Characteristics of Franchisee as Entrepreneur: A Continuum Approach

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Abstract

No consensus of franchisee as entrepreneur is offered in the entrepreneurship and franchising literature. Nevertheless, many studies and debates in franchising studies have perceived the franchisee as entrepreneur rather than employee, buyer or fellow-worker. This paper employs an alternative view that suggest whether a franchisee is seen as an entrepreneur is governed by the way the theorist views his/her role. Further, franchisees may not be the 'entrepreneur' in the fullest sense of the word but they are absolutely an entrepreneur. Therefore, this paper proposes that the franchisee should be viewed as entrepreneur, within the theories of entrepreneur's characteristics.

Keywords Franchise, franchising, franchisee, franchisee entrepreneur

INTRODUCTION TO FRANCHISING

In the modern business world, franchising is considered to be an economically important form of entrepreneurship (Shane et al., 2006). It is perceived as entrepreneurial activity in that it creates new jobs and impacts the economic development (Barthelemy, 2009). Initially, franchising is formed when two entrepreneurs, namely franchisor and franchisee work synergistically to achieve overall business development (Rahatullah and Raeside, 2008). In order for new franchisors to grow rapidly, the relatively greater use of franchising will enhance their survival (Shane 1996,).

Generally, franchising is often perceived as an effective method for a company to expand and grow their businesses (Combs et al., 2011a; Cunill and Forteza, 2010). Compared with acquisition or organic growth, franchising is potentially a more cost effective method of business expansion (Sanghavi, 2004). Moreover, franchising is preferred because it is an efficient way to collect the three fundamental resources a growth-oriented company needs; namely financial capital, market knowledge and human capital. (Heung *et al*., 2008). From the service organization perspective, franchising has emerged as a powerful new way of facilitating the growth of service organizations (Altinay, 2007). Additionally, franchising is one of the rapidly growing industrial sectors in Western economies (Rahatullah and Raeside, 2008). In the retail sector, franchising is also the world's fastest growing form of retailing (Dant, 2008; Park and Sternquist, 2008).

In the international business perspective, franchising has been employing and rising globally (Baena, 2009; Duckett, 2008; Maritz and Nieman, 2008). Moreover, the current trends of globalisation, economic liberalization and advances in communication have been promoting a rapid growth in business format franchising (Aliouche and Schlentrich, 2011). Further, franchising is often perceived as more distinctive with higher visibility in foreign markets (Hoffman and Preble, 2001). Therefore it is not surprising that franchising has been recognized as a preferred method of doing business throughout the global economy (Aliouche and Schlentrich, 2011).

Even though franchisee studies are not dominant (Combs et al., 2011a; Meek et al., 2011), franchisees are important and significant to the success of the franchise system. Most researchers have pointed to the important aspects of franchisees in the success of the franchising relationship (Maritz and Nieman, 2008). Firstly, franchisee management is the greatest challenge to franchisor growth and survival (Stanworth et al., 1997). Secondly, franchisees are to likely have superior market knowledge compared with franchisors who lack such local market knowledge when the system expands beyond its original territory (Burkle and Posselt, 2008). Thirdly, franchisors recognized the importance of their franchisees as a source of ideas that can benefit the franchisors, franchisees and the systems (Cox and Mason, 2007). Further, franchisees' efforts to experiment and innovate in order to adapt to the local environment are frequently the sources of innovation and new strategies and solutions which add value to the whole franchise system (Phan et al., 1996).

Next, the majority of established franchise systems have a greater portion of franchisee outlets then company-owned outlets (Michael, 1996; Price, 1992) and franchised outlets are more efficient than company-owned outlets (Sorenson and Sorenson, 2001). In Singapore, Choo et al. (2007) found that the greater the financial strength of the franchisees, the greater the performance of the franchise system. Sixthly, cooperation between franchisor and franchisee will enhance coordination and thus result in the superior performance of the franchise system (Jambulingam and Nevin,1999; Nygaard and Dahlstrom, 2000; Roh and Yoon, 2009). Lastly, franchisees are important and significant for the franchisor because of the problems and potential problems that can be crafted by them such as act and behave opportunistically such as to increase their short-term profitability with free-riding behaviour, reducing the quality of inputs, cheat within the system or confront the franchisors directly (Combs and Ketchen, 2003; Gassenheimer et al., 1996; Pizanti and Lerner, 2003; Spinelli and Birley, 1998). Besides the significant of franchising and the importance of franchisee in franchising success story, no article discusses thoroughly whether franchisee should be perceived as entrepreneur or not. Thus, this paper is designed to propose franchisee should be viewed as entrepreneur, within the theories of entrepreneur's characteristics.

DEFINITION OF ENTREPRENEUR

Although entrepreneurship is considered an important event in developed and developing countries, this phenomenon has lacked such a conceptual framework (Shane and Venkataraman, 2000). The most prominent reason is because there is no universally accepted definition of entrepreneur (Burns, 2007; Westhead et al., 2005). Several scholars have proposed their own definitions of entrepreneurship and entrepreneur but there remains lack of consensus. For example, Grunhagen and Mittelstaedt (2005) proposed that the definition of entrepreneurs should focus on new-venture creation, small business ownership, a need for achievement, risk taking and innovativeness. Next, Morrison et al. (2003) defined entrepreneurship from their behaviour, such as innovation, opportunity exploitation and realization, risk acceptance, growth and profit motivations and strategic management. On the other hand, a basic definition of entrepreneur is someone who creates a new business activity in the economy (Hellriegel *et al.,* 2004) or someone who recognizes a viable idea for a business product or service and carries it out (Daft, 2012).

Then, Rae (2007) perceived an entrepreneur as the person who acts in an enterprising manner, and who creates and acts on an opportunity. *Hisrich et al.* (2010) defined entrepreneur as an individual who takes initiative to bundle resources in innovative method and is keen to bear the risk and/or uncertainty to act. Entrepreneurs are also associated with a vision for growth, commitment to innovation, persistence in gathering the necessary resources and an overriding need to achieve (Schaper *et al.,* 2007) or organizers of resources, have the ability to spot opportunity, have innovation, are risk takers and have creativity (Deakins and Freel, 2003). Further, Moore et al. (2010) defined entrepreneurs as individuals who realize market needs and initiate new firms to meet those needs. As the definition evolves, several points have been referred in defining an entrepreneur. In sum, the definition of entrepreneur in this study is an individual who has the ownership of the business, actively engages in the business, and employs several entrepreneur characteristics. Generally, this definition fit several definitions discussed before as shown in Table 1.

Table 1 Definition of Entrepreneur and Its Underpinning

Ownership of the business	Actively engage in the business	Employ several entrepreneur characteristics
• Opportunity exploitation and realization (Morrison et al., 2003); ability to spot opportunity (Deakins and Freel, 2003)	• Risk taking (Deakins and Freel, 2003; Grunhagen and Mittelstaedt, 2005; Morrison et al., 2003; Hisrich et al., 2010)	• Innovation (Deakins and Freel, 2003; Grunhagen and Mittelstaedt, 2005; Hisrich et al., 2010; Morrison et al., 2003; Schaper et al., 2007)
• Small business ownership (Grunhagen and Mittelstaedt, 2005)	• Profit motivations (Morrison et al., 2003)	• Need for achievement (Grunhagen and Mittelstaedt, 2005; Schaper et al., 2007)
• Acts on an opportunity (Rae, 2007)	• Carries it out (Daft, 2012) discover market needs (Moore et al., 2010)	• Acts in an enterprising way (Deakins and Freel, 2003; Rae, 2007)
• Viable idea for a business product (Daft, 2012).	• Gathering the necessary resources (Deakins and Freel, 2003; Schaper et al., 2007)	• Vision for growth (Schaper et al., 2007; Morrison et al., 2003)

APPROACHES IN THIS PAPER

Business format franchising fits many of the diverse criteria for defining entrepreneurship such as creating new ventures, carrying out new combinations and being driven by the perception of opportunity (Falbe *et al.,* 1999). Specifically, Kaufmann and Dant (1998) and Combs et al. (2011b) proposed that franchising should be studied as an integral area within the distinctive domain of entrepreneurial research. Whereas the role of the franchisor as entrepreneur is generally assumed, entrepreneurial activity by the franchisee is sometimes viewed as a paradox (Kaufmann and Dant, 1998). Several studies did not primarily concern franchisee as entrepreneur. In the 1970s, Rubin (1978) perceived franchisees as a free tradesman who runs their own business, bound to the stringent performance guidelines set by the franchisor and the relationship is more likely an employer-employee relationship. Also, Olm *et al.* (1988) in Jambulingam and Nevin (1999) consider franchisees rather as hard-working, industrious individuals, while Caves and Murphy (1976) referred to franchisees as 'on-the-spot proprietor'. Additionally, Norton (1988) referred to franchisee as the local manager investing in the local outlet.

Conversely, Jambulingam and Nevin (1999) viewed that franchisees can be both entrepreneurial and hard-working. For example, Marnburg *et al.* (2004)

in their study found that the relationship between franchisor and franchisee is stronger, more cohesive and long term based than the relationship between the franchisor and its employee operational managers and also its employed executive. They also found that franchisees are significantly more committed to the franchise system than the employed managers in the system, which indicated an engagement from the franchisees that goes beyond simple economic transactions. Since no consensus of franchisee as entrepreneur is offered in the literature, this study employs an alternative view from Phan *et al.* (1996). They suggest that whether a franchisee is seen as an entrepreneur is governed by the way the theorist views his/her role. Further, franchisees may not be the 'entrepreneur' in the fullest sense of the word but they are absolutely an entrepreneur (Ketchen et al., 2011). Thus, author proposes that the franchisee should be viewed as entrepreneur, within the theories of entrepreneur's characteristics. Next is the explanation based on common characteristics of entrepreneurs.

Many discussions of defining an entrepreneur are related to characteristics of an entrepreneur. Carter and Jones-Evans (2006) mentioned several characteristics of an entrepreneur such as risk taking propensity, need for achievement, locus of control, over-optimism and desire for autonomy. Burns (2007) stated characters such as opportunistic, self-confident, proactive, self-motivated, vision, and risk taker. In addition, Timmons and Spinelli (2009) indicated that common characteristics of entrepreneurs are risk taking, power and authority, innovation, desire for independence, and internal locus of control.Historically, the entrepreneur is defined from a personal characteristics approach, such as leadership (Marshal, 1949), risk taking (Liebenstein, 1968) and roles of creativity (Schumpeter, 1942). In sum, Deakins (1996) ranks the following characteristics in order of importance in the makeup of the entrepreneur that are need for achievement, desire to be in control of environment and destiny, willingness to take risk, need to be independent, unconventional personality, and capability for innovation.Therefore, franchisees as entrepreneur in this paper are defined by common characteristics of entrepreneur such as ownership (Timmons and Spinelli, 2009), personality (Burns, 2007; Carter and Jones-Evans, 2006; Deakins, 1996), goals (Carter and Jones-Evans, 2006; Deakins, 1996), risk taking (Burns, 2007; Carter and Jones-Evans, 2006; Deakins, 1996; Liebenstein, 1968; Timmons and Spinelli, 2009), independence (Carter and Jones-Evans, 2006; Deakins, 1996; Timmons and Spinelli, 2009) and innovation (Deakins, 1996; Timmons and Spinelli, 2009). The next explains the details.

1. OWNERSHIP

All scholars agreed that entrepreneurs own business organizations. Thus the first dimension in defining the franchisee as entrepreneur is the business ownership as is recognized as an important dimension of entrepreneurship (Westhead et al., 2005). Becoming a franchisee is an alternative path to traditional small business ownership (Sonfield, 1993). As an entrepreneur, the franchisee retains the business ownership of the franchised business (Peterson and Dant, 1990; Kaufmann and Dant, 1996), invested their own money in the business, applied for a loan from financial institutions and is responsible for the successful and legalization aspect of the business. Furthermore, franchised businesses are generally owned and operated by franchisees who actually run, manage or supervise the outlet stores (Justis et al., 1993). Yet, the franchisee is not the 'full owner' of the business. Castrogiovanniand Justis (1998) stated that franchising is characterized by joint ownership by the franchisor and franchisee. Although the franchisees are fully responsible for the business, the business trademark, business systems and several business characteristics are owned by the franchisor in which franchisees pay to get the right to use in their business. In reality, full ownership cannot be considered as the dimension of entrepreneurship as entrepreneurs would not own all aspects in their business. Entrepreneurs pay for the right to use many things in their business such as software systems, patent, copyrights, technologies and so forth. Figure 1 shows the ownership continuum of business and where the franchisee is positioned.

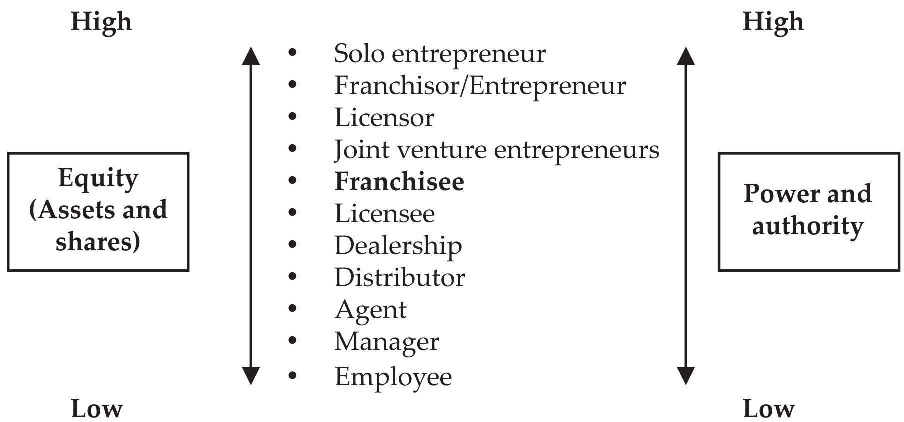

Figure 1 Franchisee in the Ownership Continuum of Business

2. PERSONALITY

The second dimension in defining entrepreneurs is characteristics or personality; whether franchisees do have entrepreneur personality or other types of personality. Some scholars suggested that the literature that differentiates independent and franchisee entrepreneurs based on personality traits or socioeconomic variables often provides inconsistent evidence and has remained inconclusive (Anderson et al., 1992). On the other hand, literature of franchising also provides insights that the personality of individuals that choose to become franchisees is more 'adventuresome, risk taking, and aggressive' than those not in a franchisee position, which can be considered as several characteristics of an entrepreneur (DiPietro et al., 2007). From the franchisor perspective, they did consider franchisees to have several entrepreneur characteristics. For example, Clarkin and Swaveli (2006) in their research found that the franchisor did emphasize several selection characteristics, which were related to entrepreneurs such as entrepreneurial spirit, strong desire to achieve and succeed, and ambition. This was evidenced in Knight's (1986) study where all franchisees and franchisors agreed that desire to succeed was an important personal franchisee characteristic required for success and all franchisees and 99 percent of franchisors agreed that willingness to work hard was an important personal franchisee characteristics required for success. Again, Withane's (1991) study in Canada also revealed similar results. Rather than depending on nominal data (as studied by Knight, 1986), he found that franchisees have entrepreneurial characteristics such as initiative, self-reliance, competitiveness, internal control, autonomy and risk taking and ranked entrepreneurial functions such as promotion and search for information as important to their success. Moreover, 211 Finnish franchisees considered themselves as having the entrepreneurial characteristics such as 'I want to succeed', 'I like to take responsibility' and 'I am very self-confident' (Tuunanen and Hyrsky, 2001).

Franchisees also have been perceived by franchisors to be more efficient than division managers or profit center managers as revealed in Knight (1984) and Withane (1991). Next, a personality trait of entrepreneurs is a strong 'achievement motive' as worked out by McClelland. There is no single research that focuses on whether franchisees have the achievement motive similar to entrepreneurs. Nevertheless, Hing (1995) and Withane's (1991) findings can enhance some findings pertinent with achievement motive. Hing found that franchisees in Australia have high need for achievement and this trait is statistically associated with post-purchase satisfaction. In addition, Withane's (1991) study also revealed that franchisees have high need for achievement. Then, the entrepreneurial personality of franchisees might be related to their performance. In studying franchisees qualitatively, Merrilees and Frazer (2006) found that high performing franchisees tended to be more entrepreneurial than moderate performing franchisees. They found that high performing franchisees tended to think globally about the franchise network, were less reliant on support services, more pro-actively grew the business, used better techniques to improve sales and profits, were more driven and ambitious than other franchisees, and were more marketing oriented and stronger in all management aspects.

Table 2 Personality Differences between Employee, Franchisee and Entrepreneur

Types of Personality	Employee	Franchisee	Entrepreneur
Adventuresome	Low	Moderate	High
Risk taking	Low	Moderate	High
Aggressiveness/Proactive	Moderate	High	High
Entrepreneurial spirit	Low	High	High
Strong desire to succeed	Moderate	High	High

Ambition	Moderate	High	High
Achievement motive	Low	High	High
Willingness to work hard	Moderate	High	High
Initiative	Low	Moderate	High
Self-reliance	Low	Moderate	High
Competitiveness	Moderate	High	High
Internal control	Low	Moderate	High

In sum, it is concluded that franchisees have several entrepreneur's personality traits, but due to a special entrepreneurial role within franchise systems, in many and important ways, their personality differs from the conventional personality of the entrepreneur (Sundbo et al., 2001). Therefore, as suggested by Anderson et al. (1992), a continuum may be suitable in classifying the characteristics of various types of entrepreneurs. Based on previous discussion, Table 2 reflects several personality types based on employees, franchisees and entrepreneurs.

3. ENTREPRENEUR GOALS

The next dimension is whether the franchisee pursues similar goals as does the entrepreneur. In entrepreneurship literature, no scholars would refuse that one of the main objectives to become an entrepreneur is a desire to draw regular income streams from the business, the expectation of personal financial gain and wealth creation (Westhead et al., 2005). Similar to franchisors and entrepreneurs, franchisees also attempted to seek and maximize financial gain and profits for themselves in their endeavours (Dant and Gundlach, 1999;Grunhagen and Mittelstaedt, 2005; Hoy, 1994; Justis et al., 1993). The main difference between entrepreneurs and franchisees is how they achieve profit and economic gain and use the profit. Generally, entrepreneurs should work hard within their organization to achieve their profit and economic gain and have the independence with what to do with their profits. On the other hand, franchisees have to work hard but must be prepared for greater team participation than owners of independent businesses (Hoy, 1994) to achieve their profit and economic gain and they do not keep all generated profits, as they agreed to pay the franchisor ongoing royalties in sales (Baucus et al., 1993).

However, profit maximization is not the only objective of the entrepreneur (Westhead, 1997). There are motivations other than money for people to become business owners, especially independence and the desire to take responsibilities for achieving outcome. For some entrepreneurs, the risk of monetary loss is outweighed by the risk of not accomplishing one's personal goals as a result of working for others. Similar to the entrepreneur, some franchisees are more likely to seek satisfaction that derives from the nature of the venture themselves (Grunhagen and Mittelstaedt, 2005). Studies showed that some franchisees considered financial aspect of franchising as a secondary reason while the opportunity to become one's own boss and hands-on-work experience as a type of entrepreneurial self-fulfillment (Anderson et al., 1992; Knight, 1984; Withane, 1991). Table 3 displays several similarities of goals between franchisees and entrepreneurs as discussed before.

Table 3 Similarity of Goals between Employee, Franchisee and Entrepreneur

Types of Goals	Employee	Franchisee	Entrepreneur
Profit	No	Yes	Yes
Personal financial gain	Yes	Yes	Yes
Wealth creation	No	Yes	Yes
Self-satisfaction	Yes	Yes	Yes
Being own boss	No	Yes	Yes
Hands-on work experience	Yes	Yes	Yes

1. RISK TAKING

Next, risk taking as one of the dimensions in defining entrepreneur. Like independent business entrepreneurs, franchisees also must take risks while facing an uncertain environment and franchisees did feel risk taking was the most important factor to a successful operation (Ketchen et al., 2011; Withane, 1991). Whereas the franchisor risks resources devoted to the development of the brand, the franchisee risks resources devoted to the development of local markets (Kaufmann and Dant, 1998). One of the factors that associated with risk taking is capital investment; how much money do franchisees need to invest in the business. Actually, a franchisee starts their business with a cost disadvantage relative to an independent business (Bronson and Morgan, 1998). The cost disadvantages occur when a franchisee needs more capital investment to launch the business as he/she has to pay the initial franchise fee to get the right as franchisee, pay on-going sales royalty and advertising and the promotion fee, and some have to pay the management fee. Sklar (1977) mentioned that entry capital for a new fast food franchisee is significantly higher than for most non-franchised fast food operations and Knight (1984), when comparing independent small businesses and franchisees, found that franchisees need more capital investment than independent small businesses; nearly double than independent group.

The main difference in risk taking between franchisees and independent entrepreneurs is how franchisees manage their risk. Firstly, the entrepreneur has minimized transaction costs, time and money by becoming a franchisee as the business offer proven system. Franchisees do not have to deal with trial-and error aspects of broad issues such as targeting the right market or finding the best marketing mix, or with micro issues such as outlet layout and design and personnel system. Costs, time and money are saved by the franchisee-tasks that make the franchised business more efficient than its independent business (Bronson and Morgan, 1998). Although the risks the franchisee face may be reduced by familiarity with the local market, the franchisee's role as entrepreneur-partner is supported by the fact that they do accept financial risk of introducing the franchisor's concept to a new and untried market (Kaufmann and Dant, 1998). Secondly, franchising has been perceived to offer less risk of failure (Boe et al., 1987) than starting a new venture or operating independently (Bracker and Pearson, 1986). Thus, those who want to be self-employed but do not want to risk failure (Anderson et al., 1992) or reduce their risk of failure (Bradach, 1997;Fulop and Forward, 1997) should enter into franchising.

Although franchisees have to prepare with more capital investment, this investment encourages the franchisee to put effort into beneficial activities and day-to-day operation (Caves and Murphy, 1976; Phan et al., 1996). On the other hand, the on-going fees would be a trade off for the franchisor's entrepreneurial expertise (Bradach, 1997), support services that spread the risk between a franchisee and franchisor (William, 1994) and advantages of a large and small business that have been received by the franchisees and franchisor services (Baron and Schmidt, 1991). Empirically, several studies found that the majority of the franchisees were motivated to become a franchisee as it has less risk (Hanafiah and Abdullah, 2001; Withane, 1991) and less risky than becoming an independent business (Knight, 1984). Table 4 summarizes risk taking activities discussed before, and shows the comparison between employee, franchisee and entrepreneur.

Table 4 Risk Taking Between Employee, Franchisee and Entrepreneur

Risk Taking Activities	Employee	Franchisee	Entrepreneur
Uncertainty environment	Yes	Yes	Yes
Risk resources	No	Yes	Yes
Capital Investment	No	Yes	Yes
Untried market	No	Yes	Yes
Risk of failure	No	Yes	Yes
Less risky	Yes	Yes	No

INDEPENDENCE

Does the independent entrepreneur have independence and does the franchisee have similar independence? Scholars agreed that independence is one of the important characteristics of the entrepreneur (Ketchen et al., 2011). In reality, no single entrepreneur would have absolute independence. Entrepreneurs have to buy the right to use software, pay a royalty in using technologies and others intellectual capital, are bound to their contract with suppliers or distributors and are restricted by law in doing things. Therefore, independence as a character of an entrepreneur could be defined in a continuum basis.

In the franchising literature, several concepts have been employed in describing the independence of a franchisee. Dahlstrom and Nygaard (1999) perceived the franchisee as a 'semi independent owner' of the business. On the other hand, Tuunanen and Hyrsky (2001) viewed franchisees as 'imitating entrepreneurs'. Marnburg et al. (2004) considered franchisees as not employees and not completely free self-employed tradesman. Thus, employing a continuum in defining franchisee independence is acceptable. An alternative framework for studying the entrepreneur's degree of independence is through their degree of internal control, which can range from a high degree of internal control (the solo independent entrepreneur) to a high degree of external control (the large company manager) as shown on Figure 2 (Knight,1984). According to the figure, the franchisee is located in the middle between the large corporation manager and solo independent entrepreneur.

High degree of independence

- Solo independent entrepreneur
- Partnership
- Management team
- Group of independent firms
- Distributors
- Joint venture entrepreneurs
- ***Franchise entrepreneurs***
- Acquired entrepreneurs
- Conglomerate entrepreneurs
- Division Manager – Larger Corporation
- Profit Center Manager – Large Corporation
- Cost Center Manager – Larger Corporation
- Large Corporation Manager

Low degree of independence

Figure 2 Degree of Independence of Various Entrepreneurs Types and Managerial Level

Similar to the entrepreneur, the franchisee retains some degree of independence in their business venture (Kaufmann and Dant, 1996; Peterson and Dant, 1990). Although the franchisee independence is not similar to the classic entrepreneur, he or she is neither just a passive follower in the partnership (Sundbo et al., 2001). Even though the franchisees are legally not an independent small businessman in control of their own establishment (Ozanne and Hunt, 1971), they are legally responsible for the firm's profitability and survival. In general, franchisee independence as entrepreneur is bound by their franchise contract with their franchisor. Thus, in contrast to the independent entrepreneur, franchisees in general have to run their business as stipulated by the franchisor (Baucus et al., 1993). To succeed as franchisees, they need to surrender some freedom and are required to become players for their own benefit as well as that of the larger system as a whole(Falbe and Dandridge, 1992). Specifically, franchisees have to contend with the restrictions of franchisor controls, contractual specifications, and financial costs associated with the franchise system (Morrison, 1997).

Does a franchisee need autonomy as experienced by an independent entrepreneur? Yes, because franchisees seek autonomy and desire for independence in running a business (Kidwell et al., 2007), but franchising has been chosen because it provides the opportunity of working within an interdependent environment under the umbrella of a large organization (Boe et al., 1987) and many of the advantages of belonging to a large chain, while at the same time being an independent business person (Hunt, 1977). Within the franchise system, a franchisor provides the franchisee with claims to the profits and having the franchisee post a forfeitable fee, thus the incentives of both parties come into alignment. This quasi-independence emerges and allows the franchisee to claim a share in the title of entrepreneur (Kaufmann and Dant, 1998).

To what extent do franchisees have independence in the business? Obviously, franchisees have more independence than with salaried employment. Unlike the company-owned manager, franchisees have greater independence and autonomy in running the day-to-day business (Inma, 2005). Empirically, 78 percent of franchisees clearly defined themselves as independent small businessmen (Sklar, 1977) and franchisees view themselves more or less as independent business people, rather than working in part, for the franchisor (Morrison, 1996). In addition, Knight (1986) found that 92 percent of franchisees agreed that a franchise offers more independence than salaried people.

Besides, franchisees acquire most of the control and autonomy in their business. Throughout the literature, the franchisee is implicitly or explicitly assumed to be an owner-operator, managing the day-to-day operation of an outlet situated far from the direct control of the franchisor (Kaufmann and Dant, 1996). Generally, a franchisee is able to act independently within a local market (Sundbo et al., 2001) and often has wide latitude in developing unique ways of marketing that concept in their particular location (Kaufmann and Dant, 1998) or acquire some decision control over the marketing mix variables that affect the demand and profitability at the local level (Dant and Gundlach,1999). Franchisees could anticipate value beyond the contract and altering the strategic orientation of the contractual relationship are areas where franchisees can exert entrepreneurial discretion (Phan et al., 1996). Although restricted by the franchise contract, franchisees have great latitude in crafting strategies that are congruent with their preferences, because the franchise contract cannot cover all possible contingencies (Phan et al., 1996), as long as their business features the corporate strategy of the franchisor (Dant and Gundlach, 1999).

Otherwise, franchisors do not have all the resources and capability necessary to control all aspects of their franchised business; thus franchisees are largely able to operate independently of the franchisor (Davis, 2004). First, franchisors do not have complete information about the full capacity of the franchisee operation (Phan et al., 1996), especially the daily operations (Yin and Zajac, 2004), therefore this enables franchisees to pursue their own strategic goals. Secondly, physical separation between franchisor and franchisee creates a psychological break between the two that is characterized by the necessity of the franchisee to work without close support and guidance (Davis, 2004). Thirdly, franchisors do not have the resources to micro manage their franchisees even if they desired to do so (Davis, 2004). Nevertheless, the franchisee perception of their independence might be related to their income. In Sklar's study (1977), 80 percent of franchisees viewed themselves as independent businessmen when their business income was adequate and profits met or exceeded their expectations.

Furthermore, Dant and Gundlach (1999) pointed out that excessive autonomy from the franchisor can result in serious systemic crises stemming from its loss of corporate identity and/or the dilution of its brand equity. Naturally, franchisees are likely to exhibit a strong desire for autonomy in the operations of their franchised outlets, and high representation of individuals with prior self-employment experience should further reinforce the desire for autonomy. Table 5 summarizes the independence of the franchisee as discussed before and comparison with employee and entrepreneur.

Table 5 Summary of Types of Independence between Employee, Franchisee and Entrepreneur

Types of Independence	Employee	Franchisee	Entrepreneur
Being an independent business person	Low	High	High
Degree of internal control	Moderate	High	High
Degree of external control	Low	Low	High
Claims to the profit	Low	High	High
Perceived independence	Low	High	High
Control of the business	Low	Moderate	High
Daily control of operation	Low	High	High
Control over the marketing mix variables	Low	Moderate	High
Strategic flexibility beyond the control	Low	Moderate	High

INNOVATION

Innovation is another characteristic of an entrepreneur. Schumpeter (1934) viewed innovation as the task of inserting a new factor or a new combination of factor in production. But one major question arises whether innovation should refer to an element or a combination of elements being new to the world, the nation, the industry or perhaps to a single firm. Recently, research has placed greater emphasis on the concept of incremental innovation (Sundbo et al., 2001). In the franchise system, innovation is generally associated with franchisor roles and responsibility. As the business founders, the franchisor develops the products, crafting the marketing strategy, setting the business systems, and innovating the business. From the franchisor's perspective, the plural form was effective in managing franchisor control and system innovation (Bradach and Eccles, 1989). Franchisors are aware of the complementary benefits of higher innovation and coordination gains associated with dual-distribution network (Bradach, 1997; Cliquet, 2001). In general, the public would presume that the franchisee has nothing to do with innovation.

In fact, franchisee's roles in innovation within the franchise system are important. In a study to compare franchisor and franchisee perception on the importance of creativity, more than half of the franchisors (56 percent) surveyed acknowledged that creativity was an important personal franchisee characteristics required for success (Knight, 1986). Furthermore, franchisee themselves (82 percent) agreed on the similar aspect (Knight, 1986), and perceived that they are an important source of innovation for a highly standardized franchise system (Combs and Ketchen, 2003; Combs et al., 2004). In addition, Falbe et al. (1999) found that the larger franchise system supported franchisee innovation and gave recognition to the franchisee.

Fundamentally, since franchisees are likely to come from different backgrounds and operate in varied environments, they should be viewed as excellent sources of innovative ideas (Elango and Fried, 1997). In reality, local environments are different, requiring some flexibility and thus provide some opportunities for the individual franchisee to innovate (Falbe et al., 1999). Since franchisees control the local business operation and deal with customer directly, their experience and knowledge can assist the franchisor in responding quickly to both current and future service needs. Thus, new ideas, products, and services could be brought in (Axelrad and Rudnick, 1987 in Jambulingam and Nevin, 1999) or perceived as being established through the innovative and creative franchisees (Bradach, 1998) and later will be beneficial to the franchise system. Therefore, it is not surprising that much anecdotal evidence from franchisors shows that major ideas sometimes come from individual franchisees (Elango and Fried, 1997).

How can innovative franchisees contribute within the franchise system? In general, franchisees can add value to the franchise systems via the creation of new strategies and new solutions to existing problems (Phan et al., 1996) and the franchisor can benefit from these franchisees (Jambulingam and Nevin, 1999). Sometimes, the franchisee can innovate by adapting the service concept to the local environment and conditions. Sundbo et al. (2001) suggested that this type of innovation may be important in the future development of service business and it gives rise to a different form of entrepreneurship. Otherwise, franchisees can still engage in and support new ideas, novelty, experimentation and creative processes that may result in new products and services to the franchise system (Jambulingam and Nevin, 1999). In a very small aspect, a franchisee that is given a chance to innovate can improve the established work procedures (Strutton et al., 1993).

Jambulingam and Nevin's (1999) study empirically looked at the perceived innovativeness among the franchisees and concluded with two important findings. First, franchisees that have higher levels of perceived innovativeness would be more creative and understand how to coexist with the franchisor and succeed in the franchise system. Second, perceived innovativeness was significant in determining franchisee satisfaction of becoming a franchisee. Thus, Jambulingam and Nevin (1999) proposed that franchisors should seriously consider franchisees with higher perceived innovativeness. On the other hand, Strutton et al. (1995) found that franchisors who encourage the franchisees to be innovative found them to have a positive attitude toward solidarity with their franchisors. In sum, as entrepreneurial activity by franchisor could provide competitive advantage to the franchise system, entrepreneurial activity by franchisees implies a partnership in adapting the environment and improving the system incrementally (Falbe et al., 1999). Therefore, the franchisor challenge is not to restrict the franchisee innovation but how to manage new ideas, suggestions and innovation from franchisees. In Table 6, a summary of innovation activities argued before is presented as well as a comparison between employee, franchisee and entrepreneur.

Table 6 Summary of Innovation Activities between Employee, Franchisee and Entrepreneur

Innovation	Employee	Franchisee	Entrepreneur
Creativity is an important aspect of personal characteristics	No	Yes	Yes
Important source of innovation	Yes	Yes	Yes
Support for innovation	Yes	Yes	Yes
Recognition of innovation	Yes	Yes	Yes
Source of new ideas, products or services	Yes	Yes	Yes
Creation of new strategies and solutions	No	No	Yes
Adapting the service concept to local conditions	No	Yes	Yes
Innovation in work procedures	Yes	Yes	Yes

CONCLUSION

There are big variances in defining who is an entrepreneur since no universal definition of entrepreneur has been recognized. Throughout this paper, based on recommendations by Phan et al. (1996), it is proposed that the franchisee should be perceived as entrepreneur based on theories on entrepreneur's characteristics. Six characteristics have been discussed to understand the franchisee as entrepreneur in the franchising and entrepreneurship context. First, the franchisee is a business owner, who runs and manages the business and is responsible for the survival of the business. Second, studies also demonstrated that franchisees are very similar in orientation and background to those entrepreneurs who start their own independent business (Kaufmann and Stanworth, 1995; Peterson and Dant, 1990). Then, the franchisee is similar to the entrepreneur in terms of economic and non–economic goals when they become an entrepreneur. Fourth, risk taking is considered an important characteristic in defining an entrepreneur and franchisees face similar business risks as faced by the entrepreneur but the way they managing the risk is different from the classic entrepreneur. Fifth, the franchisee also acquired independence in managing the business similar to the independence of the entrepreneur, even though some differences exist. Sixth, conceptually and empirically, evidence shows that franchisees also possess innovative character and are encouraged to contribute to the innovativeness within franchise system. In brief, franchisee is an entrepreneur and has its own unique area within the entrepreneurship research domain where more than one party is involved as entrepreneur; franchisor as entrepreneur, franchisee as entrepreneur, and the franchise relationship as an entrepreneurial partnership (Combs et al., 2011b; Kaufmann and Dant, 1998). Lastly, it is incorrect to say that franchisees are managers or employees of the franchisor but it is acceptable to say that the franchisee is an entrepreneur within the theories of entrepreneur's characteristics.

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