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Entrepreneurial Resources as a Driver of Performance Differences in a Quick Service Restaurant Franchise System

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Abstract

This study explored performance differences between corporate-owned and operated and franchised outlets in the quick-service restaurant (QSR) industry. While studies have shown that there is a performance difference favouring franchisees, the reasons for this difference have not been explained. Using the Resource-Based View of the Firm, the operational differences between two ownership modes within the same franchise ecosystem were assessed. The study used qualitative data collected from twenty interviews with a broad range of stakeholders across a single South Africa quick-service restaurant brand that included company-owned and operated stores and franchised operations. The study identified a range of performance factors: franchisee motivation, franchisee empowerment and flexibility, manager focus, opportunity realisation, corporate rigidity and tactical restaurant management that contribute to enhancing the entrepreneurial resources and orientation that, along with strategic flexibility, provide franchisees with a performance advantage. This study has implications for those in the QSR sector and the hospitality industry in general, detailing what drives or hinders firm performance. This research has value for theoreticians in its novel application of the Resource-Based View of the Firm theory to a franchise-based entrepreneurial environment.

Keywords: Resource-based view of the firm, franchises, entrepreneurial orientation, entrepreneurial resources, quick-service restaurants

Introduction

Quick Service Restaurants (QSR) are important features of the South African and global hospitality landscape (McKay & Subramoney, 2017), and franchising has emerged as a significant strategy for growth and success of restaurants (Kidwell, Nygaard, & Silkoset, 2007; Nel, Williams, Steyn & Hind, 2018; Pizanti & Lerner, 2003) in both developed and developing countries (Lee, Kim, Seo, & Hight, 2015). Franchising offers a number of benefits for the franchisor including exploiting geographic opportunities, reducing the capital requirements to expand, accessing competent managerial skills and local knowledge and passing the economic risk of failure to the franchisee but at the cost of sacrificing the profits of the franchised outlets (Gillis & Castrogiovanni, 2012; Koh, Rhou, Lee & Singal, 2018; Sorenson & Sørensen, 2001). Among dual ownership structures (a mix of franchisees and Company-owned and operated (CO-O) outlets), there are noted performance differences between outlets owned by the franchisor and those owned by franchisees, with franchisees typically outperformed CO-O restaurants (Gillis & Castrogiovanni, 2012; Madanoglu, Lee & Castrogiovanni, 2011; Thomas, O'Hara & Musgrave, 1990). While prior studies (Bracker & Pearson, 1986; Combs, Ketchen & Hoover, 2004; Wu, 2015) have identified these performance differences, these studies have not sought to understand why franchisees within a QSR franchise network outperform CO-O outlets. Studies across restaurant brands have thus far been unable to identify the reasons for the performance difference partially because of the number of variables that could explain the performance differences within dual-ownership structure models (Gillis, Combs & Yin, 2018; Madanoglu, Lee & Castrogiovanni, 2011). This study sought to explore the factors that led to franchisee-owned stores outperforming CO-O outlets within the same QSR restaurant brand. This approach has been taken with the premise that since both ownership types exist within the same franchise ecosystem, identifying reasons for performance differences will become more apparent than when compared across different restaurant brands. Given the importance of the restaurant and hospitality industry to the local and global economy, contributing to the understanding of this phenomenon has value to both researchers and practitioners. The analysis was qualitative in nature and used the Resource-Based View of the Firm (RBV) (Barney, 1991) to isolate key factors used by entrepreneurs within this environment to achieve a performance advantage. This was done through the analysis of CO-O and franchisee operational and management practices within an established QSR chain. There was an even representation of both ownership types, a clear performance difference between franchise and CO-O outlets and a lack of internal understanding for why that was the case. This study solicited views from a range of stakeholders within the chosen franchise system covering senior management, regional managers responsible for both CO-O and franchise outlets and selected managers from both ownership types. Semi-structured interviews were used to gather data that was then transcribed, coded and analysed. Using the above methodology, the study was able to identify a number of themes that enhanced the understanding as to why franchises enjoy a performance advantage. In doing so, several theoretically and practically useful factors were identified related to firm performance that could improve understanding of the challenges involved with both ownership types and provide practitioners with insights that may lead to performance improvements.

Literature review

The resource-based view of the firm

While the advent and subsequent popularity of the Porter's Five Forces Model (Porter, 2008) created a valuable framework to evaluate industries, including the restaurant and hospitality sectors (Mhlanga, 2018), it does not explain the varied performance of heterogeneous firms within the same industry (Barney, 1991). This theoretical gap was addressed with the theory of the Resource-Based View of the Firm (RBV) (Wernerfelt 1984). The RBV is primarily concerned with the tangible and intangible assets of the firm. The theory suggests that it is these assets which are heterogeneously distributed, difficult to imitate and durable that provide some firms within the same industry with a competitive advantage (Barney, 1991, 2001; Barney, Ketchen Jr & Wright, 2011; Campbell & Park, 2017; Kellermanns, Walter, Crook, Kemmerer & Narayanan, 2016; Kraaijenbrink, Spender & Groen, 2010; Peteraf, 1993; Rangone, 1999; Wernerfelt, 1984). Early literature related to the RBV defined which resources are strategic in nature (Barney, 1991), defining strategic resources as those that are valuable in terms of exploiting opportunities and neutralising threats, rare within the industry, able to be perfectly imitable and not able to have strategically equivalent substitutes, giving rise to the VRIN (valuable, rare, inimitable and non-substitutable) framework.

The RBV theory is predicated on the assumption that strategic resources are heterogeneously distributed among competing firms, and that their impact generates sustained competitive advantage which can be long-lasting and helps explain why some firms consistently outperform other firms (Barney, 2001). The RBV, which has reached maturity as a theory (Barney et al., 2011; Lockett, Thompson & Morgenstern, 2009), has however contributed to the understanding of the importance of how key fields such as human resources (Wright, Dunford, & Snell, 2001), finance (Combs & Ketchen, Jr, 1999; Lockett & Thompson, 2001), marketing (Srivastava, Fahey, & Christensen, 2001) and entrepreneurship (Alvarez & Busenitz, 2001) contribute to the development of strategic resources (Barney, Wright & Ketchen, 2001). Over time, the RBV has developed into a prominent management theory that advances understanding of organisational relationships (Barney et al., 2011), as well as how organisations earn profit differentials over their competitors (Makadok, 2011).

The RBV is increasingly being leveraged within the entrepreneurial field as a mechanism to determine entrepreneurial venture performance (Kellermanns et al., 2016; Newbert, Gopalakrishan & Kirhhoff, 2008). This could explain how franchisors and franchisees convert resources and capabilities to improve their competitive advantage (Wu, 2015) through careful consideration of the resource dimensions to reach desired outcomes (Kellermanns et al., 2016). The resources to which the RBV has been applied have varied depending on the context and the definition used by the various authors who have studied this field (see for example Kellermanns et al., 2016; Rangone, 1999).

The entrepreneur has been identified as a special heterogeneous resource within small-to-medium-sized entities (Alvarez & Busenitz, 2001; Makadok, 2011; Rangone, 1999). Alvarez & Busenitz (2001), acknowledging this role, took the RBV theory further, adding two new resources from the entrepreneurial field: entrepreneurial recognition (defined as the recognition of opportunities and opportunity-seeking behaviour) and the process of combining and organising resources, as entrepreneurial-specific dimensions that link the RBV theory to entrepreneurship.

A number of critiques of the RBV theory have been offered over the years and range from issues of tautology, a lack of empirical evidence, issues around measurement and identifying and explaining causal relationships (Kellermanns et al., 2016; Kraaijenbrink et al., 2010; Lockett et al., 2009; Priem & Butler, 2001b, 2001a). Most have been debated at length and addressed, but some remain including the narrow conceptualisation of a firm's competitive advantage and the indeterminate nature of resource and value (Kraaijenbrink et al., 2010). More recently, the emergence of the concept of Dynamic Capabilities (Teece & Pisano, 2003; Winter, 2003) has challenged the underlying path-dependent assumptions of the RBV and highlighted the shortcomings of the theory especially with respect to high-velocity markets (Eisenhardt & Martin, 2000; Helfat & Peteraf, 2002, 2009; Lin & Wu, 2014). While the RBV may not be appropriate for some industries, the theory is appropriate for this study given the focus on explaining the variances in performance between different ownership types within a single static franchise ecosystem.

Implied in the RBV theory is a degree of strategic flexibility on the part of the entrepreneur, especially as heterogeneous resources are applied to drive firm performance through entrepreneurial orientation (Arief, Thoyib, Sudiro & Rohman, 2013; Bamel & Bamel, 2018). Strategic flexibility can be understood to manifest at the nexus of market, production and competitive flexibility. It has been shown that this form of strategic flexibility is positively correlated with firm performance, measured by return on sales, return on assets and earnings before interest and tax (Abbott & Banerji, 2003). This supports research in the high-tech sector, which showed a strong relationship between firm performance and proactive and reactive flexibility (Karri, 2002). The application of strategic flexibility to a firm's resource base has important implications for performance and competitive advantage (Combs, Ketchen, Ireland

& Webb, 2011), including in franchise-based environments (Falbe, Dandridge & Kumar, 1999; Liu, Chen & Hsu, 2014).

The QSR franchise business model

Franchising is a widely used form of ownership and brand expansion, especially in the quick-service restaurant sector (Dittfurth, Gerhardt & Joiner, 2019; Dube, Mara & Ntimane, 2020; Shumba, Zindiye & Donga, 2017). Franchising can be defined as a business relationship that takes place as a result of a licensing agreement between different types of entrepreneurs. The franchise model seeks to expand product distribution, replication and geographic dispersion through an entrepreneurial relationship that is characterised by a joint ownership structure (Gillis et al., 2018; Kidwell et al., 2007; Wu, 2015). Franchising's popularity includes reduced capital requirements, access to scarce managerial skills, access to specific geographies and local market knowledge, limiting exposure to economic risk, reduced monitoring cost and decreased exposure to the moral hazard of employee managers (Gillis & Castrogiovanni, 2012; Koh et al., 2018; Pizanti & Lerner, 2003; Sorenson & Sørensen, 2001). For the franchisee, franchising is arguably an easier path to wealth creation by purchasing a known production and retail system along with strategic and operational support (Sorenson & Sørensen, 2001). With respect to entrepreneurial franchising, franchisees bring financial capital and highly motivated and competent managerial expertise which facilitates rapid growth but sometimes at the risk of the franchisee 'free-riding' (Barthélemy, 2008; Gillis et al., 2018; Kidwell et al., 2007) and other possible brand reputation risks which consumers are unable to distinguish by ownership type and may attribute to the brand (Cao & Kim, 2015; Gillis et al., 2018). While these risks can be mitigated through strong relationships that create win-win situations, the cost of monitoring franchisees in larger franchise systems can be high (Barthélemy, 2008; Brown & Dev, 1997; Jang & Park, 2019).

The key cost of franchising for the franchisor is in managing the relationship with the franchisee and ceding of residual profits from restaurant operations (Gillis & Castrogiovanni, 2012; Koh et al., 2018). Once the franchisor matures and has achieved the early marketing and distribution goals, the franchisor may use available capital to purchase back outlets which exhibit superior performance, thereby entering a plural ownership model where a franchisor owns CO-O outlets alongside franchisee-owned outlets (Gillis et al., 2018; Thomas et al., 1990). Franchisor participation, in plural form franchising, increases the franchise management capabilities of the franchisor and improves overall performance (Gillis & Combs, 2009). Franchisors that develop and maintain these capabilities, leverage effectively from the symbiotic benefits of franchisor-owned outlets (Gillis et al., 2018). Several studies have examined the performance differences between CO-O and franchise outlets (Aliouche & Schlentrich, 2009; Cao & Kim, 2015; Gillis & Castrogiovanni, 2012; Koh et al., 2018; Madanoglu et al., 2011; Thomas et al., 1990), pointing to a performance advantage on the part of franchisees (Aliouche & Schlentrich, 2009; Madanoglu et al., 2011). However, franchise outlets converted to CO-O generate a lower return than when franchised (Thomas et al., 1990) and franchise chains are franchising more not less as they mature (Gillis & Castrogiovanni, 2012).

A number of reasons have been put forward for performance differences between franchise operations and CO-O stores. Franchisees have a natural incentive to maximise profit as they stand to lose their investment if they do not perform while CO-O stores may allocate efforts to non-value-added activities, particularly if conditions allow for free-riding (Sorenson & Sørensen, 2001). A key advantage of the franchise system is that compensation and reward are directly tied to the performance of the franchisee outlet. In contrast, the CO-O manager is typically on a fixed salary with limited incentive to perform (Barthélemy, 2008). Stores will act in a fit enhancing way, whereby franchisees with flexible, decentralised structures will pursue strategies that emphasise flexibility and local adaption. At the same time, CO-O outlets will focus on strategies that emphasise predictability and control (Yin & Zajac, 2004).

Cao and Kim (2015) found a difference in performance between ownership types and offered the difference in management structures as a possible explanation for the performance gap. While studies in the past have measured performance through stock market valuations, these metrics do not take into account privately-held firms and smaller firms which constitute a high proportion of the QSR franchise sector, both in America and elsewhere (Aliouche & Schlentrich, 2009; Lee, Hallak & Sardeshmukh, 2016; Madanoglu et al., 2011).

The QSR industry and industry performance

The restaurant industry can be divided into several restaurant classifications each with a set of service norms with differing customer expectations (Hanks, Line & Kim, 2017; Hwang & Ok, 2013; Kim & Gu, 2003). No universal performance measures have been agreed for the restaurant industry, but a number of commonly observed performance indicators exist such as profitability, growth, customer satisfaction and meeting expectations of customers (Jogaratnam, 1999; Lee et al., 2016). Customer satisfaction within the restaurant industry incorporates several typical measures including waiting time, quality of service, the responsiveness of customer-facing employees, food quality and consistency and convenience (Gupta, McLaughlin & Gomez, 2007; Nwokah & Adiele, 2018). Common attributes for the QSR are reliance on narrow menus, catering to a price-sensitive customer and development of habit-forming purchases on the part of the customer with customer expectations focused on price, speed, consistency and time-saving (Muller & Woods, 1994). Service quality is considered one of the key facets in terms of customer perceptions of restaurant brands and can lead to a competitive advantage through increases satisfaction and resulting in repeat purchases (Cao & Kim, 2015; Gupta et al., 2007; White & Schneider, 2005). The quality of human capital injected into a system by franchisees is a particular resource that, if enhanced to the requisite level, can lead to service excellence and fewer service failures which can lead to brand damage (Harrington, Ottenbacher, Staggs & Powell, 2012; Ployhart, Van Iddekinge & MacKenzie Jr, 2011).

Entrepreneurial drive and motivation in the QSR industry

Human motivation plays a critical role in the entrepreneurial process. Entrepreneurs could be motivated by many possible factors including but not limited to the need for achievement, the propensity for risk-taking, the need for a locus of control, self-efficacy and goal setting. Additionally, entrepreneurs value high levels of independence and generally seem to have high levels of drive, which allow them to put forth the effort to bring their ideas to life. Lastly, they often possess qualities such as ambition, goal-orientation, persistence, stamina and even egotistic passion, defined as a passionate, selfish love of the work (Shane, Locke & Collins, 2003). This was supported by Lee et al. (2016) who found that there was a correlation between the level of Entrepreneurial Self-Efficacy (ESE) and restaurant performance as the higher the level of ESE, the higher the drive and goal setting of the entrepreneur, particularly concerning driving innovation and identifying market opportunities. Entrepreneurial motivation has been found to have a beneficial effect on venture growth. Along with the ability to assemble and organise resources; these are predictors of new venture growth (Baum & Locke, 2004). Specifically, the motivational influences of both the drive to survive and the impact of unlocking the opportunity, influence entrepreneurial performance (Luan & Li, 2019).

Corporate entrepreneurship and strategic rigidity

Given the impact of entrepreneurial characteristics on the performance of restaurant firms, it is important to understand how the lack thereof impacts on firm performance. Corporate entrepreneurship (CE), defined as "the concept of supporting employees to think and behave like entrepreneurs within the confines of an existing organisational structure" (Kennedy, 2018, p. 1), encompasses five attributes: proactiveness, the existence of aspirations beyond current capability, team orientation, the capacity to resolve dilemmas and learning capability and usually takes shape through strategic renewal, innovation and corporate venturing (Bierwerth, Schwens, Isidor & Kabst, 2015; Stopford & Baden-Fuller, 1994). As a firm grows larger and becomes more established, they tend to develop bureaucratic structures and controls that impede innovation and strategic flexibility which leads to an aversion to entrepreneurial activities (Hitt, Hoskisson & Ireland, 1990; Li, Ching-Yick Tse & Zhao, 2009). Within the quick-service restaurant industry, firms that allocate a high proportion of ownership to management teams tend to franchise less (Koh et al., 2018) and show greater entrepreneurial orientation. Firms exist along a continuum ranging from highly entrepreneurial to highly conservative in nature (Barringer & Bluedorn, 1999); conventional forms tend to have higher levels of bureaucracy and governance in the corporate environment which can have a negative effect on management decision making and organisational agility and flexibility (Durden & Pech, 2006). Within organisations that have adopted multi-business organisational structures such as the CO-O structures with the QSR industry, decision making is often constrained by control and structural requirements at a corporate level (Kownatzki, Airways, Walter, Floyd & Lechner, 2013). At the other end of the spectrum, empirical studies of CE have found evidence of the positive impact on performance and decision-making speed, particularly in dynamic environments where the need to exploit short-lived opportunities is key (Bierwerth et al., 2015; Kownatzki et al., 2013). In their assessment of CE within the restaurant industry, Li et al. (2009) found that high levels of CE were linked to high levels of environmental scanning, greater planning flexibility, shorter planning horizons, better locus of planning and improved financial controls.

The literature reveals a growing interest in determining the antecedents that drive performance differences between firms that have franchisees and those that do not. However, research thus far has focused only on performance at a macro level between competing firms and not by ownership types within the same brand or franchise system. The focus of the available literature has primarily emphasised whether there is a performance difference and has not sought to understand why that difference exists. Therefore, this study, making use of RBV theory, sought to understand why and how QSR franchisees can utilise the resources at their disposal to higher and better purpose than CO-O within the same franchise system. In doing so, the research sought to uncover management strategies for franchise-oriented firms, both inside and outside the QSR industry that can be used to improve performance, competitiveness and create economic sustainability.

Methodology

This study used a cross-sectional qualitative exploratory research design. The research team used semi-structured interviews as the primary data collection method. These interviews are deemed appropriate for a study of this kind as they allow for the flexibility to ask questions and gain insights from the different constituency groups based on a single interview opportunity using a clear interview protocol to ensure reliable and comparable data (Cohen & Crabtree, 2006). This study was conducted entirely within a single franchise system within the QSR industry in South Africa. Respondents were purposively selected to respond on behalf of the franchised and CO-O outlets within the relevant population. Four population groups were identified; the first group was senior leadership within the QSR franchise system who were able to provide insights into the different support structures and operational practices of the CO-O portfolio vs the franchise portfolio. The second group comprised regional managers who hold responsibility for the daily management and support of both CO-O and franchise outlets. Regional managers were able to provide perceptions as to how franchisees structure and utilise the resources of their firms differently to managers of the CO-O estate. The third group comprised franchisees who provided insights into how they utilise resources within their operations and outlets. Finally, restaurant management, from both ownership types, provided details of how resources are used within their specific outlets.

Purposive sampling was deemed appropriate for this study to not only achieve triangulation but to ensure an even spread of respondents across different constituency groups (Patton, 1999). The intent was to use the perspectives of the four constituency groups to identify common themes; this ensured that a holistic perspective was achieved and allowed key insights to be generated. A total of 20 interviews were conducted across the constituency groups; Table 1 reflects the spread of these interviews for each group. Data saturation typically occurs within 12 interviews (Guest, Bunce, & Johnson, 2006) and was achieved by interview 19 of the study.

Table 1: Respondent demographics

Characteristic	n	%
Population Group		
Senior Managers	3	15%
Franchisees	4	20%
Restaurant Managers - Franchise - Company Owned	 5 4	45%
Participant Employer - Franchisee - Company Owned	 9 11	 45% 55%

A series of structured questions was asked of each respondent, derived from the Resource-Based View of the Firm. Questions allowed for the generation of insights, themes and perspectives, with a slight adaptation when interviewing restaurant managers and franchisees, given their narrow frame of reference. All interviews were recorded for later transcription and coding. In addition, field notes were captured immediately after each interview that added to the context and was used to identify any issues that may affect reliability or validly of the interview and study. All interviews were transcribed in full using transcription software and a quality control assistant. The transcriptions were coded and analysed using ATLAS.ti; directed content analysis is a widely-used and accepted qualitative research technique (Hsieh & Shannon, 2005).

Results and discussion

The overwhelming majority of respondents reported that franchisees enjoyed a performance advantage over Company Owned and Operated (CO-O) outlets which aligns with the findings in previous studies (Aliouche & Schlentrich, 2009; Gillis & Castrogiovanni, 2012; Madanoglu et al., 2011; Thomas et al., 1990). The findings from the interviews revealed several factors that could explain the performance difference between the two ownership types. These factors, derived from an analysis of the data, are franchisee motivation, franchisee empowerment and flexibility, manager focus, opportunity realisation, corporate rigidity and tactical restaurant management. When combined, the themes help to explain how the resources at the disposal of the franchisee create the performance advantage. Each theme is outlined and explained below. The quotations included in each section are provided as exemplars to illustrate the results and are not exhaustive.

Franchisee motivation

Franchisee motivation emerged as a core factor in accounting for performance differences between store types. The attention given to a business by the owner who has invested capital versus someone who is working for a corporate salary seems to give rise to this performance differential.

> There's somebody in the business every day that cares – Franchise Manager
> … if you invest your own money, [You] tend to look after it better than somebody who works for the salary – Senior Manager.

The view of respondents was that because the investment in the business was material and represented the ongoing livelihood of the franchisee, thus the drive and management of the business would be of a higher standard than in CO-O outlets.

> There's a saying, 'when the cat's away, the mouse will play.' And I've seen it… I am in the store every day driving good habits, driving SOPs, staff are more aware, they're more vigilant if I walk into the store, they know that it has to be 110% correct. – Franchisee.

A greater emphasis was noted from the franchisees engaged in the study to manage performance within their outlet(s) when compared to their counterparts in the CO-O structures, aligned with the higher drive attribute reported in the literature (Shane et al., 2003). The regional managers within the organisation appeared to manage to set targets and often aggregated performance across the group of outlets under their control. They settled for lower performance in some outlets provided that the overall regional performance target was met. This is consistent with the moral hazard concern (Gillis & Castrogiovanni, 2012) and the reason for performance differences among franchises identified by Barthélemy (2008). Conversely, the franchisees interviewed for this study demonstrated a different attitude and drive that seemed to manifest in an effort to maximise monthly profits, irrespective of budgeted targets. This is supported by previous studies that show that franchisees have a natural incentive to maximise profits (Sorenson & Sørensen, 2001).

Franchisee empowerment and flexibility

The second theme that emerged reflects the extent of autonomy that exists within a franchise outlet and the resulting flexibility that creates on a day-to-day basis within the franchisee operation. The ownership of the outlet by the franchisee (usually an individual or partnership structure) creates a certain degree of empowerment that significantly exceeds that of a salaried manager within a company-owned structure. Respondents suggested that with that empowerment comes a flexibility that allows for the improved management of the outlet. "… the franchisee makes the decision so if he is of the opinion that he needs more staff he employs more staff." – Regional Manager.

The data indicated that the level of management flexibility within the outlet and the extent of empowerment to make business decisions directly impacts business performance. The study respondents consistently referenced examples relating to outlet resourcing and employee incentives; CO-O outlets are required to use company guidelines irrespective of local outlet requirements while franchisees can adjust to meet the requirements of their specific context.

> I can work 16 to 14 hours a day if I want. I can employ seven managers and I don't have to lift a finger. Those are the kinds of things you can do [as a franchisee]" – Franchisee. "… if there's something happening it's immediate. It immediately gets done because it's your income, it's your business. So that's why – Franchisee.

The ability of the franchisee to make those decisions seems to relate to a unique entrepreneurial ability to combine and organise resources (Alvarez & Busenitz, 2001). This allows the entrepreneur to make decisions unencumbered by corporate policies, guidelines and delegation of authorities that govern CO-O decision making who focus on predictability and control rather than flexibility and local adaption (Yin & Zajac, 2004). The franchisee is still bound by the rules of the franchise system. Yet, they are seemingly in a better position to take advantage of flexibility where it exists using the unique resources at his/her disposal to create a competitive advantage.

Manager focus

Within a franchise-owned outlet, the franchisee absorbs a greater portion of the administrative burden, leaving the outlet manager to focus on the core day-to-day operations.

> My [manager] doesn't have to worry about the bigger picture of accounts and payroll. My [manager] doesn't do all that. So, I do all that because I have the time to do it. – Franchisee.

This is in contrast to the CO-O structure, where the company-employed outlet manager fills both roles, managing the administration and reporting to head office and the responsibilities related to operational management of the outlet.

> I would, if I had to walk into say five corporate and five franchise restaurants every day, I would probably in the corporate site … 70% of the time find the managers in the [office], with the franchise system … 70, 80% of the time find the manager in front of house – Senior Manager.

The impact of the challenge around management focus is related to the impact of the manager on the core operation and driving the key business metrics. While the franchise outlet manager is free to focus on customer satisfaction and driving sales in the outlet, the CO-O manager has far less available capacity to focus on customer satisfaction. "[CO-O] has more admin in store. Yes. And that takes away a lot of time from the [Restaurant manager]" – Regional Manager.

Although this may be a phenomenon that is unique to the organisation assessed in this study, the existence of additional capacity and capability at franchises does relate to the existence of entrepreneurial resources that are not available to the CO-O system. Both ownership types have the same view of performance (Harrington et al., 2012), but CO-O outlet management seems to allocate efforts to non-value adding activities (Sorenson & Sørensen, 2001).

Opportunity realisation

Opportunity realisation relates to the ability of the outlet to identify and exploit opportunities within the local environment that lead to enhanced financial performance; a consistent theme from the data was the ability of franchisees to identify and realise opportunities at a micro-level.

> We'll go out there.…. Whatever we bring in is better for the business, it's better for us, so we're hungry… Please don't get me wrong, I think corporate do it, but I don't think on the same level – Franchisee.

This manifested in two broad themes: local marketing relating to the effectiveness of a specific activity and a seemingly enhanced capability for opportunity realisation that franchise operators appear to possess.

> … a franchisee, they just go out and look for sales much easier than our guys on the ground do. We've got many franchisees that are in communities … in the corporate business, the placement of [Managers] is much more random – Senior Manager.

With local marketing, the activity involved the use of resources within the outlet to market to the local community. Common examples include street advertising, local sponsorships, engagement with the community on digital platforms, engagement with local businesses for catering etc. The consensus amongst those interviewed indicated that the CO-O outlet managers and regional managers lacked the capacity, and in some cases, the motivation to leverage this channel to improve outlet performance.

> … the other reason is on average a franchisee might operate two or three [outlets], [where a regional manager] might sit with six, seven or eight [CO-O outlets] plus supporting franchisees plus different projects at head office. So, I think that the time constraint on a [regional manager] is [high] and their ability to actually go out and look for that business [limited] – Regional Manager.

In terms of the enhanced capability of the franchise outlets to better identify and realise opportunities when compared to CO-O outlets, the consensus was that business acumen combined with the ability of the franchisee to make quick decisions created an advantage over the CO-O system.

> [a rural outlet] was bought by corporate, when it was school holidays the Franchisee used to open that store at 6 am…. So, he had that additional [trading hours] to do sales. He would also play it by ear so if in the evening there's still more [trade], he would [stay open] – Senior Manager.

The impression given by those interviewed was that the entrepreneurial recognition shown by franchisees is a real advantage that contributes in a material way to the ongoing higher performance of franchise outlets, an example of effective entrepreneurial opportunity recognition (Alvarez & Busenitz, 2001).

> So, if the costs are getting high, for example, in terms of the supplier of [fresh vegetables], a franchisee will switch tomorrow - with us, it takes time. We need to ask procurement to actually go and get [new] supplier for us. – Senior Manager.

> I think because they have a keen appetite to grow their business's portfolio… they'll always look at opportunities, if there's a new site here, there's a new site there, [to open] – Senior Manager.

The franchisees appear to be able to both identify more opportunities than the CO-O outlets and critically unlock those opportunities at a higher and faster rate than CO-O outlets. This is consistent with the patterns identified in the literature regarding the level of bureaucracy and risk aversion that develops in large hospitality organisations over time (Li et al., 2009).

Corporate rigidity

The effect of corporate rigidity of the CO-O business model emerged from the data and suggested a negative impact on the ability of the CO-O outlets to both function at peak capability and realise opportunities.

> It's a lot of red tape and a lot of admin to get one thing done to be honest. So, if you needed a light bulb put in, you have to log it, the supplier sends confirmation, it gets approved… – CO-O Manager.

The need to maintain control over a larger number of CO-O outlets leads to an inflexible business model where CO-O outlet managers operate within a strict set of rules that govern the operation of the outlet.

> So corporate [seem to have red tape]…So if a corporate [outlets] identifies a delivery program that they want to enter and the franchise also does the same the franchise will benefit probably eight months before the corporate can land that deal. – Senior Manager.

Rigidity limits risk for the organisation but at the cost of flexibility and manager empowerment when compared with CO-O outlets.

> There's just too many rules from a structural point of view in terms of a corporate for a [manager] to even remember who do I phone when I got this problem? – Senior Manager.

This is consistent with the findings of Sorenson and Sørensen (2001) who report that CO-O outlets allocate effort to non-value adding activities and tend towards lower levels of corporate entrepreneurship and innovation (Durden & Pech, 2006; Kownatzki et al., 2013; Luan & Li, 2019).

Tactical restaurant management

The final factor to emerge from the data was that of the tactical restaurant management ability of the two different ownership types which manifest in a number of ways. Firstly, regarding the structuring of the different ownership types, a franchisee with more than two outlets would often employ the services of an operations manager to support the core operation of the outlets under his/her control. This contrasts with the CO-O support structure that deploys a regional manager responsible for up to six outlets directly along with the responsibility of supporting several franchisees in their area. The quotes below exemplify this issue.

> You might have a franchisee that's got four restaurants; he might have [an] operations manager. So, it's him managing the operations manager…the operations manager only deals with four restaurants at most and the operations managers involved within the business and the business runs up a lot smoother than what a corporate business would – Regional Manager.

> … a franchisee will probably take care of most of the financial and HR issues and running the business. The operations manager would look after the operations. – Regional Manager.

Secondly, labour scheduling guidelines and processes would serve to restrict the CO-O outlets' ability to effectively staff the outlets to serve customers and optimally meet customer expectations. The franchisees, with their flexibility and entrepreneurial ownership, appear more able to employ and deploy staff according to the specific needs and patterns of the individual outlets under their control.

> [In] a franchisee we lose a person today can employ someone today whereas in corporate to employee a person will probably take you on average two weeks. – Regional Manager.

Within this environment, franchisees also appear to be better able to replace staff more effectively than their CO-O counterparts.

> I think corporate has got a very long recruitment process, sometimes [outlets] have got to wait two weeks to two and a half weeks to get people employed in the store, let alone do training. Whereas if I lose somebody, I can employ tomorrow, I have the freedom to put them through the training process – Franchisee.

Thirdly, general staff and managerial incentives appear to be set based on the preferences of the individual franchisees and what they have found works with the staff in their outlets, often taking the form of short-term immediate return incentives.

> Cashiers are on…ticket average target [incentives]… The coordinators on the speed of service…and then over December [a traditionally busy period for the brand], last year or the year before, for doing budget, each of the staff members were given a cell phone. – Franchisee.

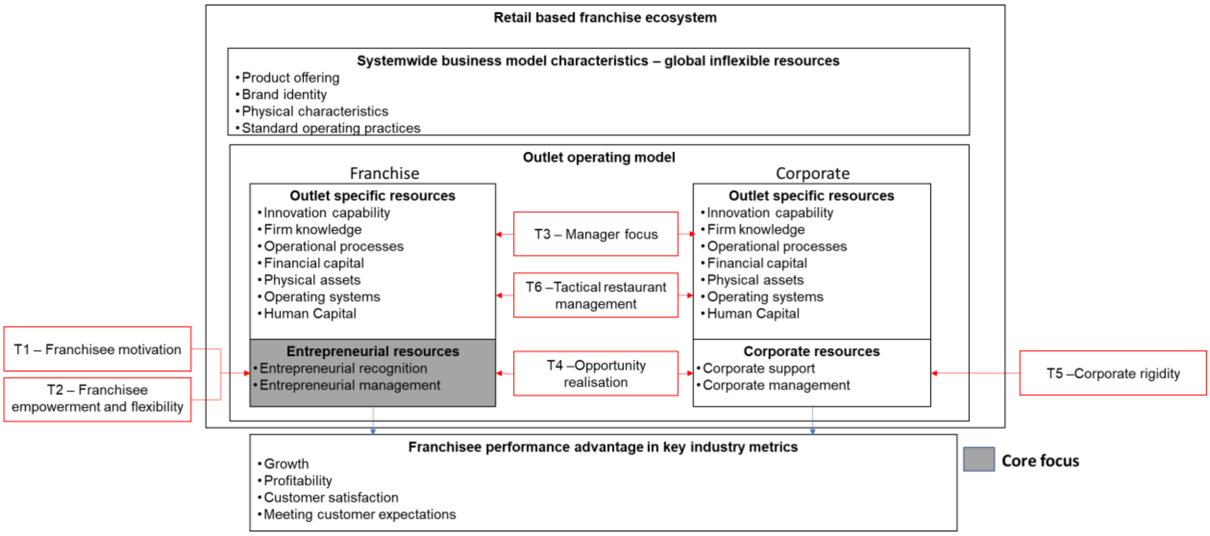
By contrast, the incentives in the CO-O estate appear to be annual with no flexibility to use incentives to drive specific behaviours needed at a point in time, for example, a cashier incentive to upsell a specific promotion.

Overall, there appeared to be a difference in performance on an ongoing basis between the different outlet types with the franchise better able to meet customer expectations and drive sales growth. The two entrepreneurial resources (Alvarez & Busenitz, 2001) appear to manifest in the optimisation of the resources under the control of franchisees, creating a competitive advantage for franchise outlets.

Impact on overall performance

When all the themes are considered together, a framework is proposed, whereby entrepreneurial flexibility and resource allocation and use are injected into a store by a franchisee. This then generates a higher level of performance than that of the CO-O outlet. The impact is one of sustained competitive advantage that is born out in the performance differences between the ownership types based on the factors listed above. Figure 1 illustrates how the six factors discussed above affect the resources of the ownership types to create the performance difference.

Figure 1: Franchise system resource use and performance framework



Systemwide business model characteristics are the resources that define the nature of the franchise system. These resources are available to both ownership types and determine the position of the franchise in the market. These resources are developed throughout the life of the franchise system and can only be adjusted by the franchisor. Typically, these would include the brand, logo, recipes and other brand intellectual property. Within the outlet operating model, there are two sets of resources: outlet specific resources and entrepreneurial or corporate resources. Outlet specific resources refer to the resources that constitute an outlet within the franchise system and partially explain performance differences between outlets. These include but are not limited to physical assets, location, size, quality of equipment and systems implemented and quality of the human capital in the outlet. These combined resources constitute a heterogeneous set of factors that will contribute to the performance that is commensurate with the quality of the resources. The second resource type is the entrepreneurial and corporate resources available to the franchise and CO-O outlets, respectively. The entrepreneurial specific resources, showing strategic and entrepreneurial flexibility, as identified by Alvarez & Busenitz (2001) became evident in this study and are complemented in the CO-O entity by corporate management and corporate support for the CO-O estate.

Implications and conclusion

Using the Resource-Based View of the Firm (RBV) as a theoretical lens, this study aimed to understand how franchisees can utilise the resources at their disposal to higher and better purpose than CO-O outlets in the QSR industry within the same franchise system. While previous studies (Aliouche & Schlentrich, 2009; Koh et al., 2018; Madanoglu et al., 2011; Thomas et al., 1990) highlighted the performance differences, the reasons for these differences were unclear. Given the size of the industry and its importance in economies around the world, understanding why this phenomenon exists has relevance for the restaurant industry in general and extending further afield for other industries that include franchise models. The study identified how entrepreneurial flexibility results in the use of resources to create a competitive advantage for franchisee-owned outlets in a dual ownership system. In doing so, we have identified theoretical and practical applications that can be used to improve performance, competitiveness and create economic sustainability within the hospitality industry and plural ownership franchise systems.

Using the framework in Figure 1, we show that the positive impact of entrepreneurial resources on the outlet specific resources within the franchisee-owned store leads to a competitive advantage and performance difference. The CO-O estate does have some advantages over the franchise outlet in terms of head office support structures and the ability to share learnings and knowledge over a larger network. However, the limitations of the CO-O estate, including the standard operational configuration imposed on all CO-O outlets, impose a certain amount of rigidity, thereby limiting opportunity realisation and the motivation to drive performance beyond set targets. This results in a limited ability of the CO-O estate to compete to the same extent as the franchise estate. What surfaced through this study, is that the entrepreneurial resources available to franchisees provided the franchise base with the ability to identify opportunities at a higher rate, convert more opportunities and configure the resources of the outlet for better performance. We have linked this to instances of strategic flexibility and entrepreneurial orientation, a phenomenon that has been identified as critical in environments of uncertainty and high competition (Li, Su, Liu & Li, 2011; Yu, 2012).

Theoretical implications

This study provides insights into the reasons behind the performance difference in dual ownership systems - an area that currently has limited academic evidence. The factors identified in this study provide an understanding of the specific advantages that franchisee operated stores can employ which provide theoretical contributions in three different contexts. Firstly, the study provides insights within the hospitality industry concerning performance differences by expanding on how the advantages in flexibility, ownership, drive, opportunity identification and resource organisation lead to a performance advantage for franchisees. Secondly, the study lends support to the RBV as a theoretical construct and specifically validates the entrepreneurial resources outlined by Alvarez & Busenitz (2001). This study validated the existence of the entrepreneurial resources within the franchise system, and the findings support how the two entrepreneurial resources with the RBV theory operate to provide franchisees with a sustainable competitive advantage. What may increase the relevance of this particular theoretical implication is the nature of the franchise system in that the rigid structure enforced by the franchise model limits the variables that could explain performance differences thereby allowing for the easier validation of entrepreneurial resources as a source of competitive advantage. Finally, this study identifies several issues facing corporate performance vs entrepreneurial performance in a closed QSR franchise system. As with the point above, the elimination of a number of variables to explain performance differences may allow researchers to focus on themes that may be relevant to other fields of study.

Practical implications

This study identified several important elements for practitioners to consider, both within the restaurant industry and the hospitality sector in general when seeking improved levels of firm performance. The study highlighted the impact of entrepreneurial resources on improving performance in franchised operations relative to a CO-O estate. The findings provide practitioners in the industry with insights into what specific mechanisms lead to the performance difference in two ownership types. These could be replicated within other networks to improve the overall performance of CO-O estates. It highlighted how, by adjusting the structures to support individual outlets, performance could be enhanced. Practitioners within large brand networks could look to replicate the flexibility and drive that allows franchisees to experience heightened levels of performance. This could be done by adjusting their policies and operating practices to improve motivation, ownership and opportunity identification while continuing to manage the overall brand performance and limit risk. This study also highlighted a number of elements of the CO-O system that inhibited growth and opportunity identification such as removing unnecessary layers of approvals, enhancing decision turnaround time and reducing the time spent within the CO-O environment on non-value adding activities.

Limitations and future research directions

This study has several limitations which could be addressed through future research. Firstly, the study was conducted within a single franchise ecosystem, which may have resulted in some of the findings being unique to this system. Furthermore, while the study considered several respondent groups to improve validity and reliability, the number of respondents interviewed in each group was relatively small. Hence the results may not be generalisable to other franchise systems. The study should be replicated with larger sample sizes of outlets and respondents. Further research on different franchise ecosystems will enhance the above findings and build on the outcomes in this study. Secondly, the franchise ecosystem in the study is mature and differentiated within the industry that it operates with a strong brand and mature franchisees. Poor performing franchisees that presented brand risks or failed to deliver business results effectively have largely been eliminated from the system over several decades, leading to a highly effective franchise group. Findings in a less mature environment may lead to different result both in terms of the findings and also the difference in performance between ownership types. While this study identified several themes that go some way towards explaining the performance difference in dual ownership systems, the impact of each theme has not been quantified. Future studies could look at the exact impact on the performance of the various themes unearthed in this research to build on the findings of this study and further highlight how practitioners can focus on improving performance among QSR franchises.

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