CCGR

Centre for Corporate Governance Research

Working Paper
No. 1/2010

March 2010
Revised September 2010

The Dual-Agency Problem Reconsidered: A Strategic Deviance Perspective on the Franchise Form of Organizing

Roland E. Kidwell and Arne Nygaard

BI NORWEGIAN SCHOOL OF MANAGEMENT

(Forthcoming Entrepreneurship Theory & Practice)

The Dual-Agency Problem Reconsidered: A Strategic Deviance Perspective on the Franchise Form of Organizing

Roland E. Kidwell
Department of Management and Marketing
College of Business, Dept. 3275
University of Wyoming
Laramie, WY, USA 82071
Ph. 307-766-3424
rkidwell@uwyo.edu

Arne Nygaard
Norwegian School of Management
Centre for Advanced Research in Retailing
N-0442 Oslo Norway
Ph. +47 22 98 51 21
arne.nygaard@bi.no

September 2010

Running Head: Deviance and Franchising

The authors are listed alphabetically as both contributed equally to the development of this article. We wish to thank Gary Castrogiovanni, James Combs, Steven Michael, Ragnhild Silkoset and Alfred Warner for their insightful input to earlier versions of our work. The Research Council of Norway and the SUPTEK-program and the CCGR-program provided financial support to this project.

Key Words: deviant behavior, shirking, free riding, plural model, multi-agent theory

The Dual-Agency Problem Reconsidered: A Strategic Deviance Perspective on the Franchise Form of Organizing

Abstract

Drawing on various theoretical streams, including organizational deviance, we propose that a franchisor cannot assess and control opportunism without comparative information from plural form contractual arrangements provided by both franchisee relationships and operating its own units. Moving beyond dyadic perspectives, our strategic deviance model suggests why franchisors accept deviant behavior that results from vertical and horizontal agency problems. The plural form provides benchmark information to the franchisor that curbs even greater levels of costly shirking and free riding behaviors. Thus, company manager and franchisee opportunism is managed through self enforcing social control, tournaments in internal quasi-markets and social comparison mechanisms.

Introduction

In recent years, the burgeoning organizational deviance literature has focused on classifying deviant behavior in terms of its positive or negative, constructive or destructive, beneficial or dysfunctional effects on employees, firms and society (e.g., Bennett & Robinson, 2000; Warren, 2003; Spreitzer & Sonenshein, 2003; 2004). Meanwhile, franchising research has often employed an agency perspective to examine specific elements of what is regarded as negative dysfunctional behavior – shirking and free riding – and downplayed the potentially positive effects of these deviant behaviors in the franchisor-franchisee relationship (e.g., Michael, 2000; Combs, Michael & Castrogiovanni, 2004; Kidwell, Nygaard & Silkoset, 2007). Rarely has deviance or franchising research explicitly acknowledged the positive effects of *negative examples* of deviant behaviors.

We propose that what are generally seen as destructive and dysfunctional behaviors have constructive and functional effects on the quality of organizational control, performance and survival in the context of the plural form of organizing (Dant, Perrigot & Cliquet, 2008; Makadok & Coff, 2009), providing a rationale as to why these behaviors are accepted and thus potentially take on an ambiguous character when examined in the franchising context.

Whereas shirking and free riding behaviors would not be regarded as *positive* deviance (Spreitzer & Sonenshein, 2003; 2004) nothwithstanding their potentially useful effects, we explain why they are tolerated and potentially encouraged in franchisor-franchisee relationships despite being labeled as challenging to the relationship, i.e., the dual-agency problem (Brickley & Dark, 1987; Combs, et al , 2004).

In proposing the usefulness of a strategic justification of shirking and free riding to the franchisor, we expand the examination of franchising relationships from agency issues to consider the importance of transaction costs and multi-agent contracts. We demonstrate how a plural form organization (Bradach, 1997; Cliquet, 2000; Parmigiani, 2007; Dant, Perrigot & Cliquet, 2008; Makadok & Coff, 2009) acts to temper opportunism in the franchisor-franchisee relationship by the counterintuitive use of deviant behavior. We explain why plural forms achieve efficient control and effective performance and expand worldwide, despite having vertical and horizontal agency problems (Rubin, 1978; Brinkley & Dark 1987; Combs, Michael & Castrogiovanni, 2004). Using a strategic deviance perspective, we show how theories that have not yet been applied to franchising expand franchising knowledge and propose conditions in which franchising potentially aids such performance elements as growth, efficiency, and company owned and franchised outlet success.

Thus, this paper contributes to theories of workplace deviance and franchising as follows: 1) We extend work place deviance theory to consider ambiguous elements of deviance rather than classifying deviance as purely positive or negative forms 2) We explain why the plural form tolerates negative deviance due to its potential for positive effects on the firm, demonstrating how the plural model of franchise organizing employs deviant behavior for constructive outcomes and showing how franchisees help franchisors beyond managing local operations 3) We provide a basis for extending research beyond agency and resource scarcity explanations for plural forms in franchising (Combs & Ketchen, 2003) by applying theories of workplace deviance and social comparison to explanations of franchise operations 4) Finally, we contend future research can better enhance organizational knowledge by employing a multi-agent perspective rather than limiting theoretical and empirical inquiry to consideration of principal/agent dyads, which has not been fully adequate from a strategic perspective.

Workplace Deviance: Bad, Good and Ambiguous

Workplace deviance has been defined as "voluntary behavior that violates significant organizational norms and, in doing so, threatens the well-being of the organization or its members, or both" (Bennett & Robinson, 2000:349). An alternative view of deviant behavior defined it as behavioral departures from the norms of a reference group (Warren, 2003). In some cases, researchers identified the behavior as socially or organizationally harmful (e.g., aggression, lying, theft, misbehavior, sabotage, political activity and noncompliance to rules or norms) and in other instances identified the behavior as socially or organizationally beneficial (e.g., tempered radicalism, whistle-blowing, exercising voice and counterrole behavior) leading Warren (2003) to propose a typology in which organizational behaviors could conform or deviate from normative expectations and could be constructive or destructive either at the reference group level (organizational standards) or globally held beliefs and standards (hypernorms). Destructive deviance violates both reference group norms and hypernorms, and constructive deviance violates reference group norms but not hypernorms. On the other hand, constructive conformity violates neither set of norms, and destructive conformity violates hypernorms but not reference group norms (Warren 2003).

Spreitzer and Sonenshein (2003, 2004) developed a normative approach to the positive deviance construct by defining it as an honorable, voluntary departure from the norms of a referent group. They also developed research propositions that proposed differences between positive deviance and related prosocial types of behaviors, including organizational citizenship, whistle-blowing, corporate social responsibility, and innovation. For example, organizational citizenship behaviors and positive deviant behaviors are related, yet distinct, because the firm bears few costs when OCBs occur and potentially large costs when positive deviant behaviors occur because such behaviors entail a drastic departure from organizational norms (Spreitzer & Sonenshein, 2004).

Research into negative deviant behaviors has been conducted in recent years under various terms that generally refer to the same types of behaviors (e.g., Ackroyd & Thompson 1999; Bennett & Robinson 2003; Giacalone & Greenberg 1997; Kidwell & Valentine, 2009; Sackett 2002, Vardi & Weitz 2004). Anti-organizational behaviors and opportunistic acts that prove costly to firms – such as lying, insubordination, misuse of information, sabotage, gambling, harassment, theft, aggression, drug/alcohol abuse, free riding and shirking – have been classified as instances of negative deviance.

Our focus in this paper is on two of these types of negative behavior: shirking and free riding. Shirking is defined as an internal agent's failure to provide full effort on a job-related task. Free riding is defined as an external agent's lowering of service or product quality to cut costs and obtain indivisible benefits from being a member of the group without bearing a proportional share of the costs) (cf., Albanese & Van Fleet, 1985; Bennett & Naumann, 2005; Vardi & Weitz, 2004). Shirking occurs when employee agents without an ownership stake shirk duties because their incomes are not tied to their efforts thus creating a vertical agency problem, and free riding is present when non-firm owner agents reduce contributions so as to benefit from the efforts of other affiliated outlets or the company resulting in a horizontal agency problem for the firm. In previous research, shirking has been linked to franchisor managers and employees whereas free riding has been linked to franchisees (Combs, et al 2004); both types of these deviant behaviors are related to incentives and monitoring costs. We focus on these two negative types of behaviors because in the plural form franchise organization they can have negative consequences at the individual and unit levels of analysis while offering mixed outcomes when considered at the organizational level.

Plural Forms in Franchising and the Nexus of Contracts

Although existing theory explains strategic choices among alternative organizational forms (e.g., Williamson, 1991) and the mechanism of a bilateral exchange is said to determine the most effective form of organizational control, whether it be market- or hierarchy-based (Ouchi, 1979), firms strategically organize multiple agents simultaneously in different ways even when technology and market segments are identical. This choice often involves a plural form of organizing (Bradach, 1997; Cliquet, 2000; Parmigiani, 2003; 2007; Dant, Perrigot & Cliquet, 2008; Baker & Dant, 2008; Makadok & Coff, 2009). Plural form organizations can combine vertical integration, licensing, long-term contracts, joint ventures, global coalitions, dynamic networks and other types of alliances (Bradach & Eccles, 1989) and have been explored empirically and theoretically (e.g., Bradach & Eccles, 1989; Bradach, 1997, 1998; Dahlstrom & Nygaard, 1999b; He & Nickerson, 2006; Lafontaine & Kaufman, 1994; Michael, 2000; Shane, 1996, 1998a, 1998b; Sorenson & Sørensen, 2001; Windsperger, 2004; Yin & Zajac, 2004; Srinivasan, 2006; Jacobides & Billinger, 2006; Parmigiani, 2007; Bürkle & Posselt, 2008; Makadok & Coff, 2009; Castrogiovanni & Kidwell, 2010). Using a mix of internal agents and contracted units to deliver services fosters learning, innovation and the transmission of important values and perspectives across different groups (Sanyal, 2006).

The business format franchise industry characterizes the plural form as franchisees (dealer owned and operated) and franchisors (company owned and operated) (International

Franchise Association, 2009). Almost all companies that operate franchise systems run their own units; e.g., McDonalds has about 20 percent company-owned units (6815) and 80 percent franchised units (24,624) and Hilton Hotels has about 55 percent company owned units (293) and 45 percent franchised properties (231) (International Franchise Association, 2009). In the plural organization, internal managers/company employees and external agents/franchisee employees simultaneously carry out the same standardized operations on behalf of the firm, creating a hybrid market/hierarchical organizational form (cf., Cliquet, 2000).

The plural model is similar to the concept of tapered integration (Porter, 1980, Harrigan 1984), which was expanded to the franchising industry in Michael (2000). Tapered integration refers to backward or forward integrated firms that rely on outside companies for supplies or distribution (Porter, 1980; Harrigan, 1984). This arrangement is a compromise between a need to be strategically flexible and a desire to control adjacent businesses by allowing a firm to monitor research and development of outside companies, lower problems of strikes and shortages in their systems, and take advantage of lower costs (Harrigan, 1984).

In applying this concept to franchising, Michael (2000) argued that tapered integration in the form of franchisor owner-operated outlets gives the franchisor an ability to gain operational knowledge and measure relative performance of franchisees (Anand, 1987; Bradach, 1997). The franchisor gains information regarding franchisee activities and demonstrates that the franchisor can further integrate if needed, a credible threat giving the franchisor bargaining power with the franchisee. Ownership allows a franchisor to better forecast costs of quality improvements and provides a franchisor with information regarding preferences of its customers and demand levels (Minkler, 1992; Michael, 2000).

Whereas Michael (2000) demonstrated that tapered integration provides synergies through bargaining power and credible threats of further integration, an implication is that one or a few internally owned units would be sufficient to reap these benefits. We build on Michael's work by explaining why in most circumstances franchisors operate 20 to 60 percent of the total units in the franchise system. In some cases, the greater the number of internal units, the more valid the information provided about quality production that signals standard quality across the brand, helping to control free riding by franchisees. In addition, access to information from the franchisees helps monitor the franchisor-owned units, thus assisting in controlling opportunistic activities by company managers.

We propose that the owned and franchise units *know* that the principal (franchisor) can gauge their relative performance, thus comparative information creates an even broader base of "credible threats." Whereas Michael may imply that the franchisor only compares the owned units with the franchisees, we propose that this comparison goes both ways. In the model we describe in this paper, we link two conceptual avenues that establish these threats in terms of comparative information: social comparison theory based on experience, norms and social structure in the network and benchmarking through market information. Both give the agents (franchisor or franchisee) impulses about how they rank their own behavior versus other agents in the franchise network. We propose that this is an effective way of agent monitoring - they actually monitor themselves based on comparative information about the other (owned and franchisee) agents in the network.

Williamson (1999) suggests that research in transaction costs economics increased interest in the post-contract problems that arise from the nature of transactions and the involvement of human actors. Such views of organizational systems suggest a strong focus on systems of multiple agents rather than relationships in individual dyads. A systems approach opens a complementary view instead of a competing perspective among alternatives presented by existing theories of organizing. A review of transactions costs theory by David and Han (2004: 54) reflected on the background of mixed empirical support for transactions cost analysis, stating that “a simple plea for *more* empirical work may not be enough, for it is quite likely to reproduce the same mixed results on an enlarged scale.” A more recent meta-analysis concluded that transactions cost theory only begins to explore organizational forms and suggested that researchers expand beyond a dyadic focus to consider network perspectives on organizations (Geyskens, Steenkamp, & Kumar, 2006: 533).

Following Williamson (1999:1100), we propose such a dynamic perspective to consider franchise organizing: The franchisor firm is a nexus of contracts resulting from a number of dyadic pre-contract decisions. We argue that such a make-and-buy form is a *favored* governance mechanism across different types of organizations because through the use of strategic deviance it produces, processes and compares information crucial to govern the entire network, enhancing the prospect of organizational learning and performance (cf., Sorenson & Sørensen, 2001). As Bradach (1997, 1998) noted, a focus on single dyads misses the strategic dimension important in principal/multi-agent relationships.

Michael (2000) presents the benefits of having internal units, but the fundamental motivation problem that company-owned units represent (shirking) should be explored further. Internal units respond to quality restrictions in the contract, but are in general less effective because of the more prevalent nature of fixed, rather than performance-based, compensation systems. This compensation scheme makes internal units less motivated to direct behavior to effective activities including effort levels. This is one key reason why franchising systems use franchisees. In an owner/operated business, shirking occurs; franchising helps control shirking. Our model presents a way of looking at the economy of information that makes it possible to control both shirking and free riding/quality simultaneously in the system by making a strategic decision to organize in a way that permits both forms of deviance to exist.

The plural make-and-buy organizational form has been closely related to the global expansion of the service industry driven by franchising as a key growth strategy. We propose that use of strategic deviance in the plural form is in part due to the character of service industry "production" as a limited-time interaction between agent and consumer, which adds to information asymmetry and information superiority enjoyed among agents at the expense of the franchisor firm's ownership of the brand capital. To control such information superiority, the franchisor firm needs a system that contributes to the validity of comparative information received from both internal and external agents. In addition, the strategic deviance model proposed in this paper adds perspectives to existing theory through a make and buy, multi-agent approach that is generally ignored in previous organizational research.

Strategic Deviance in Franchising: Why and When

Most format franchise systems are plural networks in which "make and buy" is the rule, rather than the exception. Therefore, franchising research for a long time has been puzzled by this emerging and highly relevant fact (Lafontaine & Kaufman, 1994; Dahlstrom & Nygaard, 1999b Windsperger & Dant, 2006). The rapid global expansion of plural formed franchise systems fuels theoretical speculation. As a result, we present a strategic deviance model that merges network perspectives, social comparison theory (O`Reilly et al. 1988), social control (Pfeffer & Salancik, 1978), tournament theory (Lazear & Rosen, 1981), and organizational deviance (Bennett & Robinson, 2000; Warren, 2003).

To address why companies organize agent relationships in various ways, it is fruitful to analyze the complex nature of multiple contractual relationships by extending the dimensions that can characterize the principal-agent relationship. Our model starts with a perspective that emphasizes the need to step away from a focus on internal and external agents as mutually exclusive ways of organizing transactions (Bradach & Eccles, 1989). Instead, we adopt a network of transactions perspectives (Gupta & Govindarajan, 1991) where aspects of transactions serve as complementary approaches to explain inter-organizational pluralism. Constructing a viable theory to explain plural system structures in franchising differs from existing perspectives in two respects. The plural model of strategic deviance, detailed in Figure 1, enables a firm to control both shirking and free riding by giving the organization unique access to crucial information – in the form of comparative quality and comparative efficiency – about the specific problems of alternative contracts.

Insert Figure 1 about here

The model emphasizes the interaction between different contracts (Bradach & Eccles, 1989) by focusing less on a specific dyad and more on how the strategic management of an organizational set of plural contracts affects multiple agents and deviant behavior, i.e., opportunism within the entire system. Assuming that the market selection process produces the most efficient organizational forms, the growth of format franchising worldwide in the last few decades may reflect superior efficiency relative to alternative institutional structures (Alchian, 1950; Fama & Jensen, 1983). The superior growth and survival rate of global franchise systems, we argue, can be explained by the ability of the plural firm to organize so as to control various types of costly deviant behavior.

Plural systems can be effective and efficient organizations *because* of plural governance costs and structures, not in spite of different contractual formations, given a standard technology, as follows from micro-analytic theory. The interaction between different contracts provides synergistic effects due to separate and contract-related ways to withhold effort. To show how plural contracts can create efficiencies, we apply examples of agent opportunism. Different contracts produce different incentives and chances for opportunism (Rubin, 1978; Brickley & Dark, 1987; Katz, 1989; Tirole, 1988). Thus, integration shifts incentives for deviant behavior, but it does not remove these incentives (Grossman & Hart, 1986). Deviant behavior through opportunism is rooted in the incentive structure in the contract: The compensation scheme, authority structure, and the organization of transactions (Williamson, 1975). When contracts change, so does behavior. Thus, received theories on economic organization are "less convincing in arguing that transacting through a hierarchical organization lessens transaction costs" (Kreps, 1990: 97). Kreps's (1990) questions why internal transaction costs are lower relative to market transactions. Eccles and White's (1988) qualitative research on internal transfer pricing adds power to the argument.

Buy Option

Polar inter-organizational structures can be illustrated and analyzed by considering them as make-or-buy decisions. The "buy" option, i.e., use of external agents, is outcome-dependent, for instance, the franchisees in a franchise system, a sales person or an independent distributor. Nevertheless, as noted, delegation of brand reputation to external agents may lead to free riding (Michael, 2002). Companies with strong brand names have long needed to be concerned that poor service quality in one outlet or by one agent will reflect badly on the image of the entire chain or network (Oxenfeldt & Kelly, 1969).

An external agent may reduce its own costs and increase its own profits by cutting product- and service-quality and thereby "cheat" the principal (brand owner) and the other agents in the system. Brand name reputation of a franchise chain, which is supposed to guarantee quality to customers, requires close control of agent operations. Therefore, brand name chains can be seen as counteracting institutional effects of quality uncertainty (Akerlof, 1970). The chaotic and uncertain market created a demand for brand capital that signaled and safeguarded quality when "brand names not only indicate quality but also give the consumer a means of retaliation if the quality does not meet expectations" (Akerlof, 1970: 500).

However, consumer retaliation may hurt other agents operating under the brand than the ones that have damaged the brand. The plural model describes how the costs of monitoring brand representation can be lower by operating *both* internal and external agents. When it is costly to represent a brand and the risk of consumer retaliation to the single agent is low, the external agent may tend to underrepresent quality image of the brand. Thus,

Proposition 1: Franchisees (external agents) free ride to a greater degree than company managers (internal agents).

Make Option

Using the "make" option, the firm can change the incentives that lead to free-riding problems like reduced product and service quality by defining contracts that emphasize internal authority relative to outcome dependency, a focus on predictability and control (Yin & Zajac, 2004). Here, the agent's compensation is no longer connected to outcome (i.e. sales) but to input efforts to safeguard quality brand image of the network (for instance, the number of work hours/days, amount of correspondence, number of accounts, calls made, number of accounts, service preferred, closing ability, presentation quality, product knowledge, etc.) (Jackson, Keith & Schlacter, 1983). Consequently, there are no motives to cheat other parties in the system by free riding. So the company can safeguard and develop the quality image in the brand through its internal units without degrading brand capital.

However, internalizing agents does not cure deviant behavior. Whereas the agent may be positively motivated by elements of authority in the contract to affect his/her efforts by increasing quality input of production, i.e. take part in non-selling activities like promoting new products, demonstrations etc., the internal agent may not be motivated to operate efficiently if it is not specified in the contract. In addition, fixed salary schemes produce incentives to shirk when monitoring of the agent is problematic (Alchian & Demsetz, 1972).

The separation of organizational ownership of brands and agent decision control when monitoring is problematic produces agency costs (Fama & Jensen, 1983). Neither external nor internal agents make decisions fully consistent with a firm's intentions because of the agents' information superiority. Closely intertwined with the delegation problems are the costs of opportunism. Thus, "integration shifts the incentives for opportunistic and distortionary behavior, but it does not remove these incentives (Grossman & Hart, 1986: 716). Solving one agency problem of free riding produce another serious agency problem of shirking. Consequently,

Proposition 2: Company managers (internal agents) tend to shirk more than franchisees (external agents).

How Strategic Deviance Exerts Comparative Control on Opportunism

We propose that the employment of strategic deviance in the franchise form allows agents (both company managers and franchisees) to relate their behavior not only to the principal-agent contract, but to a process of ongoing comparisons to other agents belonging to the plural system. All agents interact more or less, i.e. like franchise units within a franchise system. Comparative information is the outcome of these horizontal interactions. The franchise units may compare their efforts, benefits and performance to other franchise units in the neighborhood or to other units in their social network. Horizontal formal or informal communication between agents produces the basis for comparison among agents (Mohr & Nevin, 1990).

In a competitive world, the access to this benchmark information is an important disciplinary device within the franchise system. Some companies stimulate this self enforcing benchmark control by publishing score boards on a regularly basis (e.g., sales per square foot for each store in retailing). Availability of comparative efficiency benchmarks therefore affects and adjusts potential shirking behavior among company managers. It supports vertical governance and control in the system. Comparative control of quality signaled by the brand may be affected by both formal and informal social control. Implicit rules about quality benchmarks develop through horizontal interaction in the plural system. Because company agents have few incentives to free ride by underrepresenting the brand quality, these units are essential to build benchmark quality norms of acceptable and unacceptable behavior.

Consequently, the model proposes that the franchise organization controls opportunism by using both market-oriented tournaments and social comparison mechanisms as background for established quality and efficiency benchmarks. The organization provides efficiency information that controls shirking problems as well as effort-based experience that managers might apply to control free riding through social comparison. Horizontal benchmark control adds comparative information and benchmarks to vertical goverenance. Comparative information and benchmark control therefore curb both types of ex post opportunism associated with internal and external agents. Thus, this view of the plural form may explain previous findings (e.g., Eisenhardt, 1988; Galunic & Eisenhardt, 1994) that different types of contracts were equally effective.

By using both types of incentive systems, the franchisor economizes on control costs when monitoring agents is costly and hard to enforce. The firm has various alternatives for redefining the incentive structure in the inter-organizational contract. Redefinition of a single contract is based on comparable information from both company managers and franchisees. From operating their own units, the franchisor learns how to define input quality standards that can be controlled through social comparison and tournaments. From sufficient internal operations, the firm knows the details of franchisee operations and so acquires necessary information to compare and control them. Thus, the system supports itself through horizontal benchmark control, tournament market control, social comparison control and social control. Whenever a franchisee free rides on quality standards, the franchisor can give penalties or in extreme circumstances take over agent operations (Michael, 2000). Social control regimes through comparative benchmarks may lead to perceived potential sanctions like collegial disapproval, criticism, discrimination and exclusion.

The most efficient company managers may be given outcome-related economic rewards. One way of stimulating benchmark control is to publish input and output measures from external and internal agents in the system on a scoreboard. This makes market-based comparison control a self-enforcing reward structure (Becker & Huselid, 1992). A firm can define benchmarks by “making known on a regular basis the achievements of both agents and direct sales personnel” (Lawrence & Lawrence, 1982: 57). The company may also introduce both types of agents to more monitoring, control, and restricted flexibility. To guard the system against “lemon” franchisees, the franchisor must define hire, fire and penalty options in the contract. Success of this strategy is driven by the credible threats perceived by agents in the network (Michael, 2000).

As noted, plural systems have unique access to comparative information that makes the principal less vulnerable to the agents’ informational superiority. When a network has the capacity to control agency costs we theorize that this structure has impact on overall long-term performance. That we observe the global growth of plural formed networks may indicate that such organizations are more effective because of lower agency costs than both integrated systems and networks that operate only with external agents (Alchian, 1950).

Following the proposition that a plural network serves dual objectives to control both quality efforts associated with the brand (Akerlof, 1970) and output (Holmstrom & Milgrom, 1990), the plural franchise form applies comparative control related to the market in which the agent operates and to the social comparison inherent within internal social processes in the network. The plural organization contributes to the principal's capacity to process information critical to control different agents. On one hand, Lazear & Rosen (1981) propose market-oriented tournament control as a disciplinary device. The tournament perspective argues that the principal can control agency problems by rewarding agents based on how well they perform relative to other agents within the network (Lazear & Rosen, 1981). As a result, market forces control shirking behavior most likely to appear within company owned and operated units. The market approach to comparative control applies outcome variables that can be easily observed, evaluated, and applied to control shirking. Therefore,

Proposition 3: Plural forms in franchising relationships produce comparative efficiency information that benchmarks and controls shirking among internal agents.

Both internal managers and franchisees perceive that company access to comparative benchmarks control both shirking and free riding simultaneously. On the other hand, the franchisor achieves increased informational power when owning units because these units represent a source of knowledge of quality standards and a training system that make the company capable of implementing those standards (Michael, 2000). For instance, McDonald`s CEO emphasized the firm maintains a global base of company owned and operated restaurants to "link our interest with franchisees, develop management talent, gather research, and test ideas for better restaurant execution"(McDonald`s Corporation 1995:11).

Social comparison theory (Festinger, 1954) suggests control is based on internal evaluation, observation of similar others and control. Applying social comparison theory, the control processes tend to base evaluations on individual comparisons between agents who are slightly different in performance. Such control systems are experience based where area sales managers in a franchise system compare franchisee efforts to their own backgrounds and experience. Previous empirical evidence indicates that external agents employ performance-based control systems (Salancik & Pfeffer, 1980). This might indicate that control of internal agents is based on information and evaluation of individual efforts more than outcome performance (O’Reilly, Main, & Crystal, 1988).

Although, the franchisor’s access to comparative information makes it possible to benchmark one agent against the others – the agents also will perceive both input quality and output efficiency benchmarks. Therefore, the credible threats of such benchmark controls will establish system norms and standards where agents compare each others’ quality and efficiency. We argue that implicit understanding of benchmarking among both internal and external units powerfully supplements written contracts in the franchise system. The benchmarks are self-enforcing powers that control deviant behavior in both internal and external units. Both the internal and the external agents know that the system provides comparative benchmark information on quality and performance to the franchisor. Consequently, they fear the consequences of violating the established standards and are disciplined by a motivation to continue the relationship. Thus,

Proposition 4: Plural forms in franchising relationships produce comparative quality information that benchmarks and controls free riding on brand quality among franchisees.

Information about input to quality production is costly to gather without internal company managers. For instance, Bradach (1997) found that company driven franchise units were recruitment bases for company managers. Applying social comparison theory

(Festinger, 1954), control is processed through comparisons between external agent performance and a company manager's own field experience (O'Reilly, et al., 1988). This improves access to information about how to build trust and reputation in the market.

Without this essential field-based knowledge, the company may drift away from the dynamics of the market and lack the proper background to control its franchisees. In particular, an organization that rests fully on contracts with external agents to represent its brand capital in the market distances itself from customers and thus gradually loses competence in how to contract its franchisees without knowledge of the business, technology, markets, consumer preferences etc. For instance, Michael (2000: 500) found indications that unit "ownership signals to franchisees that franchisor is committed to quality, that the franchisor can recognize quality and that the franchisor can operate a unit if required." That is, the principal firm operating its own units learns how to produce quality output by being closer to the customer. This is a threat to franchisees who have incentives to free ride on quality and thus the collective capital of the brand's reputation. For example, comparisons can be made between external suppliers and the market. These comparisons can be used to discipline internal producers through transfer prices (Walker & Poppo 1991). The key may be that the information gained from internal agents is deeper and distinctive and thus allows better evaluation of both internal and external sources (Grant 1996) despite a tendency for franchisees to free ride and company managers to shirk.

Conversely, the costs internal managers' shirking cannot be evaluated without information from franchisees. A franchisor may compare its franchisee outcome performance (i.e. sales, net operating profits, etc.) to its owned and company operated units and make adjustments to improve internal agent performance, similar to what Bradach (1997) termed the racheting process. Therefore, as discussed, information from both internal and external agents produces a reservoir of comparable information related to quality and efficiency needed to control all of the agents and ensure consistent performance across contracts.

Even in a hypothetical situation with one single contractual form where the firm has neutral information about the evils of opportunism, the organization is incapable of evaluating the relative level of free riding and shirking costs without alternative contractual relations as benchmarks. Tournaments within internal markets of both make and buy agents reveal potential opportunism. Thus, competitive advantage of the plural franchise system is unique access to contractual information that can be used to evaluate costs of different contracts and to reformulate and impose new incentives. Also, the agents assume or perceive that the principal has access to information that can benchmark them. Therefore, the access to this information is a disciplinary devise that reduces the level of monitoring costs of the network:

Proposition 5: The access to both comparative quality and comparative efficiency information reduces the level of monitoring costs and increases the level of performance in the franchise network.

Although potentially tempered and controlled by the level of the appropriate benchmarking, the two different dimensions of opportunistic behaviors produced by the different contracts, if left unchecked, can damage long-term performance of the entire network (Kidwell, Nygaard & Silkoset, 2007). However, the logic behind free riding -- the self interest seeking motivation to increase agent performance and welfare at the cost of the collective brand capital of the entire system – will enhance the external agent's unit performance in the short term. Shirking by internal agents should have the opposite effect on unit performance:

Proposition 6: The higher the level of shirking by internal agents, the lower the level of franchisor unit performance.

Proposition 7: The higher the level of free riding by external agents, the higher the level of franchisee short-term performance.

Based on social comparison theory, agents have a set of expectations based on their experience (O`Reilly et al. 1988) that benchmarks their own performance. Input quality dimensions therefore establish comparative benchmarks when internal agents compare their own performance against other internal agents within the network. When internal agents refer their own performance to other external agents (i.e. franchisees) another explicit condition play a major role in establishing benchmarks. Explicit efficiency benchmarks like sales, growth or other explicit outcome performance variables create corporate benchmarks. The principal brand owner stimulates this comparative benchmark control by explicitly publishing comparative efficiency benchmark information.

When the external agent (i.e. the franchisee in a franchise network) compares its own performance to other internal (i.e. company owned and/or operated) units, comparative quality benchmarks are reference levels the principal imposes as standards of the entire network (often defined in the franchise operation manuals in franchise systems). Therefore, external agents apply comparative quality benchmarks as reference levels when they compare their own businesses to internal units owned and operated by the principal brand owner. When external units compare their own performance to other external units, they apply comparative efficiency benchmarks to find their own relative benefits to the costs of brand representation. This is a tournament process among network agents based on explicit and relative performance evaluation among external agents (Rosen, 1986). Table 1 summarizes how agent comparisons to other network agents leads to perceived comparative benchmarks.

Insert Table 1 about here

Discussion

Franchising is an integral part of entrepreneurship (Kaufman & Dant, 1998), but it can create incentives among its various agents to engage in deviant behavior such as free riding and shirking. In this paper, we demonstrate how the concept of strategic deviance, which permits both of these types of negative behavior to exist, can result in greater levels of performance by using the plural structure to control intensity of opportunism, which is common to all firms.

Whereas plural forms may be unfamiliar to many entrepreneurs and other business practitioners, they have become highly visible organizations through format franchising systems. Although franchising is heavily driven by both internal and external units, a plural form that functions with a mix of external and internal agents performing the same work is increasingly pervasive and extends beyond franchising. The approach provided by traditional theories makes it necessary to explore plural systems more systematically: conditions in which they form, their effects on information flow, their effects on opportunistic behavior and their effects on performance across contracts. In the plural form, we see a strategic decision to organize in a way that accepts conditions for deviant behavior to occur with the result of curbing even greater levels of deviance.

The model advanced here focuses on a network of contracts and not agency theory dyads. Interactions between different contracts and agents is, according to the plural system model, the competitive edge relative to other forms of organization. Tests of the model advanced in this paper should eventually move beyond a focus on franching systems to study multiple types of organizations and their make and buy relationships. This would enhance theory development and further clarify contributions of the proposed model.

The theoretical development in this study contrasted empirical observations regarding plural system growth with the conventional wisdom and empirical status in organizational economics. Inconsistency between theory and empirical research has revealed a need to look beyond the economics literature (Eisenhardt, 1989) and include new dimensions in principal-agent analysis (Milgrom & Roberts, 1990). Our model reveals the architecture of deviant behavior. Opportunism, often a behavioral assumption rather than a concrete contractual outcome, is a source of theoretical speculation. Free riding and shirking should not only be viewed as negative forms of opportunism but a reservoir for informational comparison in plural forms that makes it possible to control opportunism. Below we focus further on the importance of internal-external agent ratios in examining multi-agent approaches to strategic organization, limitations of the model and additional suggestions for future research.

Based on prior empirical research and theoretical work, we speculate that fewer internal agents than external agents can create informational bases to control the free riding problem in a plural organization as indicated by the 30 percent internal to 70 percent external ownership ratio often reported in the franchising literature (e.g., Dant & Kaufmann, 2003). The ratio, though, can vary from firm to firm and from industry to industry. For example, in a study of five restaurant chains, Bradach (1997) found a range from 26% company owned stores / 74% franchise units (KFC) to 65% company owned stores / 35% franchise units (Jack in the Box). In the domestic hotel/motel industry, plural form patterns vary from Holiday Inn Express and Hampton Inn (1-3% company units) to Embassy Suites (49% company units) to Motel 6 (80% company units) (International Franchise Association, 2009).

In our theoretical analysis, we proposed that the structure of the plural form is a function of the value of the comparative benchmark information it produces. This comparative benchmark information adds explanations to the global growth of plural formed organizations (franchises, transnational alliances, global supplier networks, etc.). Following insights from the plural model, contractual pluralism is a necessary condition to define contracts that control opportunistic behavior in the network. One plausible explanation for the growth and success of plural companies may therefore lie in the firms' superior access to agent information. The question posed by Klein, et al. (1978: 326) "*what kinds of contracts are used for what kinds of activities – and why*?" – must be complemented by a multi-agent-plural form perspective to explain the efficiency of organizational types.

Future research in franchisor-franchisee settings must focus on how an optimal portfolio of contracts can be designed to create an efficient basis to compare information about relative transaction costs within and across industries. Existing theory assumes the firm to be a network of isolated individual dyadic contracts. These contracts are viewed as separate entities without comparative interaction. On the other hand, the "make-and-buy" organizational form is driven by managerial intentions not only to realign single contracts but to strategically optimize the costs of a network of different contracts. The level of comparative information is driven by the ratio of internal to external agents. When the franchisor owns and operates more units, all agents perceive more comparative quality control. Less principal ownership and operation potentially lead to higher levels of perceived control by comparative efficiency.

Our theory proposes that the credible threat of comparative benchmark information is an implicit disciplinary device. A related theoretical limitation is a firm's ability to seamlessly reconfigure ratios of company-owned to franchised units as may be required by changing industry and organizational conditions. The model also may be seen to presume that transfer of comparable information from franchisees to the franchisor is not without significant challenges, such as overcoming political motivations of franchisees to shield performance information that may be detrimental to negotiation of the next contract. Empirical evidence indicates that when competition levels are higher, external agents are more willing to share information with the organization (Dant & Nasr, 1998). Yet, the model implies that when information is not forthcoming from franchisees, the firm must use internal mechanisms to go and get it.

Methodologically, the plural model suggests that the level of analysis must focus on the entire organization (Evan, 1972) or principal/multiple-agent relationships (Tirole, 1988) rather than single dyadic transactions. Constructing a heterogeneous market for agents within the network organization provides the information necessary to evaluate the cost of the use of agents. A nexus of different contracts governs transactions in franchise organizations. In production and distribution that entail transaction specific investments, only the plural organization as exemplified by franchising genuinely produces comparative information necessary to harness the evils of deviant behavior in driving toward positive organizational outcomes.

The important issue is not only the absolute level of transactions costs within the inter-organizational relationship. More important, we argue, is a comparison of transactions costs among alternative organizational structures. Comparable information from the agents is a basis for effective and efficient strategic management and organizational control. The pluralism can be observed in industries where valuable asymmetric information can be revealed from both inside and outside arrangements. The focal organization needs plural contractual relations to define efficient incentives and to restructure agent contracts. Consequently, internal and external contracts are *not* mutually exclusive governance structures, but complementary formations that employ strategic deviance to overcome information asymmetry and control additional opportunism.

References

Ackroyd, S. & Thompson, P. (1999). *Organizational misBehaviour*. London: Sage.

Akerlof, G.A. 1970. The market for "lemons": Quality, uncertainty and the market mechanism. *Quarterly Journal of Economics*, **84**: 488-500.

Albanese, R. &Van Fleet, D. 1985. Rational behavior in groups: The free riding tendency. *Academy of Management Review*, **10**: 244-255.

Alchian, A. 1950. Uncertainty, evolution, and economic theory. *Journal of Political Economy*, **58**: 55-67.

Alchian, A.A., Demsetz, H. 1972. Production, information costs, and economic organization. *American Economic Review*, **62**: 777-795.

Armstrong, J.S. & Overton T.S. 1977. Estimating nonresponse bias in mail surveys. *Journal of Marketing Research*, **14**: 396-402.

Baker, B.L. & Dant, R. 2008. Stable plural forms in franchise systems: An examination of the evolution of ownership redirection research. In G. Hendrikse, M. Tuunanen, J. Windsperger & G. Cliquet (Eds.) *Strategy and governance of networks* (87-112). Heidelberg: Physica-Verlag.

Becker, B.E. & Huselid, M.A. 1992. The incentive effects of tournament compensation systems. *Administrative Science Quarterly*, **37**: 336-350.

Bennett N. & Naumann, S.E. 2005. Withholding effort at work: Understanding and preventing shirking, job neglect, social loafing and free riding. In R.E Kidwell, Jr., C.L. Martin (Eds.), *Managing organizational deviance* (113-126). Thousand Oaks, CA: Sage.

Bennett, R.J. & Robinson, S.L. (2000). Development of a measure of workplace deviance, *Journal of Applied Psychology*, **85**, 349-360.

Bennett, R. J. & Robinson, S. L. (2003). The past, present and future of workplace deviance research. In J. Greenberg (Ed.), *Organizational behavior: The state of the science, 2nd Edition* (pp. 247-281). Mahwah, NJ: Lawrence Erlbaum.

Bradach, J.L. 1997. Using the plural form in the management of restaurant chains. *Administrative Science Quarterly*, **42**: 276-303.

Bradach, J.L. 1998. *Franchise organizations*. Boston, MA: Harvard Business School Press.

Bradach, J.L. & Eccles, R.G. 1989. Price, authority, and trust: From ideal types to plural forms. *Annual Review of Sociology*, **15:** 97-118.

Brickley, J.A. & Dark, F.H. 1987. The choice of organizational form, The case of franchising. *Journal of Financial Economics*, **18**: 401-420.

Bürkle, T. & Posselt, T. 2008. Franchising as a plural system: A risk-based explanation. *Journal of Retailing*, **84**: 39-47.

Brickley. J.A., Dark, F.H. & Weisbach, M.S. 1991. The economic effects of franchise termination laws. *Journal of Law and Economics,* **34**: 101-132..

Castrogiovanni, G.J., & R.E. Kidwell. 2010. Human resource management practices affecting unit managers in franchise networks. *Human Resource Management***, 49,** Forthcoming.

Caves, R.E. & Murphy II, W. 1976. Franchising: Firms, markets, and intangible assets. *Southern Economic Journal*, **42**: 572-586.

Cliquet, G. 2000. Plural forms in store networks: A model for store network evolution. *Inernational Review of Retail, Distribution and Consumer Research,* **10**: 369-387.

Combs, J.G. & Ketchen, D.J. 2003. Why do firms use franchising as an entrepreneurial strategy? A meta-analysis. *Journal of Management*, **29**: 443-465.

Combs, J.G. & Michael, S.C. Castrogiovanni GJ. 2004. Franchising: A review and avenues to greater theoretical diversity. *Journal of Management,* **30**: 907-931.

Dahlstrom, R. & Nygaard A 1999a. An empirical investigation of ex post transaction costs in franchised distribution channels. *Journal of Marketing Research,* **36**: 60-170.

Dahlstrom, R. & Nygaard, A. 1999b. Ownership decisions in plural contractual networks: Twelve cases from the quick service restaurant industry. *European Journal of Marketing*, **33**: 59-87.

Dahlstrom, R. & Nygaard, A. 2005. Measurement of transaction costs and falsification criteria: Toward future directions in empirical research on transaction costs theory. In H.S. James, Jr. (Ed.) *New ideas in contracting and organizational economics research* (87-102). New York: Nova Science Publishers.

Dant, R.P. & Kaufmann, P.J. 2003. Structural and strategic dynamics in franchising. *Journal of Retailing*, **79**: 63-75.

Dant, R.P. & Nasr, N.I. 1998. Control techniques and upward flow of information in franchising in distant markets: Conceptualization and preliminary evidence. *Journal of Business Venturing*, **13**: 3-28.

Dant, R.P., Perrigot, R. & Cliquet, R. 2008. A cross-cultural comparison of the plural forms in franchise networks: United States, France and Brazil. *Journal of Small Business Management,* **46**: 286-311.

David, R.J. & Han S.K. 2004. A systematic assessment of the empirical support for transaction cost economics. *Strategic Management Journal*, **25**: 39-58.

Eccles, R.G. & White, H.C. 1988. Price and authority in inter-profit center transactions *American Journal of Sociology*, **94**: 17-51.

Eisenhardt, K.M. 1988. Agency- and institutional-theory explanations: The case of retail sales compensation. *Academy of Management Journal*, **31**: 488-511

Eisenhardt, K.M. 1989. Agency theory: An assessment and review. *Academy of Management Review*, **14**: 57-74.

Evan, W.M. 1972. An organizational-set model of interorganizational relations. In M.F Tuite, M. Radnor & R.K. Chrisholm (Eds.), *Interorganizational decision making* (181-200). Chicago: Aldine-Atherton.

Fama, F.E. & Jensen, M.C. 1983. Agency problems and residual claims. *Journal of Law and Economics*, **26**: 321-324.

Festinger, L. 1954. A theory of social comparison processes. *Human Relations,* **7**: 117-140.

Galunic, D.C. & Eisenhardt, K.M. 1994. Renewing the strategy-structure-performance paradigm. In L.L. Cummings & B.M. Staw (Eds.), *Research in organizational behavior*, **16** :215-255. Greenwich, CT: JAI Press.

Geyskens, I., Steenkamp, J.E.B.M, & Kumar MY. 2006. Make, buy, or ally: A meta-analysis of transaction cost theory. *Academy of Management Journal,* **49**: 519-543.

Giacalone, R. A. & Greenberg, J. (1997). *Antisocial behavior in organizations*. Thousand Oaks, CA: Sage.

Grant, R.M. 1996. Toward a knowledge-based theory of the firm. *Strategic Management Journal*, **17**: 109-122.

Grossman, S.J. & Hart, O.D. 1986. The costs and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy*, **94**: 691-719.

Gulati, R., Lawrence, P.R. & Puranam, P. 2005. Adaptation in vertical relationships: Beyond incentive conflict. *Strategic Management Journal*, **26**: 415-440.

Gupta, A.K. & Govindarajan, V. 1991. Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review*, **16**: 768-792.

Harrigan, K. R. 1984. Formulating vertical integration strategies. *Academy of Management Review*, **9**, 638–652.

He, D. & Nickerson, J.A. 2006. Why do firms make and buy? Efficiency, appropriability and competition in the trucking industry. *Strategic Organization*, **4**: 43-69.

Hendry, J. 2002. The principal's other problems: Honest incompetence and the specification of objectives. *Academy of Management Review*, **27**: 98-113.

International Franchise Association. 2009. http://www.franchise.org/ Accessed December 3, 2009.

Jackson, D.W. Jr, Keith, J.E. & Schlacter, J.L. 1983. Evaluation of selling performance: A study of current practices. *Journal of Personal Selling and Sales Management*, **3**: 42-51.

Jacobides, M. & Billinger, S. 2006. Designing the boundaries of the firm: From "make, buy or ally" to the dynamic benefits of vertical architecture. *Organization Science*, **17**: 249-261.

Jensen, M.C. & Meckling, W.H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, **3**: 305-360.

Katz, M.L. 1989. Vertical contractual relations. In R. Schmalensee, & R. Willig (Eds.), *Handbook of industrial organization* (655-721). Amsterdam: North-Holland.

Kaufmann, P.J. & Dant R.P. 1998. Franchising and the domain of entrepreneurship research. *Journal of Business Venturing* **14**: 5-16.

Kidwell, R.E., Nygaard, A. & Silkoset, R. 2007. Antecedents and effects of free riding in the franchisor-franchisee relationship. *Journal of Business Venturing*, **22**, 522-544.

Kidwell, R.E. & S. Valentine. 2009. Positive group context, work attitudes, and organizational misbehavior: The case of withholding job effort. *Journal of Business Ethics*, **86**: 15-28.

Klein, B., Crawford, R.G. & Alchian, A.A. 1978. Vertical integration, appropriable rents and the competitive contracting process. *Journal of Law and Economics*, **21**: 297-326.

Kreps, D.M. 1990. Corporate culture and economic theory. In J.E. Alt & K.A. Shepsle (Eds.), *Perspectives on positive political economy* (57-90). Cambridge, MA: Cambridge University Press.

Lafontaine, F. & Kaufman, P.J. 1994. The evolution of ownership patterns in franchise s systems. *Journal of Retailing*, **70**: 97-115.

Lawrence, T. & Lawrence, S. 1982. For a hybrid sales force, plant the seeds early. *Sales and Marketing Management*, **128**(7): 57.

Lazear, E.P. & Rosen, S. 1981. Rank-order tournaments as optimum labor contracts. *Journal of Political Economy*, **89**: 841-864.

Leibowitz, A. & Tollison, R. 1980. Free riding, shirking, and team production in legal partnerships, *Economic Inquiry*, **18**: 380-394.

Makadok, R. & Coff, R. 2009. Both market and hierarchy: An incentive-system theory of hybrid governance forms. *Academy of Management Review*, **34**: 297-320.

McDonald`s Corporation, 1995. McDonald`s 1995 Annual Report.

Michael, S.C. 2000. Investments to create bargaining power: The case of franchising. *Strategic Management Journal*, **21**: 497-514.

Michael, S.C. 2002. Can a franchise chain coordinate? *Journal of Business Venturing*, **17**: 325-341.

Milgrom, S.P. & Roberts, J. 1990. Bargaining costs, influence costs, and the organization of economic activity. In J.E. Alt & K.A. Shepsle (Eds.), *Perspectives on positive political economy* (57-90). Cambridge, MA: Cambridge University Press.

Minkler, A.P. 1990. An empirical analysis of a firm's decision to franchise. *Economic Letters*, **34**: 77-82.

Minkler, A. P. 1992. Why firms franchise: A search cost theory. *Journal of Institutional and Theoretical Economics*, **148**, 240–259.

Norton, S.W. 1988. An empirical look at franchising as an organizational form. *Journal of Business*, **61**: 197-218.

O'Reilly, C.A. III, Main, B.G. & Crystal, G.S. 1988. CEO compensation as tournament and social comparison: A tale of two theories. *Administrative Science Quarterly*, **33**: 257-274.

Ouchi, W.G. 1979. A conceptual framework for the design of organizational control mechanisms. *Management Science*, **25**: 833-848.

Oxenfeldt, A.R. & Kelly, A.O. 1969. Will successful franchise systems ultimately become wholly-owned chains? *Journal of Retailing*, **44**: 69-83.

Parmigiani, A. 2003. *Concurrent sourcing: When do firms both make and buy?* Unpublished PhD dissertation, University of Michigan: Ann Arbor MI.

Parmigiani, A. 2007. Why do firms both make and buy? An investigation of concurrent sourcing. *Strategic Management Journal*, **28**: 285-311.

Pfeffer, J. 1981. *Power in organizations*. Marshfield, MA: Pitman.

Pfeffer, J. & Salancik, G.R.1978. *The external control of organizations: A resource dependence perspective*. New York: Harper and Row.

Porter, M. E. (1980). *Competitive Strategy*. Free Press, New York.

Rosen, S. 1986. Prizes and incentives in elimination tournaments. *American Economic Review*, **76**: 701-715.

Rubin, P.H. 1978. The theory of the firm and the structure of the franchise contract. *Journal of Law and Economics*, **21**: 223-233.

Sa Vinhas, A. 2002. *Dual distribution channels in business-to-business marketing: A transaction interdependencies view*. Unpublished PhD dissertation, INSEAD: Fountainbleu, France.

Salancik, G.R. & Pfeffer, J. 1980. Effects of ownership and performance on executive tenure in U.S. corporations. *Academy of Management Journal*, **23**: 653-664.

Sackett, P. R. (2002). The structure of counterproductive work behaviors: Dimensionality and relationships with facets of job performance. *International Journal of Selection and Assessment*, **10**:1/2, 5-11.

Sanyal, P. 2006. Capacity building through partnership: Intermediary non-governmental organizations as local and global actors. *Nonprofit and Voluntary Sector Quarterly,* **35**: 66-82.

Shane, S. 1996. Hybrid organizational arrangements and their implications for firm growth and survival: A study of new franchisors. *Academy of Management Journal***,** **39**: 216-234.

Shane, S. 1998a. Making new franchise systems work. *Strategic Management Journal*, **19**: 697-707.

Shane, S. 1998b. Explaining the distribution of franchised and company-owned outlets in franchise systems. *Journal of Management*, **24**: 717-739.

Sorenson, O. & Sørensen, J.B. 2001 The right mix: Franchising, organizational learning, and chain performance**.** *Strategic Management Journal*, **22**: 713-724.

Spreitzer, G. M., & Sonenshein, S. (2003). Positive deviance and extraordinary organizing. In K. Cameron, J. Dutton, & R. Quinn (Eds.), *Positive organizational scholarship* (pp. 207-224). San Francisco: Berrett-Koehler.

Spreitzer, G.M. & Sonenshein, S. 2004. Toward the construct definition of positive deviance. *American Behavioral Scientist*, **47**, 828-847.

Srinivasan, R. 2006. Dual distribution and intangible firm value: Franchising in restaurant chains. *Journal of Marketing*, **70**: 120-135.

Tirole, J. 1988. The multicontract organization. *Canadian Journal of Economics*, **11**: 459-466.

Vardi, Y. & Weitz, E. 2004. *Misbehavior in organizations*. Mahwah, NJ: Lawrence Erlbaum

Associates.

Walker, G. & Poppo, L. 1991. Profit centers, single source suppliers, and transaction costs. *Administrative Science Quarterly*, **36**: 66-87.

Warren, D. E. (2003). Constructive and destructive deviance in organizations. *Academy of Management Review*, **28**: 622-632.

Williamson, O.E. 1975. *Markets and hierarchies: Analysis and antitrust implications.* New York: Free Press.

Williamson, O.E. 1985. *The economic institutions of capitalism*. New York: Free Press.

Williamson, O.E. 1991. Comparative economic organization: The analysis of discrete structural alternatives. *Administrative Science Quarterly*, **36**: 269-296.

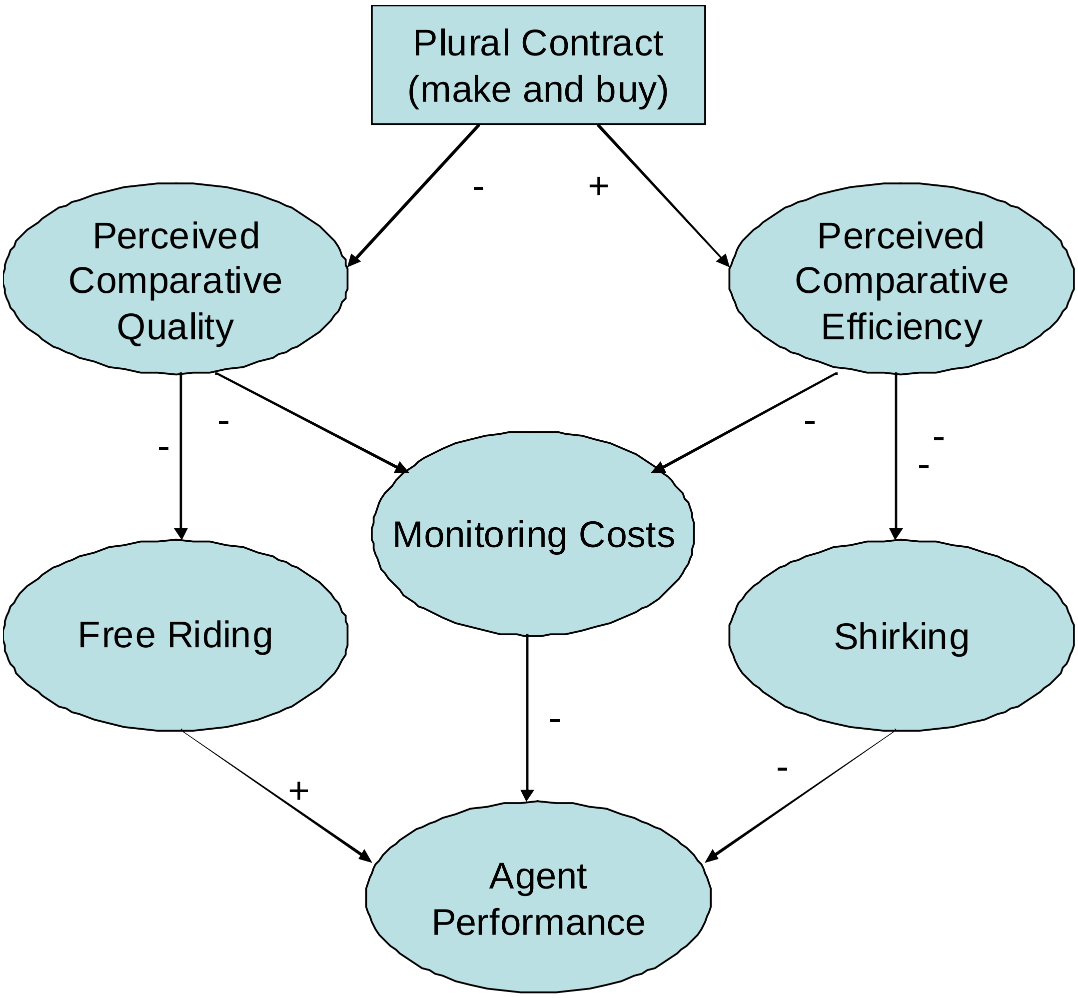
Williamson, O.E. 1999. Strategy research: Governance and competence perspectives. *Strategic Management Journal*, **20**: 1087-1109.

Windsperger, J. & Dant, R. 2006. Contractibility and ownership redirection in franchising: A property rights view. *Journal of Retailing*. **82**: 259-272.

Windsperger, J. 2004. Centralization of franchising networks: Evidence from the Austrian franchise sector. *Journal of Business Research*, **57**: 1361-1369

Yin, X. & Zajac, E.J. 2004. The strategy/governance relationship: Theory and evidence in franchising arrangements. *Strategic Management Journal*, **25**: 365-383.

Figure 1. The plural model of strategic deviance in the franchise system



	Other Internal Network Agents	**Other External Network Agents**
The Franchisor Agent Compares Itself to:	**Comparative Quality Benchmarks**	**Comparative Efficiency Benchmarks**
The Franchisee Agent Compares Itself to:	**Comparative Quality Benchmarks**	**Comparative Efficiency Benchmarks**

Table 1. Benchmark control among agents in a franchise network.

The CCGR Working Paper Series: Contents

The papers may be downloaded without charge from our website http://www.bi.no/ccgr

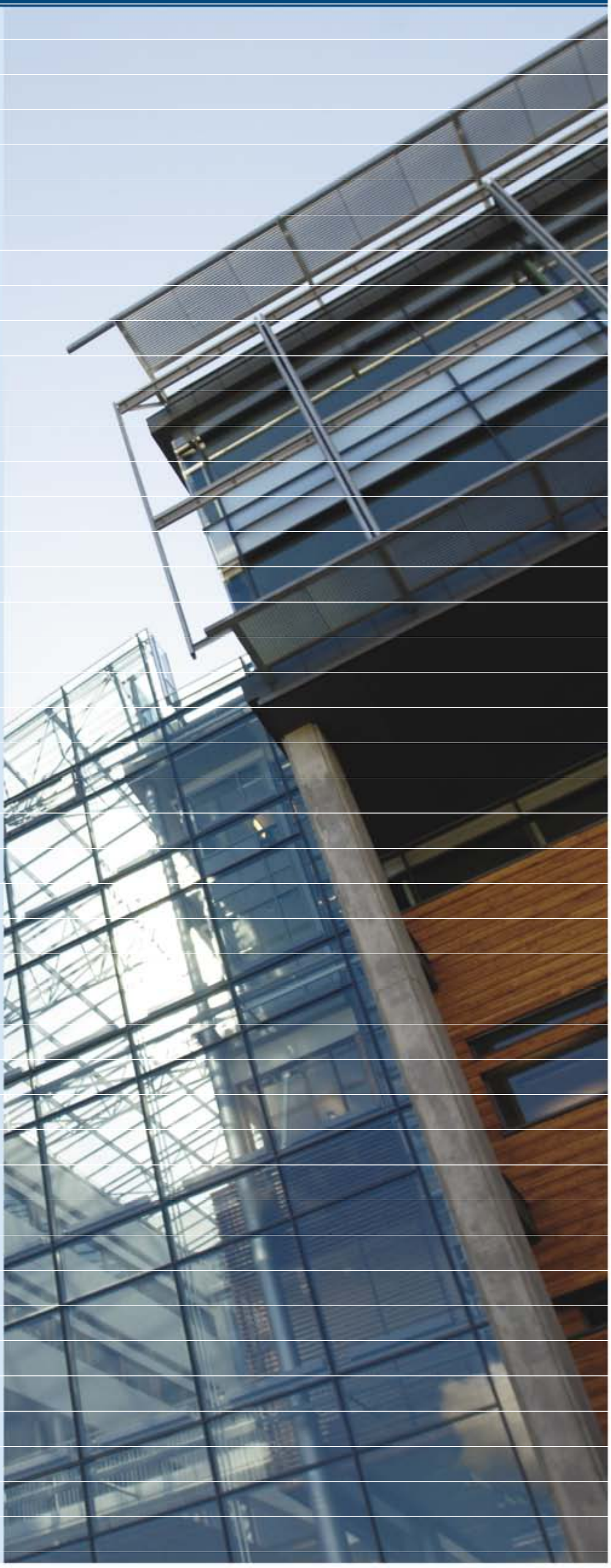
2007

2008

2009

2010

Centre for Corporate Governance Research



The Centre for Corporate Governance Research (CCGR) conducts research on the relationship between corporate governance, firm behavior, and stakeholder welfare. Our projects pay particular attention to the governance of closely held firms and family firms, and the research teams come from different disciplines in several countries. Financing is provided by private sponsors and the Research Council of Norway.

The CCGR is organized by the Department of Financial Economics at BI Norwegian School of Management in Oslo, Norway (http://www.bi.no)

Centre for Corporate Governance Research
BI Norwegian School of Management
Nydalsveien 37
N-0442 OSLO
Norway
http://www.bi.no/ccgr

BI NORWEGIAN SCHOOL OF MANAGEMENT