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A Strategic Deviance Perspective on the Franchise Form of Organizing

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Drawing on various theoretical perspectives, we propose that franchisors cannot assess and control opportunism absent comparative information provided by owning and operating some of their outlets and by franchising others. Moving beyond dyadic perspectives, we propose that the concept of strategic deviance suggests why franchisors accept deviant behavior resulting from vertical and horizontal agency problems in multiagent contracts. A plural form provides efficiency and quality benchmark information that curbs even greater levels of shirking and free-riding behaviors and enhances system performance. Opportunistic behaviors by company managers and franchisees are addressed through self-enforced social control 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, and beneficial or dysfunctional effects on employees, firms, and society (e.g., Bennett & Robinson, 2000; Spreitzer & Sonenshein, 2003, 2004; Warren, 2003). Meanwhile, franchising research has frequently examined what are regarded as negative dysfunctional behaviors—shirking and free riding—in the franchisor–franchisee relationship (e.g., Combs, Michael, & Castrogiovanni, 2004; Kidwell, Nygaard, & Silkoset, 2007; Michael, 2000). Both deviance and franchising research have largely failed to acknowledge the positive effects of *negative examples* of deviant behaviors; instead, phenomena such as franchisor manager shirking and franchisee free riding on the company brand are presented as destructive—and the most common—forms of opportunism in the franchise relationship. For example, franchise relationships appear to remedy company manager shirking when monitoring is difficult but lead to free riding by franchisees whose interests diverge from the franchisor.

Taking a contrary view, we propose that franchise systems use what we identify as strategic deviance, allowing what are normally viewed as potentially destructive and

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dysfunctional behaviors to have constructive and functional effects on the quality of organizational control, performance, and survival. We define strategic deviance as the complementary use of organizational mechanisms and actions that may violate established norms and be perceived as dysfunctional yet contribute to overall system well-being. Strategic deviance provides a rationale as to why apparently negative behaviors are accepted and potentially take on an ambiguous character when examined in the franchising context. We propose that the effects of strategic deviance are most clearly observed in the plural, or hybrid, form of franchise organizing in which a franchisor owns and operates some units and franchises others (Dant, Perrigot, & Cliquet, 2008; Makadok & Coff, 2009; Shane, 1996). Whereas shirking and free-riding behaviors would not be regarded as *positive* deviance (Spreitzer & Sonenshein, 2003, 2004), we explain why they are all but encouraged in many franchisor–franchisee relationships. Although the changing nature of opportunism makes it extremely difficult to control strategic deviance in franchising in a plural organizational form (Bradach, 1997; Dant et al.; Parmigiani, 2007) provides comparison mechanisms across units that allow heightened information flows to enhance system performance.

In this paper, we explain how strategic deviance is one way to help franchisors realize a complementary relationship between company-owned and franchised outlets in which the advantages and disadvantages of each type of outlet are balanced so as to maximize benefits and to minimize weaknesses. In proposing the usefulness of a strategic justification of shirking and free riding to the franchisor, we make several contributions to the existing literature. We explain why plural franchise forms achieve efficient control and effective performance, even though they permit two types of opportunistic behavior to occur: (1) the vertical agency problem (i.e., shirking by company managers who lack ownership incentives) and (2) the horizontal agency problem (i.e., free riding by franchisees on brand development activities by other franchised units) (Brickley & Dark, 1987; Combs et al., 2004; Rubin, 1978). We show how theories that have not yet been applied to franchising, e.g., strategic deviance via the counterintuitive application of deviant behavior, enhance our knowledge of franchising. We expand the examination of franchising relationships from agency issues to consider the importance of transaction costs and multiagent contracts. We propose conditions in which franchising potentially aids such performance elements as growth, efficiency, and company-owned and franchised outlet success. Finally, we build on Michael's (2000) pioneering work on the strategic advantages franchisors achieve through owned units in a franchise system by demonstrating how and what crucial benchmark information is provided by franchisees and its potential impact on overall firm performance.

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, p. 349). An alternative view of deviance defined it as behavioral departures from reference group norms (Warren, 2003). In some cases, researchers identified such behavior as harmful to society or firms (e.g., aggression, lying, theft, misbehavior, sabotage, political activity, and noncompliance to rules or laws) and, in other instances, identified the behavior as being potentially beneficial (e.g., whistle-blowing, exercising voice, and counter-role behavior). Thus, Warren proposed a typology in which behaviors could conform or deviate from normative expectations and be constructive or destructive either at the firm level (reference group norms) or the

Table 1

Normative Framework of Employee Deviance (Adapted from Warren, 2003)

Hypernorms			
	—	Conform	Deviate
Reference group norms	Conform	Constructive conformity, e.g., behavior that fulfills firm's economic/social obligations	Destructive conformity, e.g., obeying company orders to sell unsafe products
	Deviate	Constructive deviance, e.g., whistle-blowing, innovation	Destructive deviance, e.g., free riding, shirking (potential for strategic deviance)

societal level (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). Table 1 illustrates the normative framework advanced by Warren and indicates the relationship of strategic deviance to behavior at the firm and societal levels.

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 behaviors (OCBs), whistle-blowing, corporate social responsibility, and innovation. For example, OCBs 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 can involve 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., Bennett & Robinson, 2003; Kidwell & Valentine, 2009; Sackett, 2002; Vardi & Weitz, 2004). Antiorganizational 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 regarding strategic deviance is on two of these types of negative behavior: shirking and free riding. Shirking is defined as an internal (or employee) agent's failure to provide full effort on a job-related task. 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. Free riding is defined as an external (or franchisee) agent's lowering of service or product quality to cut costs and to 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; Hennart, 1993). Free riding is present when franchisee agents reduce contributions so as to benefit from the efforts of other affiliated outlets or the firm, thus resulting in a horizontal agency problem. In previous research, shirking has been tied to franchisor managers/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 plural form franchise organizations, they can have adverse consequences at the individual and unit levels of analysis while potentially offering more positive outcomes at the system level.

Plural Forms in Franchising and the Nexus of Contracts

Existing theory explains strategic choices between market- or hierarchy-based organizational forms by focusing on how the attributes of an exchange determine the most effective form of organization (e.g., Williamson, 1991). Yet firms often organize an exchange using both market- and hierarchical-based organization simultaneously even when technology and market segments are seemingly identical (Bradach & Eccles, 1989; Parmigiani, 2007). When applied to business-format franchising, this choice of a plural form of organizing occurs when a franchisor has a mix of both company-owned units and franchisee-owned units. A significant number of firms that operate franchise systems also run their own units; e.g., McDonald's corporation has about 20% company-owned units (6,815) and 80% franchised units (24,624), and Hilton Hotels has about 55% company-owned units (293) and 45% franchised properties (231) (International Franchise Association, 2009a, 2009b).

Whereas in the plural organization, internal managers/company employees and external agents/franchisee employees appear to carry out the same standardized operations on behalf of the firm, creating a hybrid market/hierarchical organizational form (cf. Cliquet, 2000), in some instances the use of both company-owned and franchised outlets represent an effort to balance relative benefits and costs of each form thus providing a complementary arrangement. Generally, the plural form allows for franchised units to gain advantages based on local market knowledge, managerial talent, and entrepreneurial drive (Minkler, 1990) and for company-owned units to contribute benefits related to standardized operating procedures (Bradach, 1997; Yin & Zajac, 2004), which may fit well with the franchise system's strategy (Dahlstrom & Nygaard, 1999). Beyond the benefits of these activities, Dant, Kaufmann, and Paswan (1992) suggest that franchisors are more likely to retain higher-performing sites for company units and to locate franchisees in lower-performing areas. In the legal realm, the interests of franchisors and their company-owned units may diverge from those of franchisees because franchisors can be held legally and financially responsible for actions of franchised units because of the doctrine of vicarious liability in tort law (King, 2005).

The plural model is similar to tapered integration, i.e., backward or forward integrated firms that rely on outside companies for supplies or distribution (Harrigan, 1984; Porter, 1980). This arrangement compromises between a need to be strategically flexible and a desire to control adjacent businesses (Harrigan). Plural organizations can combine vertical integration, licensing, long-term contracts, joint ventures, global coalitions, dynamic networks, and other types of alliances (Bradach & Eccles, 1989).

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, which serves as a credible threat giving the franchisor bargaining power with the franchisee. Ownership also allows a franchisor to better forecast costs of quality improvements and provides a franchisor with information regarding preferences of its customers and demand levels (Michael; Minkler, 1992).

Although Michael (2000) demonstrated that tapered integration provides synergies through bargaining power and signals 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 many circumstances franchisors operate more than only a few—sometimes 20–60% of the total—units in the system. We suggest that in some cases, the greater the number of company-owned units, the more valid the information obtained about the standard quality of the franchise brand. Such information can signal the level of brand quality across the system, thus helping franchisors better identify situations of subpar quality performance and revealing where free riding on brand quality by franchisees is problematic. In addition, access to information from franchisees helps the franchisor monitor franchisor-owned units, thus assisting in the control of shirking by company managers.

We propose that the owned and franchised units *know* that the principal (franchisor) can gauge their relative performance, and this comparative information creates an even broader base of "credible threats." Whereas Michael implies that the franchisor only compares the owned units with the franchisees, we propose that this comparison goes both ways. 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 (company manager or franchisee) information regarding how their own behavior and performance compares with other agents in the franchise network. We propose that this is an effective way of agent monitoring: self-scrutiny based on comparative information about the other (owned and franchisee) agents in the network.

Williamson (1999) suggests that research in transaction cost economics increased interest in postcontract 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. In this paper, we apply the conclusions of a recent meta-analysis that transaction cost theory only begins to explore organizational forms and that researchers should expand beyond a dyadic focus to consider network perspectives on organizations (Geyskens, Steenkamp, & Kumar, 2006, p. 533).

Following Williamson (1999), we propose a dynamic perspective to consider franchise organizing: The franchise system is a nexus of contracts resulting from a number of dyadic precontract decisions. We argue that a make-and-buy form is a *favored* governance mechanism across different types of firms because, through the use of strategic deviance, it produces, processes, and compares information crucial to govern the entire network, enhancing organizational learning and performance, innovation, and transmission of important values and perspectives across different groups (cf. Sanyal, 2006; Sorenson & Sørensen, 2001). As Bradach (1997) noted, a focus on single dyads misses the strategic dimension important in principal/multiagent relationships, in particular, franchising networks.

Michael (2000) describes the benefits of having internal units, but the fundamental motivation problem that company-owned units represent needs further exploration. Managers of company-owned units are generally prone to lower-effort levels because of their more prevalent nature of fixed, rather than performance-based, compensation systems. This compensation scheme makes company managers less motivated to direct behavior toward effective activities. This is one key reason why organizations franchise:

Franchising helps control shirking by providing ownership incentives to franchisees (Rubin, 1978). Yet franchisees may be prone to cut costs and investments in the business by free riding on brand reputation (Caves & Murphy, 1976). Information on quality and efficiency makes it possible to control both shirking and free riding simultaneously by organizing in a way that permits both forms of deviance to exist.

The plural make-and-buy 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 partly 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 brand capital. To control such information superiority, the franchisor firm needs a system that contributes to the validity of comparative information received from both company and franchisee agents. In addition, the strategic deviance approach adds perspectives to existing theory through a make-and-buy, multi-agent approach generally ignored in previous organizational research.

How Strategic Deviance Exerts Comparative Control on Opportunism

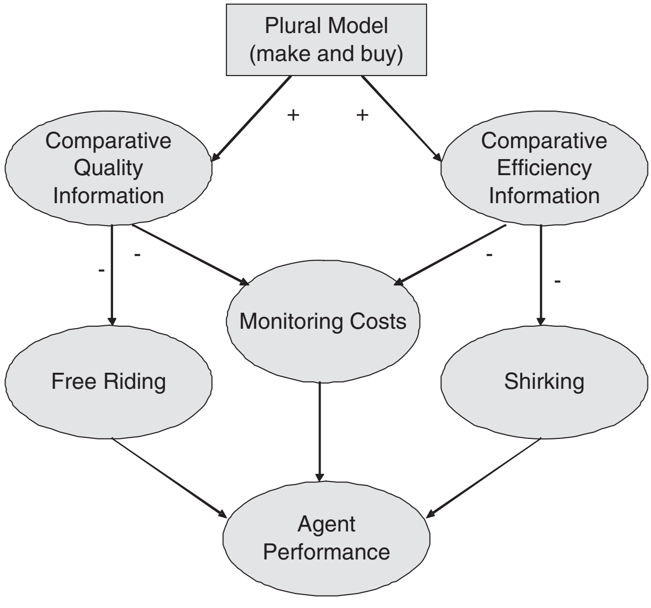
Many format franchise systems are plural networks in which "make and buy" is the rule rather than the exception (Lafontaine & Kaufmann, 1994). Franchising research has long been focused on this highly relevant fact—agency theory predicts that company-owned units operate in places where franchisor monitoring is less difficult and franchised units operate in situations where franchisor monitoring is more difficult (cf. Brickley & Dark, 1987; Windsperger & Dant, 2006). Applying a strategic deviance approach to the plural-form structure merges elements of network perspectives, social comparison theory (O'Reilly, Main, & Crystal, 1988), social control (Pfeffer & Salancik, 1978), tournament theory (Lazear & Rosen, 1981), and organizational deviance (Bennett & Robinson, 2000; Warren, 2003). The model is grounded in a network of transactions viewpoint (Gupta & Govindarajan, 1991) wherein varying aspects of transactions serve to explain differences in control mechanisms across organizations and their affiliates. The plural model of strategic deviance, seen in Figure 1, indicates how a firm controls 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.

The model emphasizes interactions among 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., shirking and free riding in the entire system. Such plural forms can be effective and efficient organizations *because* of plural governance costs and structures, not in spite of different contractual formations. The interaction between different types of contracts may provide synergistic effects because of separate and contract-related ways to withhold effort. Different contracts produce varying incentives and chances for opportunism (Brickley & Dark, 1987; Katz, 1989; Rubin, 1978; 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 contract's incentive structure: the compensation scheme, authority structure, and the way transactions are organized. When contracts change, so does behavior.

We propose that use of strategic deviance in the franchise system allows agents (both company managers and franchisees) to relate their behavior not only to the principal-agent

Figure 1

A Plural Model of Strategic Deviance in the Franchise System



contract but also to a process of obtaining comparative information about other agents belonging to the system. Unit managers compare efforts, benefits, and performance to other franchise units in the neighborhood or to other units in the network. Horizontal formal and informal communication among agents can provide a basis for these comparisons (Mohr & Nevin, 1990).

In a competitive world, access to this benchmark information is an important disciplinary device in the franchise system. Some companies stimulate this self-enforcing benchmark control by publishing score boards on a regular basis (e.g., sales per square foot for each store). Availability of comparative efficiency benchmarks thus 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 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, rank-order performance measures and social comparison mechanisms as background for establishing efficiency and quality benchmarks. The organization provides efficiency information that addresses shirking problems as well as effort-based experience that managers might apply to control free riding through a social comparison process. Therefore, comparative information and benchmark control curb both types of opportunism associated with company managers and franchisees.

By using both types of control, the franchisor economizes when monitoring agents is costly and hard to enforce. The firm has various alternatives for redefining the incentive structure in the franchisor–franchisee contract. Redefinition of a single contract is based on comparable information from both company managers and franchisees. From operating their own units, franchisors learn how to define input quality standards that can be controlled through social comparison as well as tournament incentives in which agents are compensated based on rank-order performance compared with others in the network (Lazear & Rosen, 1981). From multiple internal operations, the firm knows greater detail of franchisee operations and acquires information to compare and control their quality. Thus, the system supports itself through horizontal benchmark control, tournament market control, and social comparison control. Whenever a franchisee free rides on quality standards, the franchisor can give penalties or, in extreme circumstances, take over operations (Michael, 2000). Social control regimes through comparative benchmarks may lead to perceived potential sanctions like collegial disapproval, criticism, discrimination, and exclusion.

One way of stimulating benchmark control is to publish input and output measures from internal and franchise agents. 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, p. 57). The company may introduce both types of agents to more monitoring, control, and restricted flexibility. To guard against "lemon" franchisees, the franchisor must contractually define hire, fire, and penalty options. This strategy's success is driven by credible threats perceived by network agents (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 impacts overall long-term performance. That we observe the global growth of plural-formed networks may indicate 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, 1991), the plural franchise form applies comparative control related to the market in which the agent operates and to a comparison inherent to internal social processes in the network. The plural organization contributes to the principal's capacity to process information critical to controlling different agents. As a result, comparative efficiency information controls the shirking behavior most likely to appear within company-owned and operated units. Such a market-based approach to comparative control uses outcome variables (e.g., unit sales, cost of sales, return on assets, and asset turnover ratios) that can be observed, evaluated, and applied to control shirking. Therefore,

> **Proposition 1:** Plural forms in franchising relationships produce comparative efficiency information that benchmarks and controls shirking among internal agents.

We propose that both company managers and franchisees perceive that the franchisor's access to comparative benchmarks helps 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 about quality standards and training systems that make the company capable of implementing those standards (Michael, 2000). For instance, a McDonald's chief executive officer emphasized that 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, p. 11).

Social comparison theory (Festinger, 1954; O'Reilly et al., 1988) suggests that individuals evaluate their attitudes and abilities by comparing themselves with others. Applying social comparison theory to the use of benchmark controls, the self-evaluation processes used by company managers and franchisees would tend to be based on individual comparisons among agents who are slightly different in performance. Such control mechanisms can be experience based, where the franchisor's district managers compare franchisee accomplishments with the accomplishments of the company-owned outlets in their districts as well as their own managerial experiences and outcomes.

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 threat of such benchmark controls will establish system norms and standards where agents compare each others' performance outcomes. We argue that implicit understanding of benchmarking among both company managers and franchisees powerfully supplements written contracts in the franchise system. The benchmarks are self-enforcing powers that control deviant behavior in both internal and franchised units. We propose that franchisees are aware that the system provides such comparative benchmark information regarding performance quality to the franchisor. Consequently, they fear the consequences of violating established quality standards and are disciplined by a motivation to continue the relationship. Thus,

> **Proposition 2:** Plural forms in franchising relationships produce comparative quality information that benchmarks and controls free riding on brand quality among franchisees.

Information about inputs to quality production is costly to gather without internal company managers. For instance, Bradach (1997) found that company managers sometimes progress to become franchisees within the parent firm because they are regarded as knowing the system well and being able to maintain standards. In this case, we propose that control is enhanced by both franchisor and franchisee through comparisons between a company manager's previous experience and subsequent experience as a franchisee. These comparisons improve access to information about how to build trust and reputation.

Without 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 franchisees to represent its brand distances itself from customers and thus gradually loses competence in how to contract with its franchisees as market conditions change. This occurs because the franchisor lacks updated knowledge about the business, technology, markets, and consumer preferences. For instance, Michael (2000, p. 500) proposed that unit "ownership . . . signals to franchisees that the 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 by being closer to the customer. This makes it harder for franchisees to act upon their incentives to free ride on quality and thus threaten the brand's reputation. In general, the key may be that information gained from internal sources is deep and distinctive and thus allows better evaluation of both internal and external units (Grant, 1996).

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

When a firm uses only one type of contractual form, we argue that the organization is incapable of evaluating the relative level of free riding or shirking costs because it does not have alternative contractual relationships that can be used as benchmarks. Comparisons within internal markets of both make-and-buy agents reveal the level of potential opportunism. Thus, the competitive advantage of the plural franchise system is its 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 be used to benchmark and evaluate their performance. Thus, access to this information is a disciplinary device that reduces monitoring costs in the network:

> **Proposition 3:** 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.

Discussion

Franchising is an integral part of entrepreneurship (Kaufmann & Dant, 1998), but it can create incentives among its various agents that result in agency problems that are manifested in deviant behavior such as free riding and shirking. In this paper, we assert that strategic deviance, which permits both of these types of negative behavior to exist, is one means to realize a complementary relationship between company-owned and franchised units that can result in greater levels of performance. It does so by using the plural structure to control intensity of opportunism, which is common to all firms. Although potentially tempered and controlled by strategic deviance via benchmarking, the two dimensions of opportunistic behaviors produced by the different contracts can damage long-term performance of the entire network (Kidwell et al., 2007). Yet the logic behind free riding—self-interest-seeking motivation to increase franchisee performance and welfare at the cost of the system's brand capital—enhances the franchisee's short-term unit performance. Shirking by internal agents should have the opposite effect on company-owned-unit performance.

Based on social comparison theory, agents have a set of expectations based on their experiences and comparisons with others (Festinger, 1954; O'Reilly et al., 1988) that benchmarks their own performance. Input-quality dimensions therefore establish comparative benchmarks when company managers evaluate their own performance against that of other company managers. When company managers compare their performance with franchisees, another condition plays a major role in establishing benchmarks. Efficiency benchmarks like sales, growth, or other outcome performance variables create corporate benchmarks. The franchisor can stimulate this benchmark control by publishing comparative efficiency benchmark information.

When the franchisee compares its own performance with company-owned and/or operated units, comparative quality benchmarks are reference levels the franchisor imposes as standards of the entire network (often defined in the franchise operation manuals in franchise systems). Therefore, franchisees apply *comparative quality benchmarks* as reference levels when they compare their own businesses with units owned and operated by the franchisor. When franchisees compare their own performance with other franchisees, they apply *comparative efficiency benchmarks* to find their own relative benefits to the costs of brand representation. Table 2 summarizes how comparisons among franchise network agents lead to comparative benchmarks.

The model advanced here focuses on a network of contracts and not on principal–agent dyads. Interactions among different contracts and agents are the plural form's competitive edge relative to other forms of organization. Tests of the model advanced in this paper should eventually move beyond a focus on franchising systems to study multiple types of organizations and their make-and-buy relationships. The theoretical development in this paper contrasted observations regarding plural system growth with the conventional wisdom and empirical developments in organizational economics. Inconsistency between theory and empirical research has revealed a need to look beyond the economics literature (Eisenhardt, 1989) and to include new dimensions in principal-agent analysis (Milgrom & Roberts, 1990).

Our model describes 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 source for informational comparison that makes it possible to control opportunism. Based on prior empirical research and theoretical work, we speculate that a lower proportion of internal agents than franchisees is needed to create an informational basis to control free riding in a plural organization. This conclusion is indicated by the 30% internal to 70% 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.

If the model proposed in this paper receives empirical support, a strategic deviance perspective may help explain previous theory and research findings in franchising regarding unit ownership proportion. In particular, research indicating that experienced franchisors maintain a stable level of company-owned outlets over time, even though the rate of company ownership varies across firms (Lafontaine & Shaw, 2005), supports the idea of an intentional use of strategic deviance. In addition, this stable pattern of proportional ownership tends to evolve with the age of the franchisor so that at a point in time, the franchisor shifts from efforts to rapidly grow via the use of franchisee resources toward confronting emerging issues related to franchisee opportunism (Castrogiovanni, Combs, & Justis, 2006). The strategic deviance model appears to complement this integration of resource-scarcity and agency theory explanations regarding changes in the proportion of franchisor to franchisee units over time and argues against the ownership redirection hypothesis whereby powerful franchisors are proposed to reacquire high-performing franchised outlets and leave only secondary units as franchisees (Dant et al., 1992).

We propose that the structure of the plural form is a function of the value of the comparative efficiency and quality benchmark information it produces. This comparative

Table 2

Benchmark Control Among Agents in a Franchise Network

—	Other company managers in the network	Other franchisees in the network
The franchisor agent compares itself to:	Comparative quality benchmarks	Comparative efficiency benchmarks
The franchisee agent compares itself to:	Comparative quality benchmarks	Comparative efficiency benchmarks

information may help explain 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. Thus, one plausible explanation for the growth and success of plural companies may lie in the firms' superior access to agent information. We contend that the question posed by Klein, Crawford, and Alchian (1978, p. 326), "*what kinds of contracts are used for what kinds of activities—and why*?"—must be complemented by a multiagent, plural-form perspective to explain the efficiency of organizational types.

Future research applying strategic deviance should focus on how an optimal portfolio of contracts can be designed to create an efficient basis to compare information about relative transaction costs in 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 also to strategically optimize the costs of a network of different contracts. The level of comparative information is driven by the ratio of internal to franchise 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. The comparative information produced by strategic deviance in the plural form may also impact the level of product and process innovation in the franchise system. One result of the information availability and flow is a proper balance between standardization to protect franchise brand and norm-breaking innovation in product, service, or process engaged in by enterprising franchisees and sought by chain-building franchisors (Gillis & Combs, 2009). Future research should focus on the extent to which the multiple sources of information and different incentive structures of the plural form result in *constructive* deviance (i.e., innovation) that is adopted across the firm and its effects on franchisor system performance.

Our theory proposes that the credible threat of comparative benchmark information across the network 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 the 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 future contracts. Empirical evidence indicates that when competition levels are higher, franchisees 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 firm (Evan, 1972) or principal/multiple-agent relationships (Tirole, 1988) rather than single dyadic transactions. Constructing a heterogeneous market for agents in 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 transaction costs within organizational relationships. More important, we argue, is a comparison of transaction 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.

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