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Franchise partner selection: perspectives of franchisors and franchisees

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Abstract

Purpose – This paper aims to identify the partner selection criteria employed both by franchisors and franchisees in master franchise agreements and evaluate how different selection criteria interact within the selection process and influence the decisions taken.

Design/methodology/approach – A single embedded case study of an international hotel firm was the focus of the enquiry. Interviews and document analysis were used as the data collection techniques.

Findings – The findings reveal that the establishment of franchise partnership involves a mutual and careful evaluation between franchisors and franchisees to assess whether their partnership criteria are compatible. The partner selection approach determines the extent of importance attached to different task- and partner-related selection criteria. In addition, the study identifies the role that different selection criteria play at different stages of the process.

Research limitations/implications – The findings are based on a single case study in the international hotel industry and therefore may not be generalisable to other firms or industry sectors. Moreover, the study comprised master franchise agreements, and this contextual variable may impact on the findings determined.

Practical implications – This paper illuminates the challenges both international franchisors and franchisees face in selecting their partners and proposes that both franchisors and franchisees should employ clearly defined selection criteria, utilise a defined selection process and choose their selection approach carefully in recruiting partners.

Originality/value – This paper cross-fertilises the strategic alliance and franchise literature to evaluate the interplay of partner selection criteria, process, selection approach and international franchise recruitment. The findings contribute to the understanding of a largely neglected area, franchise partner selection and recruitment, by taking a holistic approach and incorporating the views of both franchisors and franchisees.

Keywords Master franchising, Franchisor, Franchisee, Task and partner selection criteria, Process, Selection approach, Franchising, Selection

Paper type Research paper

An executive summary for managers and executive readers can be found at the end of this article.

1. Introduction

The high cost and risk of developing new products and penetrating new markets is a major force that drives organisations to work in partnership (Hitt *et al.*, 2000). While there has been an increase in a wide variety of inter-firm alliances, business format franchising has emerged as a powerful form of collaboration, expanding faster and more vigorously than other forms in international service industries (Doherty and Alexander, 2004; Alon, 2006) and in the hospitality industry in particular (Altinay and Wang, 2006). Recent research conducted by Franchise Direct (2009)[1], identifies that 77 per cent of the top 100 global franchises (Franchise Direct, 2009) are within service industries, including hospitality, cleaning and maintenance, professional and retail services. Within hospitality, quick service restaurants represent 20 per cent, and hotels a further 9 per cent of the total. For both these industry sectors, master franchise agreements in particular have become a popular international market entry mode.

In any type of business format franchising, a franchisor grants a franchisee the rights to use its brand name, product and business system in a specified manner for a specific period of time (Felstead, 1993, p. 58). Franchisees gain access to a proven brand concept and business system and franchisors gain access to the franchisees' local market knowledge. While these complementary benefits help to explain the popularity of franchising, they also underpin the main issue of contention in franchise systems, i.e. achieving an appropriate balance between franchisor control to maintain brand uniformity and integrity, and franchisee autonomy to respond to local market demands (Bradach, 1997; Sorenson and Sorensen, 2001; Weavin and Frazer, 2007a, b). These tensions are compounded in geographically dispersed and differentiated markets (Cox and Mason, 2007) and are therefore exacerbated in international franchise systems. They are also potentially more prominent in master franchise agreements. These differ from other types of business format franchising as they entitle the franchisee the rights to open franchised hotel units and to grant these rights to third parties as a sub-franchisor (Connell, 1999; Quinn and Alexander,

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2002). As such, they are quite distinct inter-firm agreements, where a degree of operational control is devolved to the master franchisee (Ryans *et al.*, 1999; Brookes and Roper, 2008).

Partner selection is paramount to the success of master franchise agreements as failing to select the "right" partner could lead to a divergence of goals between franchisors and franchisees. That is, franchisees will behave in an opportunistic fashion and pursue their own interest at the expense of those of the franchisor (Brickley and Dark, 1987; Elango and Fried, 1997; Taylor, 2000). As this has a cost to the brand and other franchisees, there is a need to prevent franchisees behaving opportunistically in order to maintain brand uniformity and protect a franchisor's brand name and image (Fladmoe-Lindquist, 2000). One of the most efficient ways of reducing this risk is to select franchisee partners who will adopt more of a system-wide perspective for their individual activities and contribute to the attainment of system-wide goals (Altinay and Wang, 2006; Taylor, 2000). Despite this importance, partner selection within international franchising remains a relatively unexplored area (Doherty, 2009).

Research that has been undertaken does reveal the importance of both the partner selection process and partner selection criteria (see, for example, Altinay, 2006; Doherty, 2009). However, these studies have tended to look at partner selection from the viewpoint of the franchisor only and the value of examining the process and criteria from both franchisor and franchisee perspectives has been identified (Doherty, 2009). Furthermore, the distinct inter-organisational characteristics of master franchise agreements highlight the relevance of examining partner selection from both of these perspectives, an approach more frequently adopted within joint venture studies. This paper therefore aims to identify the partner selection criteria employed both by franchisors and franchisees in international master franchise agreements. It draws on both the extant joint venture and franchise literature to examine partner selection criteria and the processes employed. After presenting the research design, the paper evaluates how different selection criteria interact within the master franchise partner selection process and influence the decisions taken.

2. Partner selection

The importance of partner selection in international joint ventures (IJVs) is well recognised (Glaister and Buckley, 1997; Griffith *et al.*, 1998; Al-Khalifa and Peterson, 1999; Hitt *et al.*, 2000) and empirical studies have revealed a range of relevant partner selection criteria. In his study of IJV partnerships of British firms in Pakistan and India, Tomlinson (1970) identified six categories of partner selection criteria of different degrees of importance. Favourable past association was found to be the most important category; resources, facilities, partner status and forced choice, the next most important category; and local identity, the least significant category. In a later study, however, Tomlinson and Thompson (1977) found a difference between the selection criteria used by Canadian and Mexican joint venture partners. While financial resources were important to both firms, Canadian firms prioritised compatibility in business, similar objectives, ability to negotiate with government and common ethics. In contrast, technology and experience applying it, international prestige and experience, commitment, sound management and the ability to communicate with Mexicans were revealed as the key traits sought by the Mexican firms. Yet a further study by Awadzi *et al.* (1988) of US IJV partnership identified four key criteria as partners' resource contribution, past association between partners, relatedness of partners' business and relatedness of foreign partners and IJV business. The researchers concluded that the more resources an organisation contributes to the partnership, the greater likelihood that it would be selected as a partner.

Recognising the range of different criteria used, Geringer (1991) made a landmark contribution to understanding partner selection by developing a typology based on two types of criteria; namely task and partner related. Task-related criteria include patents, technical knowledge, experience of management, access to marketing and distribution systems, and financial resources – in other words the operational skills and resources a joint venture requires to be competitive (Tatoglu, 2000). In contrast, partner-related criteria comprise the variables which are specific to the character, culture and history of the partners, for example past association, national or corporate culture, organisational size or structure and the compatibility or trust between the partners' management teams (Glaister and Buckley, 1997). As such, partner-related criteria are concerned with the effectiveness of cooperation between IJV partners (Al-Khalifa and Peterson, 1999).

Testing Geringer's (1991) typology in a study of IJVs between UK firms and European, US and Japanese partners, Glaister and Buckley (1997) identified the most important task-related criteria as access to local market and cultural knowledge, distribution channels and links with major buyers and the most important partner-related criteria as trust between management teams, relatedness of partner business and reputation. The authors concluded that IJV partners should possess both types of criteria. However, in a study of 42 IJVs in Bahrain, Al-Khalifa and Peterson (1999) concluded that partner-related criteria are the dominant criteria, particularly for larger firms with more IJV experience. In particular, their study determined that reputation, experience and personal knowledge of the partner organisations and the personal characteristics of the CEO are important factors in IJV partner selection. Tatoglu (2000) also found a greater reliance on partner-related criteria using Geringer's (1991) typology to investigate IJVs between local firms in Turkey and Western partners. His study further determined that the most important partner-related criteria are trust between top management teams and reputation of partners, and that favourable past association, size and international experience were relatively unimportant. He also includes partner's knowledge of the local market as key partner-related criteria. While Tatoglu (2000) also identifies the most important task-related selection criteria as access to knowledge of local markets and culture, he concludes that that task criteria will be "somewhat specific to the underlying purpose of the IJV" (p. 144). In other words, firms will seek complementary resources and skills relevant to the joint venture. Similarly, Al-Khalifa and Peterson (1999) advise that firms seek compatibility in relation to partner-related criteria. Compatibility of organisational cultures, goals and works systems is also well recognised as an essential ingredient of successful alliance agreements (see, for example, Kanter, 1994; Buono, 1997; Kauser and Shaw, 2004).

Although relatively scarce in comparison, empirical studies on partner selection in franchise agreements have also yielded a range of partner selection criteria. For example, Jambulingam and Nevin (1999) identified financial capability, experience and management skills, demographic characteristics and attitudes towards business dimensions as important selection criteria used by franchisors. Clarkin and Swavely's (2006) study of 1,043 multi sector North American franchisors identified the importance of franchisees' personal characteristics, including financial strength, attitudes and personality, psychological profiling, formal education, general business and industry specific experience. Similarly, Hsu and Chen (2008) identified the operating ability, financial capability, experience and personality as selection criteria for retail franchisors in Taiwan. The authors conclude however, that financial and business ability are the key traits for franchisors to determine. Within international franchise agreements, Doherty and Alexander (2004) examined partner need recognition, selection search and evaluation from a relationship marketing perspective. The authors found that the "right chemistry" (p. 1224) between partners was important to the retail franchisors in their study, irrespective of other specific criteria used. However, Choo *et al.* (2007) found three key criteria used by international fast food retail franchisors in Singapore to be:

1 financial strength;
2 ability to secure prime retail space; and
3 knowledge of the local market.

These studies suggest that both partner-related characteristics and task-related characteristics as defined by Geringer (1991) are used to variable extents in the franchise selection process, as did Altinay (2006) in his study of international hotel franchising. However, Altinay (2006) contributes further to our understanding of international franchisee partner selection by identifying that the emphasis placed on these criteria varies in different stages of the decision making process. Greater emphasis is placed on partner-related criteria during the early stages of the selection process, and the partner-related traits of the franchisees are used by franchisor members to determine whether potential franchisees have the ability and the background to meet the task-related criteria. Franchisor members thoroughly analyse their organisation's expectations and compare the franchisees' current and future task-related capabilities to those deemed necessary for franchise success during the selection process. Altinay (2006) concludes that there are three important contextual variables which have a bearing on the franchisee selection criteria employed:

1 the strategic context of the organisation;
2 different country markets; and
3 the nature of the business itself (franchise partnership).

Furthermore, given the socio-cultural differences between country markets, the study emphasises the importance of having a selection process in place as well as clear criteria in order to make sound selection decisions.

Doherty (2009) also recognises the importance of both the process of partner selection and the criteria used in international retail franchising and reports that franchisors adopt both strategic and opportunistic approaches to the process. The key difference between these two approaches is whether it is the franchisor that initiates the process (strategic) or the franchisee that approaches the franchisor (opportunistic). Her study reveals that in strategic partner selection, there is a defined process whereby appropriate potential franchise partners are identified after a market has been selected and specific selection criteria are used to short list and then select the franchise partner. Selection criteria identified include financial stability, business know how, local market knowledge, a shared understanding of the brand and strategic direction of the business, and chemistry between the franchisor and franchisee. In other words, a mix of task and partner-related criteria. In opportunistic approaches, franchisors in the study followed a set process for setting out their terms and conditions and for the potential franchisee to submit a business development plan for approval. The criteria used to evaluate partners therefore, appears to relate predominantly to financial criteria and in these approaches, partner selection precedes market selection.

Despite the contribution of these studies, the need for further partner selection research is well recognised. Altinay and Miles (2006) note that employing strict selection criteria and a defined selection process can help to control the behaviour of franchisees prior to the establishment of the partnership and thus help in their integration into the wider franchise system. Partner selection criteria can also be used to train and educate franchisees to ensure goal congruence before the partnership is established and can help to develop relationships between potential partners during the negotiations process (Altinay, 2006). Effective management of relationships is well recognised as a critical ingredient of effective alliances in general (Kanter, 1994; Buono, 1997; Kauser and Shaw, 2004) and franchise partnerships in particular (Hopkinson and Hogarth-Scott, 1999; Quinn, 1999; Doherty and Alexander, 2004; Clarkin and Swavely, 2006; Weavin and Frazer, 2007a, b). Relationship management between firms is frequently referred to as social or relational control as it contributes to the development of shared norms and organisational practices and serves to better coordinate inter-firm activities (Buono, 1997; Child and McGrath, 2001; Weavin and Frazer, 2007a, b). These processes can also help to break down barriers between organisations and increase the permeability between firms (Martinez and Jarillo, 1989; Dess *et al.*, 1995) to help achieve partnership goals.

The review of the literature reveals that a wide range of partner and task-related criteria have been identified in both IJV and franchise research. Table I provides a summary of the specific criteria and highlights the different importance of criteria identified in the studies reviewed. Furthermore, Table I reveals that empirical studies undertaken within franchising have examined partner selection from the perspective of the franchisor only. There remains a gap in our understanding of the criteria used by each partner and the combined impact that the franchisor and franchisee might have on the selection process. As Clarkin and Swavely (2006, p. 133) advise, "despite franchising's ubiquity, how franchisors and franchisees select each other remains a largely unexplored topic". Furthermore, there is a need for further research to determine how different selection criteria are used by both partners throughout the partner selection process and whether these are influenced by contextual variables and the selection approach used. Given these gaps, this paper examines partner selection within international master franchise agreements, from the perspective of both by franchisors and franchisees. It evaluates the importance of

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Table I Key findings from empirical studies in partner selection

Context of study	Authors (year)	Examined from	Partner selection criteria identified	Key findings
UK IJVs in India and Pakistan	Tomlinson (1970)	Perspective of UK based parent company	Six criteria (in order of importance): 1 favourable past association 2 resources 3 facilities 4 partner status 5 forced choice 6 local identity	In addition to ranking the criteria, three key contextual variables were also identified: 1 parent size 2 nature of business 3 motivation behind IJV formation
IJVs between Canadian and Mexican firms	Tomlinson and Thompson (1977)	Perspective of both IJV partners	Canadian firms (five criteria): 1 financial status 2 compatibility in business 3 similar objectives 4 ability to negotiate with government 5 common ethics Mexican Firms (six criteria): 1 financial resources 2 technological resources and experience 3 international prestige and experience 4 commitment to JV 5 sound management 6 ability to communicate	Different criteria and priority of criteria by Canadian and Mexican firms. Financial resources important to firms from both national contexts
US IJVs with European, Canadian and Japanese partners (manufacturing)	Awadzi *et al.* (1988)	Perspective of US partner	Four criteria (in order of importance): 1 resource contribution 2 past association between partners 3 relatedness of partners' business 4 relatedness of foreign partners' and IJV business	Cooperation between JV partners and complementarity of resources enhance the IJV performance
US-based IJVs (manufacturing)	Geringer (1991)	Perspective of US-based parent company	Twofold typology of criteria identified: 1 task criteria 2 partner criteria Task criteria relate to skills and resources; partner-criteria concerns effectiveness of cooperation	The relative importance of specific task-related criteria is determined by the strategic context of the proposed IJV
UK multi-sector IJVs with European, US and Japanese partners	Glaister and Buckley (1997)	Perspective of UK partners	In order of importance, 12 partner-related criteria: 1 trust between top management teams 2 relatedness of partner's business 3 reputation 4 financial status 5 complementarity of resources 6 marketing and distribution systems 7 size 8 international experience 9 technological experience 10 management in depth 11 degree of favourable past association 12 ability to negotiate with government 12 task-related criteria: 1 knowledge of local market 2 distribution channels 3 links with major buyers 4 knowledge of local culture 5 technology 6 the product itself 7 knowledge of production processes 8 capital 9 regulatory permits 10 labour 11 local brand names 12 materials/natural resources	Both task and partner criteria are important to partner selection and partners should possess both types of criteria

(continued)

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Table I

Context of study	Authors (year)	Examined from	Partner selection criteria identified	Key findings
Manufacturing IJVs in Bahrain	Al-Khalifa and Peterson (1999)	Perspective of IJV CEOs in Bahrain, from range of unspecified countries	14 criteria (in order of importance): 1 reputation in local market 2 financial status 3 similar goals, objectives and aspirations 4 enthusiasm and commitment 5 contacts in local market 6 compatibility of organisations 7 knowledge of local/host market 8 ability to cover territory 9 prior trade relationship 10 technical competence 11 adequate staff to market effectively 12 recommendations by bank, government, etc. 13 previous JV success 14 prior JV experience	Partner-related criteria are the dominant criteria in the partner selection process. Companies with multi-country JV experience place more emphasis on partner-related criteria
US franchises from five industrial sectors	Jambulingam and Nevin (1999)	Perspective of the franchisor, but data collected from franchisees, some of which were master franchisees	Important criteria include franchisee attitudes towards business, including perceived innovativeness and personal commitment to the business	Controlling the quality of the franchisees using appropriate selection criteria can improve the efficiency of the contractual relationship for the franchisor. Franchisee attitudes are more important than traditional selection criteria typically used by franchisors
Turkish mutli-sector IJVs with European and US partners	Tatogolu (2000)	Perspective of foreign partner responsible for Turkish operation	In order of importance, 15 partner-related criteria: 1 knowledge of local market 2 trust between management teams 3 reputation of partner 4 ability to negotiate with government 5 compatibility of management teams 6 quality of management team 7 financial resources 8 size 9 favourable past association 10 established marketing and distribution 11 relatedness of business 12 complentarity of resources 13 experience of technology 14 ability to raise funds 15 International experience Nine task-related criteria: 1 access to knowledge of local market 2 3 access to knowledge of local culture 4 access to regulatory permits 5 access to labour 6 access to capital 7 access to natural resources 8 access to technology 9 access to product	There is a greater reliance on partner-related criteria; task criteria are specific to the underlying purpose of the IJV
UK-based fashion retailers with international franchisees	Doherty and Alexander (2004)	Perspective of UK franchisor	Main criteria identified 1 financial stability 2 business know-how 3 partner's local market Also important: 1 like-minded partners 2 chemistry between partners	Financial stability is a crucial factor in potential partner identification, but mutual attraction and relationship potential are important when making partner choices

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Table I

Context of study	Authors (year)	Examined from	Partner selection criteria identified	Key findings
Case study of one UK international hotel franchisor	Altinay (2006)	Perspective of UK franchisor	Five criteria identified: 1 general background 2 financial strength 3 expertise 4 partner strategy/rationale for partnership 5 how finance project	Greater emphasis is placed on partner-related criteria during the early stages of the selection process. Three contextual variables identified include strategic context, different country markets and nature of business
US fast food franchises in Singapore	Choo *et al.* (2007)	Perspective of US franchisor	Three criteria identified: 1 financial strength to launch and grow brand 2 access to prime real estate sites 3 local knowledge to adapt brand to suit market	Three key criteria identified for East Asian markets
Multi-sector North American franchisors	Clarkin and Swavely (2006)	Perspective of NA franchisor, draws on secondary data	Four criteria identified (in order of importance): 1 personal interview 2 financial net worth 3 general business experience 4 psychological profile, i.e. formal education and specific industry experience	Attitudes and personality are importance criteria in franchisee selection
Case study of retail franchisor in Taiwan	Hsu and Chen (2008)	Perspective of franchisor	In order of importance, personal criteria: 1 personal background 2 financial situation 3 business ability Store location: 1 consumer purchasing power 2 footfall 3 parking convenience	Personal condition (criteria) of franchisee is more important than store location, and financial and business ability are of particular importance
UK international retail franchisors	Doherty (2009)	Perspective of UK franchisor	Five criteria used in strategic approach: 1 financial stability 2 business know-how (preferably in retail) 3 local market knowledge 4 shared understanding of brand and strategic future 5 shared chemistry One criterion, i.e. financial capability, used in opportunistic approach	Both selection criteria and process important, but selection criteria differ as to whether a strategic or opportunistic approach is adopted. In opportunistic approaches, partner selection precedes market selection

specific selection criteria at the different stages of the partner selection process and assesses how different contextual variables including type of selection approach used (strategic or opportunistic) and the nature of business influence partner selection in master franchise partnerships. The following section reports on the design of the study.

3. Research design

In order to examine partner selection from franchisor and franchisee perspectives, a single, embedded qualitative case study strategy was employed. Doherty and Alexander (2004) advocate that this approach provides an alternative to the numerous positivistic and quantitative franchise studies. Doherty (2007, 2009) argues qualitative studies are increasingly employed within international franchise research so that a better understanding of operational issues can be determined. In addition, they provide an opportunity to obtain rich data (Moore *et al.*, 2004) illustrating real-life organisational experiences.

The case comprises a US hotel franchisor and its two international master franchisees, referred to in this study as the Franchisor, Franchisee A and Franchisee B. While both franchisees are from Europe, they are headquartered in different countries and have different geographical territories covered in their franchise agreements. There is also some discrepancy between the market level of the portfolios, and while recognised by the franchise partners, this did not prevent the formation of the franchise partnerships. The study explores the dyadic partner selection process and the criteria used between the Franchisor and each Franchisee. The territory of the case is bound (Miles and Huberman, 1999) within one international hotel brand within the Franchisor's multi-branded portfolio. Table II provides a profile of the operating characteristics of the franchise firms in the study.

Primary data was collected using semi-structured key informant interviews, a practice frequently used in organisational studies as it provides an economical approach to gaining "global" data on organisations (Bryman and Burgess, 1994, p. 49). The interviews sought to identify the partner selection process and the specific criteria used from the perspectives of the franchisor and each franchisee for each franchise agreement as advised by Doherty (2009). The interviews examined each partnership from the point of consideration of a franchise until the contract signature. Multiple interviews were conducted with corporate level

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Table II Operating characteristics of the case study franchise firms

Firm	Franchisor	Franchisee A	Franchisee B
Ownership	Private	Private	Public
Owner	Part of multi-divisional conglomerate	Hotel firm with some diverse interests reported	Part of a multi-divisional conglomerate
Headquarters	USA	Europe	Europe
Number of countries	60	1	38
Number of hotels	450	10 (+2 in development)	110
Number of rooms	99,246	1,926	29,000
Market level	Mostly three-star properties	Four- and five-star properties	Mostly four-star properties
Franchise partnership	Owns brand and holds a number of different types of franchise agreements with different international partners	Corporate franchise agreement for brand with Franchisor with defined geographical scope	Master franchise agreement for brand with Franchisor with development rights for defined geographic territory
Organisation culture described as	Informal, accessible, classless	Informal, entrepreneurial, non political	Entrepreneurial, idiosyncratic, family-run

informants in each firm to provide cross-checking opportunities and increase the reliability of the findings. Ten interviews were conducted in total with the franchisor brand CEO, and corporate organisational members responsible for strategy, development, marketing and financial management in the franchisor and franchisee firms. At least two respondents from each firm had been involved in the original development of the franchise agreement as advised by Al-Khalifa and Peterson (1999). For each firm, all interviews were held within a relatively short space of time and then one further interview conducted at a later stage to allow the researcher to look for gaps in the data and to identify issues that needed further clarification. Triangulation was achieved through archival analysis and internal and external document review (Yin, 2003) comprising organisation charts, annual and interim accounts and reports, company newsletters and employee magazines, press releases, internal memos and analyst and investor reports.

Data was analysed using NVivo according to the "three concurrent flows of activity" (Miles and Huberman, 1999, p. 16):

1 data reduction;
2 data display; and
3 conclusions drawing.

Data reduction took place through both descriptive and interpretive coding (Gibbs, 2004). Data was displayed for each individual firm and then for the two franchise partnerships. The extant literature was then used to draw conclusions from this study (Perry, 1998), the findings of which are presented in the following section.

4. Findings and discussion

Within the study, all three firms were seeking to expand, and franchising was considered a viable means of achieving this goal. The Franchisor was seeking to enter new geographic markets, and in line with its preferred market entry strategy was looking for local franchise partners to achieve this goal. Franchisee A was also seeking organisational growth by accessing new markets but in this instance, senior managers:

> [. . .] were not looking for growth in terms of numbers of hotels, but needed to drive revenue and one way of achieving that goal was perceived to be through international markets and international travellers.

Accordingly, Franchisee A decided it "needed a big brother" to gain access to global distribution channels. Franchisee B was also seeking organisational expansion as informants considered its proprietal brand name weak outside of the home market. When the franchise agreement was originally signed, Franchisee B had just 29 hotels in 11 countries within one European region. As one informant explained:

> We needed to have a different brand in order to be able to grow market share and brand awareness.

In addition to gaining access to a brand name, another informant explained that Franchisee B also required:

> [. . .] a catalyst for growth because there was a sense that [our firm] was not big enough, strong enough or well recognised enough to be able to go out and do it on their own.

Doherty (2009) previously identified both strategic (initiated by franchisors) and opportunistic (initiated by franchisees) approaches to partner selection in international retail franchising. However, in this study the intent to establish a partnership was mutually strategic. In other words, partner selection was not driven solely by the initiative of the franchisor or franchisee. Altinay (2006) previously identified the influence of contextual variables on the partner selection process. In this study, the nature of the business, as master franchise agreements, could have influenced the approach to partner selection and explain the mutually strategic approach adopted. During the research process, despite the fact that the agreements were technically franchise agreements, this term was only used by informants when questioned directly. At all other times throughout the interviews, informants referred to the agreements as a strategic "alliance" or "partnership" between the organisations. None of the corporate press releases or internal documents reviewed used the term franchise. When questioned about this, informants reported that strategic alliance was probably a more accurate descriptor. As one informant explained:

> It's strategic in the extent that it is global and in terms of having a global strategy as opposed to localised. [. . .] It's an alliance also in the sense that they [the franchisor] don't dictate.

Second, in line with Altinay (2006), it was found that all three firms were seeking a partnership with another hotel firm in order to gain access to different resources and realise their

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distinct organisational growth strategies. These firms had their own strengths in terms of resources and competencies, recognised the long-term benefit of the collaboration and acknowledged that collaboration would be mutually beneficial in different country markets. Given the Franchisor was looking for international exposure through local partners, both Franchisees identified their local market knowledge as a critical but complementary resource, a key attribute of successful IJVs (Glaister and Buckley, 1997). It was important to each Franchisee that the value of this contribution was duly recognised, further highlighting the role of mutual and complementary resources.

What is interesting but not identified through previous empirical research, is that the rationale for forming a partnership informed the particular partner selection criteria used by each of the three firms. As there were different parties located in different geographical areas with different expectations, one might expect that the partner selection criteria employed by the franchisor and franchisees would differ from each other as in previous joint venture studies (Tomlinson and Thompson, 1977). In particular, the cultural distance between the partners and the markets could have been the major cause of the differences in terms of the criteria employed (Altinay, 2006; Doherty, 2009; Tatoglu, 2000). However, despite the geographical and cultural distance, there was a great deal of similarity in the criteria used by the three different firms. The strategic rationale for the partnership acts as a common denominator and also informs the selection criteria employed. Table III identifies the specific criteria identified by informants which were then used to inform the partner selection and negotiation process as discussed below.

It must be pointed out that despite the way the criteria are listed in Table III, informants were not willing to prioritise the criteria used explicitly. However, the qualitative data did reveal which of the criteria were deemed more important than others, which were non-negotiable and how the criteria were used in different ways throughout the negotiation process. The ability of each firm to retain control of its own portfolio and thus preserve and build upon its established reputation was critical to both the Franchisor and each Franchisee. The reason for this is that all three firms had had previous partnership experiences and not of all these were successful. Previous studies have provided mixed results on the relevance of experience as partner-related criteria (Al-Khalifa and Peterson, 1999; Tatoglu, 2000). However, this study suggests that past experience does have a role to play in defining both franchisor and franchisee selection criteria as the firms in this study had learned from their previous unsuccessful experiences. As a result, retaining control was extremely important to all three firms and as one informant summarised:

> In the back of our head was only one thing we wanted, to keep our own independence [control] with backing.

Added to this, both franchisees had been successful in their own right and had been operating for over 30 and 40 years, respectively. This was a source of pride leading to a strong belief that their identity should be preserved. In the case of Franchisee A, the firm had grown under the sole directorship of the current chairman, and as a result there was reported to be a lot of "personal pride" and "emotion" attached to the brand. In the case of Franchisee B, one informant reported:

> From our experience with [previous partner] in which we were almost in the way of disappearing basically, we wanted to be in the driver's seat.

Both Franchisees therefore "wanted to have a brand that we would be in charge of in our geographical areas". In this study, a co-branding arrangement was agreed to enable each firm to retain control of its own portfolio and to enable franchisees to retain their own identities. Co-branding meant that the franchisees' respective portfolios were labelled with their brand name as well as that of the franchisor.

Co-branding also enabled a third criteria identified in Table II to be met; that of perceptions of mutual value and risk. Co-branding and growth was identified as a mutual value but what is interesting was the fact that the mutual value was linked to mutual risk during the selection process by both the franchisor and franchisees. This is an important dimension of mutual value which has not been identified by previous studies. Franchisees did not want to lose their identity or control of their portfolio, but they also reported they were taking a risk by entering into the agreement with the Franchisor and that they wanted this to be duly recognised. One informant reported:

> We took a huge risk. We were taking on faith that their vision of growing the brand, their vision of asserting the synergies from [their] chain of families, their vision for technological leadership, that's the risk. Would that all come to bear?

Both franchisees also noted the risk that the franchisor was undertaking by allowing them to retain control of their own portfolios and through a co-branding agreement. Co-branding within the international hotel industry was "virtually unheard of" at the time, and there was "clear recognition of the risk" with this untested branding strategy.

Table III Partner selection criteria

Franchisor	Franchisee A	Franchisee B
Ability to retain control through ownership structure	Ability to retain control of portfolio	Ability to retain control of portfolio
Perception of mutual value/risk	Ability to retain identity	Ability to retain identity
Chemistry between individuals	Perception of mutual value/risk	Perception of mutual value/risk
Similarity of organisation vision/goals/values	Chemistry between individuals	Similarity of organisation values
Local expertise	Similarity of organisation values	Similarity of organisation culture
Reputation/credibility	Similarity of organisation culture	Resources to achieve objectives
Credit worthiness	Resources to achieve objectives	Perception of a fair deal
	Reputation	
	Perception of a fair deal	

The relevance of chemistry between individuals in the franchise selection process (Doherty and Alexander, 2004; Doherty, 2009) and in alliance agreements (Kanter, 1994; Ring and Van de Ven, 1994; Buono, 1997; Kauser and Shaw, 2004) has previously been identified. What is interesting but not acknowledged by these previous studies is that personal chemistry not only acts as a selection criterion, but also plays a facilitator role in the negotiation process of a possible partnership, although Doherty and Alexander (2004) and Doherty (2009) do recognise its role in the maintenance of franchise relationships. In this study, informants reported that negotiations with other potential partner firms had broken down, as "there really wasn't chemistry between the individuals". This chemistry was perceived as an essential ingredient to keep communication channels open between the members of the different firms. It facilitated the communication that was reported to be "frequent", "informal" and "face-to-face" by informants from all three firms. In this study, both personal chemistry and communication were instrumental in enabling the individuals involved in the negotiation process to develop perceptions of similarities in organisational goals, values and cultures, further criteria identified in Table III. Compatibility of organisational cultures, goals and works systems is recognised as partner-related selection criteria in joint venture research (Al-Khalifa and Peterson, 1999), but not within franchise research, although Doherty and Alexander (2004) and Doherty (2009) have identified the relevance of a shared understanding and vision of the brand in franchise partner selection. However, this study adds to our understanding by revealing that the criteria of personal chemistry and communication facilitated the identification of compatibility between the firms and their members.

Previous literature acknowledges the interface between the franchise selection criteria and the process of franchisee selection decision making (Altinay, 2006; Doherty, 2009). These studies state that franchisors use different selection criteria and place different emphasis on them, at different stages of the process. However, neither study investigated and evaluated how different selection criteria influence the different stages of the process. This research reveals that reputation and credibility criteria were used as pre-selection tools to identify potential firms that would make suitable franchisees. These were assessed through what individual organisational members knew, heard or had read about the different potential franchisees, rather than through formalised procedures. In this way an initial assessment was made as to whether the potential franchisee had the necessary resources to achieve the objectives of the partnership and whether the potential franchisee would be appropriate to build a partnership with. Reputation and perceived ability to deliver resources required therefore were used as pre-selection tools prior to negotiations taking place. Once the negotiation process began between the firms, the most important criterion identified by informants from all three firms was the need to maintain control of their own portfolios and brands. In the early stage of negotiation, the other two criteria that were important were the ability to retain individual firm identity, and recognition of mutual value and risk. These three criteria; the ability to retain control of portfolios, retain own identity, and recognition of mutual value and risk were considered to be non-negotiable and a disagreement on any of these could well lead to the collapse of negotiations. In addition, as previously stated, personal chemistry plays a pivotal role in the entire negotiation and decision-making process. Perceptions of similar organisation cultures and values were also found be important in drawing the negotiation and decision making process to a successful conclusion.

These criteria also appear to play a role in enabling franchisors to integrate franchisees to the entire franchise system (Altinay and Miles, 2006; Altinay, 2006; Hopkinson and Hogarth-Scott, 1999) and break down organisational boundaries (Martinez and Jarillo, 1989; Dess *et al.*, 1995). Indeed, selection criteria such as core values, culture, and vision of the franchisor, communicated during the negotiation process, play an "educational role". They help potential franchisees understand what the franchisor and the brand, stand for and the goals they are trying to achieve. However, this study reveals that control and selection criteria informed education is a two-way process in master franchise partnerships. These criteria can therefore be used to educate franchisors and franchisees to better coordinate the activities of different firms and ensure goal congruence. For the franchisee, they can also help to secure autonomy from the very onset of the agreement. As one franchisee informant commented:

> For us it was more that we felt that we could basically develop our business the way we thought it should be done without interference or any big hurdles which we had to jump in the relationship.

Another one summed up:

> We wanted to retain total operational control of our product; nobody would be throwing any manuals at us.

5. Conclusions

Franchising has been covered as an important organisational growth mode both in the generic marketing management and in the service management literatures. In spite of its importance, literature on franchising continues to be incomplete and partial. While previous studies have identified the partner selection criteria employed and the process utilised to select franchise partners (Jambulingam and Nevin, 1999; Choo *et al.*, 2007; Clarkin and Swavely, 2006; Doherty, 2009; Hsu and Chen, 2008), these studies were all carried out from the viewpoint of the franchisor only, ignoring the views of the other important player, the franchisee.

This study enables a deeper understanding of the decision-making dynamics between a franchisor and a franchisee pre-partnership stage. The interactions between franchisors and prospective franchisees are particularly important in terms of establishing a common ground and creating a co-operative environment for the partnership. This paper suggests that the establishment of a master franchise partnership involves a mutual and careful evaluation between partners to assess whether their partnership criteria are compatible. Both parties employ task and partner related criteria to select each other. Disregarding the role of the selection criteria in the process of decision-making means ignoring the complexities of franchise partnerships in an environment where the bargaining power of master franchisees is growing (Brookes and Roper, n.d.; Ryans *et al.*, 1999). Having identified the complexities of achieving a compromise between franchisors and franchisees internationally, it is important that researchers continue to carry out a thorough analysis of the partner selection approach, criteria and the process employed both by the franchisors and the franchisees.

In addition, as previous research into the partner selection has tended to focus either on partner selection criteria or the process of partner selection from the franchisor perspective (Altinay, 2006; Clarkin and Swavely, 2006; Doherty, 2009), the relationship between the selection approach, criteria and the process employed has not been identified. This paper clearly demonstrates the interface between the approach, criteria and the process as both franchisors and franchisees assess each other for a long and happy "commercial marriage". In particular, the holistic approach adopted to this study offers empirical insights about how these three important aspects of partner selection interact and influence each other. It demonstrates that the partner selection approach of an organisation determines the extent of importance attached to different selection criteria employed in the process. In addition, different selection criteria play different roles at the different stages of the process.

The study reveals that when a strategic approach to partner selection is adopted, both task and partner-related criteria are used in the initial phases to identify potential partners. As task criteria are specific to the goals of franchisors and franchisees, these criteria can be different for each partner at this stage. This finding therefore provides some explanation of why different task-related criteria have been prioritised in previous studies, as Table III identifies. There is more consistency however in the partner-related criteria used by both the franchisor and the franchisee at this stage as credibility and reputation is relevant to both. When the negotiation stage begins, partner-related criteria are dominant in the selection process. One partner-related criterion in particular, personal chemistry, facilitates the entire selection process. It is used to assess compatibility and plays a crucial role in bringing the negotiations to successful conclusion. The recognition of mutual value and risk and the compatibility of vision, organisational culture and goals are criteria that dominate the process and appear to be a "must" for both franchisors and franchisees. These criteria are not easily assessed however, and two-way communication between the partners during negotiations is fundamental to the development of perceptions of mutuality by both franchisors and franchisees.

This study also identifies two further criteria that are non-negotiable, not identified in the previous studies summarised in Table III. In contrast to previous studies, these criteria also appear to be internally defined, driven and focussed, rather than directed on the task and partner-related characteristics of the partner and what they bring to the relationship. In this study, all three partners identified the ability to retain control and the ability to retain own identity as non-negotiable criteria. These are neither task nor partner-related criteria as originally defined by Geringer (1991), but relate to the partner firm's internal goals for self-preservation and are based on their own previous experience, rather than the previous experience of their potential partners identified in previous research. Where these criteria are important to both franchisors and franchisees, there is a difference in the focus between these two partners as the franchisor is concerned with control and identity of the brand, and the franchisees with control of their portfolio and their corporate identity. Nonetheless, for both franchisors and franchisees, these criteria are underpinned by the mutuality in the agreement. This study suggests therefore, that internally driven criteria may be influenced by contextual variables, and in this study, by the master franchise agreement.

As such, this research offers insights about the implications of partner selection for the power and control struggle between franchisors and franchisees. Previous studies into franchising have developed a comprehensive understanding about the franchise and franchisor relationship in relation to a power and control struggle after the establishment of the partnership (Quinn, 1999; Quinn and Doherty, 2000). This study demonstrates that the struggle for power and control begins at the partner selection stage within master franchise agreements. Both franchisors and the franchisees use their partner selection criteria as administrative and social control mechanisms, thereby integrating each other to their systems of expectations. More importantly, franchisees exploit their selection criteria to demonstrate their bargaining power and negotiate more autonomy for the post-partnership stage.

While this study furthers our understanding of the partner selection process in international franchise agreements, it is not without its limitations. First, the study comprised master franchise agreements, and as Altinay (2006) identifies, this contextual variable may impact on the findings determined. Second, as a single embedded case study set within one industry, there are limits to its generalisability, and there is clearly a need for further research across other franchise agreements and other industry sectors to substantiate the findings. In addition, having identified the complexities of achieving a compromise between franchisors and franchisees internationally, further research that investigates that analyses the inter-relationship between partner selection approach, criteria and the process employed both by the franchisors and the franchisees is also warranted.

Nonetheless, the findings presented do have managerial implications for service industry franchisors and franchisees. Service organisations invest huge amount of resources in the development of competences including internationally recognised brands and their infrastructures. This investment helps them to expand their products and services to overseas markets and generate a stable revenue stream through franchising. However, if they do not select their partners carefully, international collaborations can well result in dissolution leading to adverse monetary and strategic effects. Therefore, they have to diagnose and understand their partners even before the establishment of the partnership. This requires having a set of selection criteria and selection process in place. It appears that the employment of both task and partner related criteria are important in partner selection. What is crucial is, what criteria are used at the different stages of the selection process and how much emphasis is placed on each at the different places. Both franchisors and franchisees should understand the role of importance of the criteria in order to be able to take effective decisions. Moreover, effective communication mechanisms should be set in order to deliver transparent, equitable and realistic messages to each other – franchisor and franchisee. Communication should be a two-way communication rather than messages delivered only by the franchisor. Two-way communication should lead to mutual learning, the use of "best practice", and thus the development of trust based compatible partnership. In addition, it appears that desire to control the operations and preserve the identity after the establishment of the partnerships is an issue both for the franchisor and franchisee. They therefore need to consider this sensitivity and ensure that the selection criteria, screening of partners, negotiation and selection tie closely with the possible problems associated with control and power struggle associated with the partnership. Such an approach would give both franchisors and franchisees a clear indication of what they strive to achieve even before the establishment of the partnership.

Note

1 Worldwide ranking is based on defined criteria including number of units, sales revenue, stability and growth of the franchise system, years in operation and market expansion.

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Executive summary and implications for managers and executives

This summary has been provided to allow managers and executives a rapid appreciation of the content of the article. Those with a particular interest in the topic covered may then read the article in toto *to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present.*

Service organisations invest huge resources in the development of competences, including internationally recognised brands and their infrastructures. This investment helps them to expand to overseas markets where franchising can generate a stable revenue stream. However, if they do not select their partners carefully, international collaborations can well result in dissolution leading to adverse monetary and strategic effects. Therefore, they have to diagnose and understand their partners before the establishment of the partnership.

This requires having a set of selection criteria and a selection process in place. Both task- and partner-related criteria are important in partner selection. Task-related criteria include patents, technical knowledge, experience of management, access to marketing and distribution systems, and financial resources – in other words the operational skills and resources a joint venture requires to be competitive. In contrast, partner-related criteria comprise the variables which are specific to the character, culture and history of the partners, for example past association, national or corporate culture, organisational size or structure and the compatibility or trust between the partners' management teams. As such, partner-related criteria are concerned with the effectiveness of cooperation between international joint venture partners.

What is crucial is what criteria are used at the different stages of the selection process and how much emphasis is placed on each at the different places. Both franchisors and franchisees should understand the role of importance of the criteria in order to be able to take effective decisions. Moreover, effective communication mechanisms should be

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set in order to deliver transparent, equitable and realistic messages to each other.

Communication should be two-way rather than messages delivered only by the franchisor. Two-way communication should lead to mutual learning, the use of "best practice", and thus the development of trust-based compatible partnership. In addition, it appears that desire to control the operations and preserve the identity after the establishment of the partnerships is an issue both for the franchisor and franchisee. They need to consider this sensitivity and ensure that the selection criteria, screening of partners, negotiation and selection tie closely with possible problems associated with control and power struggle associated with the partnership. Such an approach would give both franchisors and franchisees a clear indication of what they strive to achieve even before the establishment of the partnership.

In "Franchise partner selection: perspectives of franchisors and franchisees", Maureen Brookes and Levent Altinay use the case study of a US hotel franchisor and its two European-based master franchisees to identify the partner selection criteria employed both by franchisors and franchisees in international master franchise agreements. These differ from other types of business format franchising as they entitle the franchisee the rights to open franchised hotel units and to grant these rights to third parties as a sub-franchisor. As such, they are quite distinct inter-firm agreements, where a degree of operational control is devolved to the master franchisee. Tensions compounded in geographically dispersed and differentiated markets and exacerbated in international franchise systems are also potentially more prominent in master franchise agreements.

In any type of business format franchising, a franchisor grants a franchisee the rights to use its brand name, product and business system in a specified manner for a specific period of time. Franchisees gain access to a proven brand concept and business system and franchisors gain access to the franchisees' local market knowledge. While these complementary benefits help to explain the popularity of franchising, they also underpin the main issue of contention in franchise systems; achieving an appropriate balance between franchisor control to maintain brand uniformity and integrity, and franchisee autonomy to respond to local market demands. These tensions are compounded in geographically dispersed and differentiated markets and are therefore exacerbated in international franchise systems. They are also potentially more prominent in master franchise agreements

The study reveals that when a strategic approach to partner selection is adopted, both task and partner-related criteria are used in the initial phases to identify potential partners. As task criteria are specific to the goals of franchisors and franchisees, they can be different for each partner at this stage. There is more consistency, however, in the partner-related criteria used by both the franchisor and the franchisee at this stage, as credibility and reputation is relevant to both. When the negotiation stage begins, partner-related criteria are dominant in the selection process.

One partner-related criterion in particular, i.e. personal chemistry, facilitates the entire selection process. It is used to assess compatibility and plays a crucial role in bringing the negotiations to a successful conclusion. The recognition of mutual value and risk and the compatibility of vision, organisational culture and goals are criteria that dominate the process and appear to be a "must" for both franchisors and franchisees. These criteria are not easily assessed, however, and two-way communication between the partners during negotiations is fundamental to the development of perceptions of mutuality.

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