

# Can Franchisors Balance Adaptation and Standardization? Toward Theorizing Ambidexterity in Franchisors

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## Abstract

Franchising is a growth strategy in which franchisors grant other parties the right to use their brand, processes and value propositions in different geographical places. Consistency in products and services across different branches is considered as a prominent feature of this business model. This; however, may diminish the firm's ability to adapt to local preferences. Accordingly, one of the main challenges franchisors are encountered is how to achieve a decent balance between adaptation and standardization activities. While the literature of franchising provides less insights into the way franchisors can mitigate this tension, building on the literature of organizational ambidexterity this research theorizes potential factors enabling franchisors to be the so-called ambidextrous firms. We propose that plural form, portfolio network management, diversity in target markets, and strategic orientations can enhance a franchisor's ability for adaptation-standardization duality. This opens novel

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paths for research aiming to enhance our understanding of the way franchisors can improve their performance.

**Keywords:** Organizational ambidexterity, franchisor, standardization, adaptation.

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## Introduction

Franchising has been one of the quickly growing business models over the last decades (Boulay, 2010). It is increasingly turning into an important growth strategy for firms. A large and growing part of retailing and service businesses are devoted to franchising (Sorenson and Sorensen, 2001). In particular, this business model is gaining increasing popularity in developing countries. Franchising system is now used in automobile manufacturing, transportation, house appliances, food and agricultural products, pharmaceutical, and petrochemical sections (Cox and Mason, 2007).

One of the main challenges franchisors are encountered with is the need to balance between standardization and adaptation. Indeed, franchising is formed based on a standardized business model repeated in different markets (Dada, Watson, and Kirby, 2011). Standardization and uniformity is the basic characteristic of franchising (Cox and Mason, 2007). Yet, this may reduce franchisees' ability to meet local market needs and preferences (Falbe, Dandridge, and Kumar, 1999). Therefore, emphasizing on standardization can be at odds with the adaptation to local opportunities (Cox and Mason, 2007; Pizanti and Lerner, 2003). The literature on franchising has mainly focused on the way firms can keep consistency across different branches (Kaufmann and Eroglu, 1999; Boulay, 2010). Yet, little attention has been given to how firms can manage the two opposing, yet complementary, activities of standardization and adaptation.

We build on the literatures of organizational ambidexterity and franchising (Gibson and Birkinshaw, 2004; Kang, 2014; Chang, 2015), and theorize the way firms can achieve adaptation-standardization duality. We propose that plural form, portfolio network management, diversity in target markets, and strategic orientations can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.

This study can make at least two important contributions to the literature. It can first make a significant contribution to the literature of franchising by theorizing ambidexterity in the novel context of franchising, and arguing the way firms operating in this context can mitigate the tension between standardization and adaptation. Second, it adds to the literature of ambidexterity by extending the literature to the context of franchising, less contended by prior studies. We argue that the tension between opposing activities such as exploration and exploitation (Raisch and Birkinshaw, 2008) can be raised between standardization and adaptation in the context of franchising. In the remainder of this section, having argued the theoretical background and literature review, we provide a

number of propositions linking organizational mechanisms to ambidexterity in franchising systems.

### Theoretical background and propositions

To date, a growing body of literature has been studied organizational ambidexterity and the way firms can achieve competitive advantage (Junni, Sarala, Taras, and Tarba, 2013). The main premise of this literature is that the firm's ability to manage conflicting activities such as exploration and exploitation can lead to better organizational performance (Rothaermel and Alexandre, 2009). The concept of ambidexterity was initially introduced by Duncen (1967) and March (1991) in the organizational learning literature. An ambidextrous organization can create a high level of balance between utilization (learning through local research, experimental refining, and reusing the current knowledge) and exploration (learning through experimentation, risk-taking, and pro-activeness) (Levinthal and March, 1993; March, 1991). Organizational ambidexterity is defined as an organizational capability in alignment and efficiency of responding market demands and at the same time adapting with environmental changes. In fact, ambidexterity is mostly applied to describe a firm's ability in simultaneously doing different activities such as utilization and exploration, efficiency and flexibility, uniformity and adaptation (Gibson and Birkinshaw, 2004).

Table 1: Prior important studies on organizational ambidexterity

Researcher	Year	Methodology	Effective factors
Gibson and Birkinshaw	2004	Quantitative	Theorizing contextual ambidexterity
Raisch and Birkinshaw	2008	Review	Structural factors Contextual factors Leadership factors
Simsek	2009	Review	Organizational level factors Dyed level factors Environmental level factors
Simsek	2009	Review	Binary structures Organizational context Senior management team
Datta	2011	Qualitative	Behavioral context Binary structure Management team
Birkinshaw and Gupta	2013	Review	Managerial abilities Multilevel construct Contextual factors
Junni, Sarala, Taras, and Tarba	2013	Quantitative	Ambidexterity and performance Contextual factors
Chang	2015	Quantitative	Behavioral factors related to human resource and high performance working systems (HPWS)

The literature of organizational ambidexterity have given less attention to the context of franchising as shown in Table 1. Studies have mainly focused on factors such as organizational structure, behavioral contexts, leadership processes and senior managers' team that can mitigate the tension between exploration and exploitation in an organizational context (Siggelkow and Levinthal, 2003). The tension between standardization and adaptation in the context of franchising has not been theorized neither in the literature of organizational ambidexterity nor the franchising literature.

### **Franchising and ambidexterity**

Franchising relies on “repeating” a tested achievement (Roh, 2002). In recent decades, it has turned into one of the quickly growing businesses and attracted large attentions due to creating occupational opportunities, downsizing and economic development (Dada, Watson and Kirby, 2011; Falbe, Dandridge and Kumar, 1999). Franchising is a legal agreement whereby a party (franchisee) is granted the right of selling a firm's products or services in a particular region (Green, 2007). Thus, franchising ensures a contract agreement between the main actor (franchisor) and an agent (franchisee) to obtain reciprocal interests of a business established by the main actor (at the cost of agreed payment from franchisee to the franchisor) (Ahmadpour and Ahmadiyan, 2011).

What makes a contradiction in franchise companies is the balance between two contradictory standardization and adaptation activities. The important point of this research is franchisors' ambidexterity in using the two strategies of standardization and adaptation. Franchisor requires balancing large scale saving attained by system standardization and micro scale saving resulted from adapting with local market (Kaufmann and Eroglu, 1999). One of the most difficult managerial issues that the franchisees encounter is defining business limitations. In other word, establishing a necessary level of uniformity for the system to achieve saving in term of scale and at the same time avoiding the risk of disregarding adaptation in local markets, leading to the standardization-adaptation tension (Kaufmann and Eroglu, 1999).

Standardization perspective views globalization as a driving force for more similar market, higher technological incorporation, as well as larger coordination in customers' needs, preferences and desires (Levitt, 1983). Such strategy has several merits including: a) larger saving, particularly in activities such as research and development, production, and marketing; b) presenting a steady image brand; and c) complexity of reduced management due to better controlling and coordination of international activities (Levitt, 1983; Douglas and Craig, 1986). Proponents of adaptation perspective agree that despite increasingly tendency towards globalization, contextual differences among countries in term of consumer needs, regulations, and technology development are still prominent; therefore, it is necessary to have different marketing strategy and value propositions in different countries (Terpstra and Sarathy, 2000). Thus, one challenge firms are faced with is which of these strategies can be more suitable for firms.

A summary of prior literature on ambidexterity in franchizing is presented in Table 2. As it can be seen in this table, less theorizing has been made as to how can firms achieve standardization-adaptation duality. Prior studies have mainly argued the potential

importance of using standardization and adaption at the same. Yet, less is known the organizational mechanisms enabling firms to do so.

Table 2: Summary of standardization/ adaptation in franchising literature

Row	Scholar (s)	Year	Function	Results
1	Szymanski, Bharadwaj, and Varadarajan	1993	Standardization / Adaptation	It deals with the challenge of standardization and adaptation in firm's marketing strategy.
2	Agrawal	1995	Standardization / Adaptation	It describes the standardization/ adaptation challenge in advertising international and multi-national businesses.
3	Kaufmann and Eroglu	1999	Standardization / Adaptation	It deals with the consistency of franchise concept with local market in order to contribute in the system by managerial, information and financial sources entering to the chain.
4	Dant and Gundelach	1999	Standardization / authority/ attachment	It explains the challenge of standardization from franchisor's view and the authority tendency of the franchisee.
5	Pizanti and Lerner	2003	Control/ authority	It concentrates on control and authority as multidimensional concepts by using agent and exchange theories.
6	Pardo-del-Val and colleagues	2014	Standardization / flexibility	It argues solving the challenge between standardization and flexibility in franchise businesses.
7	Kang	2014	Standardization / Adaptation	Ambidexterity in franchise chains is studied through the two mechanisms of distinction and integration (uniformity) to achieve different abilities provided by franchise system.

### **Towards theorizing ambidexterity in franchising**

Building insights from prior studies, we propose potential factors which can enable firms to better manage standardization and adaptation simultaneously.

#### *Plural form*

Plural form in franchising businesses is referred as simultaneously having owned units and franchise units at system level to establish the unity and adapt local markets (Bradach, 1997).

Harriga (1984) argue that ownership structures, whether franchise units or owned units, have their own benefits. Franchise systems can simultaneously invest in both of these ownerships. Dant and Kaufmann (2003) also believe that existence of any of the two forms of system ownership (owned units) and franchise units (plural form), complements one another. Indeed, as there can be agency costs for adaptation, franchisors can use owned units to adapt to local markets and use franchise units for standardization (Kaufmann and Eroglu, 1999). Hence, it appears that a combined system (a strategic combination of owned units and franchise units, the so-called plural form) can be a better choice of systems seeking the benefits of both systems.

*Proposition 1: plural form can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

#### *Alliance portfolio management capability*

Alliance portfolio management capability refers to a firm's ability to initiate, develop, and maintain relationships with other actors based on mutual trust and commitment (Sarkar, Aulakh, and Madhok 2009). Sarkar et al. (2009) conceptualize partnering pro-activeness, relational governance and portfolio coordination as three dimensions of a firm's networking capability. Partnering pro-activeness concerns a company's deliberate efforts to discover and pre-empt new and promising partnering opportunities (Sarkar et al., 2009). Relational governance refers to "the extent to which an organization engages in behavioral routines that facilitate the development of informal self-enforcing safeguards in their relationships with various partners" (Sarkar et al., 2009, p. 587). Portfolio coordination refers to "organizational processes by which a focal firm engages in integrating and synchronizing activities, strategies, and knowledge flows across partners" (Sarkar et al., 2009, p. 588). As firms with better network capabilities can find better partners and develop relationships based on mutual trust and commitment, they should be better able to achieve standardization-adaptation duality through gaining local knowledge and opportunities and also reducing agency costs for adaptation (Sun, 2013; Im and Rai, 2008).

*Proposition 2: Alliance portfolio management capability can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

#### *Contract flexibility level*

Franchise contract determines each party's responsibility, and sets the penalties of unfulfilled obligations. In addition, it ensures supports and guarantees for contract parties. The contract flexibility measured based on the level of hardness, softness or flexibility, accuracy, and precision, and predetermined materials of the contract content for each involved party (Boulay, 2010). Therefore, it seems that the contracts with adequate flexibilities and less precision are more suitable for simultaneous standardization and adaptation activities and hence ambidexterity. Indeed, flexibility in contracts can give the opportunity to franchisees to adapt to local needs and preferences if they deem necessary and beneficial. Hence, the following proposition can be developed:

*Proposition 3: Contract flexibility can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

#### *Growth orientation*

Growth orientation embraces the organization's tendency towards fast and large growth. Studies indicate that the motivation for growth is an important factor leading firms to intended purposes (Davidsson, 1989; Storey, 1994). When firms try to achieve something, they do their best to accomplish it (Scott and Rosa, 1996). As a result, firms' behavior differ depending on their growth orientation. Prior studies conclude that growth motivation can be considered as an important predictor of duration and concentration of firm activities (Wiklund, Davidsson, and Delmar, 2003). Firms with more growth orientation are more likely to use their knowledge-based capabilities for innovative purposes (Mckelvie, 2007).

Since franchising is considered as a growth strategy for companies (Gillis and Castrogiovanni, 2012) and exploiting growth opportunities requires the adaptation to local requirements preferences, it seems that the firms with higher growth tendency should have higher ambidexterity to achieve the objective of fast and large growth.

*Proposition 4: Growth orientation can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

#### *Market diversity*

It refers to the number of different geographical areas, including both domestic markets (such as different states) and foreign and international markets, where franchise businesses operate. The more divergent the number of markets a firm aims to operate, the more different customers with different tastes and preferences they may target (Peng, 2009). Therefore, when a franchise company enters into different and diverse markets, it seems that the need and possibility of using both standardization and adaptation will be greater and hence the firm should be more ambidextrous. Accordingly,

*Proposition 5: Market diversity can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

### **Discussion and conclusion**

While franchise companies face the simultaneous challenge of standardization and local adaptation for utilizing both of these approaches, there is little insight in franchising literature about how firms can properly balance these approaches. This research theorized the factors that can increase franchisors' ambidexterity for simultaneously benefiting from standardization and adaptation using ambidexterity and franchising literatures.

We propose that companies with plural form are better able to be ambidextrous franchisors. This means that franchise companies benefit both advantages by establishing owned units and representative units. It is also suggested that alliance portfolio management capability can allow franchisors to apply their ties' knowledge and resources to simultaneously pursue standardization and adaptation. We also posit that high growth

tendency can boost the level of ambidexterity in franchisors. It means that companies intending to grow faster are more likely to use both standardization and adaptation to achieve their growth objectives. The literature review also signals the link between market diversity and ambidexterity. Since franchising is considered as a business development strategy in which firms operate in different geographical places and markets, they face different needs, preferences and cultures. It appears that the more diversity in the market, the higher the need for ambidexterity. Finally, given contract flexibility can allow franchisees to adapt to local niche markets and needs, it can enhance franchisors' ambidexterity. Accordingly, building on the literatures of franchising and ambidexterity, we theorize the following propositions:

*Proposition 1: plural form can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

*Proposition 2: Alliance portfolio management capability can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

*Proposition 3: Contract flexibility can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

*Proposition 4: Growth orientation can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

*Proposition 5: Market diversity can enhance franchisors' ambidexterity to pursue standardization and adaptation simultaneously.*

Overall, this article theorizes organizational ambidexterity in the franchising context. This opens novel paths for research aiming to enhance our understanding of the way franchisors can improve their performance. Better understanding of this issue is waiting for future research and empirical testing of the propositions.

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