Exploring Entrepreneurial Cognition in Franchisees: A Knowledge-structure Approach

Isaac H. Smith
Hitachi Consulting

Kristie W. Seawright
Marriott School of Management
Brigham Young University
A-252 ASB
Provo, Utah 84602 USA
Telephone: (801) 422-4563
Fax: (801) 422-0311
E-mail: kseawright@byu.edu

Ronald K. Mitchell
Rawls College of Business
Texas Tech University

Richard McClendon
Economic Self-Reliance Center
Marriott School of Management
Brigham Young University

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ABSTRACT

Understanding franchising as an entrepreneurial activity requires explanations about franchisees themselves. Expertise-based explanations in prior literature show that entrepreneurs, collectively, share common experiences and similar knowledge structures/ expert scripts. To explore entrepreneurial cognition in franchisees we examined the entrepreneurial scripts of a sample of franchisees, comparing them with two counterpart groups: entrepreneurial experts (non-franchise entrepreneurs) and entrepreneurial novices (non-entrepreneur managers).

MANOVA and follow-up tests revealed significant differences among the groups. Differences were found between franchisees and entrepreneurial experts in Willingness and Ability, but not in Arrangements. These results suggest the probable transfer of entrepreneurial cognitions from franchisor to franchisee.

EXECUTIVE SUMMARY

Franchising is an important entrepreneurial avenue contributing to social and economic progress both in the USA and globally. One out of twelve businesses in the U.S.A. is franchised, accounting for about $1 trillion in annual sales (Alon, 2004). Thus, franchising is fuelling the global entrepreneurial revolution.

Expertise-based explanations in prior literature show that entrepreneurs, collectively, share common experiences and similar knowledge structures/ expert scripts. To explore entrepreneurial cognition in franchisees we examined the entrepreneurial scripts of franchisees, comparing them with two counterpart groups: entrepreneurial experts (non-franchise entrepreneurs) and entrepreneurial novices (non-entrepreneur managers).

MANOVA and follow-up tests revealed significant differences among the groups ($p<.000$). Successful franchisees exhibit Arrangements expertise similar to experts, but a much lower level of Ability and Willingness expertise. When compared with entrepreneurial novices, franchisees exhibit a higher level of Arrangements expertise but a similar level of Ability and Willingness expertise. In short, franchisees exhibit expert-level Arrangements scripts but novice-level Ability and Willingness scripts.

So What?

The most significant result of this study lies in the possibility of a transfer of expertise from entrepreneurial experts to franchisees through the franchise business model (including training). Despite lacking expertise in two out of three areas, franchisees can still successfully start a new venture. Thus, franchisors should focus on Arrangement scripts when selecting franchisees. Since guided preparation from an outside source leads to better long-term growth for new

ventures (Chrisman, McMullan, and Hall, 2005), training for franchisees (from an outside source—the franchisor) should focus on Ability and Willingness scripts.

Franchising can also become a powerful means of helping developing countries achieve economic growth (Falbe & Dandridge, 1992). Since Arrangements, Ability, and Willingness scripts are necessary for entrepreneurial expertise regardless of country or culture (Mitchell et al, 2002), franchising becomes feasible answer for would-be entrepreneurs who lack Ability and Willingness scripts.

INTRODUCTION

Franchising is an important entrepreneurial avenue contributing to social and economic progress both in the USA and globally. One out of twelve businesses in the U.S.A. is franchised, accounting for about $1 trillion in annual sales (Alon, 2004). There are more than 760,000 franchised units in the U.S., creating one out of every seven jobs (International Franchise Association, 2007). Thus, franchising is fuelling the global entrepreneurial revolution.

Fortunately, expertise-based explanations are emerging in the entrepreneurial cognition literature, which enables analysis of individual contributions to the entrepreneurial process. For example, it has been shown that—independent of location and culture—entrepreneurs share common scripts (also known as knowledge structures) in making the venture creation decision (Mitchell, et al. 2000, 2002).

Does the establishment of franchised ventures constitute the transfer of certain knowledge structures from the entrepreneurial franchisor to the franchisee? If so, what is the nature of the "pre-packaged" knowledge structures that most directly affect franchisee success and that provide the support that compensates for lack of such knowledge? In studying the choice between becoming a franchisee and starting an independently-owned business, Williams (1999) suggests that those who choose the franchisee route are typically of a lower skill set than their independent entrepreneur counterparts. Since not all business people desiring autonomy have the sufficient skill to start a new business on their own, an explanation based on franchisee cognition might provide a foundation for strengthening the unique role of franchising in explaining the entrepreneurial nature of franchising in domestic and global economic growth—part of the new vision that comprises the global entrepreneurial revolution.

The purpose of this study is to examine the cognitions of entrepreneurial expertise of franchisees in the U.S., and to compare them with the capabilities of two counterpart groups: (1) entrepreneurial experts—those who have started an independent business, and (2) entrepreneurial novices—managers who have never started a business. In this study, we therefore undertake to examine an entrepreneurial script-based explanation—to explore the existence and extent of "franchisee cognitions" as a reason for franchise-based entrepreneurial activity.

ENTREPRENEURIAL SCRIPTS

Mitchell (1994) proposed that new venture formation is associated with individual expertise.

Individuals who continue to run their own startups for more than two years, or who have started at least three new ventures—one of which was successful—are considered to have sufficient new venture formation expertise to be classified as entrepreneurial "experts." Mitchell identifies three groups of scripts that relate to new venture formation: (1) Arrangements, (2) Willingness, and (3) Ability scripts.

Since not all aspiring business owners have the sufficient skill set to start a new business on their own, development of theory on franchisee cognitions should provide a foundation for strengthening our understanding of the unique role of franchises in of entrepreneurship. We therefore use an entrepreneurial-script-based approach to explore the existence and extent of "franchisee cognitions" as a reason for franchise-based entrepreneurial activity. We identified the scripts of franchisees in the U.S., and compared them with those of two counterpart groups: (1) entrepreneurial experts—those who have started a successful independent business, and (2) entrepreneurial novices—managers who have never started a business.

As we examined franchisee entrepreneurial scripts, there were two empirical questions we investigated: (1) Are there differences in Arrangements, Ability, and Willingness scripts among franchisees, entrepreneurial experts, and entrepreneurial novices, and if so, (2) what are those differences?

METHODOLOGY

The methodology we used to conduct this study is reported in the following three sections: (1) data collection, (2) measurement, and (3) data analysis.

Data Collection

Data (n=202) were collected via paper and on-line survey instruments from three U.S. populations: (1) entrepreneurial experts (n=54), (2) entrepreneurial novices (n=94), and (3) franchisees with limited entrepreneurial experience (n=54, of which 5 were deleted due to missing values).

Participants were presented with a pre-tested, self-administered, structured survey. Approximately 73 percent of respondents completed a paper and pencil survey personally distributed by research assistants; the remainder completed the same survey instrument via on-line presentation. The response rate was in excess of 45 percent.

Measurement

Following Mitchell et al. (2000: 982), we produced three latent constructs to measure the cognitive script variables that comprise Arrangements, Willingness, and Ability. In order to generate these, several observed items known as paired script cues were selected as indicators for each cognitive script. As noted in previous research, the paired script cues are formative indicators of the underlying cognitive scripts and affirmative responses to all items are not required from an individual respondent to capture construct meaning.

As is appropriate with the use of independent formative indicators (Pedhazur & Schmelkin, 1991: 54), principal components factor analysis (using a minimum Eigenvalue of 1 and Varimax rotation) was used to confirm the hypothesized dimensionality of each of the script constructs. Items that loaded in the initial factor analysis were summed into subconstructs and confirmatory principal component analysis was then conducted on these dimensions. All subconstructs loaded into one component for each of the hypothesized script constructs and were then themselves summed together to create scaled measures forming representative Arrangements, Willingness, and Ability scripts.

Data Analysis

We examined the scripts of franchisees in the USA, and compared them with two counterpart groups: (1) entrepreneurial experts, and (2) entrepreneurial novices. Statistical differences among the groups were established via the use of Multivariate Analysis of Variance (MANOVA). Follow-up multiple discriminant analyses and a series of univariate ANOVA tests and t-tests were employed to explore the nature of the differences.

RESULTS

The MANOVA results show that there is a statistically significant difference ($p<.000$) in Arrangements, Ability, and Willingness scripts among the three groups: 1) Franchisees, 2) Entrepreneurial Experts, and 3) Entrepreneurial Novices. The follow-up multiple discriminant analysis identified two significant discriminant functions. The loadings on the discriminant functions, using a varimax rotation, reveal that Function 1 is primarily comprised of Ability and Willingness scripts, and Function 2 is comprised almost entirely of Arrangements scripts.

The plot of the group centroids on the discriminant functions is provided in Figure 1. The Cartesian grid used for this graph has the horizontal X-axis representing Function 1 (Ability and Willingness), and the vertical Y-axis representing Function 2 (Arrangements).

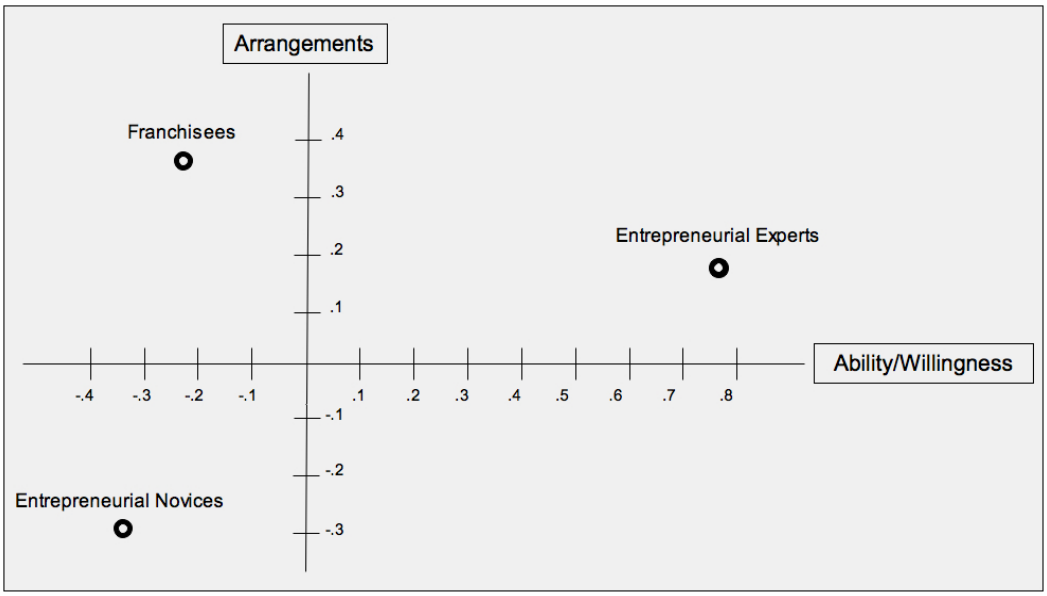

Figure 1 – Function Loadings at Group Centroids

Additional post-hoc tests were conducted to further clarify the differences found among the three examined groups. In comparing Franchisees to Entrepreneurial Experts (Figure 2), t-tests show a significant difference between the two groups in Ability and Willingness scripts ($p<.01$); but no significant difference was found in Arrangements scripts ($p<.05$).

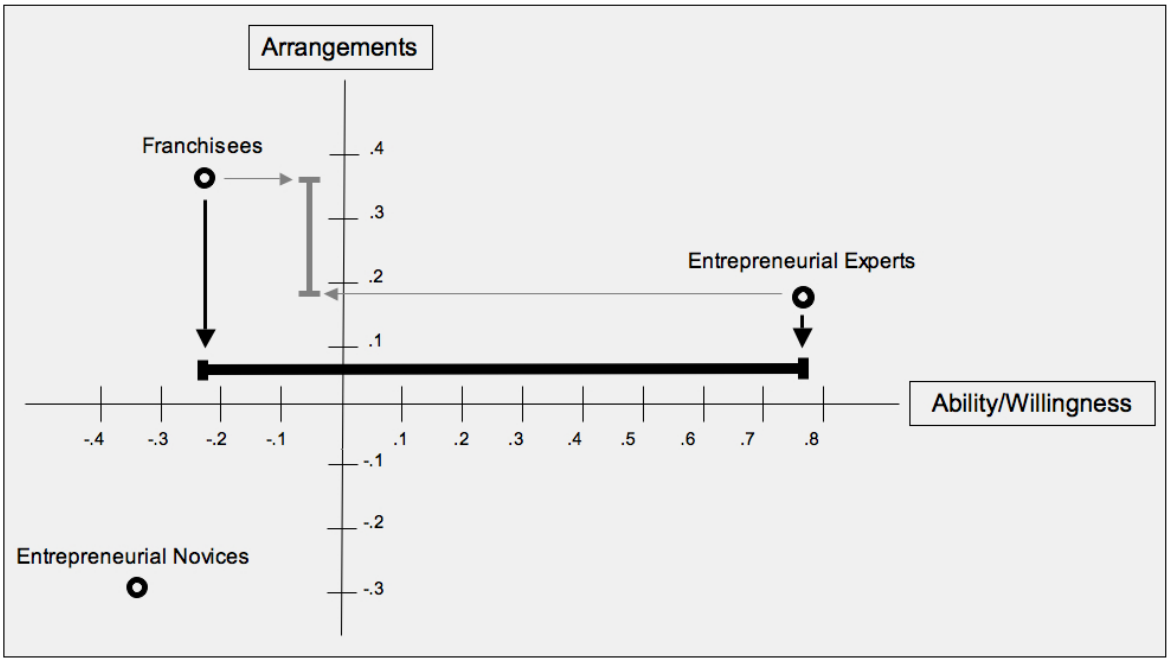

Figure 2 – Differences Between Franchisees & Entrepreneurial Experts

Conversely, when comparing Franchisees with Entrepreneurial Novices (Figure 3), t-tests showed a significant difference in Arrangements scripts ($p<.01$). But no significant difference was found in Ability and Willingness scripts ($p<.05$).

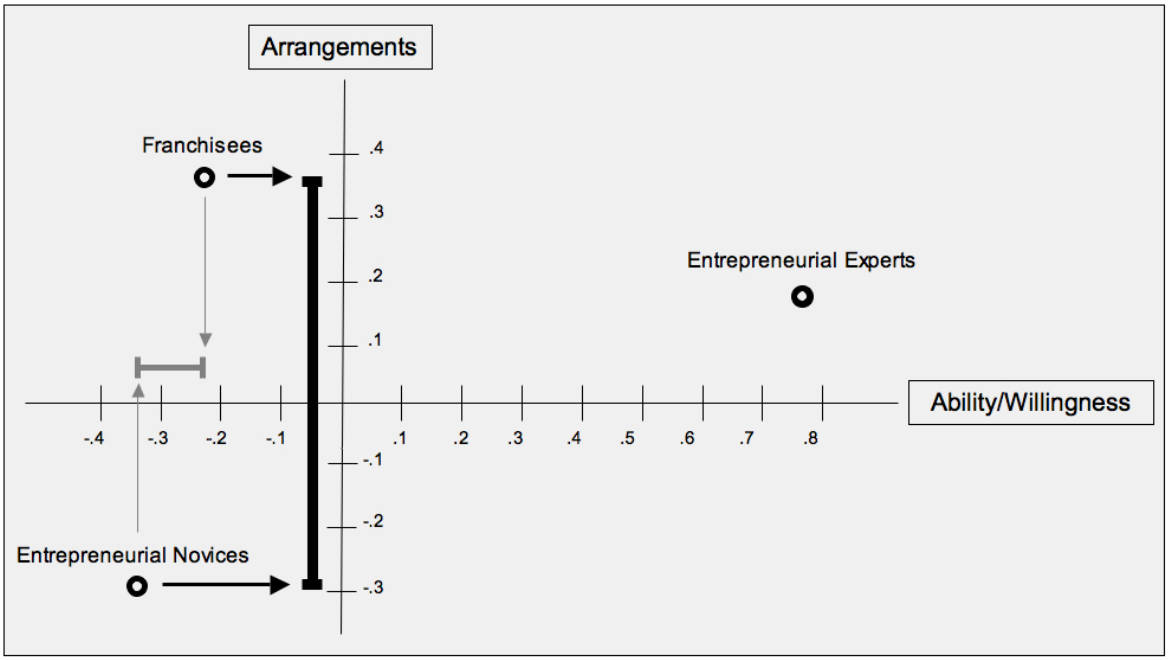

Figure 3 – Differences Between Franchisees & Entrepreneurial Novices

SO WHAT?

This study makes a valuable contribution to the understanding of franchisees, and how they differ from independent entrepreneurs and non-entrepreneurial managers. Entrepreneurial experts exhibit expertise in Ability, Willingness, and Arrangements. Successful franchisees, in comparison, exhibit similar Arrangements expertise but a much lower level of Ability and Willingness expertise. When compared with entrepreneurial novices, franchisees exhibit a higher level of Arrangements expertise but a similar level of Ability and Willingness expertise. In short, franchisees exhibit expert-level Arrangements scripts but novice-level Ability and Willingness scripts.

The most significant result of this study lies in the possibility of a transfer of expertise from entrepreneurial experts to franchisees through the franchise business model (including training). Despite lacking expertise in two out of three areas, franchisees can still start a new venture successfully because franchisors appear to indirectly transmit Ability and Willingness expertise to franchisees. However, it is unclear as to whether the franchisor literally transfers some of the expertise to the successful franchisee, or if the business model simply compensates for the franchisee's lack of expertise in those particular areas. Either way, this study empirically contributes to the emergence of a theory on the transfer of expertise via franchising.

Implications for Research

The indirect transfer of Ability and Willingness expertise to franchisees has notable implications for franchising research. In this study we discovered that indeed there are differences between franchisees and their independent entrepreneurial counterparts, but more research is needed on the extent of those differences and the affect those differences have on new venture creation. Areas of future research that are pertinent to a more fully developed theory on the transfer of entrepreneurial expertise include nascent franchisees, differences between successful and non-successful franchisees, and franchisor expertise.

Further research is needed on the characteristics and skill sets of nascent franchisees. Do they exhibit Arrangements scripts a priori, or can these cognitions be developed? Future studies might also focus on the difference between successful and non-successful franchisees. This study surveyed only successful franchisees, but it is unknown as to whether failed franchisees have significantly different levels of expertise. In addition to looking solely at franchisees, further studies must also focus on franchisors. Further research is needed to better understand how franchising is able to indirectly transfer this entrepreneurial expertise. This study opens the door for an entirely new stream of research on the transfer of entrepreneurial expertise.

Implications for Practice

Understanding that franchisees have Arrangements scripts but lack Ability and Willingness scripts has important implications on the selection and training of franchisees. Knowing that the franchise business model can indirectly transfer Ability and Willingness expertise to franchisees, franchisors should focus on Arrangement scripts when selecting franchisees.

Since guided preparation from an outside source leads to better long-term growth for new ventures (Chrisman, McMullan, and Hall, 2005), guided preparation for franchisees (from an

outside source—the franchisor) should focus on Ability and Willingness scripts. Since training is one of the avenues in which franchisors possibly transfer expertise to franchisees, franchisors must either provide sufficient support and training in those areas, or ensure that their franchise business model can compensate for the franchisee's lack of Ability and Willingness scripts.

Having identified the differences in entrepreneurial cognition between successful franchisees and independent entrepreneurs, potential entrepreneurs may be able to better make informed decisions regarding the selection of entrepreneurial activities. In deciding whether to go-it-alone or become a franchisee, potential entrepreneurs can assess their own skill set and determine their own levels of entrepreneurial expertise.

The transfer of entrepreneurial expertise also has important implications for the use of franchising in economic development. Franchising can actually become a powerful means of helping developing countries achieve economic growth and reduce unemployment, by providing jobs, services, and management training (Falbe & Dandridge, 1992). Not all aspiring entrepreneurs have the sufficient skill set to create a new venture. Franchising can address this concern. Since Arrangements, Ability, and Willingness scripts are necessary for entrepreneurial expertise regardless of country, location, or culture (Mitchell et al, 2002), franchising might be a feasible answer for would-be entrepreneurs who lack Ability and Willingness scripts.

CONCLUSION

Since not all business people desiring autonomy have the sufficient skill to start a new business on their own, we have speculated and explored in this paper an explanation based on the idea that franchisee cognition might inform the unique role of franchising in explaining part of the global entrepreneurial revolution. The two empirical questions we investigated are: (1) Are there differences in Arrangements, Ability, and Willingness scripts among franchisees, entrepreneurial experts, and entrepreneurial novices, and if so, (2) what are those differences? The results we have reported have both addressed these questions, and have, additionally, provided further evidence of the usefulness and serviceability of the script-cue-based approach[1] to the empirical side of entrepreneurial cognition research. It is our hope that this paper has provided entrepreneurial-cognition-based evidence for the helpful and legitimate role of franchising as an entrepreneurial endeavor, and we further hope that this paper will assist in more fully explaining and elaborating a new vision for the global entrepreneurial revolution.

[1] As an alternative to physiology-based methods (eye movements, PET scans, etc.) script-cue recognition and protocol analysis have developed to provide relatively rigorous methods for eliciting data on thinking. Whereas protocol analysis concentrates on eliciting verbalizations of thought sequences as a source of data (being limited by a sequentiality requirement), script cue recognition is not constrained by sequence but does require the development a set of cues that is representative of the domain (Nunnally, 1978). We utilized this approach in conjunction with the well-developed argument for formative indication (Howell, 1987; Mitchell et al., 2000; Nunnally, 1978; Pedhazur & Schmelkin, 1991). Item construction using distracter cues provides clearly detectable (hence decreased error) variance (please see Appendix). Scale construction is possible using principal components analysis (eigenvalues ≥ 1); and the workhorse method of exploratory factor analysis (strengthened in some cases by confirmatory factor analysis: e.g., Mitchell, 1994) provided a research model with substantial explanatory power.

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