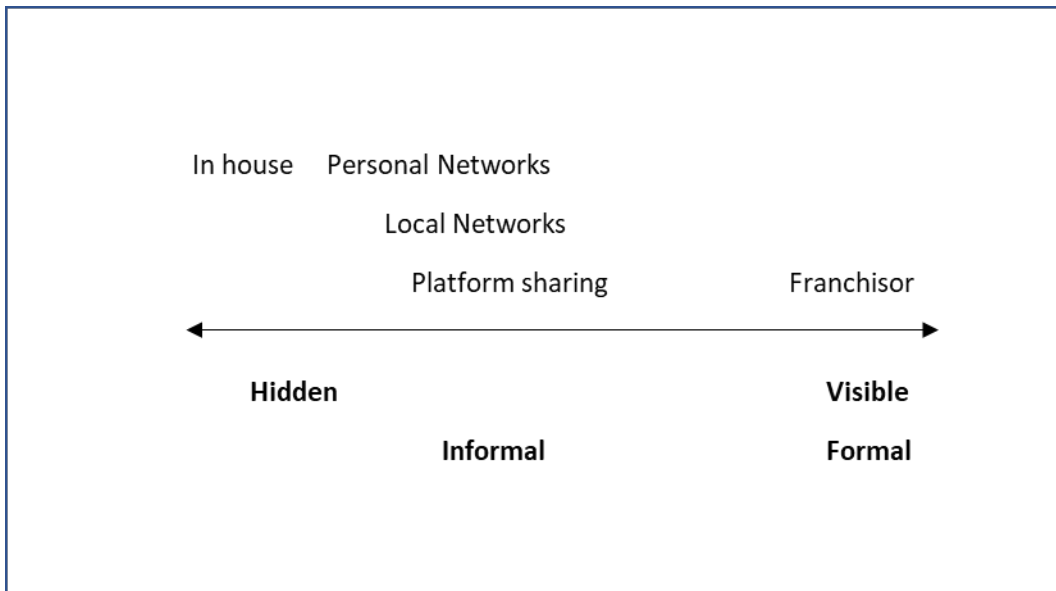


Table 1: Sectoral composition of sample

Sector	Respondents %
Personal services	28.3%
Retailing (including travel agencies)	27.0%
Business and communication services	16.4%
Property services	11.9%
Transport and vehicle services	7.5%
Hotels and catering	5%
Direct selling, distribution, wholesaling & vending	3.8%

Table 2: Items used to measure relationship quality and autonomy constructs

Constructs	Measurement items	SFL	α	CR	AVE
Franchisee-franchisor relationship quality: 5 point Likert scale from 1 (strongly disagree) to 5 (strongly agree)	I frequently disagree with my franchisor (reverse coded)	0.89	0.91	0.91	0.89
	The disagreements I have with my franchisor are usually quite intense (reverse coded)	0.91			
	My franchisor and I constantly argue over important issues (reverse coded)	0.96			
	My franchisor and I co-operate well	0.60			
Autonomy: 5 point Likert scale from 1 (strongly disagree) to 5 (strongly agree)	My franchise system supports the efforts of franchisees to work autonomously	0.72	0.88	0.88	0.73
	In general, the top managers of my franchise system believe that the best results occur when franchisees decide for themselves what business opportunities to pursue	0.86			
	In my franchise system, franchisees pursuing business opportunities make decisions on their own without constantly referring to franchisor head office (instead of having to obtain approval from franchisor head office before making decisions)	0.87			
	In my franchise system, franchisee initiatives and input (rather than the franchisor and top management team) play a major role in identifying and selecting the entrepreneurial opportunities my system pursues	0.77			

Notes

- (1) SFL = standardized factor loadings; α = alpha; CR = composite reliability; AVE = average variance extracted.
- (2) The confirmatory factor analysis (CFA) results for the measurement models for each construct indicate that the fit indices (normed fit index (NFI), incremental fit index (IFI), comparative fit index (CFI)) are appropriate, all exceeding the recommended guideline of 0.90 (De Clercq et al., 2010; Tang et al., 2008; Walter et al., 2006; Wang, 2008): Franchisee-franchisor relationship quality (NFI = 0.98, IFI = 0.99, CFI = 0.99); Autonomy (NFI = 1.00, IFI = 1.00, CFI = 1.00).
- (3) The fitness of the measurement models for each construct was also confirmed with the ratio of Chi-square to degrees of freedom (df) which are all lower than the specified guideline of “less than 5” (Tang et al., 2008): Franchisee-franchisor relationship quality (ratio of Chi-square to df = 7.932/2=3.97); Autonomy (ratio of Chi-square to df = 0.551/2=0.28).

Table 3: Means, standard deviations and correlations

	Mean	SD	1	2	3
1. Total innovation	2.20	1.89			
2. Autonomy	3.59	0.99	.259**		
3. Relationship quality	3.96	0.88	-.028	.412**	
4. Length of time in system	5.55	6.36	.310**	.080	.031

Table 4: Frequency table showing percentages of franchisees who had undertaken innovation

Innovation type	New to system (%)	New to industry (%)	Total % of franchisees*
Products	36.5	6.6	43.1
Services	38.7	7.3	46.0
Processes and/or operations	41.6	5.8	47.4
New markets	34.3	5.8	40.1
New sources of supply	40.1	5.1	45.2

*Some franchisees engaged in multiple types of innovation and thus the totals shown here pertain to the proportion of franchisees who engaged in each innovation type, not the total proportion of franchisees who engaged in any form of innovation.

Table 5: Regression analysis of innovation activity (Model 1) and implementation (Models 2 and 3)

	Model 1	Model 2	Model 3
	Coefficients (SE)	Coefficients (SE)	Coefficients (SE)
Constant	0.93 (.77)	-0.22 (.26)	-.39 (.25)
Autonomy	0.60 (.17)***	0.10 (.06)*	0.02 (.06)
Relationship quality	-0.36 (.19)*	0.13 (.07)**	0.17 (.06)***
Length of time in system	0.08 (.02)***	0.01 (.01)	0.00 (.01)
Total innovation			0.11 (.03)***
R² (F)	0.17 (9.27)***	0.14 (4.60)***	0.25 (6.83)***
R² change			0.11
F change			12.33***

*** p≤ 0.01; ** p≤0.05; * p≤0.1

Table 6: Franchise system description

System	No. of years franchised	No. of franchised outlets	No. of company-owned outlets	Sector
A	2	38	2	Transport
B	14	250	120	Retail
C	11	35	1	Personal services
D	6	19	8	Property
E	21	135	0	Business services
F	7	50	0	Personal services
G	8	24	1	Food and drink

Table 7: Informant profiles

Informant	No. of years in system	No. of outlets	Previous business ownership	System	Informant	No. of years in system	No. of outlets	Previous business ownership	System
1	4.5	3	No	B	16	7	5	Yes	A
2	12	2	No	B	17	0.5	1	No	A
3	3	1	No	B	18	1.5	1	No	A
4&5	4	1	No	B	19	3	6	Yes	A
6	0.75	1	No	G	20	3.5	2	No	A
7	6.5	2	Yes	G	21	6	2	No	F
8	6	4	No	D	22	7	1	No	F
9	2	1	No	D	23	5	2	No	F
10	9	1	Yes	E	24	1	1	No	F
11	3	1	Yes	E	25	7	1	No	F
12	6	2	No	C	26&27	1	1	No	F
13	4	1	No	C	28	4	1	No	F
14	2	2	No	C	29	5	1	No	F
15	4	3	No	A					

Table 8: Franchisee-led innovation examples

Innovation type	Examples
Human resource	New psychometric profiling tool Online training tools (for employees) New form of staff contracts
IT	New intranet site for holiday booking, viewing sales data etc Development of in-house EPOS Applicant tracking software development Spreadsheet programming for improved data analysis and retrieval
Marketing	Use of new marketing or networking platforms New promotional activities (e.g. free trials, Groupon) New CRM techniques
Process	New inventory management system Layout changes to create efficiencies Automation of recording processes

Table 9: Representative quotations supporting system climate dimensions

Sub Category	Representative Quotations
Innovation culture	<p>So they're really happy to support stuff, so people do come up with things and they're happy to support it (Franchisee 13, System C)</p> <p>Yeah, I think they make it...I think it's made pretty clear that if it doesn't damage the brand, why not? They're not people who would, you know, you get some people who sort of say no or it's not coming from us or it's not, you know, whereas they've always been very much, think it'll work, give it a go really... Most things we do, we just crack on. Just try and treat it as my own business really rather than a franchise (Franchisee 8, System D)</p> <p>Well, we could make a request [to introduce an innovation], but...I don't think we'd get a very positive answer! (Franchisee 15, System A)</p>
Boundaries	<p>I have an IT company, however frustrating they are, I have an IT company that we employ to make sure that I don't have to worry about that element. Head Office think that that is the strangest thing ever and that I'm really weird that I do that because I'm probably the only, one of the only franchisees that do that. However, we're set, we're running,</p>

	<p>we're efficient and it's not a no, you can't do that (Franchisee 14, System C)</p> <p>Well, there's some occasional ill-feeling that [business development franchisees] hold onto that cash for too long before they pay [their joint venture franchisees] ...But they're the sorts of things that I would have expected intervention and didn't see it. There's franchisees that will absolutely never work with other franchisees, for whatever reason and you know, that's perhaps one of them [slow payment]. (Franchisee 11, System E)</p>
<p>Organizational justice</p>	<p>So we've trialed it and again, where we got a bit of come-back from the Franchise Manager, Operations Manager, why have you done this, blah-blah-blah, ... so again, it's one of them...as long as you can justify to understand to why you're doing something, you haven't done it because it looks pretty or it just...it's just time for a change. Because as long as you can come up with a reason then generally you get listened to. (Franchisee 1, System B)</p> <p>So I mean we don't really see, if they're putting a new procedure or structure in place, we might hear about it on the grapevine from our Ops Manager but there'll be no email saying, we're now trialing this (Franchisee 4, System B)</p>
<p>Formalized engagement and communication</p>	<p>So now, if we have something that we really feel that we want to change, then we would put it forward to the FAC [Franchisee Advisory Council] and they as a collective then would maybe, they might do a survey out to all the franchisees, saying how about this, and then they as a collective then meet up with Head Office to change so...I mean there are still some things that you could go straight to Head Office, you know, how about this, you know, but other things if you, you know, can go through them as well. (Franchisee 26, System F)</p> <p>It wasn't communicated well. The communication wasn't that good. It was more...dictatorial. You will do this now and this is our new process. As I say, that's not the issue. The issue is everybody would've adhered to certain things but it's just the way it was like done and decided. (Franchisee 16, System A)</p>

Table 10: Representative quotations supporting organizational factors

Sub Category	Representative Quotations
<p>Franchisee Autonomy</p>	<p>We don't have a set rule-book for every procedure; for every line there is a procedure, should we say: no, we don't. We are very fluid, and that's one of the lovely things as well, because even your working day is your choice. (Franchisee 8, System D)</p> <p>It's how...and that's very much how the franchise has felt since I got hold of it. It doesn't feel like we're heavily policed, I feel an awful lot like...I feel like a stand-alone business, but within the brand. So I don't feel that someone's watching every single decision I make and checking every single what I do, although I would go as far as saying, we seem to be making changes and we're moving more down that autocratic sort of route (Franchisee 20, System A)</p>
<p>Institutional Support</p>	<p>So...and I raised that at the last Franchise Advisory Council, that I think we should be looking at it [applicant tracking system] as a group, so what will happen there.. And then probably what would happen then is that some of the other franchisees who are keen and interested and go, yeah, that looks good, and they'll try it and use it and then National Office will sort of see what's going on then perhaps negotiate a group deal and then say, not everyone has to use it but this is available for everyone to use. (Franchisee 21, System F)</p> <p>OK, so we have...so each of the Franchise Council members is aligned to a Regional Power Group, so we feed in, so my...my contact on the Council I know and I'll feed in issues to him that he will discuss at Franchise Council level and also the Regional Power Group, each has a different topic that they are kind of essentially in charge of, so my group is Recruitment and Retention and we meet every quarter, I think, as a group, so we split all the areas up into say eight groups I think it is and a Franchise Council member kind of chairs that group and also has a remit for a particular topic: Innovation, Recruitment and Retention, Technology, Clients, different headings, you know. So it works that way. So [the franchisor] sits on it and his Operations, Director of Operations, ..., sits on it as well so it's a two-way forum. (Franchisee 22, System F)</p>

<p>Rewards/Reinforcement</p>	<p>You do...clearly you get the plaudits and they never...the one thing I like about this franchisor is, you always know whose idea it was, so it's not, you know, in a previous life if you like it would be like the employees of the franchisor would claim it was their idea or it had always come across as their idea but in this one, it very much is a case of... but yeah, you do, you feel...there's no rewards as such but you do feel that you do get the acknowledgement that it was your idea and people understand... (Franchisee 24, System F)</p> <p>No, weirdly, I've never seen one [award] for innovation. There's like a suggestion box and stuff like then where again you can throw it out, but there's never an award for it. I mean, back when I was a manager years ago there was an incentive where if you came up with an idea, you got fifty pound vouchers because if it saves the company...(Franchisee 1, System B)</p> <p>“I almost think they should pay a franchisee or recruit existing franchisees and somehow compensate them; I don't know how they'd compensate them effectively, to be their sort of roving trouble-shooter for a year or two years, or maybe call it, there'd be a roving trouble-shooter for two or three days a week so the other two or three days a week they're still in their businesses so their kind of up to date knowledge is still there.” (Franchisee 23, System F)</p>
<p>Time Availability</p>	<p>It's a challenge, because franchisees are not paid to be involved with developing these areas and I feel that is a fundamental mistake, because franchisees are inherently entrepreneurs and self-driven individuals, so why would a franchisee want to dedicate hours and hours and hours of their time for something that's...will have an impact on their own business but they're not being directly paid to be involved with. I think it's been short-sighted, if I'm honest (Franchisee 12, System C)</p> <p>I think we all pretty much get on with our jobs, we're all busy, you know, busy trying to do just our normal job, let alone think outside the box, so yeah! (Franchisee 2, System B)</p>

Table 11: Representative quotations supporting interpretations of franchisee-franchisor relationships

<p>Trust (personal)</p> <p>“I remember when [the franchise director] first started, which I thought was rude, if anything, just arrived in our offices, you know, I'm coming down to see you. We're not going to hide anyway, it's just it would be nice if somebody'd said, I'm popping down. I could've been on holiday, I could've been away, I could've had a meeting. Just to arrive unannounced and I was just thinking, he's just trying to catch people out.” (Franchisee 19, System A)</p>
<p>Trust in competency/expertise</p> <p>“The owner of the franchise, ... he worked .. as well as a franchisee so he's had a couple of [franchise outlets], so he knows....and he's an accountant so he knows...he's got a nice rounded approach to this business so I think that helps.” (Franchisee 29, System H)</p> <p>“So the till system that we have, the EPoS system, is a glorified Excel spreadsheet that the guy who set it up's mate botched together and they've done two updates. Sorry, they've done one update and another one is imminent. So, the first update was about a year and a half after I started, so, four and a bit years ago. I've been waiting for this second update for four years.” (Franchisee 7, System G)</p>
<p>Openness to new ideas</p> <p>“They're really...they're very personable, so the two ladies that own the franchise, they're very human, they're very down to earth; they're not sat up on their pedestal.” (Franchisee 13, System C)</p> <p>“I don't think they...I don't think the guys who started it, [...], I don't think they totally understand the franchisee-franchisor relationship; I think they still see it as you're employees.” (Franchisee 19, System A)</p>
<p>Approval of the individual and innovative behaviors</p> <p>“You'd get to see him at the end of the process so he could kind of nod his seal of...nod his approval of you” Franchisee 23, System F)</p> <p>“we should be doing more in the way of social media, making use of Facebook and that sort and first time I go out and actively do it and spend some money and other bits and pieces, suddenly somebody comes back going, ooh, we never approved that!” (Franchisee 14, System A)</p>
<p>Franchisor accessibility</p> <p>“it was small and new, it meant that the way it was obviously running was that the current UK MD was doing most things himself, all my kind of recruitment as it were, was done by him and one other whereas now you'd eventually get to see him” (Franchisee 23, System F)</p> <p>“For example, last week we were in [the franchisors] place in France, so it's a real personal kind of invited me and [another franchisee] over with his other two co-Directors and it was just come over, nice food and drink, ... and so we've done a lot of things like that, we've done, we're almost over there once a year really, so it's quite personal” (Franchisee 8, System D)</p>

Table 12: Representative quotations supporting dimensions of franchisee-franchisee relationships

<p>Mentoring and leadership (New/Established)</p> <p>“I generally get pushed to meet, obviously try and help them because I've had the experience of being a manager, I've had the roamer, now I'm a franchisee, so I always try and offer advice.” (Franchisee 1, System B)</p> <p>“I was one of the younger franchisees in terms of how long I'd been doing it; it's brilliant to see what's worked and what has not worked, so you kind of don't make those mistakes...” (Franchisee 13, System C)</p>
<p>Shared vision and values</p> <p>“by and large, all the franchisees want the same thing” (Franchisee 4, System B)</p> <p>“from a work point of view, you know, I'm working by myself in my wee office upstairs but I'm working with all of these guys so you've got somebody to talk to, to ask for advice and share experiences with” (Franchisee 15, System E)</p>
<p>Proximity</p> <p>“you know, I only kind of speak to the nearest three or four [franchisees] on a kind of once a month maybe” (Franchisee 20, System A)</p>