

# ENTREPRENEURIAL PROCESS IN FRANCHISED OUTLETS

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## Abstract

*Although in recent years study of franchise systems have been subject of many academic studies, most of them have studied franchise system from a franchisor's point of view, and franchisee point of view has received a limited attention. Researchers in business fields have adopted four main perspectives in study of franchising entailing strategy, economics, marketing and entrepreneurship. From entrepreneurship point of view, while there is no doubt in considering franchisor's business as an entrepreneurial firm, considering the franchisee's activities during the running and managing an outlet as the entrepreneurial firm is disputed. An entrepreneurial firm includes involving in product innovation, commit the calculated risk, proactiveness and aggressiveness. While diversity of definition about entrepreneurship has caused a problem to consider what is an entrepreneurial firm, a process-focused approach offers much unexplored potential for understanding the nature of entrepreneurship in entrepreneurial firms. Therefore, due to the pivotal role of an entrepreneurial process in the nature of entrepreneurship and considering the entrepreneurial process as the core unit of analysis in entrepreneurial firms, this article aims to study what specific event happens during the entrepreneurial process in a franchised outlet. This study shows, although franchisees are restricted about product innovation, and franchisor reduces the risk of business for them. Moreover, Many product innovations in the franchise system stem from the franchisee's idea and franchisor never will be able to eliminate the risk for franchisees. Franchisee's business, also encompasses all dimensions of the entrepreneurial process as the unique features of entrepreneurial firms.*

**Key words:** Franchising, entrepreneurial firm, entrepreneurial opportunity, entrepreneurial process, risk taking.

## 1. INTRODUCTION

Today's, franchising plays an important role in the economy (Castrogiovanni & Kidwell, 2010) and is considered as a key expansion mode of business (Steven C. Michael, 2003). Over the past decades, franchising has been subject of many articles, and the academic journals as well published special issues on franchising (Falbe & Welsh, 1998). According to Michael (1996), considerable parts of the sale in services industry such as restaurants (46% of sales), tax preparation (67% of sales) in, Specialty food retailing (55%), printing and copying (71%), and lodging (39%) are in result of franchising (Michael, 1996). A franchise agreement is "a contract between two (legal) firms, the franchisor and the franchisee. The franchisor is a parent company that has developed some product or services for sale; the franchisee is a firm that is set up to market this product or services in particular locations. The franchisee pays a certain sum of money for the right to market this product" (Rubin, 1978, p.224). Franchising due to two distinct features is different from other types of inter-organizational relationship. First, in order to notable service components should perform near the customers, and second franchisor sets the "chain wide standard" for franchisee performance and franchisee get the right to operate under the franchisor brand image (Combs, Michael, & Castrogiovanni, 2004).

Highly competitive environment has increased the need for entrepreneurial activities in a franchise system (Shane & Venkataraman, 2000) and firms through the entrepreneurship will be able to enhance their efficiency and eliminate the inefficiencies (Shane & Venkataraman, 2000). While there is no doubt about considering franchisors'

business as an entrepreneurial firm, franchisee's activities are viewed skeptically as an entrepreneurial firm (Maritz, 2006). Franchisors recognize an opportunity, create and develop the business, therefore they are widely accepted as entrepreneurs, (Clarkin & Rosa, 2005; Falbe, Dandridge, & Kumar, 1999). Nevertheless, there is no consensus about considering franchisee's activities as entrepreneurship (Dada, Watson, & Kirby, 2010). Some scholars believe opportunity has been identified by franchisors (Ketchen, Short, & Combs, 2011), and they reduce the risk of running a new business (Shane, 1996). Moreover, organizational context provided by franchisor constrains the franchisee's activities and franchisees have no autonomy in product innovation in their outlet (Combs & Castrogiovanni, 1994). Therefore, franchisee's business hardly can be considered as an entrepreneurial firm. On the other hand, some believe franchisee also as an entrepreneur focus on opportunity, take the business risk (Ketchen et al., 2011). In this view, ignoring the franchisees' capabilities and abilities in innovation and introducing new products prohibit a franchise system in take advantage of environmental change (Kaufmann & Eroglu, 1999b). Although the franchises are somehow limited by franchisors, but they develop new offerings, modify existing ones, and find solutions to franchise system problems (Kaufmann & Eroglu, 1999b). In later perspective, franchisees act as entrepreneurs and do all functions that other entrepreneurs perform (Kaufmann & Dant, 1999).

Although diversity of conceptualizations of entrepreneurship has been used by various scholars, identification of the unique aspects of entrepreneurship is better than a unique definition of entrepreneurship, for considering a business as an entrepreneurial firm (Kaufmann & Dant, 1999). All scholars in entrepreneurship fields agree about the pivotal role of the entrepreneurial process in entrepreneurship, and believe that knowing about a set of activities during an "entrepreneurial" process help them in understanding the nature entrepreneurship (Moroz & Hindle, 2012). Consequently, this article aims to examine the dimensions of the entrepreneurial process in a franchised outlet as the unique feature of an entrepreneurial firm.

## 2. THEORETICAL BACKGROUND

### 2.1 Franchising strategy

Individuals who have a service business or an idea for service's business, which need to have personally contact with customers, have two main strategies to develop the business: internal development of company-owned outlets and franchising (Combs et al., 2004). In a franchise system, the firm can hire a manager, who are paid a salary, to administrate the company outlet (and perhaps a bonus) or choose franchisees that are given the right to run an outlet and doing a business under the franchisor protection after royalties and other expenses (Combs et al., 2004).

#### Types of franchising

In spite of the general form of franchising there are two breeds of franchising:

- 1- A product tradenames strategy, that is a relationship between the supplier (franchisor) and the dealer (franchisee), in which the dealer agrees to acquire some of the identity of the supplier in order to become the preferred source of supplier's good (Elango & Fried, 1997) under the franchisor's trademark (Hoffman & Preble, 2003).
- 2- A business format strategy, in which franchisor supports the franchisee with a product/ service, trademark, methods of operations, and ongoing guidance. This type of franchising is prevalent in the restaurant industry (Hoffman & Preble, 2003). Franchisor in this strategy, control over the franchisee's activities included products, price, hours of operation, conditions of the plant, inventory, insurance, personnel, and accounting and auditing (Rubin, 1978). According to business format franchising franchisees pay money as initial fee and royalties based on gross sales, to be granted the right to operate under the franchise chain at a location. Profits after expenses and royalties are received by the franchisee as

compensation(Baena, 2009). Business format franchising includes four different elements: product/service deliverables, benefit communication, system identifiers, format facilitators (Kaufmann & Eroglu, 1999a).

Since business format franchising is prevalent in the restaurant industry (Hoffman & Preble, 2003), in this study focus is on business format franchising, in which a relatively complete business system is replicated across local units in the franchising system (Castrogiovanni & Kidwell, 2010).

## 2.2 Entrepreneurial process

The role of entrepreneurship and entrepreneurial activities for the development of national and regional economies (Tamásy, 2006), and also solving the economic problems of countries (Falbe et al., 1999) is widely recognized. Franchising systems, as well need the entrepreneurial activities to survive in a highly competitive environment and take advantage of it to have better performance than their rivals (Falbe et al., 1999). According to Shane and Venkataraman (2000) lack of a unique conceptual framework to describe and anticipate a unique set of empirical phenomena in entrepreneurship has made some problem of knowing what is it exactly(Shane & Venkataraman, 2000). According to Moroz and Hindle (2012) there is no singular embracing and general theory to explain the entrepreneurship, and most of the definition of entrepreneurship has been restricted to definition of entrepreneur and what entrepreneurs do. For example, Shane and Cable (1997) define entrepreneurs as “individuals who receive their compensation in the form of residual claimancy on the proceeds of a firm and who also have been operating control of an organization”(Kaufmann & Dant, 1999). Miller (1983, p.770) believed an entrepreneurial firm “engages in product-market innovation, undertakes somewhat risky ventures and is first to come up with ‘proactive’ innovations, beating competitors to the punch” In this article, we define the entrepreneurship phenomena as the process of discovery, evaluation and exploitation of opportunities for creating the future products in an entrepreneurial firm(Shane & Venkataraman, 2000).

Entrepreneurship as a process resolves many skeptical issues about the nature of entrepreneurship (Moroz & Hindle, 2012). Study of the process has a pivotal role in the nature of entrepreneurship (Moroz & Hindle, 2012) and explaining the process of firm creation is important in the entrepreneurial firm (Grunhagen, DiPietro, Stassen, & Frazer, 2008; Shane & Venkataraman, 2000). In many articles on entrepreneurship, entrepreneurial process has been examined as the core unit of analysis (Moroz & Hindle, 2012). Entrepreneurial process is “all the functions, activities, and actions associated with perceiving opportunities and creating organizations to pursue them” (Bygrave, 2004). Although many articles have attempted to present a unified entrepreneurial process, most of them appear without explicit reference to their theoretical underpinning (Ucbasaran, Westhead, & Wright, 2001). Moroz and Hindle (2012) examined about 32 models of the entrepreneurial process, according to four dimensions 1- distinctness 2- generally 3- accuracy and 4- simplicity (Moroz & Hindle, 2012) .They divided all models of the entrepreneurial process into five main categories, including:

- 1- Stage model which divides the entrepreneurial process into a priori stage major task or phases.
- 2- Static framework, that characterizes the overall process of venture creation without examining the sequence and dynamics of them.
- 3- Process dynamics, in which qualitative methods have been used to explain how and why variations in context and process lead to outcomes.
- 4- Quantification sequence models, that focus on a historical sequence of the new venture creation process without the understanding of the dynamics of how antecedent conditions shape the present and the emergent future within the process.
- 5- Other models that do not fit within the four cited parameters.

After reviewing the all entrepreneurial process models Moroz and Hindel (2012) found, only 4 of the 32 process models, presented by Gartner (1985), Bruyat and Julien (2000), Sarasvathy (2006), and Shane (2003), are converging on conceptualizing the entrepreneurial process by what was simultaneously generic and distinct from the process (Moroz & Hindle, 2012). Although none of these models are completely generic or distinct to entrepreneurship, but Shane (2003) presents a more comprehensive model of the entrepreneurial process which encompasses basis for unifying theory in entrepreneurship.

### 2.3 Shane's (2003) model of entrepreneurial process

In Shane's (2003) model, the entrepreneurial process involves (1) the existence of profit based (objective) opportunities that may be exploited through the application of new means end relationships, (2) a variation among people in their willingness and ability to act, (3) a need to embrace uncertainty/risk bearing, (4) a requirement for purposive organizing, and (5) a requirement for some form of innovation. (Moroz & Hindle, 2012). Therefore, according to Shane's model of the entrepreneurial process, in this article we focus on three main dimensions of entrepreneurship: (1) focus on the existence, discovery, and exploitation of opportunities; (2) the influence of individuals in risk-taking and uncertainty and (3) focus on some forms of innovation.

#### 2.3.1 The Existence of Entrepreneurial Opportunities

Entrepreneurial opportunities are the requisite and central aspects of entrepreneurship (Shane & Venkataraman, 2000). Entrepreneurial opportunities are "situation in which a person can create a new means-ends framework for recombining resources that the entrepreneur believes will yield a profit" (Shane, 2003). Shane (2003) clarifies the new means-ends frameworks by aligning his conceptualization of entrepreneurship with innovation. According to Venkataraman (1997) entrepreneurial opportunity, consists of a set of ideas, beliefs and actions that enable the creation of future goods and services in the absence of current markets for them (Sarasvathy, Dew, Velamuri, & Venkataraman, 2005).

Entrepreneurial opportunities can be divided into two categories. Some opportunities might arise as a result of the innovative activity of the potential entrepreneur, making the innovator the only one who is in a position to observe the existence of the opportunity. Other opportunities arise because people see that the market offers an entrepreneurial opportunity, perhaps as simple as buying something cheaply in one location and selling for more elsewhere, or perhaps as complex as buying inputs, combining them in a new manufacturing process, and selling a new product for a profit (Holcombe, 2003). The first types of opportunities are called Schumpeterian opportunities; and second types are called Kirznerian opportunities. Schumpeterian opportunities are innovative and break away from existing knowledge, while Kirznerian opportunities are not very innovative and replicate existing organizational forms (Shane, 2003). Therefore, Kirznerian opportunities reinforce established ways of doing things, whereas Schumpeterian opportunities disrupt the existing system (Shane, 2003).

In addition of identification and evaluation of opportunities, individual should organize the resources into a new combination. The choice of the exploitation mode depends on whether the individual wanted to run their own business or use a market mechanism, such as licensing or franchising. Shane (2003), according to who discover the opportunities and who exploit them, present a categorization of exploitation mode. Different types of opportunities can influence on different strategies for exploiting the opportunities. The first explanation refers to when an independent individual runs an independent startup by the discovery and exploitation of opportunities individually. Spin-off as a mode of exploitation takes place when an individual discovers the opportunity as a member of an organization and organizes the resources individually into new combinations. In the market mechanism mode of exploitation, independent individual try to exploit the individual discovered opportunity through existing

organizational resources. And in corporate venturing, individuals not only identify the opportunity as an organizational member, also organization set possibility for exploitation of opportunities (Shane, 2003).

		Discovery	
		Independent individual	Organization member
Exploitation	Independent individual	Independent start up	Spin-off
	Organization member	Acquisition /Licensing	Corporate venturing

Table1. The modes of exploitation (Shane, 2003)

### 2.3.2 Innovation

Innovation introduces newness and novelty through experimentation and creative processes (Dess & Lumpkin, 2005). Individual responsibility for the process of creating the new value of a business is another crucial aspect of the entrepreneurial process. Innovation, as the term, is used by Schumpeter, is a source of considerable new value creation. In fact, in the entrepreneurial process, the new value would not be created without innovation (Bruyat & Julien, 2000). Schumpeter identifies following five types of innovations that define the entrepreneurial actions (Schumpeter, 1934):(1) The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of a good. (2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture David Riesman's distinction between internally, and externally guided people is somewhat similar to Schumpeter's concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.(3) The opening of a new market, which is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before. (4) The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has been first to be created. (5) The carrying out of the new organisation of any industry, like the creation of a monopoly position (for example, example through trustification) or the breaking up of a monopoly position (Schumpeter, 1934, p. 66).

### 2.3.3 Risk-taking

The variable of risk tolerance seems to deliver the crucial information of the entrepreneurial process (Caliendo & Kritikos, 2012). Risk taking orientation refers a willingness to commit resources in strategies or projects with unknown and uncertain outcomes (Li, Huang, & Tsai, 2009). Risk taking associates to "the degree in which managers are willing to make large and risky resources commitments" (Miller and Friesen, 1978). Willebrands, Lammers, and Hartog (2012) distinguished between risk propensity and risk perception. They predict that higher-risk perception improves business performance. Despite the propensity to take a risk is negatively related to profits, but if risk perception is included in the analysis, risk propensity is no longer significant. In other words, entrepreneurs with a higher perception of the financial risk earn higher profits(Willebrands, Lammers, & Hartog, 2012). There are three types of risk that individuals face when they are going to run a business include business risk, financial risk, and personal risk(Dess & Lumpkin, 2005):

- Business risk-taking which is related to entering untested markets or committing to unproven technologies.
- Financial risk-taking which refer to borrow heavily or commit a large portion of resources in order to grow. And,
- Personal risk-taking refers to the risks that directly affect individual when an executive assumes in taking a stand in favor of a strategic course of action.

### 3. METHODOLOGY

There are five strategies in social research include the experiments, surveys, archival analysis, history and case study (Yin, 2008). When in situation, more detailed and broad information is needed, qualitative studies are more likely better (Cope, 2005). In addition, when an investigator has little control over the events and focus in research is on contemporary phenomena within a real-life context, a case study strategy is used(Yin, 2008). According to previous literature, more qualitative methods are needed in franchising studies(Dada et al., 2010; Elango & Fried, 1997) and case study approach can convey an alternative to quantitative franchising research (Dada et al., 2010), which make it difficult to study it in detail (Saraogi, 2009).

Although in a qualitative study, there are no precise guides to the number of cases to be included(Perry, 1998), selecting between 4 and 10 cases usually works well (Eisenhardt, 1989). Yin (2008) recommends that “multiple cases” should be regarded as “multiple experiments” and not “multiple respondents in a survey.” Consequently, authors on franchising studies have followed this recommendation for case selection (Bill & Lorelle, 2006; Choo, Mazzarol, & Soutar, 2007; Dada et al., 2010). Therefore, in this study, with regard to the replication logic (Eisenhardt, 1989; Yin 2003) , and to provide better understanding of the entrepreneurial process in franchised outlets, six cases from two franchise system in Iran were purposely selected (Patton, 2002). Several data collection methods have been done in this research. For gathering data, semi-structured interviews and observations were used to provide more elaborated and detailed data. According to Dada et.al (2010), at least two respondents from each firm in the franchise agreement were interviewed. First, to get familiar with the cases; within-case analysis was made (Eisenhardt, 1989; Yin 2003), and then the cross cases' analysis has been made(Yin, 2008). Collected data was grouped in codes, (according to both predominant coding based on literature and also emerging coding)(Creswell, 2009), and after that became related to each other in similar themes.

### 3.1 Cases description

#### Shila Fast Food

Shila is a franchise in restaurant industry in Iran that is established in 2001. It has 18 franchised outlets. Four major services are offered in Shila include Hotdog, Berger and Sandwich, Pizza and Appetizer, also soft drinking. The parent company in Shila's chain has set some standards in location design, supplying the product, pricing, customer services, quality and health, and human capital. According to organizational value in Shila, they committed their outlets to clients' rights, high quality in their product and services, healthy cooking methods, qualified staff knowledge and behaviour. High quality of raw material, cooking the food in a healthy way and without oil, using the fresh vegetable and use of food grade for packaging, are distinctive offered services in Shila's chain. In this research, three more successful franchisees were selected for interview and more studying.

#### Icepack Iranian

Icepack Iranian as the first proven and well established franchise in food industry in Iran is found in 2001 after its founder introduces a new product of ice cream, which is named Icepack with copyright for the company. Icepack spread more than 100 outlets less than six months after the running. At the moment, it has 280 franchised outlets in Iran and other countries. Although, the main product of this chain is a special kind of ice cream with several tastes, some other products such as milkshakes, fruit juice, coffee, donat and popcorn, also, are offered in Icepack outlets. Icepack as an ice cream has a copyright for its formula, and no other companies are allowed to copy and produce it. In fact; Icepack has been established as a unique product different from other kinds of ice creams. Three successful franchised outlets from Icepack Iranian were selected to have a more elaborated view.

#### 4. FINDINGS AND DISCUSSION

In this article, all six franchisees were studied to examine the entrepreneurial process in their outlets. All these outlets are owned by franchisees and there is no parent company-owned among them. To analyse the franchised activities during the running their business, three main dimensions of an entrepreneurial process in the entrepreneurial firm, including entrepreneurial opportunity (opportunity identification and evaluation, and opportunity exploitation), risk-taking and innovation, has been examined.

##### Entrepreneurial opportunity

The valuable opportunities are considered as the main concept of entrepreneurship (Venkataraman, 1997). The natures of opportunity in both Schumpeterian and Kirznerian view are different. Entrepreneurial opportunity in Schumpeter's view based on "creative destruction." While identification of opportunities in Schumpeter's view needs creation and recognition of new knowledge, Kirznerian opportunity's identification is based on "new means end relationship" and involves the discovery process (Shane, 2003). Opportunities in Schumpeterian view depend on new information. Kirznerian opportunities emerge because prior decision makers have made errors or omissions that create surpluses and shortages (Shane, 2003). As all franchisee believed although they enter into a franchise system to take advantage, but the parent company has no information about our local market such as peoples' income, demand and so on. Also another said:

*Actually, I was going to run a coffee shop when I felt there is a lack of a good coffee shop in this city .... And as far as I was looking for a way to have an advantage from the starting point, I decided to negotiate with a well-known brand..*

Moreover, identification and exploitation of opportunities in Schumpeter's view is different from Kirzner view (Shane, 2003). Most of the franchisees operate in the different market with different resource condition (Cox & Mason, 2007). Nature of demand in a local market is different (Kaufmann & Eroglu, 1999b). As one of the franchisee explained:

*You may think I had not identified a unique opportunity, but nobody had asked the parent company for getting the franchise outlet before me. For example, now, there is no franchised outlet in some other cities*

In Kirznerian view, information is imperfectly distributed; all individuals do not receive new information at the same time. Consequently, some people who get information before others, will be able to discover the opportunity (Shane & Venkataraman, 2000). Moreover, Buying a business, also need opportunity recognition (Ketchen et al., 2011) when one franchisee said.

*... Moreover, I was the first one who found this is an opportunity for running a franchised outlet in this city, and I did it sooner than other in right time. ... There are many people that wish to have my outlet.*

Sources of Kirznerian opportunities are idiosyncratic like source of opportunity for the introduction of a new restaurant where none had existed before in a storefront. And this feature has made it difficult for a researcher to identify the source of opportunities. The franchisee is more familiar with local market opportunities (Kaufmann & Dant, 1999) and franchisor uses the franchisee's local knowledge in an entrepreneurial way to develop their business to the local market (Cox & Mason, 2007) and take advantage of local opportunities. When a potential franchisee identifies an opportunity individually, in fact, resource commitments are coupled with an organization support in exploitation of opportunity. In this view, individuals try to use of market mechanisms as a mode of opportunity exploitation (Shane, 2003).

## Innovation

However, franchisor set some rules and standard for franchisees (Maritz, 2006) and limit their innovative actions, but franchisees are still the main source of new idea and innovation in franchising system. In fact, franchisor uses the franchisee's local knowledge in an entrepreneurial way to develop their business to local market (Cox & Mason, 2007).

However, franchisor set some rules and standard for franchisees (Maritz, 2006) and limit their innovative actions, but franchisees are still the main source of new idea and innovation in franchising system. In fact, franchisor uses the franchisee's local knowledge in an entrepreneurial way to develop their business to local market (Cox & Mason, 2007).

*... However, we are not allowed to change core products and services, but we can change some less important services like types of drinking or delivery service and somehow store design. ... We can change these services based on our experience of the market and our ideas.*

Therefore, identification of core and peripheral elements are crucial for franchisor's strategies (Kaufmann & Eroglu, 1999b). For instance, whereas the nearly universal familiarity with the McDonald's name has permitted more peripheral system identifiers to be relaxed, the core product/service deliverables are sacrosanct (Kaufmann & Eroglu, 1999b). Or another franchisee who said:

*We can choose to store design, although the parent company can help us to decorate it. Alternatively, we have autonomy in local advertising or service delivery. Sometimes we can offer new services and product; of course, we coordinate it with the parent company, first of all.*

Moreover, according to Schumpeter categorization of innovation, individual's or company's entrance to new geographical market is a breed of innovation. According to Schumpeter "the opening of a new market, which is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before" (Schumpeter, 1934). Therefore, as far as franchisee has a local knowledge and are responsible for business performance in it, running franchised out in a new geographic market can be considered as an innovation. As one of the franchisee explained:

*I ran the first outlet in this city, and nobody had done it before me. ... Isn't it an innovation?! When I run a new Icepack (brand name) outlet in the city. ... , most of the products that you see them as an innovative product, there was in another country and for Iranian people are new products and services.*



According to Shane (2003) “the introduction of snack crackers made of seaweed in the United States provides an example of an opportunity that takes the form of a new geographical market because this opportunity, which had existed before in Japan, had not existed in the United States” is a kind of the innovation.”(Shane, 2003)

## Risk taking

Although some believed that franchisor services reduce the risk of franchisee, franchisees' risk is never omitted and still exist(Maritz, 2006). As one of the franchisee explained:

*However, you make your business under the franchisor brand but operation under the proven brand just helps you to reduce the risk of introduction of business, but you are still responsible for your outlet performance.*

Franchisee risks their capital (Ketchen et al., 2011) . According to three types of risk, including personal, financial and business risk (Dess & Lumpkin, 2005), franchisees explained:

*Nobody will repay to you when you lose your investment. You are the only person who risks in their money because franchisor never invested in your outlet. They just help you for better performance, and also they get initial fee and royalty.*

Or another who said.

*I had opportunity cost when I invested in one franchise outlet, while franchisor has no opportunity cost.*

Or another franchisee who explained:

*Running a business always has a risk, risk of losing your money, your reputation and .... Could you show me a business without any risk?*

Risk in franchisee is, to some extent, shared with the franchisor (Ketchen et al., 2011). And both, risk in this relationship like other types of alliances. Franchisor, as well reduce the risk associated with new market (Kaufmann, 1999), and to take advantage of the local market expertise of operating retailers(Bradach, 1997) . As one franchisee explained:

*We also reduce the risk of operating in new market with different customer preference for the franchisor.*

In addition of what has been cited in literature, some franchisee believed franchisor reputation has an important role in knowing which party takes more risk. When a franchisee gets the right of operation under the well-established franchise system, It sounds franchisor are encountered with higher risk. But when franchisees are doing business under the unknown or less-known brand, franchisees are who take more risk. As two franchisees explained:

*However, we risk when we run a business but as far as we are doing business under the famous brand so franchisor also take a risk because weak performance of franchisee damaged the brand.*

Or another franchisee who said:

*They (franchisor) just get the money while the brand is not so famous, while we risk our money.*

Moreover, there is no convincing evidence that franchising is less risky for franchisees than operating an independent business (Stern & Stanworth, 1994)

## 5. CONCLUSION

In the highly competitive environment, the business exists because of entrepreneurship (Langlois, 2007) and entrepreneurial activity increases their efficiency (Shane & Venkataraman, 2000) and helps them to have superior performance than rival (Falbe et al., 1999). From entrepreneurship point of view in studying a franchise system, there is no doubt in considering franchisor's business as an entrepreneurial firm, but franchisee's business is sceptical. Paradox in franchisee's activities has caused a doubt in considering franchisees' business as entrepreneurial firm and entrepreneurship (Dada et al., 2010). On the other hand, the existence of a variety of definitions about entrepreneurship has caused a problem to know what is an entrepreneurial firm exactly (Kaufmann & Dant, 1999) and a process-focused approach offers much unexplored potential for understanding the nature of entrepreneurship in an entrepreneurial firm (Moroz & Hindle, 2012). The entrepreneurial process has a pivotal role in the nature of entrepreneurship and study of it well suited for both theoretical examination and for practical application (Moroz & Hindle, 2012).

Although there are many articles that have studied the entrepreneurial process as a model, Shane's (2003) model is more comprehensive than others. According to Shane's model (2003) the entrepreneurial process involves the existence of profit based (objective) opportunities, risk-taking and some kind of innovation. Although, some believe franchising provides opportunities for franchisees to act entrepreneurial activity (Dada et al., 2010), according to opportunity dimensions in Shane (2003), the discovery, evaluation and exploitation of opportunities should differ between Schumpeterian and Kirznerian opportunities. Nature of opportunity in franchised outlets is closer to Kirznerian view than Schumpeterian view. Although the source of opportunities in franchised outlets are not so clear, like the introduction of a new restaurant where none had existed before in a storefront. Many scholars believed, first-time franchisees undergo an opportunity recognition process (Guilloux, Gauzente, Kalika, & Dubost, 2004; Kaufmann, 1999). The Kirznerian nature of opportunity in a franchised outlet, impacts on exploiting strategy. In franchised outlet, potential franchisees try to exploit the individual discovered opportunity through existing organizational resources. While organizational context provides by franchisor constraint franchisee somehow, but like franchisee, no other entrepreneurs are unconstrained (Kaufmann & Dant, 1999). However, franchisee is not allowed to deviate from provided standard by the franchisor (Dada et al., 2010) but franchisee is more familiar with local market (Cox & Mason, 2007) and different customer preferences in the local market cause franchisees to look for adoption in the local market (Dada et al., 2010). Moreover, according to different types of innovation in Schumpeter's view, franchisees' business involves product-market innovativeness include market research, product design, and innovations in advertising and promotion (Dess & Lumpkin, 2005). Regarding to risk-taking as a third dimension of the entrepreneurial process, franchisees risk their capital. Although it seems in franchise systems, risk in franchisee is, to some extent, share with the franchisor (Ketchen et al., 2011) but no franchisors will be able to eliminate the financial, business and personal risk of franchisees. Franchisor, also, transfer the risk of expanding into new market, to franchisees. In summary, Franchisees do almost all functions as other entrepreneurs except generating new ideas in the initial step of running a business (Ketchen et al., 2011), however, in some case like a franchised outlet in India, there are many innovations in raw material, product and raw material (Kaufmann & Eroglu, 1999b). As well, franchisee assuming the risk of business for franchisor and franchisee become a partner in entrepreneurship (Kaufmann & Dant, 1999). It is notable that due to nature of opportunity in franchisee, as a Kirznerian view of opportunity, risks of business are less than Schumpeterian view.

In this article, we have just examined the running a franchised outlet as entrepreneurship. According to importance of entrepreneurial activities in firm growth and superior performance of franchising (Cox & Mason, 2007) it seems to be important to know; does entrepreneurial orientation of franchisee have any role in franchising

performance, or regarding to the importance of standardization in a franchise system?; And how does franchisee can develop the entrepreneurial strategies in their outlet?

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