Embeddedness—both relational and structural—is a property of structures in which actors that are integrated in interconnected relations of social networks face different sets of opportunities and constraints than those who don’t have such connections (Granovetter, 1985). The features of the social relationship between a pair of actors in a network, serve as imperfect substitute for the assurances provided by money in an economic system (Marsden, 1983). Relational exchange is the extent to which relational norms exist in a relationship between contracting actors. The relational elements of embeddedness are trust, commitment, solidarity, mutuality, flexibility, role integrity, harmonization of conflict, and restraint of power. We are investigating the influence of these elements to the formation of franchise networks, the selection of partners, its governance structure, and its subsequent performance with the aim of concluding whether network embeddedness can explain the franchise phenomenon at both a domestic and an international level. Taking into consideration that nations differ, relational and structural embeddedness will vary from one culture to another. The conceptual framework of this study, named the Franchise Network Model, entails our theoretical propositions which are being tested through a postal survey at a cross-country research in the UK and Greece based on a close-ended questionnaire.
Key Words

Network theory, embeddedness, relational paradigm, interorganizational relationships, strategic alliances, franchising

1. Introduction

We attempt to investigate the dynamics of social structure in shaping economic life and exchanges in interorganizational relationships. Research suggests that a new form of interorganizational relationships is emerging, the network structure, of which an important form is franchising, which cannot be sufficiently understood through the traditional perspectives. The network perspective is based on the notion that economic actions are influenced by the social context in which they are embedded and that actions can be influenced by the position of actors in social networks. In order to capture the elements of the networks of social relations that govern franchise organizations we have analyzed it through the perspective of network embeddedness theory.

The paradigm of neoclassical economics although being the most advanced in terms of scientific rigor is limited in explaining sufficiently the various interorganizational issues that firms face (Axinn and Matthysens, 2002; Leonidou, 2003; Zajac and Olsen, 1993). Economic theorists argue that the influence of social structure to economic transactions is either non-existent or creates imperfections (Uzzi, 1997).
Research indicates that the engine of rationalization is the result of three institutional isomorphic processes: coercive, mimetic and normative (DiMaggio and Powell, 1983). It has been suggested that reality is socially constructed and organizations have the structures that they do mainly for cultural reasons (Berger and Luckmann, 1967) and rationalities and management actions are socially embedded (Uzzi, 1997, Granovetter, 1985). To solve the inefficiencies of prior research approaches the argument of embeddedness has emerged as a potential theory for joining economic theory and sociological approaches to organization theory (Granovetter, 1985; Polanyi, 1957, Schumpeter, 1950), though it has been supported that a well defined theory of embeddedness and interfirm networks has yet to emerge (Uzzi, 1997). Embeddedness (Granovetter, 1985, 1992) is a central concept in economic sociology and one of the most commonly cited ideas in the networks literature. Revisionist economic frameworks have attempted to explain embeddedness in terms of transaction costs, agency, and game theory concepts; by applying conventional economic constructs to organizational behavior they faintly recognize the influence of social structure on economic life (Uzzi, 1997: 35-38).

The aforementioned limitation can be overcome by approaching the phenomena from the relational research paradigm (Hakansson, 1982; Leonidou, 2003). Various scholars support that more research should be focused on the relational variables of social norms; on the emergence of theory, concept and methods of analysis (Achrol, 1997; Morgan and Hunt, 1994). Granovetter (1985) argues that institutions and behavior of organizations cannot be studied in an independent basis because they are formed by continuing social relations; it is the networks of social relations that produce the relational norms, like trust and commitment. Incorporating factors of network
The effect of social structure on the exchanges of interorganizational relationships: A network embeddedness approach

theory perspective and embeddedness into interfirm alliances can have both descriptive and normative outcomes and can better explain the formation, governance, and evolution of interorganizational relationships, like alliances and networks (Gulati, 1998; Gulati and Sign 1998; Uzzi, 1997). Powell (1990) strongly supports that networks cannot be analyzed by the market-hierarchy concept as they are a distinct structure of governance named ‘network form’.

2. Literature Review

2.1. The Network Organization

The classical organization is being replaced by new forms of network organizations consisting of large numbers of functionally specialized firms tied together in cooperative exchange relationships (Achrol, 1997; Hakansson and Ford, 2002; Thorelli, 1986) that operate without hierarchical control but by dense lateral connections, long-term commitments, mutuality, affiliation sentiments, and reciprocity, in a shared value system that defines membership roles and responsibilities (Achrol and Kotler, 1999; Baker, 1992). The relations may be more or less linear or may be more complex, interconnecting many agents with many others and are heavy with resources, knowledge and understanding in many different forms (Hakansson and Ford, 2002). Embeddedness is the fundamental concept that separates networks from economic theories of organizations (Granovetter, 1985) which augments with the density of the embedded ties (Uzzi, 1997). Network structures allow organizations to manage their global value chain and lower their costs (Jones and George, 2003), they also combine autonomy and flexibility with
increased control and efficiency. An important form of networks is franchising (Achrol, 1997; Achrol and Kotler, 1999; Paswan, Loustau and Young, 2001; Stanworth and Curran, 1999).

Transactions between actors that share little familiarity or affect and no prolonged past or expected future social ties, have been differentiated from socially embedded transactions, those facilitated by structural social relations between the actors (Granovetter, 1973; Hakansson and Ford, 2002; McGinn and Keros, 2002). In the network structure relationships cannot be understood without reference to the wider network (Hakansson and Ford, 2002). This is because firms are not only affected by the behavior of firms with whom they are directly tied, but also by the behavior of the firms with whom their direct ties are directly tied thus by the behavior of the firms with whom they are indirectly tied (Hakansson and Ford, 2002). Indirect or weak ties are important channels of ideas, influences and information (Granovetter, 1973).

2.2. Review and critic of conceptual theories

In researching theories of cooperation there is no universal accepted theory to economists, sociologists, organizational theorists, and anthropologists (Child and Faulkner, 1998). There are different approaches into studying the interorganizational relationships forms of alliances and franchising. Coming from economics there is the: transaction cost theory (Glaister, 1994; Williamson, 1985), agency theory (Lafontaine, 1992), market-power theory (Porter, 1980), and increasing returns theory (Arthur, 1989). There are also approaches from the area of game theory (Axelrod, 1984), of strategic-management theory (Huszagh et al, 1992) and of organization
theory, from the latter are: the resource-based view of the firm (Penrose 1959), resource-dependencies theories (Burt, 1992) and entrepreneurial theories (Kaufmann and Dant, 1999).

As we have already mentioned existing theories have been insufficient in addressing the issues that firms are facing when forming interorganizational relationships, especially the new type of the network organization of which franchising is a significant form. In studying domestic and international franchising a fresh look and a new level of analysis is needed, that of the network perspective (Achrol, 1997; Achrol and Kotler, 1999; Paswan, Loustau and Young, 2001; Powell, 1990). Our thinking can be supported by the following arguments that are also interconnected and can be seen as one chain argument: firstly, the fallacy of composition, when it is concluded that what is true of the parts of a whole must be true of the whole (Engel, 1980: 25-26); it is a fallacy because it ignores the possibility that the group of parts interacts, so that the group works differently than an individual does (Aristotle translated by David Ross, 1954).

Secondly, the concept of holism, when the properties of a system cannot be determined or explained by the sum of its components alone (Schombert, 2006). The social whole or social forces that somehow possess a character and have a will of their own, over and above the characters and wills of individual members; evident in the thinking among others of Parmenidis, Spinoza, Hegel, Marx, Pareto, and Durkheim (Dingley, 1997; Schombert, 2006). Two other approaches to holism significant for our research is the concept of relational holism based on which properties to entities emerge only through relationships and the concept of methodological holism which refers to the thinking that understanding of a certain kind of complex system is
best sought at the level of principles governing the behavior of the whole system (Schombert, 2006).

Thirdly is the argument of embeddedness and the theoretical debate between substantivists and formalists. The latter represent the utilitarian tradition of the classical and neo classical economics who believe in the rational of self-interested behavior of actors which is minimally affected by social relations (Uzzi, 1997; Williamson, 1985). The former argue that the behavior of actors and institutions are so constrained by ongoing social relations that to analyze them as independent is a serious misunderstanding (Granovetter, 1985; Polanyi, 1957). The argument of embeddedness is based on the role of concrete personal relations and structures of networks of relations in influencing the behavior and decision making of actors, at the same time the profit motive is almost never absent (Granovetter, 1985).

This brings us to our fourth argument of the relational research paradigm of relationship management, an alternative mechanism for governing interfirm relationships, as opposed to the market paradigm. Relational exchange is the extent to which relational norms exist in a relationship between contracting actors. There have been several studies on the relational norms to measure the degree of relational exchange in a network (Dong-Jin, 1997; Heide and John, 1992; Kaufmann and Dant, 1992; Macneil, 1980). In studying the relational elements of interorganizational relationships theorists draw from various areas, like relational theory, channel relationships, network theory (Achrol, 1997; Paswan, Loustau, and Young, 2001), social exchange and the argument of embeddedness in social networks (Granovetter, 1985; Leonidou,
The effect of social structure on the exchanges of interorganizational relationships: A network embeddedness approach

2003; Mavondo and Rodrigo, 2001). Research has also drawn significant information from analyzing the Confucian-based Asian cultures where the elements of relational and structural embeddedness prevail in economic exchanges (Mavondo and Rodrigo, 2001), like the ‘Guanxi’ in China and the ‘Keiretsu’ in Japan (Achrol, 1997).

Our fifth argument derives from a discourse about the different levels of analysis that researchers have used. There is the individual (Macneil, 1980) or atomized level, the dyadic level (Bonacich, 1987), the agency or organization level, triadic levels of analysis, and the network (Ring and Van de Ven, 1994), or the collective level (Marsden, 1983). Burt (1992) suggests that the structural approach is the more appropriate in studying exchanges as opposed to the undersocialised atomistic approach and the oversocialized normative approach. As Achrol (1997) has concluded the network of relationships in which particular exchanges are embedded has properties, which are greater than the sum of its parts and outcomes, which cannot be explained by studying its parts alone (Achrol, 1997). Gulati (1998) argues that the pitfalls of prior alliance literature are that the unit of analysis is the firm or the alliance, that the phenomenon has been investigated in an asocial context, and that research has been focused on firm-level and industry-level factors adopting an atomistic notion of the firm.

2.3. Network Embeddedness Theory and Relational Norms

Therefore, we conclude that the most appropriate way to conceptualize interorganizational relationships and more specifically franchising networks is through the perspective of network
embeddedness that captures the effect of social structure. Elements of the social context have been categorized as structural, cognitive, institutional/political, and cultural; the last three forms reflect social constructionist perspective on embeddedness, where as structural embeddedness is principally concerned with how the quality and network architecture of material exchange relationships influence economic activity (Gulati, 1998; Uzzi, 1997). There are two analytical approaches for examining the structural influence of social networks the first focuses on the differential informational advantages offered by social networks and the second focuses on the control benefits that actors can have if they are advantageously positioned within a social network. These benefits overlap since the latter provides the former. Informational advantages can be provided through two mechanisms: relational embeddedness, based on which actors with cohesive ties can possess more common information and knowledge that can diminish uncertainty and which focuses on the norms that are cultivated by the strong direct ties of actors in a social network. And structural embeddedness, which emphasizes the position of an organization in the structure of the network that provides it with higher informational advantages, builds his so called status and produces norms from the indirect ties or tertius role that actors have (Burt, 1992; Granovetter, 1992; Gulati, 1998).

In conceptualizing relational and structural embeddedness we identified eight core elements: trust, commitment, solidarity, mutuality, role integrity, flexibility, harmonization of conflict, and restraint of power. These variables are interconnected since the one enhances the cultivation of the other and have derived from existing research, as has their operationalisation. One could wander why these elements and not others? Why not belongingness, reciprocity, adaptation,
satisfaction, parity of power, forbearance? It is true that sometimes wording is a limitation of meaning. The importance lays on the definition of each element and on its operationalisation which has been done in a way to include most of the aforementioned elements.

3. The Conceptualization of the Franchise Network Model-The FNM

Interpersonal ties and relations among organizations are characterized as social networks. These networks influence the behaviour and performance of firms. It is the social context of relationships in which firms are embedded that influences how often they will form alliances, with whom, how they will structure them and how these alliances will evolve over time (Gulati, 1998). To analyze the effect of network embeddedness into franchise networks we investigate the influence of the aforementioned social norms to the four strategic phases that are the sequential stages that a franchise goes through (Gulati, 1998; Parkhe, 1993), these are motives for franchise formation and partner selection criteria, governance structure selection, and the subsequent performance of the franchise organization. We are interested in capturing the differences in the influence of embeddedness that derive from the differences between national cultures.

Hereunder we present the hypothesized relationships of this study (see Figure1).
A Firm’s embeddedness in social networks is positively related to the formation of new alliances-franchises and the selection of appropriate partners-franchisors/ees

H1.1: Trust from prior direct ties between firms is positively related to franchise formation and partner selection

H1.2: In the absence of prior direct ties, the larger the number of the common third-party ties of two firms the more likely they are to lead to franchise formation and partner selection

Network embeddedness influences the governance structure of franchise systems

H2.1: Trust is inversely related to hierarchical controls

H2.2: Prior ties between firms are inversely related to hierarchical controls

H2.3: Commitment, Solidarity, Mutuality, Flexibility, Harmonization of Conflict, and Restraint of Power are inversely related to hierarchical controls

Network embeddedness is positively related to performance of franchise systems

H3.1: Trust is positively related to performance

H3.2: Commitment is positively related to performance

H3.3: Mutuality, Solidarity, Flexibility, Role Integrity, Harmonization of conflict, Restraint of Power are positively related to performance
The effect of social structure on the exchanges of interorganizational relationships: A network embeddedness approach

Figure 1. The Franchise Network Model – The FNM
4. The Empirical Approach

Our research design is based on an inductive approach. We are conducting a cross-country survey research (Boje and Whetten, 1981; Jensen, 2003; Whipple and Gentry, 2000) through the use of a postal close-ended questionnaire, whose items have been created from the operationalisation of our constructs from existing research.

Our sampling frame is the members-list of the National Franchise Associations (Dong-Jin, 1997; Huszagh et al, 1992) in the UK and Greece from these through consensus our sample has been produced. The respondents of our research are owners or high ranking executives through the purposive sampling of the key informant technique and they come from three different stakeholder groups: the franchisor, the master-franchisee, and the franchisee, as multiple informants facilitate isolation of informant bias (Kumar, Stern and Anderson, 1993). To help us draw meaningful results our sampling units have been categorized based on a matrix of criteria which differentiates between heterogeneous systems, the Franchise Network Model’s Matrix. Our typology consists of two contingencies: the first dimension refers to the technology component; ranging from traditional to innovative. The second dimension refers to the concept, the business idea; ranging again from traditional to innovative. In Figure 2 we present the FNM Matrix and we give the example of four Franchise Networks.
The items that were used to operationalise each construct are formed from existing scales from the literature and adapted scales from the literature (Mavondo and Rodrigo, 2001). The questionnaire includes a large number of question items, which were operationalized to quantitatively capture the essence of the constructs (Dubin, 1978). We have measured each object via multi-item 7 point Likert-type scales (1=strongly disagree, 7= strongly agree) for the measurement of the overall performance we used a 10 point Likert-type scale (Dong-Jin, 1997; Kaufmann and Dant, 1992; Morgan and Hunt, 1994). We have also used control variables based on various contingencies, like size, technology, culture, etc.
For the administration of the research we are following Dillman’s (2002, 1978) Total Design Method.

5. Conclusions

We are investigating the influence of social structure in interorganizational relationships and more precisely in franchise organizations both those that have crossed their borders and those that have remained within their country of origin. Franchise organizations are a type of network structures and to investigate them we have incorporated the perspective of network embeddedness. We have created our theoretical model, the FNM, which is based on our hypothesized relationships about the influence or relational and structural embeddedness to the motives for franchise formation, partner selection criteria, governance structure selection, and the performance of the system. The elements of embeddedness are trust, commitment, solidarity, mutuality, role integrity, flexibility, harmonization of conflict, and restraint of power. We are also interested in investigating the difference in the dynamics of relational and structural embeddedness between different nations. To test our theoretical model we are conducting a postal survey to national and international franchise systems, targeting the franchisor, master franchisees and franchisees of the systems.
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The effect of social structure on the exchanges of interorganizational relationships: A network embeddedness approach

The effect of social structure on the exchanges of interorganizational relationships: A network embeddedness approach


The effect of social structure on the exchanges of interorganizational relationships: A network embeddedness approach


