

# THE IMPACT OF CREATIVITY ON FRANCHISING

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## ABSTRACT

*This paper sets out to disprove the dictum that franchising by nature discourages innovation and creativity on the part of the franchisee. Creativity is both a complex process and an outcome. Franchising is a business technique for growing a business organization and distributing goods and services through a licensing relationship. Franchisors not only specify the goods and services that will be sold by the franchisees (i.e. a person or company who is granted the license to do business under the trademark and trade name by the franchisor), but also provide them with an operating system, brand and support. Conversely, the franchisees typically view themselves as, to some degree, partners with the franchisor in the development, growth, and success of the business entity. Therefore they embark on creativity in line with environmental trends and rival outs. The developed creative idea has significant impact on the organizational goals of the franchising business. Findings revealed that creativity ensures the survival and continuity of the franchise, due to the fact that as productivity and profitability of the firm increases, the activities of the franchise will be performed continually, and as such there will be a reason for the franchisee to still be in business. Communication was also found to be a necessary tool to successfully franchise a creative business. This makes sure that there is an open and honest relationship between franchisee and franchisor results in franchisees having the confidence and feeling supported to implement creative ideas of their own in a transparent fashion.*

**Keywords:** Creativity, Franchising, Franchisee, Impact, Business

## INTRODUCTION

Creativity plays a major role in the franchising process (Alpeza, Peric, & Soltic, 2012). The relationship between the acquisition of the franchise and the process of operating the franchise, as well as between the design and the relationship between the franchisor and the franchisee has sufficiently been described in the literature (Krugar, 2014). However how the franchising business strategy can inculcate creativity and new ideas or ways doing things and still keep to the terms of the franchising agreement as the business progresses is quite a challenge (Krugar, 2014). This has however not been fully discussed in literature. It is therefore imperative to understand the possibility of initiating new ideas and different ways of doing things without going against the agreed terms of the franchise. This means that, while the business is carried out, there should be a way of generating creative ideas to expand the business beyond its horizons.

However some problems such as poor use of creativity in the fast food business affect franchising strategy. Most firms in this sector just follow all the laid down norms and methods of doing things. There should be a way that firms can adhere to the terms of franchising agreement and still be creative enough to add in their own style of doing things (Alpeza et al, 2012). Also poor development of creative skills in the employees which could assist in ensuring their continuity is also a challenge. Most of the employees who work in these firms have been made to believe that they have to follow all the processes made by the franchisor. Thus all the creativity in them is subdued and the chance of enhancing their creativity is very slim, thereby, slowing the rate of creativity generation among employees.

Majority of the franchisees don't encourage or foster the generation of new ideas because of fear of bridging the terms of the franchise agreement (Leopold & Kassermann, 2002). It takes a creative mind to think of ways to do things differently but still in line with what the terms of the franchising agreement states. Inability to generate creativity in business is a problem on its own which is why it is imperative this creativity is allowed to soar in franchising (Oko & Okonkwo, 2015). For the fear of losing their franchise

license, fast food firms have always neglect the creativity of their employees who witness first-hand the demand of customers in relation to what is being offered by the business (Oko & Okonkwo, 2015). This in turn may hamper the business growth and expansion.

As companies strive to achieve competitive advantage, it is imperative for firms to reflect on their historical competitive strengths that initially drove the early creativity processes that sustained their evolution and led to their expansion into global markets and global operation centres (Maritz, 2005). By sustaining an environment that promotes the process by which product designers imagine and create new products and services, the same relentless compulsion to question is needed to make new innovation work when old strategy are not producing the desired results even when they are stated in the terms of contracts for the licensing (Simon, Alix-Desfautaux, Khelil, & Le Nadant, 2018).

New business strategies have evolved over time, one of which is franchising. Franchising can be described as a form of business strategy in which a firm which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee (Dada & Watson, 2013). There are over 120 different types of franchise businesses available today, including but not limited to automotive, cleaning & maintenance, health & fitness and financial services but this paper focuses on the food and eateries firms. This showed the extent to which franchising is successfully embraced and practised across business environments.

Creativity however, is the generation of imaginative new ideas (Newell & Shaw, 1972; Munizu & Hamid, 2018), involving a radical newness innovation or solution to a problem, and a radical reformulation of problems. Creativity has always been an important business skill, and its importance is still in usage in modern business engagements. Forcing employees to create agile company will not only survive but give you a powerful competitive advantage (Munizu & Hamid, 2018). The ominous business environment is constantly changing and presenting new challenges, demanding new pathways to providing solutions to some of the challenges considered to be novel. This uncertainty provides a schematic leap to business that allows for innovation and creativity but could also spell doom to businesses that may not heed to this warning. Creative thinking is not the “universal antidote” capable of curing all, but it offers ways to examine problems that force us to question fundamental issues. Couple with its multidimensionality, the concept of creativity can serve as a leverage point for organizations and businesses to grow beyond their breakeven point (Riyadi & Sumardi, 2017).

Creativity cuts across every area of the organization within the food chain business, from accounting, personnel management, marketing, production, research and development when using the franchising business strategy (Leopold & Kasselmann, 2002). This study sets the scene for management creativity when using the franchising business strategy in the food and eateries business. It considers why creativity management is important and all the benefits it can provide to firms who apply it to their business practices. The various blocks to creative problem solving are explained, as are the actions that are required to get around these difficulties. Each step in the creative problem solving process is explored in some depth, and illustrations are given of some of the principal mechanisms used to help structure and stimulate thinking. The major focus of this study however, is to measure the impact of creativity on the franchising performance.

## REVIEW OF RELATED LITERATURES

### History of the Term and Concept Creativity

The ways in which societies have perceived the concept of creativity have changed throughout history. The ancient Greek concept of art involved not freedom of action but subjection to rules. In Rome, this Greek concept was partly shaken, and visual artists were viewed as sharing, with poets, imagination and inspiration (Zbainos & Anastasopoulou, 2012). Although neither the Greeks nor the Romans had a word that directly corresponded to the word "creativity," their art, architecture, music, inventions and discoveries provide

numerous examples of what today would be described as creative works. The Greek scientist of Syracuse, Archimedes experienced the creative moment in his Eureka experience, finding the answer to a problem he had been wrestling with for a long time. At the time, the concept of "genius" probably came closest to describing the creative talents that brought forth such works (Zbainos & Anastasopoulou, 2012).

A shift occurred in modern times. Renaissance men had a sense of their own independence, freedom and creativity, and sought to give voice to this sense. The first to actually apply the word "creativity" was the Polish poet Maciej Kazimierz Sarbiewski, who applied it exclusively to poetry (Tatarkiewicz, 1980). For over a century and a half, the idea of human creativity met with resistance, due to the fact that the term "creation" was reserved for creation "from nothing." Gracián (1601) cited in McKinney (2004) would only venture to write: "Art is the completion of nature, as if it were a second Creator". By the 18th century and the Age of Enlightenment, the concept of creativity was appearing more often in art theory, and was linked with the concept of imagination.

The Western view of creativity can be contrasted with the Eastern view. For Hindus, Confucianists, Taoists and Buddhists, creation was at most a kind of discovery or mimicry, and the idea of creation "from nothing" had no place in these philosophies and religions. In the West, by the 19th century, not only had art come to be regarded as creativity, but it alone was so regarded. When later, at the turn of the 20th century, there began to be discussion of creativity in the sciences (e.g., Jan Łukasiewicz, 1878–1956) and in nature (e.g., Henri Bergson), this was generally taken as the transference, to the sciences, of concepts that were proper to art. In the late nineteenth and early twentieth century's, leading mathematicians and scientists such as Helmholtz (1896) and Henri (1908) began to reflect on and publicly discuss their creative processes, and these insights were built on in early accounts of the creative process by pioneering theorists such as Graham Wallas (1926) and Max Wertheimer (1945) (McKinney, 2004).

However, the formal starting point for the scientific study of creativity, from the standpoint of orthodox psychological literature, is generally considered to have been J. P. Guilford's 1950 address to the American Psychological Association, which helped popularize the topic and focus attention on a scientific approach to conceptualizing creativity and measuring it psychometrically. In parallel with these developments, other investigators have taken a more pragmatic approach, teaching practical creativity techniques. Three of the best-known are: Alex Osborn's "brainstorming" (1950s to present), Genrikh Altshuller's Theory of Inventive Problem Solving (TRIZ), and Edward de Bono's "lateral thinking" (McKinney, 2004).

## Creativity Defined

Creativity according to the Webster dictionary is a mental and social process involving the generation of ideas or concepts, or new associations of the creative mind between existing ideas or concepts. Creativity is a fundamental feature of human intelligence in general, and it is grounded in everyday capacities such as the association of ideas, reminding, perception, analogical thinking, searching a structured problem-space, and reflecting self-criticism (Gandolfo, Stanworth, Price, & David, 1996; Alpeza et al., 2012). It involves not only a cognitive dimension (the generation of new ideas) but also motivation and emotion, and is closely linked to cultural context and personality factors (Gandolfo et al., 1996).

During times of economic stress, creative organizations have a comparative advantage to survive in the marketplace. However, research has frequently focused on the relationship between group phenomena and the individual creativity of group members (e.g., Shalley and Perry-Smith, 2001; Zhou, 2003). Group processes are among elements of the work environment context, factors that operate outside an individual employee yet have the potential to influence individual creativity (Shalley et al., 2001; Hu, Erdogan, Jiang, Bauer, & Liu, 2018). Creativity in the workplace involves employee production of useful and novel ideas about a firm's products, services, procedures, and practices (Shalley, Gilson, & Blum, 2004; Shalley et al., 2004) as a means to ensure that the firm stays flexible and can cope with changes in competition, technology, and markets (Vandervert, Schimpf, & Liu, 2007).

According to Terry (2009) and Hon and Lui (2016), the nature of work has dramatically changed over the last decade, reflecting greater global competition, job restructuring, and the flattening of organizational hierarchies. These changes have increased the need for creativity from workers at all levels and different types of jobs, including those that may not have traditionally required employees to be creative. Creativity in organizations involves both processes and outcomes in that individuals engage in relevant means to enhance the potential for creative results, i.e., providing an on-going effort to identify a problem, examining previously unknown situations to find alternative solutions and choosing a unique and useful one that addresses the problem at hand (Zhou and Shalley, 2008).

Creativity can be generated by employees in any job and at any level of an organization (Zhou & Shalley, 2008). Creative self-efficacy is based on a person's knowledge and skills enabling creativity. As such, creativity enhances the production capacity and effectiveness of organizations and it also serve as a mediator to influencing transformational leadership and employee learning orientation (Hon & Lui, 2016).

### **Distinguishing Between Invention and Creativity**

Invention is an act of creativity that results in a device, process, or technique novel enough to produce a significant change in the application of technology (Dasgupta, 1994). The element of novelty has various forms which are found critical to invention; it may be a new device or process, or even material, but it may also consist of a combination of existing knowledge in a manner not previously considered (Runco, 2017). For example, James Watt added a separate condensing chamber-a new device-to Thomas Newcomen's atmospheric engine and created the steam engine (Miller, 2017).

From a business development point of view and in terms of developing growth strategies it is suggested that breakthrough invention should not be the focus of attention. Indeed, the latter strategy may be too radical for some markets (Treacy, 2004). Evidence points to over a 90 per cent failure rate among new products launched into the market place and that the majority of these were based on radical technologies (Christensen, Cook, & Hall, 2005). Such evidence indicates that in order to remain competitive, organizations should seek to develop new products via incremental technologies. Adopting a process of continuous improvement to existing products appears to be a requirement for continued success. Adopting such a strategy involves the redesigning of existing models/ products with incremental technologies and it produces cost savings in terms of time and money and may lead to retention of existing customers (Treacy, 2004). Creativity on the other hand according to Tony (2010) can be defined as the ability to develop and implement new and better solutions with application of ingenuity and imagination that results in a novel approach or unique solution to a problem. Based on this definition, creativity is seen as the effective combination of intuition (divergent or right-brain thinking) and logic (convergent or left- brain thinking).

Amabile (2012) argued that to enhance creativity in business, three components are essential: (i) Expertise (technical, procedural & intellectual knowledge), (ii) Creative thinking skills (how flexibly and imaginatively people approach problems), (iii) and Motivation (especially intrinsic motivation). Nonaka Nishiguchhi (2001), who examined several successful Japanese companies, similarly saw creativity and knowledge creation as being important to the success of organizations as a result of much emphasis on tacit knowledge in the creative process.

Products offer the most convenient criteria for creativity. The question of criteria is met immediately because of the confusion of creativity with productivity (Schlegelmilch, 2016). One approach to this criterion is to consider the area of application of the new product or the implication it has for the field of knowledge it belongs to. Process suggests a sequence of mental activities that consists of the following four stages, or slight variations of them; preparation, incubation, illumination and verification. This kind of thinking occurs

as special case of reasoning, and it has often been referred to as adventurous thinking. Success in measuring other human qualities through tests, some of which have become highly refined, has led to efforts to devise tests of creative ability. A natural first approach was to find out whether existing tests of mental ability, such as IQ tests, had any validity in measuring creativity. The individual must have desire to exercise that ability, to communicate the results of his creativity to others and to do this in such a way that their value is clearly seen.

## Dimensions of Creativity

According to Andrew et al (2005), there are four dimensions of creativity that are studied in the literature:

1. The creative thing or product: This refers to the materials put together to form a particular product. In this case, the materials are referred or called the name labelled by the organization.
2. The creative person: This is the person or group of persons who creates the product. They may be professionals or non-professionals who are put together under the same organization.
3. The creative process: This refers to the steps that the creative person followed to create the product. This also involves the laid down pathway that is necessary for achieving product development and organizational goals realization.
4. The creative environment: These are the group of people with whom the creative person was involved during the creative process, and perhaps prior to it. In some cases, the environment can also refer to different aspects of the physical environment, such as the colours, the type of architecture and furniture and the location of the organization (Marc, 2003).
5. The symbol used in the field: symbols means the methods used to represent the ideas in the field in which a particular creative person works. For example, in the physical sciences, mathematics is used to represent theories. In the life sciences, ideas such as 'genes' are more often abstract intellectual constructs that are defined in writing. In music, there are musical notation- musical notes. The idea of including the symbols as an aspect of creativity is that perhaps the particular symbols in use at the time influence the types of creativity that are possible at that time. Certain types of symbols may foster creativity, while other types may hinder creativity. Those who give symbols an important role in creativity also regard creativity as either creating new symbols in new ways.

## Types of Creativity

According to Elliot (2003), the types of creativity include the following:

1. Boundary Pushing (Constraints rules); this is the ability to expand the limits that define uses to place objects into classes from which is previously excluded. Examples include the use of a rubber eraser as a printing stamp or finding ways to bend plywood in order to make chairs.
2. Inventing (bring things together in a new way): The inventor does not merely extend the usual limits, but creates a new object by restructuring the known. The inventor often finds useful combinations, congruencies, to produce reconstructions. It is discovery followed by purposeful activity.
3. Boundary Breaking (the rules are the problem): the rejection or reversal of assumptions and making the 'given' problematic. The creator notices problems with existing assumptions and is able to imagine and generate solutions by thinking outside the box. This is also referred to as opposite thinking and gap filling thinking.
4. Aesthetic Organizing (order and beauty from chaos): Also known as quantitative organizing. This is the need to produce order, harmony and unit. It differs from the others in that novelty is not required. When one of the other types is used with aesthetic organizing, the result will produce a creative output.

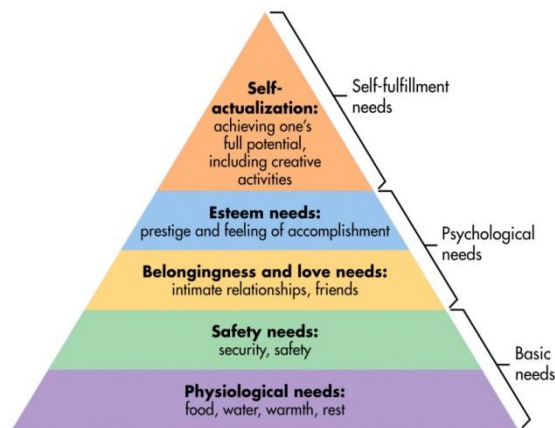
Boundary Breaking is the least common type, according to Eisner, and the last one, "Aesthetic Organizing", is the most common.

## Creativity Theoretical Framework

The theoretical model of creativity used in this study includes the following:

### The Humanistic Theory of Creativity

This theory is drawn from the works of Maslow and Lewis (1987). The humanistic theory is curled from the work of Maslow and Lewis (1987) hierarchy of needs, which basically categorised human needs into six layers, and these needs must be met to achieve satisfaction and to thrive and reach maximum potential. People's lower needs, however, must be met in order for them to progress to the next highest level, and only upon reaching the uppermost level, self-actualization, where needs are related to purpose and identify, are they at last free enough and comfortable enough to express themselves creatively.



**FIGURE 1**  
**MASLOW ( ) HIERARCHY OF NEEDS**

The supporters of this theory argue that environment is unimportant because even the most difficult of environments cannot hinder creativity if someone possesses the ability to self-actualize and, thus, obtain the highest level, where he or she can choose to be creative. In other words, people decide for themselves whether or not they will be creative. It's interesting to note that the Humanistic Theory is one theory with which few people find fault, perhaps because it makes perfect sense that a person cannot concentrate upon creative endeavours unless his or her most basic and primal needs have first been met.

### **The Investment Theory of Creativity**

Sternberg and Lubart (1995) and Sternberg (2006) argue that creativity requires a coming together of six clear cut yet interconnected assets: intellectual abilities, knowledge, styles of thinking, personality, motivation and environment. These six assets provide a framework through which creativity is carried out and achieved by individual in an organization.

### **Intellectual Skills**

This is the ability to be able to combine logical reasoning into work integration. Being able to combine these skills is the key, but one has to acknowledge that having analytic skills alone may simply produce critical thinking, but not creative ideas. Similarly having just synthetic skills simply produces ideas that are not evaluated for their usefulness in addressing problems. Finally, having persuasive ability alone may get ideas adopted not because the ideas are good, but because the ideas have been presented in a persuasive manner. Three intellectual skills are identified:

1. The ability to see problems from different perspectives and to move away from approaches involving conventional thinking;
2. The ability to evaluate which ideas are promising and which ones are not; and
3. The ability to persuade others regarding the value of ideas that are worth pursuing.

### **Knowledge**

Knowledge is essential for any creativity progress to be made. One cannot move forward if one does not fully understand the point from which one starts. However, one has to appreciate that one's perspective on a problem may be hindered or assisted by knowledge of a situation since it may reflect an entrenched perspective reflecting the way in which one has seen problems in the past.

### **Thinking Styles**

Thinking styles relate to how skills are employed by people. A preference for thinking in new ways is a desirable feature of creative thought. This will encompass adopting a global view as well as an ability to distinguish the wood from the trees and thereby recognize which questions are important and which are not.

### **Personality**

Numerous research studies argue for the importance of certain personality attributes which are associated with creative performance. Willingness to overcome obstacles, preparedness to take sensible risks, propensity to tolerate ambiguity and self-efficacy feature among desirable attributes.

### **Motivation**

Intrinsic, task-focused motivation is regarded as essential to creativity. Stress the importance of this and argue that people who love what they are doing and focus on the work rather than the potential rewards are most productive from a creative perspective. Finding a way of seeing something as being worthy of one's interest may be the factor that stimulates motivation. This may occur spontaneously (love at first sight) or occur out of necessity (because it is essential for one's self-preservation).

### **Environment**

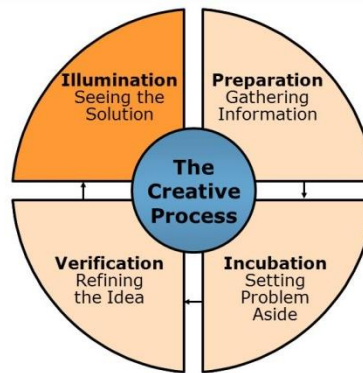
An environment that is supportive and rewarding of creative ideas is helpful since possessing the internal means required to think creatively may be insufficient without some environmental support (such as a means of putting ideas forward). Business environments do not usually make putting forward creative ideas an easy task.

Bringing together these six components is the essential task. However, there may be thresholds to be attained for some components (e.g. Knowledge) below which creativity is not possible irrespective of the levels achieved with respect to other components. Nevertheless, strength on one component (e.g. motivation) can counteract a weakness on another component (e.g. environment). Amabile (1996), lend support to Sternberg's investment theory approach. They argue that the combination of a variety of environmental and person variables is essential for creativity. Their research rests on a three part conceptualization of creative performance. They suggest that a problem should be approached with the appropriate domain skills (background knowledge), creativity skills (willingness to take risks, experiments, etc.) and task motivation. Under the best conditions the confluence of these three factors produces what is refers to as the 'creative intersection'. Arguably, through teaching and learning, creativity skills can be acquired.

### **Wallas's Model of the Creative Process**

Wallas (1926) set down a description of what happens as people approach problems with the objective of coming up with creative solutions. He described his four-stage process as follows:

1. Preparation stage: In the preparation stage the individual define the problem, need, or desire, and gather any information the solution or response needs to account for, and set up criteria for verifying the solution's acceptability.
2. Incubation stage: Here the individual step back from the problem and let their minds contemplate and work it through. Like preparation, incubation can last minutes, weeks, even years.
3. Illumination stage: Ideas arise from the mind to provide the basis of a creative response. These ideas can be pieces of the whole or the whole itself, i.e. seeing the entire concept or entity all at once. Unlike the other stages, illumination is often very brief, involving a tremendous rush of insights within a few minutes or hours.
4. Verification stage: In verification, the final stage, activities are carried out to demonstrate whether or not what emerged in illumination satisfies the need and the criteria defined in the preparation stage.



**FIGURE 2**  
**WALLAS (1926) MODEL OF THE CREATIVE PROCESS**

According to Wallas cited in Sadler-Smith (2015), the first and the last stages are left-brain (quadrants 1 and 2) activities, whereas the second and the third stages belong to the right brain (quadrants 4 and 3).

Wallas (1926) though provide a platform to understudy creativity, provide criticism of the model particularly with respect to incubation. Studies to substantiate his claim and he believes that the role of incubation in creative problem solving is ambiguous and may in fact have little function. Weisberg suggests that none of the four stages can be said to have any supporting evidence in relation to previous studies on creativity that have adopted Wallas model. He argues that it is the conscious mind that is creative and that Wallas never considered the role of the conscious mind in his assertions and model.

However, recent research on incubation by Segal (2004) suggests that a break in the attentive activity devoted to a problem may eventually facilitate the solution process. This gives rise to a new hypothesis based on analysis of the structure of insight problems and their solution process. According to this hypothesis, no activity takes place during the break. The break's only function is to divert the solver's attention from the problem, thus releasing her mind from the grip of a false organizing assumption. This enables the solver to apply a new organizing assumption to the problem's components upon returning to the problem. Moss (2002) argues that the process may be influenced by the impact of environmental clues. When a problem is abandoned, a solution may be subsequently and unexpectedly emerge. The intervening period, known as incubation, has sometimes been ascribed to opportunity assimilation. According to this theory, impasses to a problem create failure indexes, which ensure that random clues in the environment are detected and utilized (Tony 2010).

## Measuring Creativity

Researchers have been concerned about how to ensure creativity studies are documented with replications to validate or disconfirm findings. One of the problems encountered during this process is on how to measure creativity. Highlighted below are the various forms through which creativity are measured.

### Creativity quotient

Several attempts have been made to develop a creativity quotient of an individual similar to the Intelligence quotient (IQ), however these have been unsuccessful. Most measures of creativity are dependent on the personal judgment of the tester, so a standardized measure is difficult, if not impossible, to develop.

### Psychometric approach

Guilford's (1967), which pioneered the modern psychometric study of creativity, constructed several



tests to measure creativity. The following were used. Plot Titles, where participants are given the plot of a story and asked to write original titles. Quick Responses is a word-association test scored for uncommonness. Figure Concepts, where participants were given simple drawings of objects and individuals and asked to find qualities or features that are common by two or more drawings; these were scored for uncommonness. Unusual Uses is finding unusual uses for common everyday objects such as bricks. Remote Associations, where participants are asked to find a word between two given words (e.g. Hand-Call) Remote Consequences, where participants are asked to generate a list of consequences of unexpected events (e.g. loss of gravity).

Building on Guilford's work, Torrance (1966) developed the Torrance Tests of Creative Thinking. The researcher involved simple tests of divergent thinking and other problem-solving skills, which were scored on fluency reflecting the total number of interpretable, meaningful, and relevant ideas generated in response to the stimulus. Originally, the statistical rarity of the responses among the test subjects and Elaboration is the amount of detail in the responses. The Creativity Achievement Questionnaire, a self-report test that measures creative achievement across 10 domains, was described in and shown to be reliable and valid when compared to other measures of creativity and to independent evaluation of creative output.

### **Social-personality approach**

The social-personality approach to the measurement of creativity focuses on the influence of personality traits such as independence of judgement, self-confidence, attraction to complexity, aesthetic orientation and risk-taking are used as measures of the creativity of individuals. The approach has also been related to have a significant relationship with trait, openness to experience.

### **Concept of Franchising**

According to Oliver & Thomas (2007), franchising is a contractual distribution channel in which an upstream parent corporation, the franchisor, sells the right to market a product and/ or service to downstream firms, the franchisees. The local entrepreneurs' success within these relationships crucially depends on the business decisions made by the franchising firm as regards the management of the overall system and its brand name. The conventional franchise contract is an arrangement whereby the franchisee compensates the franchisor for the right to use the latter's trademark in a certain location for a determined time period (Lawrence & Kaufmann, 2010). The franchise contract includes several compensation provisions and this usually consists of the franchisee paying an initial franchise fee, an ongoing royalty (usually a percentage of sales – and purchases inputs from the franchisor at prices greater than marginal costs).

Franchising differs from other inter-organizational forms in two key respects (Combs, Michael, & Castrogiovanni, 2004). In the first instance, it is usually confined to products and services that require proximity to customers, and therefore involves a chain of geographically dispersed organizations. Second, there tends to be a rigid and clearly defined division of labor between the franchisor and the franchisee. Franchisees are responsible for managing outlets in ways consistent with the business model developed by the franchisor, while for its part, the franchisor usually makes a commitment to provide training and managerial support, invest in and develop the shared brand, and monitor the performance of other franchisees (Combs et al., 2004).

In brief, there are many perceived benefits associated with franchising that may attract potential investors. These incentives may satisfy internal drives such as the desire for greater autonomy and independence or they may match an individual's desired level of risk (Frazer, Merriless, & Wright, 2007).

### **Advantages of Franchising**

Holmes (2003) presented the typology of the advantages of franchising. According to him, the advantage ranges in the form of dual relationship where both the franchisee and franchisor are beneficiaries. The advantages include:

### **Ownership Mentality**

Similar to a dealership, but with more emphasis in franchising, particularly where the franchise agreement is long-term, the Franchisee will have an attitude of being a business owner (not merely dealing with one product line among many) and is more likely to devote time, attention and capital to growing the business, following the approved system and not walking away from occasional business challenges.

### **Image**

Both among prospective owners and with the consuming public, franchise systems generally have a superior image over other distribution approaches, particularly if there is uniformity as to retail presentation, marketing methodology, operational compliance, etc., precisely the things which are easier to achieve within a franchise framework.

### **Franchisee Participation and Support**

Although not unique to franchising, the franchise model (when well managed) often incorporates valuable Franchisee input and creative participation by Franchisees. Since all of the participants are part of a single “system” with a common identity, Franchisees are more likely to participate in initiatives for the expansion and proper operation of the entire enterprise, sometimes producing new ideas as well as alerting the Franchisor to operational non-compliance problems created by other Franchisees in the systems.

### **System - Wide Marketing Support Paid for by Franchisees**

Franchise systems typically include arrangements where Franchisees are required to contribute to a national marketing fund, and participate in local marketing co-operatives, supporting retail marketing, advertisements, promotions and public relations. This ability of the entire system to pool advertising dollars produces obvious competitive advantages (including raising barriers to entry by potential competitors and/or leveraging an already leading position in the industry) and is one of the primary reasons for many systems’ survival in down markets and/or ability to maintain market share in the face of competitive challenges.

### **Improved Control over Operations at the Retail Level**

Franchising provides both a legal and institutional structure allowing detailed control over the individual unit’s marketing and operational programs. If you believe that it is critical for each unit’s success (as well as that of the system as a whole) that each unit follow recommended marketing and operational guidelines, franchising provides one of the strongest methods of achieving that objective.

### **Disadvantages of Franchising**

Holmes, (2003) also described the disadvantages of franchising as being:

#### **Higher Legal Expense**

The necessity of preparing agreements, Uniform Franchise Offering Circulars (UFOCs) and related

documents, and filing them in various states (with attached audited financials) represents a significant expense, although the year-to-year expenses are generally less than those initially incurred in setting up the structure and related documents. Basic documents, once prepared, can be filed in many states with generally minor changes. Additional legal (and possibly accounting) costs will be incurred if a separate legal entity is used for the franchising program, and this serve as a discouragement to potential investors who may find the process too expensive or ambiguous.

### **Technical Legal Constraints - Franchise Award Process**

Franchise laws are particularly technical in their application (for example, if a Franchisor provides only 9 days of pre-sale disclosure rather than the required 10, the Franchisee has an automatic rescission right, even though the missing day was not the cause of any loss.) For these reasons, an education program for franchising personnel (which we provide) and the assistance of an in-house legal compliance person is highly useful.

### **Technical Legal Constraints - Regulation of the Relationship**

Franchise laws in a number of states regulate the circumstances in which a Franchisor may terminate or refuse to renew a franchise. While generally not preventing Franchisors from achieving termination or non-renewal, these laws do present a number of technical requirements that must be complied with. These requirements make inclusion of provisions for objective standards (for both system compliance and financial performance) for termination (and/or recovery of “exclusive” territories) particularly important.

### **Business Relationship Issues**

Perhaps more than with dealers, Franchisees typically view themselves as, to some degree, partners with the Franchisor in the development and possible success of the system. While most will agree that committee management doesn't work and that there needs to be “one captain for the ship,” a wise Franchisor will work with his Franchisees, probably with the help of a franchise advisory council, in charting strategic directions, implementing marketing plans, etc. A Franchisor must be psychologically comfortable working with Franchisees who will understandably take the view that “if we're going to be in on the landing, we'd like to be in on the take-off too.”

### **Need To Deliver Perception (and Reality) of Continued Value**

Franchisees can be expected, after some period, to feel that they know as much about running the business (at least on the retail level) as the Franchisor and will asked what their continued payments are buying them. Wise Franchisors anticipate the question by building value in the brand, updating systems and providing continued operational and marketing benefits that give the Franchisee a superior position through the competition, making his or her leaving the system obviously a poor business decision.

### **Theories of Franchising**

#### **Resource Scarcity Theory**

First proposed by Oxenfeld and Kelly (1969), resource scarcity theory suggests that firms' motivation to franchise stems from a shortage of the resources required for expansion. Because new firms tend to be established below minimum efficient scale (Azoulay & Shane, 2001), there is a negative correlation between growth and exit rates for young firms. This suggests that new ventures need to grow quickly if they are to compete successfully against established competitors. Oxenfeld and Kelly (1969) argue that

franchising allows rapid market penetration in the early stages of firms' growth trajectories by improving access to key resources.

Most importantly, resource scarcity theory suggests that franchising helps to overcome the financial constraints frequently encountered by new ventures, which are often excluded from mainstream financial markets and may be less able to commit retained earnings to fund expansion (Combs & Ketchen, 1999). Moreover, new ventures often lack the capacity to nurture managerial talent, and may possess insufficient local knowledge about the markets in which they seek to expand. Franchising offers a potential solution to both of these contingencies by broadening the scope of available talent beyond the boundaries of the firm, and shifting to the franchisee much of the risk inherent in the introduction of new products to new markets (Kaufmann & Dant, 1998).

In other words, limited availability of managerial expertise may be a key factor behind a firm's decision to franchise, particularly when expanding into unfamiliar locations (Combs, Ketchen, & Hoover, 2004). When franchisors grow beyond a certain size, however, their capital constraints are likely to be substantially smaller than in new ventures. Established franchisors are also likely to possess the requisite knowledge to train outlet managers, and to control their performance. Thus, as firms mature, the pressure on key resources lessens, and franchisors turn their attention to maximizing returns from each outlet. Because franchised outlets are generally less profitable than firm-owned outlets, resource scarcity theory predicts that franchisors will seek to reintegrate the most profitable units into their ownership structure. Indeed, the theory suggests that effective franchise systems eventually take the form of wholly owned chains.

Resource scarcity theory is arguably the first attempt to explain why franchisors opt to franchise differing proportions of outlets (Castrogiovanni, Combs, & Justis, 2006), and has been subject to relatively extensive empirical examination. Several studies have shown that resource constraints appear to be an important factor behind firms' decision to franchise. However, it is also clear that franchisors do not seek to acquire all of their franchised outlets as predicted by resource scarcity; this would be too costly, and in any case, there is little incentive for franchisors to buy back poorly performing outlets (Castrogiovanni et al., 2006). Indeed, there is strong evidence to suggest that franchisors tend to opt for a stable level of franchised outlets over time, although the proportion of franchised outlets varies significantly between franchises depending on, e.g., brand name value (Lafontaine & Shaw, 2005).

## Agency Theory

Agency theory is concerned with exchanges in which one party (the principal) delegates responsibility for a specific set of actions to another party (the agent) (Jensen & Smith, 1985). A core assumption of agency theory is that agents and principals (both of whom are self-interested) are likely to have different interests and attitudes toward risk, leading to divergent decision-making preferences (Eisenhardt, 1989). Information asymmetries between the principal and the agent (usually favouring the agent) mean that it is difficult for the principal to monitor the actions of the agent. This is compounded by the fact that the principal cannot create a contract that specifies how the agent should behave under all circumstances, making it impossible to ensure that the agent makes decisions in the principal's best interests (Banks, Woznyj, Kepes, Batchelor, & McDaniel, 2018).

In applying agency theory to franchising, it can be concluded that the establishment of a new outlet leads to a critical dilemma for chain organizations. Thus, the firm and its owner are faced with a choice of agent to run the outlet: It can rely upon a company-owned unit with a salaried manager, or an external franchisee who is allowed to retain the unit's profits in return for a fee. In both cases, the delegation of responsibility incurs agency costs. These costs are often assumed to be higher in company-owned units where salaried managerial labour encourages "shirking and the excessive consumption of leisure". By contrast, franchising employs contract terms that allocate a proportion of the residual claims (i.e., the net profit of the outlet) to

the franchisee, thereby helping to align the interests of both parties (Sadeh & Kacker, 2018). Because franchisees are also owners with a financial investment in the businesses they manage, they are less likely to misrepresent their true abilities during the selection process (Anita, Mani, & Wathne, 2017) and are more likely to maximize their efforts (Brickley & Dark, 1987). This means that franchisors can expend fewer resources on direct monitoring (both before and after the contract has been agreed), resulting in reduced agency costs.

Nevertheless, the interests of franchisors and franchisees are not perfectly aligned, because franchising also creates incentives for franchisees to free ride (Castrogiovanni et al., 2006). This occurs because investments by the franchisor to build the brand and deliver high levels of service may have spill over effects that benefit franchisees (Combs et al., 2004). Thus, franchisees may choose to maximize the revenue of their own outlet at the expense of the franchise as a whole by, e.g., minimizing staffing costs at the expense of service quality. This leads franchisors to devise contractual incentives and sanctions to minimize the likelihood of free riding, which increases agency costs. Castrogiovanni, Combs, and Justis (2006) note that the cost-benefit trade-offs implied by the agency theoretic view of franchising lead to the prediction that the proportion of franchised outlets should reach an optimum level, rather than a maximum or minimum level. On balance, however, they point out that the evidence suggests agency problems are likely to lessen if the proportion of franchised outlets increases as a chain expands (Lafontaine & Kaufmann, 1994; Giudici, Combs, Cannatelli, & Smith, 2018).

## RECOMMENDATIONS

Since creativity has a significant impact on creativity, it is recommended that franchise firms should be more creative. This can be done by attending more business seminars, invest in reading wide, scanning the environment regularly in order to identify society problems as well as customers need and wants in which all this can generate business ideas for a franchisee to boost business activities. It is recommended that franchisees be more willing to test different ideas and bring a different perspective to franchise opportunities. Also, educational institutions should widen the horizon of their curriculum to include core courses that encourage creativity, lateral thinking and problem solving as well as franchising throughout all levels of their program.

The franchise firms should set up programmes to encourage the commercialization of employee's business ideas. Policies that allows the franchisee some extent of freedom and also allow a reasonable measure of creativity should be encouraged to ensure the continued existence of the franchise.

## SUGGESTIONS FOR FURTHER STUDIES

This research work focused on the impact of creativity on franchising mechanism; the researcher therefore suggests that further studies employing empirical methods of inquiry should be adopted to under-study how creativity affects franchising across different organization. Further studies should also consider the mediating or moderating role of different boundary variables in the relationship between creativity and franchising.

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**Received:** 25-Feb-2025, Manuscript No. AEJ-25-15960; **Editor assigned:** 28-Feb-2025, PreQC No. AEJ-25-15960 (PQ); **Reviewed:** 11-Mar-2025, QC No. AEJ-25-15960; **Revised:** 16-Mar-2025, Manuscript No. AEJ-25-15960 (R); **Published:** 22-Mar-2025