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Franchising and the Family Firm: Creating Unique Sources of Advantage Through "Familiness"*

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The paucity of research examining family firms engaged with franchising is surprising. We theorize about differences in franchising behavior between family and nonfamily firms and the relative advantages accruing to family firms in this context. We also explore how selection processes tend to lead to family franchisor/family franchisee matches that enable a more effective sharing of complementary resources. The theoretical framework we develop is grounded in the "familiness" of the family firm as suggested by the logic of the resource-based view. Additionally, our theoretical analysis extends and complements the frequent use of agency theory as the basis for studying franchising.

Franchising occurs when a franchisor sells to the franchisee the right to market its branded products (goods or services) and uses its business practices (Combs, Michael, & Castrogiovanni, 2004). As an organizational form, franchising is widely recognized as an important driver of growth in entrepreneurial firms, principally by making products proximate to geographically dispersed customers (Combs, Michael, et al.). Successful franchising benefits the franchisor and the franchisee. The franchisor benefits from leveraging some of the franchisee's assets such as financial capital and specific local knowledge, while the franchisee benefits from leveraging some of the franchisor's assets including the brand, organizational routines, purchasing power, and managerial input. Thus, franchising is a form of inter-firm cooperation between organizations in which two

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types of entrepreneurs share tangible and intangible resources with the purpose of increasing performance (Combs & Ketchen, 1999b).

Agency theory is used frequently to analyze and interpret franchising and its related outcomes (Combs, Michael, et al., 2004). Agency theory asserts that franchising is beneficial because it resolves the potential misalignment of interests between owners and managers. It is expected that the cost of monitoring a franchisee is less relative to the cost of monitoring hired managers. However, the evidence developed through agency-based franchising research is mixed, inconclusive, and explains little of the observed variance (Castrogiovanni, Combs, & Justis, 2006a, 2006b; Combs & Ketchen, 2003; Combs, Michael, et al., 2004; Lafontaine, 1992; Storholm & Scheuing, 1994). In fact, opportunistic behaviors may still occur in a franchise contract because of basic conflicts associated with the franchisee and franchisor's respective goals.

Given that agency theory arguments have not, to date, robustly explained franchising, scholars are challenged to apply complementary theoretical lenses to increase our understanding of the franchising phenomenon (see Castrogiovanni et al., 2006a; Combs & Ketchen, 1999a, 2003; Combs, Michael, et al., 2004). We respond to this challenge by drawing on the resource-based view of the firm and family-firm literature, thus extending and complementing agency theory arguments. We explain how the unique attributes of family firms, which exist when ownership and management are concentrated within a family unit that strives to maintain intra-organizational family-based relatedness (Arregle, Hitt, Sirmon, & Very, 2007), may be especially valuable to franchising activities. Specifically, we theorize that "familiness," resulting from the enduring interaction of the family and the business, provides a distinctive bundle of intangible resources that leads to high levels of value creation (Cabrera-Suarez, De Saa-Perez, & Garcia-Almeida, 2001; Chirico & Salvato, 2008; Habbershon & Williams, 1999; Tokarczyk, Hansen, Green, & Down, 2007). Thus, our work addresses why and how franchise relationships that are built on "familiness" facilitate value creation.

We believe that examining these questions is valuable to scholars because family firms appear to actively engage in franchising (Armitage & Wolfe, 2009; ICED, 2010; IFA, 2010; Rowlinson, 2010; Welsh & Raven, 2011; Wilson, 2006). Despite this, we were able to find only two academic studies that examine family firm issues in a franchise context (Kaufmann, 1999; Udell, 1973). Interestingly, in 1973 when there was still a lack of studies in franchising despite its rapid growth, Udell (pp. 31, 32) explained that in the United States, "an estimated 10,000–15,000 new small and family businesses are created each year through franchising . . . Nearly 60% of franchisee's wives work alongside their husbands . . . Children, too, are frequently a part of the effort . . . a franchise is frequently a family operation." Welsh and Raven reported that 35 of the 81 franchises in their sample were family based. Moreover, family firms engage as both franchisees (e.g., Pepsi Cola Ogdensburg Bottlers, a franchisee of Pepsi Cola and "iSold It Chatsworth," an eBay drop-off franchise store) as well as franchisors (e.g., HoneyBaked Ham Company and Café—founded in 1957 and now operating with 175 franchised units and Rocky Mountain Chocolate Factory—founded in 1981 and now operating with 323 franchised units).

This work makes several contributions to the franchising literature. First, our analysis extends franchising from the traditional domain of strategic management (e.g., Combs, Michael, et al., 2004) to the family-firm context. To support this extension, we adopt a theoretical framework grounded in the "familiness" of the family firm as identified via resource-based logic. This theoretical framework complements the use of agency theory in previous franchising research. Specifically, we argue that a family-firm franchisor's inherent long-term, multi-generational perspective (Chirico & Nordqvist, 2010; James, 1999; Sirmon & Hitt, 2003; Zellweger, 2007) leads to greater commitment to cultivating

the relationship with and providing the training and support of franchisees than in the case for nonfamily-firm franchisors. This perspective and the actions derived from it mitigate potential agency issues. Furthermore, we argue that a mutual-selection process on the part of both franchising parties increases the matching of similarly governed firms (i.e., both franchisee and franchisor with family governance). In turn, this matching provides a contextual understanding as to how both parties can benefit from complementary resources, reduce opportunistic behaviors, and increase the likelihood of creating additional value through their franchising relationship. Finally, while advancing research concerned with analyzing the uniqueness of family firms, we suggest that our framework may be applied to other types of organizations that are characterized by a dominant social group or collective identity—that is, any group possessing its own institutionalized practices, values, and behavioral norms.

Theoretical Framework

The Franchising Activity

Franchising occurs when a franchisor sells (or otherwise contractually binds) to a franchisee the right to market products under the franchisor's brand and to use the franchisor's organizational routines. In turn, the franchisee leverages its knowledge of the local competitive environment as the conduit for successfully applying the franchisor's business model (Combs, Michael, et al., 2004). Thus, this contractually based cooperative agreement involves heterogeneous yet complementary resources that firms share to enhance the value-creating ability of their combined resource portfolio (Combs & Ketchen, 1999b). Using combined resources facilitates more rapid growth and greater mitigation of deficiencies than either party could achieve autonomously. As such, franchising has become a vital aspect of the U.S. economy (Combs, Michael, et al.). In fact, the number of business format franchise establishments increased by more than 40% between 2001 and 2008, and PricewaterhouseCoopers (2009) anticipated that the number of business format franchises would expand another 2% from 2008 to 2010.

Agency theory has been used frequently to explain the franchising phenomenon (Combs, Michael, et al., 2004). Agency theory describes the incentive problems caused by separating ownership and control between a principal and agent in which the former gives authority to the latter. Agency costs escalate as the parties' goals diverge and self-interested behaviors emerge. Franchising helps reduce the agency problem by aligning the franchisor and franchisee's incentives to optimize decision making (Combs, Ketchen, & Hoover, 2004; Combs, Michael, et al.; Rubin, 1978). However, while franchising addresses the monitoring problem by placing motivated franchisee-owners in charge of outlets, it may also give rise to other problems such as free riding (for a review, see Combs, Michael, et al.; Lafontaine, 1992; Storholm & Scheuing, 1994). In fact, given that some investment-related benefits are shared among franchisees, there is the possibility for franchisees to free ride on the benefits gained as a result of other units' investments rather than to make investments to improve their own unit (Castrogiovanni et al., 2006a, 2006b; Combs, Michael, et al.). Releasing proprietary information about the franchisor's system and methods of operation, failing to pay royalties in a timely manner, and not responding positively and quickly to the franchisor's operations-oriented requests are examples of additional opportunistic behaviors franchisees might exhibit. Franchisors too may act opportunistically. For example, decisions to place units too close together, to terminate a contract with a franchisee in order to reopen a franchisor-owned unit at the same location,

and failing to disclose information or to deliver promised services are examples of franchisor opportunistic behavior.

In sum, agency theory arguments do not fully specify how firms engaged in franchising can create value and develop competitive advantages. Accordingly, we draw from resource-based theory and family-firm arguments to extend our understanding of how firms create value and competitive advantages when engaged in a franchising relationship. We suggest that resource-based arguments both complement and extend the insights agency theory provides about franchising.

Resource-Based Logic and "Familiness" in Franchising

Research suggests that the resource-based view offers insight into franchising behavior, thus extending and complementing arguments grounded in agency theory (Castrogiovanni et al., 2006a; Combs & Ketchen, 1999a; Combs, Michael, et al.). The essence of resource-based logic asserts that firms differ according to their resource endowments and that resource heterogeneity and complementarity give rise to differential performance. Moreover, the argument is that bundles of valuable, rare, inimitable, and non-substitutable tangible and intangible resources are the sources of value creation (typically through developing and using competitive advantages; Barney, 1991; Combs, Ketchen, Ireland, & Webb, 2011; Morrow, Sirmon, Hitt, & Holcomb, 2007).

Consistent with resource-based arguments, firms may cooperate to gain access to critical and often scarce resources, thus overcoming resource-based constraints to growth over time (Ketchen, Ireland, & Snow, 2007). In particular, the resource-based alliance formation argument suggests that firms use alliances to locate and access complementary resources that, when configured, optimize their value-creating potential (Das & Teng, 2000; Ireland, Hitt, & Vaidyanath, 2002; Sirmon & Lane, 2004). In other words, given that it is hard for a single firm to control or possess all resources needed to compete effectively, organizations form cooperative arrangements with other firms, of which franchising is a possible approach, to support growth objectives (Combs & Ketchen, 1999b; Li, Eden, Hitt, & Ireland, 2008).[1]

An increasing amount of research is being conducted to examine factors that influence partners' relationships. In these efforts, resource and governance have been emphasized (see Chung, Singh, & Lee, 2000; Podolny, 1994). For example, with respect to governance, firms with similar administrative systems find it easier to cooperate and trust each other while sharing resources (Cohen & Levinthal, 1990; Harrison, Hall, & Nargundkar, 1993). With respect to resources, the insight that too much resource similarity reduces opportunities for learning and synergy creation has led other scholars to consider resource complementarity (Makri, Hitt, & Lane, 2010). In this instance, a successful collaboration in which complementary resources are integrated can support or become the foundation for developing a competitive advantage, particularly when collaborators share an administrative heritage (e.g., shared cultural and strategic backgrounds; Chung et al., 2000; Lane & Lubatkin, 1998; Sirmon & Lane, 2004).

These relationships and outcomes likely hold in the franchising context given that franchising is a form of inter-firm cooperation in which the franchisee and franchisor

1. Although the collaborative perspective is important, some firms may enter into partnerships seeking benefits that exceed their intended contribution to the relationship. That is, there are circumstances where firms engage in alliances not to generate bi-directional benefits through resource and knowledge flows, but primarily to seek and then protect uni-directional benefits.

share complementary resources as the foundation for creating competitive advantages and value for customers and other stakeholders. However, realizing the potential value of these complementary resources requires a governance structure that effectively guides their building and deployment. Sirmon and Hitt (2003) suggest that the family firm is a governance structure that enables such actions. A firm "may be considered a family business to the extent that its ownership and management are concentrated within a family unit, to the extent its members strive to achieve and/or maintain intra-organizational family-based relatedness, and to the extent to which the family unit has strong family social capital" (Arregle et al., 2007, p. 87). Moreover, this form of governance is prevalent in the world as it accounts for over 75% of registered companies in most economies (Miller, Steier, & Le Breton-Miller, 2003).

Many scholars (e.g., Cabrera-Suarez et al., 2001; Chirico & Salvato, 2008; Habbershon & Williams, 1999; Manikutty, 2000; Tokarczyk et al., 2007) use the resource-based view of the firm as a theoretical framework for assessing the competitiveness of family firms. Resources in family firms are unique in that emotional attachment (as family members) and rational judgment (as business managers) are intertwined (Sirmon & Hitt, 2003). Accordingly, family firms are "unusually complex, dynamic, and rich in intangible resources" (Habbershon & Williams, p. 3). The intangible resource of "familiness" as identified via the resource-based view is depicted as a source of competitive advantage that is available in family firms but is not available in nonfamily firms (see Cabrera-Suarez et al.; Chirico & Salvato; Habbershon & Williams; Habbershon, Williams, & MacMillan, 2003; Pearson, Carr, & Shaw, 2008). "Familiness" describes the distinctive bundle of resources originating from the "interaction between the family, its individual members, and the business" to ensure the firm's continuity across generations (Habbershon & Williams, p. 11). In other words, "the interactive web of relationships encompassing both the family and the firm" provides family firms with an intangible resource base (i.e., "familiness") that nonfamily firms cannot duplicate (Pearson et al., p. 956).

The nature of competitive advantage that surfaces from "familiness" has been identified in several works. For example, family firms are characterized by a long-term orientation, collective identity, strong family values, extraordinary commitment, and a desire for the firm to survive across generations (Arregle et al., 2007; Chirico & Nordqvist, 2010; Pearson et al., 2008; Sirmon & Hitt, 2003). The extended time horizon of family firms provides the necessary incentives for family decision makers to invest in long-term projects (James, 1999; Zellweger, 2007). Moreover, family firms are commitment-intensive organizations as family members harbor a strong attachment to the business enterprise as well as to familial relations (Chirico, 2008; Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Pearson et al.; Sirmon, Arregle, Hitt, & Webb, 2008; Zellweger & Astrachan, 2008). In fact, Gomez-Mejia et al. demonstrated that family firms are willing to accept greater levels of risk to maintain ownership of the firm. The robustness of ties between family members and their firm has prompted some researchers to argue that founders and their heirs actually perceive the family firm to be a part of their own identity and their most significant creation (Miller et al., 2003).

However, not all family firms seek to accomplish the same objectives. All desire to maintain family ownership; but some (but not all) family firms are run by individuals with an entrepreneurial mindset that supports innovation, change, and growth (Salvato, Chirico, & Sharma, 2010a, 2010b; Zahra, Hayton, & Salvato, 2004). Herein, our concern is with family firms pursuing growth. Sirmon and Hitt (2003) categorize these organizations as entrepreneurial family firms.

For several reasons, entrepreneurial family firms are an appropriate focus when studying franchising. First, these firms are even more active in addressing conditions (opportunities and threats) in their external environment and in accepting risky long-term investments than non-entrepreneurial family firms (James, 1999; Zellweger, 2007). Franchising is an action by which entrepreneurial firms respond to their environment to help facilitate growth. In fact, franchising may fit the entrepreneurial family firm well as it is a reasonable approach for a small family firm to pursue growth (Udell, 1973). "iSold It Chatsworth" has grown to have the best customer service of any iSold It store. The Chatsworth franchisee founder, Richard Chemel and his wife Helene give much of the credit to being a family firm. Helene says: "People know we're a family, so when they're [customers] dealing with us, there's a comfort level on both (sides) of the counter" (Wilson, 2006). Likewise, franchising the family business may be especially appealing to the family firm because it promotes growth while protecting the family's ownership (Armitage & Wolfe, 2009; Rowlinson, 2010; Udell). Thus, we explore how "familiness," or more specifically the unique relational- and emotional-based context existing in family firms, influences resource sharing in franchising while serving as a source of competitive advantage. We argue that the results of this effort advance our knowledge about the underlying mechanisms through which franchise relationships are built and sustained over time in a family-firm context, thus extending our theoretical understanding of franchising.

Propositions

Previously, we noted that although a franchise contract seeks to align incentives between the franchisor and the franchisee, opportunistic behaviors may still surface. More specifically, because of basic conflicts in the parties' interests, one may seek to maximize its gains at the expense of the other party. We argue that franchising in a family-firm context can better mitigate the possibility of opportunistic behaviors and their attendant agency costs, resulting in greater success for a family-based franchise system compared with a nonfamily franchise system. A key reason for this expected outcome is that the presence of the family in a business operation and the resulting "familiness" focus attention on and increase commitment to the overall well-being and continuity of the franchising system. Indeed, although some scholars recognize that family firms may experience agency problems (Chrisman, Chua, Chang, & Kellermanns, 2007; Lubatkin, Ling, & Schulze, 2007; Schulze, Lubatkin, & Dino, 2003), generally, family owners and managers' motives (including a desire to preserve the firm for future generations) are better aligned for the benefit of future generations in a family firm (Schulze, Lubatkin, Dino, & Buchholtz, 2001). Family members are usually altruistically dedicated to the business and tend to place the firm's objectives ahead of their own. They are thus less likely to act opportunistically because their welfare depends on the firm's continuation and long-term success.

Coupled with its unique family social context, the long-term concern regarding survivability and success motivates and allows the family-firm franchisor to efficiently share resources with its franchisees. Specifically, we argue that, compared with a nonfamily-firm franchisor, a family-firm franchisor is more likely to use resources with the purposes of (1) building strong relationships with franchisees and (2) training and supporting franchisees to guarantee the continuity of the franchising system. Beyond efforts to effectively share resources with franchisees, the involvement of family firms in franchising is expected to affect partner-selection processes. Accordingly, we argue that

when a family firm is involved in franchising as either a franchisor or franchisee, an appreciation for and understanding of "familiness" influences these actors to select partners that also are family-firm based. This mutual selection process provides firms with complementary resources and a shared appreciation of effective firm governance, which as we later argue is a key factor in determining a family-based franchise's competitive advantage. Thus, "familiness" serves as a cultural base for the family-firm franchisor and franchisee that provides each with complementary resources yet a shared approach to firm governance that is hard for nonfamily-firm franchises to imitate.

Building Relationships With Franchisees

The potential advantage of a family firm results from this organizational form's unique and rich social context. Social capital, which Arregle et al. (2007, p. 75) define as "the relationships between individuals and organizations that facilitate action and create value," is an aspect of this social context. Social capital developed in the family generates particularly strong forms of stability, interdependence, interaction, and closure (Nahapiet & Ghoshal, 1998). In this context, family involvement may be a source of competitive advantage and value creation because of the uniqueness it offers the firm in terms of interactions between individual family members and the business (Chirico & Salvato, 2008; Pearson et al., 2008).

In a franchise context, a family-firm franchisor may use "familiness" to build, sustain, and establish norms for routine interactions with franchisees over time, thus facilitating resource sharing while mitigating remaining agency issues (Chrisman, Chua, & Kellermanns, 2009). These interactions allow for superior information exchange, which is a key factor in a franchise system's continuity (Baucus, Baucus, & Human, 1996; Dant & Nasr, 1998). Dyer and Singh (1998) explain how firms that cooperate can make relation-specific investments to form strategically valuable resources that are difficult for firms operating as independent entities to build. Family-firm executives' attention to family issues increases the likelihood they will seek to extend these proactive behaviors toward their franchisees.

Moreover, a long-term family perspective enables a family-firm franchisor to dedicate additional time and effort to cultivate franchise relationships compared with a nonfamily-firm franchisor. Sirmon and Hitt (2003, p. 343, 350) argue that "family firms are likely to gain more value from alliances than nonfamily firms, due to the richer social capital derived from their generational outlook and their patient capital," where patient capital is defined as financial capital invested by the family in the business "without threat of liquidation for long periods." In fact, evidence suggests that family members are induced by their strong commitment, collective identity, and sense of trust and altruism to "actively intermingle business and family resources" to enhance the continuity of their business (Haynes, Walker, Rowe, & Hong, 1999, p. 238). In a family-firm franchise context, family members will thus be disposed to extend significant efforts and resources as the foundation for ensuring the firm's survival and long-term success (Eddleston & Kellermanns, 2007; James, 1999; Zellweger, 2007). Survivability capital is one type of resource family members are willing to commit in this regard. Survivability capital is the set of resources family members are willing to loan, contribute, or share for the benefit of the family firm to preserve their family status within and outside the business (Sirmon & Hitt, 2003).

Even during challenging economic conditions, the business is so closely tied to the family that family members are willing to make personal sacrifices to keep their business and the franchising activity viable for future generations (Haynes et al., 1999; Stewart, 2003). In turn, this commitment strengthens relationships with franchisees and increases

trust. Franchisees experiencing such altruistic behavior tend to be quite judicious (Dant & Nasr, 1998) about providing competitively relevant information to the family-firm franchisor (to avoid the free rider problem) while simultaneously avoiding actions that might maximize their interests at the expense of the chain's reputation (Combs, Ketchen, et al., 2004). Because franchisees participating with a family-firm franchisor have the benefit of being part of the family's long-term business vision and intended success, agency costs will be further mitigated.

In sum, family-firm franchisors are more likely to use their resources in order to build strong relationships with franchisees than nonfamily franchisors. Formally:

> **Proposition 1a** Compared with a nonfamily-firm franchisor, a family-firm franchisor is more likely to use its resources with the express intention of building strong relationships with franchisees.

Training of and Support for Franchisees

The family firm is also seen as an organizational form with a unique working environment resulting from "familiness" values that foster a family-oriented workplace and inspire greater long-term employee commitment and loyalty (Habbershon & Williams, 1999; Tokarczyk et al., 2007). The trust and the friendship-based relationships between employers and employees that exist in family firms tend to support the emergence of groups of motivated and loyal employees. In turn, the actions of these groups positively influence the drive for the family's (and for each individual's) prosperity and the firm's long-term survival. To this end, tangible and intangible resources are consistently invested to develop training and learning opportunities, many of them apprentice-like in nature, that help employees develop their skills (Miller, Le Breton-Miller, & Scholnick, 2008). In fact, Miller et al. posit that compared with their nonfamily counterparts, family firms are more likely to train and support employees given their strong commitment to firm continuity and success.

The devotion toward employees may be extended to franchisees in a franchising context. Again, the strong devotion toward the family firm and the franchising activity motivates the family-firm franchisor to invest resources to carefully train not only internal employees—the future leaders—but also the franchisees with the intention of supporting the family firm over the long term. This commitment and the associated actions translate into additional managerial input and assistance to support franchisees' activities. For instance, periodic visits to franchisees can be planned to solve specific problems or to identify actions to take with the purpose of improving the effectiveness of business processes.

A family-firm franchisor will also tend to reduce bureaucracy and allocate more responsibilities to franchisees in order to enhance their feeling of belonging to the family and to its business (Miller et al., 2008). Such behavior further supports a friendly and informal culture that is based on a supportive and cohesive group in which the family-firm franchisor and franchisee are motivated to work together to share and use their resources to achieve common interests, thus mitigating agency problems. Following the above arguments, we propose that:

> **Proposition 1b** Compared with a nonfamily-firm franchisor, a family-firm franchisor is more likely to use its resources with the express intention of training and supporting its franchisees.

Mutual Self-Selection Process in Family-Firm Franchising

Scholarly work has been completed with the purpose of determining how acquiring and managing resources affect organizational action and growth (e.g., Ireland, Hitt, & Sirmon, 2003; Sirmon, Gove, & Hitt, 2008; Sirmon, Hitt, & Ireland, 2007). Firms generally cooperate with others with some form of resource relatedness (e.g., complementarity); however, sharing similar managerial logics is also required for the intended synergy to be fully realized. In fact, individuals often tend to relate with others who are most like themselves and, as such, more likely to understand their idiosyncratic way of thinking (Rogers & Shoemaker, 1971; Webb, Tihanyi, Ireland, & Sirmon, 2009).

Building on resource relatedness arguments, we propose that a mutual self-selection process may naturally occur between a family-firm franchisor and a family-firm franchisee because of their shared affinity for "familiness," dominant logics, and collective behaviors (Chung et al., 2000; Lane & Lubatkin, 1998). These commonalities increase the likelihood that the two parties will signal their willingness to collaborate through their social interactions. In this respect, Podolny (1994) reported that firms tend to engage in transactions with similar firms, while Chung et al. confirmed that firms of similar status are more likely to become alliance partners. Specifically, Chung et al. (p. 4) argued that a firm tends "to seek a partner of similar status because doing so makes it more likely that both parties will exhibit increased levels of fairness and commitment" in sharing an alliance's costs as well as its benefits. In a family-firm franchise system, learning barriers that franchise parties commonly experience because of cultural differences might thus be mitigated.

Sharing a strong sense of dedication to support their businesses over time and generations is particularly valuable to both the franchisor and franchisee. Put simply, sharing such behaviors and objectives helps promote the success of the entire franchise system. Thus, the selection of family-based partners is mutually beneficial, meaning that both a family-firm franchisor and a family-firm franchisee will be more favorable to sharing their "familiness" and thus franchise with a family-based partner rather than a nonfamily partner. Thereby, in the selection process, a family-firm franchisor will tend to favor potential franchisees where the owner is or desires to be a family-based organization. Also, a family-firm franchisor can increase the usefulness of this approach by continuously franchising with family-firm franchisees, and, through experiential learning, strengthen the value-creating potential of this family partner-selection routine. Similarly, a sense of family-firm pride, a better understanding of how a family organization works, and the values on which the family business is based induce a family-firm franchisee to opt for a family-firm franchisor that is able to support it through input from a shared perspective. Supporting this position is Kaufmann's (1999) argument that franchisees often have families, suggesting that they care about issues such as retirement and succession and that their personal goals may extend beyond financial returns to include other outcomes such as employment opportunities for multiple family members (see also Astrachan & Jaskiewicz, 2008; Zellweger & Astrachan, 2008). Given that a family-firm franchisor can easily understand such family issues, the franchisor can easily help and support a family-firm franchisee to achieve both long-term financial and non-financial goals. Following the above arguments, we propose that:

Proposition 2 A mutual self-selection process will occur between a family-firm franchisor and a family-firm franchisee.

Competitive Advantage in a Family-Firm Franchise

Combining and integrating related resources has the potential to create uniquely valuable synergy between organizations. As noted previously, sharing an administrative

heritage between organizations facilitates this process (Sirmon & Lane, 2004). Tokarczyk et al. (2007, p. 18) suggest that "the intangible resources or 'familiness' of a firm as identified via the resource-based view lend themselves to actualization of an effective market orientation and, subsequently, a competitive advantage." Specifically, when family firms cooperate in a franchising contract, their shared "familiness" enables them to dance "to the same music, using similar steps" (Makri et al., 2010, p. 606). This is because family members have similar understandings of the challenges family firms face and are familiar with various coping and adaptation mechanisms. Also, their shared family-based status facilitates communication, coordination, and cooperation, which, in turn, helps each party understand the value of its unique but complementary set of resources, thus increasing the efficiency of resource-sharing efforts.

Hence, learning barriers that franchise parties usually experience because of cultural differences are reduced within a family-firm context, and a contextual understanding that facilitates redeployment and use of different but complementary resources can be promoted (Capron, Mitchell, & Swaminathan, 2001). In these instances, effectively using and managing complementary resources becomes easier because of the firms' common way of thinking, which reduces the possibility of misinterpretation and improves mutual understanding between parties. Such cohesion increases the willingness to invest more effort to support each other. Research supports that cohesiveness between organizations (Gulati & Singh, 1998) positively impacts knowledge disclosure (Yli-Renko, Autio, & Sapienza, 2001), knowledge integration (Tiwana, 2008), and reciprocal assistance (Hansen, 1999).

Moreover, the commitment of each family franchise partner to the franchise system may increase because of the utility that family firms place on noneconomic factors (Astrachan & Jaskiewicz, 2008; Zellweger & Astrachan, 2008). Specifically, the importance of socioemotional wealth—the "non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty" (Gomez-Mejia et al., 2007, p. 106)—promotes behavior that enables the system to emphasize and invest for long-term success with less risk of another party rejecting or undercutting such initiatives. Indeed, the value the parties derive from continuity make long-term actions (such as strengthening customer relationships and embracing innovations) originating at either the franchisor or franchisee level more likely. Also, the importance of socioemotional wealth to the family participants may help the parties prevent opportunism even more because such behavior runs counter to deeply ingrained norms (Arregle et al., 2007). In fact, some scholars refer to family firms as high-trust organizations "because they are governed by underlying informal agreements based on affect rather than on utilitarian logic or contractual obligations" (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001, p. 82). When trust exists, the firm does not fear its partner's actions in that the partners can depend on each other and use their shared "familiness" to achieve a common purpose (Ireland et al., 2002). In a franchising context, trust suggests that a partner's actions will meet expectations, including the absence of opportunistic behaviors. This trust is enhanced by a mutual respect for a commitment to valuing socioemotional wealth.

In summary, compared with a nonfamily-firm franchise context, relationships will be less likely to result in behavior that pursues self-interest at the expense of the other party's interests in a family-firm franchise context. Indeed, the family-firm franchise context is likely to be one through which cooperative behaviors are the foundation for using complementary resources to achieve long-term success for each party and the franchise relationship. Because of family status similarity, the resource-based complementarities between family parties lead to an output rooted in a unique configuration of joint intangible resources (i.e., "familiness")—family social capital, survivability capital, patient capital,

emotional commitment, and so forth—that are difficult to imitate. Accordingly, it is reasonable to expect that the shared "familiness" between family franchise parties provides a cultural background and intangible resource base that is more likely to lead to competitive advantage compared to nonfamily franchise parties. Following the above arguments, we propose that:

Proposition 3 Competitive advantage is more likely to be achieved in a family-firm franchise context compared with a nonfamily-firm franchise context.

Discussion

Firms often cooperate to develop synergies as a foundation for creating value. Such collaborations provide access to different resources that cannot be generated internally. The franchising contract enables each franchise partner to gain access to different yet complementary resources, thus fostering learning and growth (Harrison, Hitt, Hoskisson, & Ireland, 1991). However, in some instances, either the franchisor or franchisee might choose to engage in self-interested resources flows. When this happens, the party acting in its own best interest gains more resources than it contributes. While a franchising firm may benefit from self-interested behaviors in the short run, these behaviors may cause it to incur future sanctions (e.g., higher franchising fees, loss of potential partners) when seeking additional franchising relationships. In this paper, we argue that transactions among family firms where "familiness" values are shared have the potential to help mitigate agency costs. This is especially relevant today as individuals can access an extensive amount of knowledge about a potential partner's past franchising behaviors and use that knowledge when evaluating the possibility of forming a franchising relationship with a given entity.

Thus, to extend our understanding of the franchising phenomena and the theories on which extant franchising research is based, we examined the family firm within the franchising context. Our primary research objective was to develop theoretical arguments to explain why and how a family-firm franchise context may be superior (in terms of value creation potential) compared with nonfamily-based franchising. Moreover, we suggest that family involvement in franchising activity may also mitigate the possibility of agency problems.

To achieve our objective, we first argued that a family-firm franchisor uses more resources for and devotes more attention to the continuity and hence the survivability of the franchising activity than a nonfamily-firm franchisor. This attention is exemplified by stronger relationships with and providing additional training and support for franchisees. Next, based on a family status similarity between family-firm franchise parties, we theorized that a mutual self-selection process occurs between the family-firm franchisor and the family-firm franchisee, leading to a context in which resource complementary and shared managerial logic exist. Accordingly, when both franchise parties are family firms, their family status similarity resulting from their shared "familiness" provides a contextual understanding of how to benefit from complementary resources, shared levels of commitment, and similar valuing of socioemotional wealth, thus leading to a competitive advantage. We present our primary theoretical arguments in Table 1.

Interestingly, the mutual self-selection process between family franchise parties that is theorized herein seems to find some practical evidence in the business world—a world in which family franchises clearly signal their intention to franchise with other family firms given their common values and understandings of family issues. For instance, Frank

Table 1

Franchising in Family Firms

Theoretical arguments	Propositions (*P*)
a. First, we argue that a family-firm franchisor uses more resources for and devotes more attention to the continuity and hence the survivability of the franchising activity than a nonfamily-firm franchisor by the following:	
• developing stronger relationships with franchisees;	*P1a*
• providing additional training and support for franchisees.	*P1b*
b. Second, based on a family status similarity between family-firm franchise parties, we theorize that a mutual self-selection process occurs between the family-firm franchisor and the family-firm franchisee, leading to a context where resource complementary and shared managerial logic exist, thus mitigating opportunistic behaviors.	*P2*
c. Third, when both franchise parties are family firms, their family status similarity resulting from their shared "familiness" provides a contextual understanding of how to benefit from complementary resources, shared levels of commitment, and similar valuing of socioemotional wealth, hence leading to a competitive advantage that is hard for nonfamily firm franchises to imitate.	*P3*

Crail, owner of the family-firm franchisor, Rocky Mountain Chocolate, recognizes that franchisees are the source of his company's growth. In particular, typically (although not exclusively) Rocky Mountain targets potential franchisees with family ambitions similar to those that the founder had when he opened his first store (Armitage & Wolfe, 2009). Hence, most Rocky Mountain Chocolate's franchisees are family-owned. Frank Crail explains, "I think everybody would like to own a chocolate store. And we provide that business opportunity." He also adds, "They [potential franchisees] simply want to run a family business, in a community [in which] their families can grow and flourish" (Armitage & Wolfe). Similarly, information reported on the International Franchise Association's Web site appears to suggest that the HoneyBaked Ham Company and Café family-firm franchisor mainly directs its attention toward potential family-firm franchisees. The company presents itself in the following way: "The HoneyBaked franchise is a truly exciting 'quality of life' franchise opportunity . . . [that] offers a comfortable balance between work and family life. Our stores are typically open from 10 AM to 6 PM, Monday through Saturday. You can be sure you have quality time to spend with your loved ones. After all, we're a family business too" (IFA, 2010).

Our work makes several contributions to the franchising and family-firm literatures. First, we introduce the family firm as an organizational form with the potential to create value in the franchising context. Additionally, our analysis offers practical examples of successful family franchises. Given this, we developed propositions to advance our understanding of how franchisor/franchisee relationships can be built and sustained in a family-firm context to not only mitigate agency problems but to also generate competitive advantages. In particular, we extend and complement the use of agency theory in franchising research by adopting a theoretical framework that is grounded in the "familiness" of the family firm as identified via resource-based logic and depicted as a mechanism to curb agency costs. As mentioned above, we theorized that a competitive advantage is more likely to be developed when the franchise parties have a family status similarity as well as complementary resources; family status similarity facilitates communication between family franchise businesses and, subsequently, the effective use of complementary

resources. Thus, family firms considering franchising tend to seek franchisees that are family firms with whom they can easily relate, understand, and interact. We also address the partner-selection process on the part of potential franchisees. As a result, the theorizing presented herein offers a more fine-grained assessment of the relationship between partner firms and the type of governance structure needed to realize the highest value from a franchise partnership. To the best of our knowledge, this work is the first effort to explore franchising in a family-firm context from both the franchisor and franchisee's point of views.

A third contribution flowing from this work deals with the possibility that our analysis may facilitate scholarly efforts that might be undertaken for the purpose of better understanding competitive actions and patterns involving other organizational forms. The reason for this is that many of the features of the relationships that occur in a family-firm context could generalize to other organizations (see Arregle et al., 2007). In fact, the family-firm franchisor/franchisee relationships we describe herein may be similarly developed in other types of organizations that are characterized by intense social structures and strong emotional commitments, such as high-reliability organizations (Weick, Sutcliffe, & Obstfeld, 1999) and not-for-profit organizations (Valentinov, 2008). Specifically, to some extent, entrepreneurial family franchisors/franchisees might be more similar to nonfamily franchisors/franchisees that are dominated by a social group, rather than a non-entrepreneurial family firm. As such, the entrepreneurial family firm possesses hybrid attributes. Thus, arguments presented herein may be generalizable to other ownership forms that are heavily influenced by a single homogeneous social group.

However, this work is not without limitations. First, we address entrepreneurial family firms—those pursuing growth. However, for other types of family firms, franchising could be problematic. For example, we argue that shared family status between family franchise parties facilitates effective use of complementary resources. However, the similarity between entrepreneurial family firms and non-entrepreneurial family firms is not very high. Second, we do not consider the stage of family-firm succession; that is, we do not consider how many generations have been leaders of the firm. Research suggests that succession events have important effects on family firms. Finally, we assume that external stakeholders view family firms positively (Miller et al., 2008) in spite of preliminary evidence suggesting that external parties tend to view the family firm as an unprofessional and low-performing firm (see Granata & Chirico, 2010).

Our current efforts as well as limitations suggest the need for additional scholarly work to further examine the franchising phenomenon. Specifically, future work may be needed to better understand how various types of family firms engage in franchising as well as how value-creating franchise relationships in a family-firm context can be nurtured during a time of succession. Additionally, our suggestion that a family-firm franchisor can continuously franchise with family-firms, thus strengthening its family partner-selection routine, requires empirical testing.

Another avenue of future research concerns the need to investigate how a family-firm context versus a nonfamily-firm context can lead to competitive advantages based on the parties' similar or different expectations. We argue that competitive advantages are more likely to be formed when both franchise parties are family firms. Similar long-term orientations and expectations about outcomes are conditions supporting this expectation. Future studies may assess interactions and outcomes when only one party to a franchise contract is a family firm. Propositions presented herein imply that opportunistic behavior is least likely when both parties to a franchise contract are family firms and most likely when neither party is a family firm. These proposed expectations may suggest the possibility that franchising is a more "familiness-friendly" form of expansion compared with

other growth mechanisms such as mergers and acquisitions or various collaborative relationships (e.g., alliances and joint ventures). Given this possibility, additional questions surface such as how each family franchise party signals its intention to form a franchising relationship? And, to what extent are specific aspects and characteristics of family-firm franchisors/franchisees applicable or transferable to other franchisor/franchisee ownership forms? In such cases, would the mutual self-selection process work the same way for nonfamily-firm franchises?[2] Exploring questions such as these could yield interesting and nuanced contextual insights about franchising.

Implications for Practice

Our analysis also has the potential to inform effective organizational practices. First, we argue and document that family franchises exist and that they are important and successful given their relational-based resources that lead to competitive advantages. Hence, when forming a cooperative arrangement, selecting a family firm as the partner may positively affect the outcomes produced by the franchising-based collaboration.

Second, effective resource management processes are essential to forming and successfully deploying competitive advantages in both family and nonfamily firms. Often, firms cooperatively use related resources to form advantages. However, given the importance of complementary yet distinct resources as sources of competitive advantages (Harrison et al., 1991), both family- and nonfamily-firm leaders should consider resource complementarity when engaging in franchising.

Third, the franchisor and franchisee should recognize the importance of forming consensus on desired ends when engaging in franchising. As a cooperative venture, firms involved with franchising must emphasize values such as trust and respect as the foundation for forming and pursuing shared goals. Without shared goals, dissolution of the franchise contract is more likely. Accordingly, franchise relationships need to be "multifaceted so that there is always room for revision or negation" and "participants in the dialogue should be able to express their own ideas freely and candidly" (Nonaka, 1994, p. 25). Learning from family-firm franchisor/franchisee relationships may be helpful to achieve this goal. Accordingly, franchisor and franchisee leaders should focus on developing a culture that encourages and rewards behaviors that simultaneously serve the interests of both franchising parties.

In conclusion, we hope that this research informs, extends, and encourages future work regarding family firms within the franchising phenomenon.

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