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Why franchisors recruit franchisees from the ranks of their employees

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ABSTRACT

A shortage of suitable franchisees has long plagued the Australian franchise industry impacting franchisors' capacity to grow their chains. This exploratory research identifies, defines and examines an unresearched category of franchisees that of internally recruited franchisees, who prior to their franchise recruitment were employees of the franchisor. This category has previously been ignored by the literature even though estimates of some chains place the proportion of internally recruited franchisees at over 40 per cent. Employing qualitative interviews with key franchisor decision makers this research begins to address this gap. This study investigates what factors drive franchisors to recruit franchisees from the ranks of their employees and how they perceive this impacts on the achievement of franchising's four strategic imperatives of unit growth, system uniformity, local responsiveness and system-wide adaption. Seven drivers for the internal recruiting of franchisees were identified: company owned units, significant system hierarchy, larger unit scale, unit viability, system maturity, capital freedom and strong growth in unit numbers. A preliminary model of factors influencing the propensity of franchise systems to recruit franchisees internally is presented. This research provides the first contribution to the franchise literature on the internally recruited franchisee phenomenon. In a practical sense this study should influence the recruitment practices of franchisors.

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Franchisee recruitment; internally recruited franchisees; franchising; franchisors

1. Introduction

Worldwide, franchising representing the fastest growing form of retailing (Hizam-Hanafiah & Li, 2014) accounting for 32 per cent of retail sales in Germany, 40 per cent in the USA and 52 per cent in Australia (Dant, Grunhagen, & Windsperger, 2011). In Australia, franchising constitutes a significant and growing sector of the economy with franchised units having increased from 43,800 in 1999 to 79,000 in 2016, directly employing almost 500,00 people (Frazer, Weaven, Grace, & Selvanathan, 2016). Nevertheless, this growth is now under threat with some major Australian franchise groups experiencing more than a 50 per cent reduction in franchise enquiries in 2017–18 (Bailey, 2018). While some of this reduction is undoubtedly due to negative publicity surrounding the 2018 Australian Senate inquiry into the Franchising Code of Conduct (Inside Franchise Business, 2018), a lack of suitable franchisees has long been a key constraint facing franchisors in their quest for growth

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(Bradach, 1997). Even prior to this recent reduction, a national survey found over 70 per cent of franchisors rated a lack of suitable franchisees as their major ongoing challenge (Frazer, Weaven, & Grace, 2014). It has been an enduring industry problem, with an earlier survey finding that almost half of Australian franchisors believed the availability of prospective franchisees was insufficient to meet their growth needs (Frazer, Weaven, & Bodey, 2012). Indeed, the recent trend towards part-time franchising in some sectors may be in reaction to the difficulty in finding full-time potential franchisees (Thaichon, Weaven, Quach, Baker, & Frazer, 2019). Arguably this franchisee shortage has also been exacerbated by a lack of female participation in franchising (Thaichon et al., 2018).

One reaction by franchisors to a shortage of suitable new franchisees has simply been to grant more franchises to existing franchisees. Known as multiple unit franchising, this expansionary strategy has been extensively researched (Bradach, 1995; Garg, Priem, & Rasheed, 2013; Hussain, Sreckovic, & Windsperger, 2018; Kaufmann & Dant, 1996; Weaven & Frazer, 2007). However, another potential reaction is to recruit franchisees internally from the ranks of the franchisors' own employees. Recently this has been indicated as a possible solution by numerous franchising trade publications. Articles with titles such as *On the hunt for a franchisee? Take a look at your own employees* (Syed & Syed, 2019); *Four Reasons Why Former Employees Make the Best Franchisees* (Bisio, 2015); *Crossing over: why employees make great franchisees* (Russell, 2014) and *From head office employee to franchisee* (Camplin, 2013) have emerged in trade publications citing the internal recruiting of franchisees as a viable solution to the franchisee shortage.

Despite the prevalence of recruiting internally in franchise industry articles and its apparent widespread practice, the literature on internally recruited franchisees remains scant, with no academic studies examining internally recruited franchisees. The current research contributes to filling this gap by identifying, defining and exploring the emerging, yet under researched category of internally recruited franchisees. It presents valuable insight into the opportunities that internally recruited franchisees can provide to help alleviate the franchisee shortage prevalent in todays' marketplace, and thereby facilitate growth that may otherwise be stymied. The current study contributes to the existing franchise literature that has been totally predicated on externally recruited franchisees, by specifically initiating research into the franchisee category of internally recruited franchisees. Accordingly, this research addresses two research questions:

RQ1. What factors drive franchisors to recruit franchisees from the ranks of their employees?

RQ2. What impact do franchisors perceive that the internal recruiting of franchisees will have on franchise systems achieving the four franchising strategic imperatives of unit growth, system uniformity, local responsiveness and system-wide adaption?

2. Literature review

2.1 Franchising formats

Business format franchising, as the preeminent form of franchising (Storholm & Scheuing, 1994) is the focus of this research. It involves the franchisor's provision of a complete business system including brand-name, training, marketing and site selection (Bender, 2015). Generally, it entails the franchisee agreeing to conform to the franchisor's standards and paying a franchise fee with an ongoing royalty, which is often a percentage of sales (Croonen, Brand, & Huizingh, 2016).

2.2 Main theories for franchising research

Traditionally, franchising research has focused on the three theories of resource scarcity, agency theory and plural form symbiosis (Combs, Ketchen, & Short, 2011; Gillis & Castrogiovanni, 2012). Resource scarcity has its nexus in the causal connection between resources and competitive advantage (Barney, 1991; Sirmon, Hitt, Ireland, & Gilbert, 2011). It suggests a major reason for franchisors franchising is franchising provides access to franchisees' capital, as well as their managerial, entrepreneurial and local knowledge (Caves & Murphy, 1976; Combs, Michael, & Castrogiovanni, 2009; Ketchen, Ireland, & Snow, 2007; Norton, 1988a; Oxenfeldt & Kelly, 1969; Perryman & Combs, 2012).

Agency theory contends that company employed managers may supply less than their best efforts [*shirking*] and choose actions that lead to lower wealth for the principals (Alchian & Demsetz, 1972; Alon, 2001; Eisenhardt, 1989; Lafontaine, 1992). Franchising circumvents this outcome by giving franchisees residual claims to their store's profits, thereby encouraging franchisees to work harder and reducing the monitoring costs of the franchisor (Bradach, 1997; Norton, 1988a; Perryman & Combs, 2012; Rubin, 1978).

Bradach and Eccles (1989) coined the term 'plural form symbiosis' to describe the franchising phenomena where franchisors maintain some company-owned outlets but also franchise outlets. Later studies confirmed the symbiotic advantages conferred on a franchise system that maintained both forms (i.e. company owned outlets and franchise outlets), with franchisees deemed to foster the entrepreneurial characteristics of innovation and local market adaption, while company-owned outlets promote standardization (Combs et al., 2011; Darr, Argote, & Epple, 1995; Kaufmann & Eroglu, 1999; Meiseberg, 2013; Perrigot & Herrbach, 2012).

2.3 Categories of franchisees

Prototypically a franchisee has been characterised as an individual external to the organisation who is prepared to apply their accumulated financial, entrepreneurial, and managerial capital to owning and running a single franchise outlet (Kaufmann & Dant, 1996). Therefore, for many years the generally accepted view of a franchise system was that it comprised a franchisor and a conglomeration of single unit franchisees. From the early 1990 s researchers began to focus on the growing phenomenon of multiple unit franchisees. Specifically, this involved instances where multiple franchise units in the same chain are owned by the same franchisee. This has subsequently been acknowledged as a common form of expansion for many franchise systems (Garg et al., 2013; Hussain et al., 2018) with multiple unit franchisees also controlling a significant percentage of franchise units (Weaven & Frazer, 2007).

2.4 Externally recruited franchisees v internally recruited franchisees

In stark contrast to the attention paid to multiple unit franchising over the past 25 years, no studies were found which focused on the distinctions between two other categories of franchisees, that of externally recruited franchisees (ERFs) and internally recruited franchisees (IRFs). ERFs represent the more conventional view of a franchisee involving the traditional approach of recruiting franchisees externally with the franchisee offering their capital, entrepreneurial spirit, and business knowledge often from diverse fields (Norton, 1988b). Indeed, the entire concept of franchising is based on a franchisee being an independent businessperson who lacks the requisite expertise within the new field of endeavor, but obtains that expertise through the dyadic experience of acquiring a franchise from a franchisor, hence the description 'being in business for yourself but not by yourself' (Kaufmann, 1999, p. 345). The franchisor finds this business relationship attractive, as they gain an injection of capital without requiring the issuing of shares or borrowing of funds, they also gain the entrepreneurial oversight of someone who has *skin in the game* (Frazer & Roussety, 2017). Agency theory suggests that because the franchisee shares in the unit's growth upside, in both a profit and capital sense the franchisee has far more incentive than employee management to improve results (Rubin, 1978).

In this research an internally recruited franchisee is defined as a franchisee who, prior to their franchise recruitment, was an employee of the franchisor or an employee of one of its franchisees. Most often, IRFs were previously employed within the operations side of the franchisor's business as unit managers or above, and thus 'were proven operators' (Bradach, 1997, p. 292) who had displayed operational aptitude over a prolonged period. Indeed, in his 1977 biography McDonald's founder Ray Kroc acknowledged that in franchisee selection McDonald's gave preference to long serving employees (Kroc & Anderson, 1977). This 'long preexisting relationship' (Bradach, 1997, p. 292) added to the level of trust between the franchisor and the IRF. In a similar way to multiple unit franchisees, IRFs' operational knowledge circumvents the need for the standard training period, which means the gestation period for an IRF from initial recruitment to being active within an outlet is significantly less than an ERF (Lashley & Morrison, 2000). Due to their required years of franchisor employee service, logically this leaves IRFs with less opportunity for broad business experience from other industries when compared with ERFs. IRFs also often possess less financial capital than their ERF counterparts with Bradach observing 'while company people rarely had the required capital, the chain … often assisted them in buying the franchise' (1997, p. 292).

While IRFs have been acknowledged frequently in recent trade publications (Bisio, 2015; Camplin, 2013; Russell, 2014; Syed & Syed, 2019), the category of IRFs has received little research attention in the academic literature. Indeed, Lashley and Morrison's (2000) book is primarily about franchising hospitality services and devotes just two of its 274 pages to sourcing franchisees from company employees. While Bradach's (1997) study assigns just four of its 76 paragraphs to the same topic. Though dated, both these works place the prevalence of IRFs in major chains such as Jack-in-a-Box and McDonald's at above 40 per cent (Bradach, 1997; Lashley & Morrison, 2000). Remarkably, despite this reported prevalence no prior research has focused on IRFs.

2.5 The four franchising strategic imperatives as a conceptual framework

The first research question is almost completely inductive and consequently imposes no existing conceptual framework. The second research question uses an accepted conceptual framework from the franchising literature of franchising's four strategic imperatives as the lens through which to conduct the exploration (Creswell, 2014). Bradach's pioneering (1995) study on multiple unit franchising identified four key factors for system success known as the four franchising strategic imperatives. Specifically they include unit growth, system uniformity, local responsiveness and system-wide adaption. These imperatives have subsequently provided the conceptual framework for numerous franchising studies, including Boulay, Caemmerer, Evanschitzky and Duniach's (2016) recent investigation into the links between multiple unit franchising and the attainment of the four franchising strategic imperatives. The four strategic imperatives have also been used to explain why franchisors choose between the various governance models of franchising (Bodey, Weaven, & Grace, 2011, 2013). Two separate studies, Cliquet and Penard (2012) and Meiseberg (2013) found that plural forms generally enhanced a franchise systems chance of attaining the imperatives. Given these four franchising strategic imperatives are utilised as the conceptual framework in this research to address the second research question, a description of each imperative is now presented.

For franchisors, *unit growth* (growth in the number of units) is an imperative as it facilitates economies of scale through bulk purchasing, as well as the diffusion of marketing and administrative costs over a greater number of individual outlets (Garg, Rasheed, & Priem, 2005). As most franchise chains operate as a plural form, with both company-owned and franchised outlets, unit growth can develop from three sources: (1) adding a company-owned outlet, (2) granting a new outlet to an existing franchisee, or (3) adding a new franchisee and a new outlet (Bradach, 1995; Garg et al., 2005; Meiseberg, 2013). If the latter source is selected a further decision is required, whether to recruit an IRF or an ERF as the new franchisee for the new outlet.

The second imperative of *system uniformity* refers to the franchise system having standardised methods of operation that have little variation from unit to unit (Bodey et al., 2013). As many franchise systems are founded on brand name capital, consistency becomes very important for the sustainability of the franchise chain (Bodey et al., 2011; Nelson, Loken, & Bennett, 2009). A sustainable competitive advantage can be significantly eroded if a lack of uniformity leads to the dilution and weakening of the brand (Boulay et al., 2016).

The third imperative of *local responsiveness* signifies the need to be flexible enough to understand customer needs and adapt to heterogeneous markets. The successful spread of franchise chains has meant individual units may compete in diverse local markets (Bradach, 1995). Generally, franchisees have been considered more responsive to local needs than managers of company-owned units, with franchisees' local market knowledge forming a critical part of a chain's resources (Boulay et al., 2016). This knowledge, coupled with franchisees' strong unit profit motivation (Rubin, 1978), provides the springboard for a competitive advantage at the local level (Minkler, 1992).

Bradach (1995, p. 78) suggested *system-wide adaption* involved four components: '(1) generating new ideas, (2) testing and evaluating ideas, (3) deciding which to pursue, and (4) implementing them'. To be successful franchise systems need to implement a strategic marketing management process, whereby adaption involves responses to changes in marketing, competitive environments, and customer tastes (Bodey et al., 2011). Inherent here, is the notion these adaptions are appropriate system-wide, hence this imperative has some association with the concept of system uniformity discussed earlier (Bodey et al., 2011). While some adaptions to the system are inspired by the franchisor, there are numerous examples where franchisees' new ideas and innovations have proven crucial for success in franchise systems (Dada, Watson, & Kirby, 2015; Meiseberg, 2013; Watson, Dada, Grünhagen, & Wollan, 2016). Such co-created value meets the criteria for entrepreneurial marketing (Whalen et al., 2016) thereby fostering an opportunity for a competitive advantage.

3. Research methodology

Given the scarcity of literature on IRFs as a franchisee recruitment option, a qualitative methodology was employed for this exploratory study (Eisenhardt, 1989; Saunders, Lewis, & Thornhill, 2009). Aaker, Kumar, and Day (1997) describe exploratory studies as 'research that usually is designed to generate ideas where the hypotheses are vague or ill-defined' (p. 759). Qualitative research is appropriate when the focus is on gaining an in-depth understanding to facilitate the development of 'interpretations of phenomena of interest without numerical measurement' (Zikmund, Ward, Lowe, Winzar, & Babin, 2011, p. 65). For the first research question given no previous academic inquiry had been made into the drivers behind the internal recruiting of franchisees, an inductive approach was employed (Creswell, 2014). The aim was to allow the data gathered to identify and develop the theory (Corbin, 2017). Respondents were simply asked *'Why franchisors may decide to recruit franchisees from the ranks of their employees'*. For research question two, the theoretical lens (Creswell, 2014) of the four strategic franchising imperatives was used to explore the perceived impact of IRFs on franchise systems. While this lens shaped the questions asked (Creswell, 2014), the approach remained inductive with no propositions developed in advance as to what the ultimate impacts could be. Semi-structured interviews were conducted one-to-one to gain rich insights into the research questions (Saunders et al., 2009). At the commencement of the interview, demographic and career history data was captured which was later triangulated with more comprehensive information from the participants' LinkedIn profiles and franchisor websites. A list of topics was then explored relating to the research questions and the participants' experiences in making franchisee recruitment decisions. The process was adaptive, with the researchers fine tuning and adjusting between interviews (Dick, 2016). The interviews were recorded and lasted a duration of up to one hour.

Thematic analysis is principally concerned with identifying, organizing, and interpreting themes in textual data. It is now ubiquitous in qualitative organisational research (King & Brooks, 2018), and used in recent franchising research (Grace, Frazer, Weaven, & Dant, 2016). Accordingly, the six phases of thematic analysis (Braun & Clarke, 2006) were employed for this study: data familiarisation, coding, generating initial themes, reviewing themes, theme definition and naming, writing results. Familiarization began during transcription, as this was undertaken by the researchers rather than being outsourced (Frazer, 2004). Further, familiarisation occurred via the transcripts being initially examined with notes of first impressions made. Transcripts were then read and re-read in detail, further immersing the researchers in the data. Initial coding then followed, with the labeling of information deemed relevant to the first research question. These codes were then scrutinized to identify broader patterns and organized into potential themes (Attride-Stirling, 2001). The more grounded approach to research question one meant these themes were generated without reference to theory. For added rigour, the data was also analyzed using Leximancer V4.51 (Wilk, Soutar, & Harrigan, 2019) with no additional meaningful themes emerging. All candidate themes were then discussed and reviewed until intercoder agreement (MacPhail, Khoza, Abler, & Ranganathan, 2016) was achieved as to their pertinence to the first research question (Denzin & Lincoln, 2005). Significant themes were defined and named, with their relationships to research question one conceptualized and developed [see Figure 1]. Direct quotes were used in the writing up of the results to provide raw data that encapsulates participants' views (Labuschagne, 2003). A similar sequence was followed for the second research question however, codes were first generated relative to the theoretical framework of the four strategic franchising imperatives, and then organized into themes under each imperative.

3.1 Sampling

Purposive sampling involves 'selecting units … based on specific purposes associated with answering a research study's questions' (Teddlie & Yu, 2007, p. 77). In order to explore the major reasons for the internal recruiting of franchisees, it was critical decision makers responsible for or exposed to the strategic reasoning for such recruitment practices within franchise chains, were recruited for the in-depth interviews. Since the entry of the major US fast food chains into Australian in the late 1960 s (Schaper & Buchan, 2014), the fast food industry has been synonymous with franchising (Grünhagen & Mittelstaedt, 2005) and is estimated to encompass almost A$20 billion per annum in sales (Vuong, 2017). Thus, a purposive sample of current and former Australian fast food franchisor executives whose roles had been integrally involved in their organizations' franchising policy, decisions and outcomes was obtained. To achieve this, snowball sampling was utilized and recruiting occurred until sufficient saturation was achieved

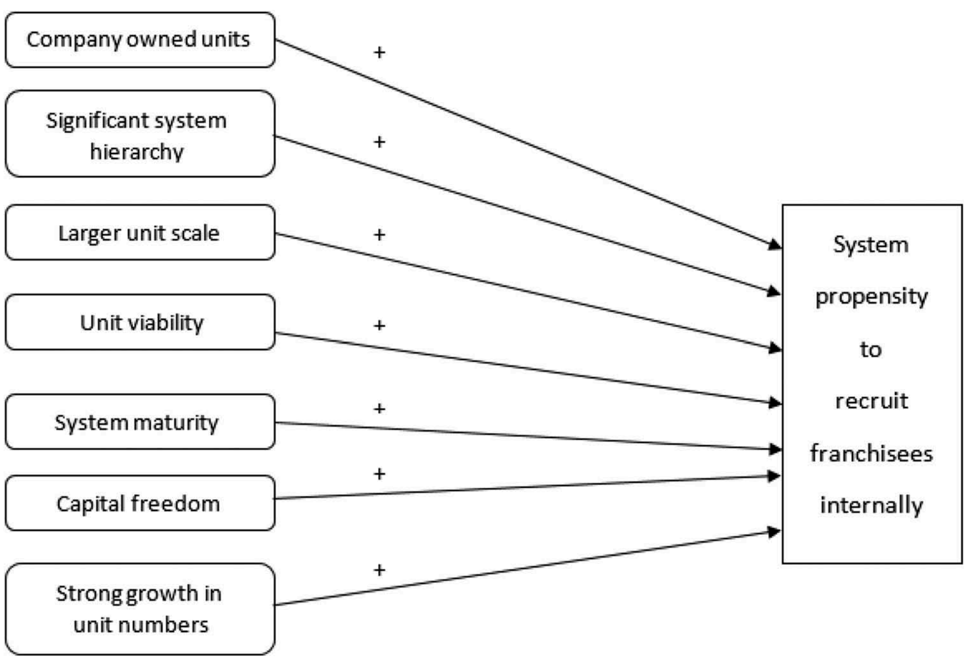

Figure 1. Preliminary model of factors influencing system propensity to recruit franchisees internally.

(Guest, Bunce, & Johnson, 2006). Ultimately, interviews were conducted with nine franchise executives. As endorsed by previous qualitative franchising research (Kaufmann, 1999; Weaven, Isaac, & Herington, 2007) a cross-sectional perspective across levels of management was sought. Three participants falling into the Top-level [Managing Director], three falling into the Mid-level [Regional/State Manager] and three falling into the Lower-level [Operations Manager, Franchise Coordinator]. Validity was enhanced by way of six of these executives having exposure to more than one franchise chain, and all having exposure to at least one franchise chain where internal recruiting of franchisees had occurred. Indeed, nearly half (four) provided somewhat unique perspectives as they had gone on to become internally recruited franchisees themselves, after their corporate careers. A total of 224 years' experience in the field of franchising was tapped in to (ranging from six to 38 years) with the sample, the average being 25.6 years. Characteristics of the sample are presented in Table 1.

4. Results

4.1 Drivers for internal recruiting of franchisees

In relation to the first research question exploring the drivers for a franchisor to recruit franchisees internally, the results revealed several factors were evident in raising the overall propensity of a franchise system to recruit internally. These factors are presented in Figure 1 and are expanded upon below with references made to existing literature.

4.1.1. Company owned units

Bradach (1997, p. 291–292) observed 'a key constraint facing chains as they sought to grow was finding interested and qualified franchisees. The plural form offered a means of escaping this constraint by utilizing company people as franchisees'. Consequently, systems that do not have company-owned stores have a greatly reduced potential to recruit internally. The prototypical IRF has already run an outlet giving them the critical operations knowledge required to be a franchisee. Indeed, respondent FE4 commented that almost all IRFs 'have been trained in operations or been a … unit manager'. Thus, by having a proportion of

Table 1. Australian fast food executive characteristics.

Executive Level	Franchise Executive	Highest position in a franchise chain	Highest units responsible for	Number of chains involved with	Subsequently became a franchisee (IRF)	Years in franchising
Top	FE1	Managing Director	700+	2	No	27
Top	FE2	Managing Director	250+	2	No	34
Top	FE3	Managing Director	NA*	10+	No	19
Mid	FE4	Regional Manager	100+	1	Yes	33
Mid	FE5	Regional Manager	50+	3	No	10
Mid	FE6	Managing Director#	40+	2	No	6
Lower	FE7	Operations Manager	15+	2	Yes	38
Lower	FE8	Franchise Coordinator	15+	1	Yes	35
Lower	FE9	Franchise Coordinator	15+	1	Yes	28

* consults to many chains
# chain operates in one state only

company-owned stores franchise chains have a fertile source from which to recruit internal candidates. The definition of IRF also encompasses employees of franchisees. Recent research has found employees of franchisees may be positively influenced by support provided by the franchisor (Ramaseshan, Rabbanee, & Burford, 2018). However, this avenue for recruitment may be limited by lack of support from franchisees. FE3 noting that where a franchisor is actively seeking IRFs 'some franchisees don't like to communicate that to their staff because they feel they are going to lose their staff … and have to recruit again'.

4.1.2. *Significant system hierarchy*

Systems that have a significant system hierarchy possess a greater opportunity to recruit internally. Larger systems require a much greater head office infrastructure facilitating a career path for employees beyond the store level. This point and the first point on the extent of company owned units are interrelated. Chains that operate company-owned stores require more significant system hierarchies to provide greater oversight of these units, with up to 10 times more monitoring costs being spent on the company-owned outlets versus outlets that are franchised (Bradach, 1997; Perryman & Combs, 2012). Commenting on a large system that had over 250 Australian stores, FE2 stated that IRFs represented 'at least half' of the franchisee cohort and comprised mainly of former 'store managers or corporate head office persons'. In contrast, when asked about the extent of internal recruiting in their chain of just over 40 stores with a very lean corporate staffing structure, FE6 stated 'as we are all franchised … there is little of that happening and because of our scale we do not have a lot of progression'.

Organisations with a larger system hierarchy also often encounter the need to manage, motivate and turnover that hierarchy. In today's litigious world, this can pose difficulties with Australian unfair dismissal legislation applying to employees earning below A$148,700 annually (Fair Work Commission, 2019). FE7 had experience with a large chain that sometimes resolved such issues by offering the outgoing employee a franchise, what became known internally as 'the golden handshake'. Indeed, FE7 recalled specific instances where an internal franchise candidate was chosen 'because we had another corporate person coming up to take their (employee) role'. However, the prospect of receiving a franchise opportunity was also used as a tool to motivate and 'for rewarding and recognizing loyal and long serving employees' FE4. When asked if this approach was used by franchisors as a motivational tool for some employees, FE9 who ultimately became a franchisee commented, 'it always was for me, one hundred per cent'. Merely witnessing other employees become franchisees also had a positive effect. 'From a motivational perspective I think it was the greatest thing for someone in a corporate situation to see their boss get *promoted* into becoming a franchisee' FE9.

4.1.3. *Larger unit scale*

Systems that have a smaller scale at the unit level and therefore fewer employee managers, tended to be less able to recruit internally. Commenting on their franchise system's lack of IRFs, FE6 observed:

> … it is a scale related thing, because in our franchise model they (the franchisees) have a fairly low level of staff … so they are the managers, the franchisees. They have a lot of casual staff who by default do not work full-time and so do not have aspirations to go on and develop a career in the business.

Inherent in this quote is the system's small scale at the individual unit level, which meant franchisees usually acted as the unit managers themselves rather than employing managers, thus shrinking the pool for potential IRFs. This contrasted markedly with the much larger unit scale of one international franchise chain that had over 500 Australian stores and recruited IRFs extensively. According to FE3, the average store in this chain 'has about 140 staff, 15 managers and a store manager sitting at the top of the tree'. Further, FE4 who has a 31-year history with this same chain observed, this chain had 'no shortage of employees at all levels wanting to become their own boss (franchisees)'.

4.1.4. Unit viability

Respondents indicated that franchise chains struggling for viability at the unit level find it difficult to recruit internally. While external recruits were driven by return on investment, internal recruits' frame of reference was related to the company salary that they would forego to become a franchisee. Thus for internal recruits, expected franchise unit viability needed to match or exceed their corporate exit salary. In clarifying this point, FE4 pronounced that internal recruits needed to foresee the likelihood that they would earn more as a franchisee, 'even if they were earning just a bit more than what they had been previously'.

Commenting on a number of their chain's head office staff who had recently decided against acquiring a franchise due to lack of unit viability, respondent FE6 stated 'to be honest I think they would be looking at it and saying, in the current climate it is a lot of work for little return'. Conversely, FE2 mentioned in regards to one large international chain with an annual EBITDA profit of A$800,000 per store, 'it is not hard to find someone to go into just about any store in Australia now … they have got 80 people (employees) in the office that want stores'. This point contrasted with the chain where FE2 was managing director, which had 'lots of franchisees working 60 hours a week for A$50,000 per annum per annum take-home pay' and was consequently struggling with recruiting franchisees. Even though this franchise was a large international brand, it was 'probably dying a slow death' FE2. Indeed, several respondents identified that for any franchise system, profitability at an individual unit level is a key overarching ingredient, not just a requisite for IRFs. FE5 stating 'I think any successful franchisor has, number one, got to be committed to making their franchisees successful. I think that is the difference between a good and bad franchisor'.

4.1.5. System maturity

Early in a system's life cycle the opportunity for internal recruiting appears limited for three reasons. Firstly, there are limited internal candidates to choose from as corporate headcounts for chains in their infancy are typically small. Secondly, as observed by FE5 prior to their recruitment as a franchisee 'in most cases IRFs have clocked up 15 years in the system they were working in', which precludes their early availability. Thirdly, in their early years franchise systems are usually extremely reliant on the financial capital provided by franchisees (Caves & Murphy, 1976). IRFs tend to have less capital when compared with ERFs, 'internally … there is a bit less capital because franchisors are not the greatest of (salary) payors' FE9.

Thus, franchise chains entering system adolescence may have an advantage in being be able to sustain unit growth by utilising some of their experienced system employees to become IRFs. Indeed, commenting on the maturity of a chain which started in 2006 and where they now hold a senior role, FE1 stated ‘I think these next 10 years are our (the franchise system’s) teenage years’. Further, they saw such systems as being increasingly reliant on some of their maturing pool of system employees becoming IRFs to facilitate future growth. Indeed, regarding this chain’s prevalence of IRFs FE1 observed, ‘it is just starting to happen, I think we started franchising to internal employees in the 10th year about three years ago’.

4.1.6. Capital freedom

When contemplating why do organizations franchise, FE4 remarked ‘for a lot of new brands … it’s because they do not have the capital, so they need the (franchisees) capital’. FE2 observed, that particularly in the early years ‘franchisors want some people with good equity and that is usually not an (internal) employee’. Chains that reach a unit count of over 50 outlets are viewed as attaining a critical threshold where the need for franchisees’ capital reduces, ‘you have got this big gap … and these are the guys that do it really well, they have best practice’ FE3. Indeed because they have greater access to financial capital, more established chains become less reliant on franchisee’s capital for growth (Oxenfeldt & Kelly, 1969). Ostensibly, this provides the capital freedom to generate more creative franchise structures that make it easier for internal recruits, who possess less financial capital, to acquire a franchise. Such established chains are often more focused on acquiring franchisee’s human capital as identified by agency theory, which suggests franchisees will outperform company managers (Norton, 1988a; Rubin, 1978). Indeed, FE1 and FE7 cited the modification of their franchise system’s standard franchise structure, was key to facilitating the entry of numerous IRFs who had less capital than ERFs. This modified arrangement allowed the franchisee ‘to put in less money and the franchisor shared more of the profit pie … because they were putting in more money’ FE1. Now involved at a senior level with a subsequent chain, FE1 believes such schemes are so crucial in fostering internal recruits and growth, they are encouraging their current chain to develop a similar mechanism. This is particularly prescient as this chain now has over 10 years of operation, has just reached over 100 stores, and has recently receive a capital injection from a private equity firm, thus it is primed for growth.

4.1.7. Strong growth in unit numbers

Unit numbers tend to increase the most on a percentage basis, in the early years of operation of a franchise system. However on an absolute unit numbers basis, the greatest growth often occurs some time beyond 10 years of operation. FE1 reflecting on the evolution of a large chain where they had been managing director noted, that the zenith of recruiting IRFs coincided with peak growth in store numbers. At that point, this chain was adding ‘nearly one store a week’ FE1. From around year 15 to year 25 of its Australian presence this chain more than doubled in size, ‘so we went through huge growth … and it was (driven by) predominantly long serving employees becoming franchisees’ FE5.

During such times of high growth, a prevalent factor in recruiting IRFs appeared to be expediency due to the overwhelming requirement to satisfy the system’s unit growth objectives within the imposed time horizons. Expediency was expressed most often by the mid-level interviewees (regional managers) who felt the direct pressure to meet growth targets dictated from management above. As a regional manager FE5 commented on the difficultly of coordinating many conflicting demands:

> that was very difficult . . . you would have planning issues on one side . . . delays in terms of the store development plan, equally on the other side you would have the (trainee) franchisee's own development, their level of proficiency, their level of capability . . . and you have a candidate (external) potentially saying, well I do not want that store . . . so therefore I needed to consider a company employee to fill the gap.

The expediency provided by an IRF was directly related to them not needing the recruiting and training time required to on-board an external candidate, which could be up to 9 months duration. Furthermore, not all ERF candidates made it through the training process with Bradach (1995) estimating that only '1% −2% of the people who made initial inquiries were approved' (p. 74). Consequently, the perceived 'risk profile became greater with an external franchisee' FE5. IRFs were perceived as significantly less risky and considered 'ready to go' (FE4). With 'internal people for a franchise you have had 15 years to interview them and you really, really know what you are getting' FE1. 'It takes away your risk by recruiting internally because you have already done your due diligence on those people. You have sort of done the psychometric testing because you have worked with them' FE2. This was also consistent with Bordonaba-Juste and Polo-Redondo's (2008) findings on relationship duration, trust, and commitment in a franchise setting.

4.2 Perceived impact of IRF on the four franchising strategic imperatives

The second research question explored what impact franchisors perceived IRFs had on the franchise system achieving the four franchising strategic imperatives. The results indicate IRFs are perceived to confer system advantages for unit growth and system uniformity. Table 2 presents these results which are now expanded upon.

4.2.1. Unit growth

It was evident IRFs can have a positive impact on a franchising system achieving their growth imperatives. For some chains, as evidenced by several respondent quotes previously cited, IRFs represented a significant additional source of qualified potential franchisees. This was particularly apparent for chains that had: their own stores, significant system hierarchy, scale at the unit level, unit viability, attained a level of system maturity, and some capital freedom. Indeed, numerous interviewees outlined the importance the capacity to recruit internally provided in meeting growth targets. The vagaries of external franchisee recruitment did not always align with the unit growth schedules imposed from top management. Consequently when timing became an issue,

Table 2. Perceived impact on the four franchising strategic imperatives.

Strategic Franchising Imperative	Internally Recruited Franchisees	Externally Recruited Franchisees
Growth	✓✓	
Uniformity	✓✓	
Local Responsiveness		✓
Systemwide Adaption		✓✓

✓✓ = Strong positive relationship ✓ = Moderate positive relationship the expediency provided by IRFs came to the forefront of the decision process, 'to attract people it is probably easier to recruit … internally … (IRFs are) always what I call the emergency requirement" FE4. 'In most cases of the internal people that ended up with a store … it was because a situation arose, and we said who is the right individual to fill that hole for us' FE7. When asked how often internal recruits ended up being the fallback option to expedite growth targets, FE5 a regional manager responded, 'that happened a lot'.

4.2.2. System uniformity

All but one respondent acknowledged IRFs' superiority delivering system uniformity and achieving system standards. FE7 stated:

> I tended to find an internal person maintained the standards a lot higher because they had been exposed to it a lot more … I found people who came from totally different industries (ERFs) … needed to be coaxed a lot more in that area to understand that this industry needed those high standards.

FE4 saw IRF's strengths in system uniformity and standards as 'one of the reasons that they are attractive to the franchisor'. In fact, most respondents acknowledged IRFs were a superior option in respect to system uniformity:

> the standards were always better from IRFs mostly because they just knew what to do and often the people that came from internal were operations people, so the positive you had with them was that they knew the standards, they could run great operations (FE2).

4.2.3. Local responsiveness

When it came to local responsiveness, two thirds of respondents believed IRFs were less likely than ERFs to be truly responsive to local market demands. The other third perceived there was little difference. According to FE5 'external franchisees were far more agile in adjusting to local market conditions and more consumer aware. There was an inherent robotic reliance on the system in the case of the internal franchisee. So, chalk and cheese on that one'. While FE1 observed, as a franchisee:

> you have got to understand … the community and the surrounds you operate in. An internally recruited franchisee probably does not get that as much as an external one does … (ERFs) would be a lot better in the community than the internal franchisees. They (ERFs) would … be able to engage with the local community, local politicians, local charities in a way that most internal franchisees during their employee career were really not that much exposed to.

4.2.4. System-wide adaption

A clear difference was evident between the franchise executives' perceptions of IRFs competencies in respect to system-wide adaption and generating new ideas and innovation. ERFs were perceived as far more adept than IRFs in generating new ideas and innovations. As stated by FE4 'IRFs were more conservative … a lot of them only knew what they knew … they were good at following the formula but then sometimes did not cope well with change'. Further, as FE5 acknowledged in respect to system-wide adaption:

> my experience was that the former company employees were a lot more restrained and a lot more silent and stood back when it came to challenging the status quo … if there was a new initiative, I think you would have external candidates driving it.

Consistently, ERFs were perceived as offering more to franchise systems in situations where 'you are looking to innovate and think differently, and when you are facing challenges that you cannot draw on your history to solve' FE6. A point further elaborated upon by FE5, 'in terms of challenging the status quo, challenging the way we go to market, challenging how the brand is represented, clearly external franchisees were so much more talented than internal'.

As IRFs have accumulated many years of institutionalized thinking concentrating on the organisational compliance and execution issues of the franchisor, their entrepreneurial and innovative skills were perceived as underdeveloped when compared with ERFs. This view was encapsulated by FE7's observation:

> an internal person thought what they were taught was right … whereas an external person would say, well why does it have to be that way … I can think of a different way of doing it that might achieve that faster or more economically. So, I think the external person (ERF) in many cases came up with a lot of our ideas.

A view was expressed, that too high a proportion of internally recruited franchisees could see a chain become incestuous, engage in groupthink and ultimately lack the business diversity required for success. FE5 characterized this 'as the gene pool that you bring to the business, how diverse you are (ERFs) and how insular you are (IRFs)'. FE1 who started with one chain at 15 and went on to become Managing Director stated, 'I think the internal person has been indoctrinated into the company, believes in the company, probably does not question the company as much'. FE1 subsequently commented that maintaining a proportion of ERFs was the preventive solution to this:

> … questioning of the company's decision-making was always a lot more forthright from external people than it was from internal people … they had this demeanor about them (the ERFs), about being absolutely frank … if you asked me who would tell you without mixing words exactly what they thought about the company and the errors that we were making, it was the externals.

5. Discussion

This study's results suggest the exploration of IRFs has been a worthwhile line of enquiry. This deduction is perhaps not surprising given the origin of the topic was predicated on the disparity between coverage of IRFs in industry publications, versus their noticeable absence in academic literature.

The first research question identified multiple drivers for a system's propensity to recruit franchisees internally which include the presence of company owned stores, significant system hierarchy, larger unit scale, unit viability, system maturity, capital freedom and strong unit growth in numbers. While these IRF drivers are preliminary, they have never been identified in any previous research and warrant further examination.

Regarding the second research question which explored the perceived impact of IRFs on the franchise system achieving the four franchising strategic imperatives, the internal recruiting of franchisees appears to confer significant advantages in achieving the unit growth imperative, particularly given the acknowledged industry scarcity of qualified ERFs. The imperative for system uniformity also seems to be enhanced by IRFs. However, IRFs are not as favorable as ERFs in respect to the imperatives of local responsiveness and system-wide adaption.

With reported rates of IRFs prevalent in some franchise systems within this study's sample approaching 50 per cent, IRFs provide a catalyst for a significant new avenue of franchising behaviour to be researched. In fact, this could mirror the extent of the impetus provided to franchising studies by multiple unit franchising, from the mid-1990 s to the late 2000's (Bradach, 1995; Kaufmann & Dant, 1996). Indeed, Weaven and Frazer's (2007, p. 194) observation that 'the paucity of prior research concerned with multiple unit franchising adoption appears at odds with this expansionary strategy' may prove just as apt for IRFs.

The results of the current study strongly suggest IRFs provide one solution to franchisors' resource scarcity needs, however rather than being for financial capital it is for human capital. IRFs appear to be consistent with, and predicated on agency theory in its purest form, as it assumes that the same individual will provide superior performance merely by changing their agency status from employee to franchisee. IRFs could be considered an additional variant of the plural form, with plurality being manifested not only by systems operating company-owned stores and franchise stores, but also with another layer of pluralism provided when stores are franchised to IRFs or ERFs.

6. Managerial implications

From a practical point of view, given that a dearth of qualified franchisees has long plagued franchisors and stymied their growth (Bailey, 2018; Bradach, 1997; Frazer et al., 2012, 2014), this research provides important insights for franchisors who may decide to use IRFs as a partial solution to their future franchisee recruitment needs. More extensive use of IRFs could present a viable and effective option to counteract the shrinking pool of available franchisees (Bailey, 2018) however, the decision to do so should be viewed as a strategic imperative and implemented on a considered basis. In this research the pursuit of IRFs seemed to be somewhat *ad hoc* with the middle and lower level participants characterising many IRF decisions as being tactically driven by short-term pressures to meet unit growth numbers or organisational succession planning needs. Although some chains in this research still attained around 50 per cent IRFs, this outcome appears to not be premeditated but more the consequence of an emergent strategy (Mintzberg & Waters, 1985) resulting from expediency. This suggests a more deliberate strategy to pursue IRFs as part of an expansion plan should involve initially ensuring there is a sufficient employee pool to recruit from. Accordingly, franchise organisations that currently do not operate company owned units would need to alter their franchise structure to utilize a plural form (simultaneous use of company owned and franchised units) since this structure results in a larger workforce pool, providing a greater opportunity to recruit IRFs.

However simply having sufficient employees to recruit IRFs from is not the complete solution. The current research also indicates a requirement for the development of appropriate mechanisms for internal employees to make an effective transition to become franchisees. IRFs often lack the requisite financial capital demanded of a standard external franchisee applicant. Consequently in order to facilitate more IRFs, franchise organisations may need to develop another tier to their franchise agreements requiring less capital upfront from the IRF. As a result the standard structure would still exist primarily for ERFs, however an additional agreement structure primarily designed for IRFs would be offered requiring less capital but demanding a higher royalty. Such a structure emulates the approach the largest chain covered by this research undertook to overcome its IRF shortfall. The main caveat in the financial design of this new structure is that, to be compelling to IRFs it would need to retain the likelihood that the IRFs' prior employment salaries would be exceeded by their profits as franchisees.

7. Theoretical implications and future research directions

Numerous theoretical implications stem from this research. Currently the overall propensity of franchise chains to recruit internally is unknown. The variation in the perceived prevalence of IRFs between chains in this research (0 per cent to 50 per cent) suggests a priority exists to establish the prevalence of IRFs within not only the fast food industry, but the broader franchising community more generally.

The results of this research indicate that while IRFs confer advantages for unit growth and system uniformity, they are viewed as less adept than ERFs regarding local responsiveness and system-wide adaption. This suggests that chains that rely too heavily on either ERFs or IRFs may yield sub-optimal results in achieving the four strategic franchising imperatives. Consequently, just as prior research on plural form chains has attempted to formulate the optimal mix between company-owned units and franchise units (Madanoglu, Castrogiovanni, & Kizildag, 2018; Vázquez, 2007), so too the optimal mix of IRFs and ERFs within franchise systems needs investigation. Further, ERFs perceived superiority in the strategic imperative of system-wide adaption may indicate that IRFs and ERFs differ with respect to entrepreneurial orientation (EO). That ERFs may be superior in EO given they are perceived as more advanced in system-wide adaption. Dada and Watson (2013) analysed the effect of franchisor EO on franchise system performance outcomes finding a reasonably strong correlation while, Chien (2014) found among other things, that franchisee EO directly and positively affected franchisee performance. Thus any potential difference in EO between ERFs and IRFs and the implications this may have for franchise performance warrants further investigation. IRFs perceived deficiency in local responsiveness needs to be empirically tested by future research. If verified franchise systems may need to address this deficiency by implementing local engagement training programs for IRFs to mitigate this apparent shortcoming.

Finally, the establishment of a further category of franchisees in IRFs, presents implications in terms of how to reconcile IRFs with the main theories in the domain of franchising research of resource scarcity, agency theory and plural form symbiosis. While these implications are beyond the scope of this exploratory study, they present a fertile field for future research.

8. Limitations

As an exploratory study with a small purposively selected sample, this work has limitations in terms of representativeness, reliability and generalisability (Saunders et al., 2009). Consequently, a subsequent quantitative study incorporating a larger representative sample should seek to validate this study's results and preliminary model.

9. Conclusion

This study aims to commence a dialogue on the internal recruiting of franchisees, which although prevalent in some chains in today's marketplace, remains an under researched area of franchising. It is intended that future studies will build from the initial learnings of this study to enhance the body of literature around this emerging franchisee recruitment option. This exploratory research represents an important initial step in gaining insights into the circumstances that influence franchisors to choose internal franchisee recruiting arrangements and what differential outcomes they perceive this may provide in the areas of unit growth, system uniformity, local responsiveness and system-wide adaption.

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