The Influence of Culture on the Relationship between the Entrepreneurial Orientation and the Potential of Franchising in Emerging countries: The case of Egypt

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Abstract:

This study examines the influence that culture has on the relationship between the entrepreneurial orientation and the potential of franchising. Using a sample of small-to-medium enterprises located in Egypt, we find that business owners with higher levels of entrepreneurial orientation will have higher potential to franchise than business owners with a weaker entrepreneurial orientation. Moreover, this relationship is weakened with those owners that demonstrate individualistic characteristics.

Keywords: Potential of Franchising, entrepreneurial Orientation, Culture, Emerging countries, Egypt.
In both developed and emerging markets, franchising has been effective in ensuring business growth with private ownership and skills and knowledge transfer. While considerable theoretical advancement on home-grown franchising in the U.S and other developed nations has been made since 1950, empirical analysis on these developments, particularly in emerging markets, are scare (Lafontaine, 1992). Moreover, when dealing with developing countries and their cultures, researchers have focused on how to penetrate these markets (Welsh, Alon and Falbe, 2006; Martin, 1999) but never on how to foster the growth of the developing countries SMEs through franchising. Emerging markets, which account for 80 percent of the world’s population and 60 percent of the world’s natural resources, present the most dynamic potential for long-term growth to businesses, in general, and to Western franchisors, especially (Welsh et al., 2006). Home-grown franchising is a practical business strategy to help emerging countries’ SMEs upgrade, improve productivity levels and expend rapidly with the domestic economy. Franchising also enables some local firms with sufficient brand equity to venture abroad faster, at considerably lower cost and investment risk (Goh, 2001). Local business can venture overseas and expand regionally, without over extending managerial or financial resources. In short, the franchise form of business ownership can contribute positively to the growth of an external as well as internal economy for emerging countries. However, a firm’s propensity to franchise and gain these benefits may be directly influenced by its entrepreneurial orientation. Indeed, innovative firms are more likely to enter into a greater number and variety of linkages than other organizations (Ramachandran and Ramnayaran, 1993).

One factor that may influence the potential of franchising is the culture from which the business owner originates (Steensma, Marino and Weaver, 2000). The results of research examining the direct impact of culture on entrepreneurial orientation have been mixed. Some studies suggest that entrepreneurs share a common set of values regardless of culture (McGrath, McMillan and Scheinberg, 1992), while other evidence supports the proposition that culture will influence the way in which firms exploit their entrepreneurial orientation (Busenitz and Lau, 1996).

In summary, the examination of the relationship between the entrepreneurial orientation and the potential of franchising in an emerging country, as well as the impact that culture has on this relationship, is an important issue. Due to resource limitations, franchising may be the best option for many SMEs to compete in today’s increasingly challenging external environment.
However, if culture differences make some SMEs less likely to use franchising, then these enterprises may be at a further disadvantage.

Thus, using a sample of SMEs business owners, we will first examine the relationship between the entrepreneurial orientation and the potential of franchising for these business owners. Then we examine the potential moderating effect that culture may have on this relationship.

1. Franchising and entrepreneurial orientation

The interrelation between franchising and entrepreneurship can be justified by the fact that franchising deals with entrepreneurial cooperation between two different types of entrepreneurs, franchisor and franchisees (Shane and Hoy, 1996; Stanworth, 1995). In addition, franchising can be defined as a type of entrepreneurial organization (Hoy and Shane, 1988). Vesper (1980) defines franchising as a form of entering a market through an entrepreneurial way. It should however be taken into account that the view of franchising as entrepreneurship is strongly contradictory to the previously widely held belief according to which franchising was ever seen as antithesis of entrepreneurship. According to this view, franchising is a multiplication of successful business operations that do not call for creativity, a typical feature of entrepreneurship (Kaufmann and Dant, 1999).

According to Forward and Fulop (1996), firms franchise in order to diversify, achieve rapid market growth, and improve performance at the outlet level. Franchisees can provide knowledge on competitors, substitutes, methods of distribution and industry practice at a local level necessary to implement competitive advantages (Porter, 1985), complementing the franchisor’s general industry knowledge: in other words, franchisees provide a valuable source of human capital, enabling franchisors to enter markets which otherwise would not be viable (Baucus, Baucus and Human, 1996; Perdreau, Le Nadant and Cliquet, 2011; Watson et al., 2005). Researches support the notion that franchisors and franchisees may exercise entrepreneurial initiatives resulting in competitive advantage for the franchise system (Baucus et.al 1996). Entrepreneurial activity by franchisors and franchisees implies a partnership in adapting to the environment and can provide a competitive advantage. The challenge for franchisors consists in managing new ideas from the field and adapting them to a competitive environment while at the same time, preserving the integrity of the franchising system (Falbe et al., 1999; Kaufmann and
Eroglu, 1998). Business format franchising fits many of the diverse criteria for defining entrepreneurship (Low and MacMillan, 1988) such as creating new ventures, carrying out new combinations (Schumpeter, 1934), and being driven by the perception of opportunity (Stevenson and Jarillo, 1990). Entrepreneurship includes the introduction of new products and services, innovative marketing, openness to change, outrunning the competition, and growing fast (Aldrich and Auster, 1986; Stopford and Baden-Fuller, 1994).

In their extensive review of the literature on entrepreneurship, Lumpkin and Dess (1996) differentiated entrepreneurship, the creation of new ventures, from entrepreneurial orientation. The latter represents managerial processes that include the strategies that firms use to act entrepreneurially, and the support that firms provide entrepreneurial activities (Stevenson and Jarillo, 1990; Stopford and Baden-Fuller, 1994). Significant research has been conducted on entrepreneurial orientation, which small business should embrace, including innovation, risk taking, and pro-activeness (Miller, 1983; Miller and Friesen, 1984). These key dimensions represent the Entrepreneurial Orientation (EO) strategy, which reflecting a firm’s propensity to engage in entrepreneurial behaviors to achieve its strategic objectives (Covin and Slevin, 1988; Dess, Lumpkin and Covin, 1997; Lumpkin and Dess, 1996). Lumpkin and Dess (1996) provided the entrepreneurial orientation (EO) framework to establish a relationship between EO and a firm’s performance. Wiklund (1998) determined a strong association between entrepreneurial orientation and entrepreneurial behavior. This means that a strategic EO leads to actual entrepreneurial behavior. Actually no significant studies have been conducted showing the effect of EO in the franchising context (Nelson and Coulthard, 2005). Franchising can be viewed as entrepreneurial activity (Hoy and Shane, 1988), entrepreneurial partnership (Kaufmann and Dant, 1999), and entrepreneurial cooperation (Stanworth, 1995).

A firm’s propensity to franchise and gain these benefits will be directly influenced by its entrepreneurial orientation. An entrepreneurial orientation is characterized by three dimensions: product innovation, risk taking propensity, and proactiveness in the pursuit of new opportunities (Covin and Slevin, 1991). Each dimension of entrepreneurial orientation can be linked to the potential of franchising. Perceiving franchising as a powerful method of business development and growth (Dant and Berger, 1996), and as an innovative way to combine several advantages of larger businesses, with the advantages of small-scale entrepreneurship (Sanghavi, 2001), we can
expect that innovative small businesses owners will be willing to franchise their businesses. Risk-taking is an important characteristic of entrepreneurial orientation. Risk taking has been interpreted to mean moderate, calculated risk (Morris and Trotter, 1990). By forming relationships with multiple partners, SMEs can systematically reduce their exposure to unnecessary risks by increasing the potential sources of critical resources. Exposure to risk also may be reduced because franchising provides flexibility and the ability to capitalize on diversity in the external environment. Finally, proactive firms also are more likely to franchise. Proactive firms are those that are more likely to seek opportunities in the external environment (Lumpkin and Dess, 1996). One method firms can use to gather information and identify opportunities is by scanning the environment through the use of franchising. Extant research has found a high level of environmental scanning is an essential part of the entrepreneurial process (Zahra, 1991). One tactic SMEs can use to gain the competitive intelligence necessary to identify opportunities in the external environment is the formation of cooperative relationship agreements (Inkpen, 1996). These agreements provide both tacit knowledge, such as an understanding of partner specific skills, and explicit knowledge, such as information pertaining to market conditions and opportunities. Thus proactive SMEs will engage in franchising relationships that provide valuable resources and multiple lines of inquiry into the external environment to proactively identify and exploit new opportunities. Therefore it is hypothesized that:

H1: A firm’s entrepreneurial orientation is positively associated with franchising potential.

2. Cultural influences on the entrepreneurial orientation–franchising potential relationship

While an entrepreneurial orientation can influence the potential of franchising, it is important to appreciate that the franchising network is formed within a broader social context. Past researchers have indicated that a society's cultural tendency for uncertainty avoidance, masculinity, and individualism affects alliance formation (Steensma et al., 2000). As well as cultural values and norms will either converge or conflict with the ability to develop a strong entrepreneurial orientation (Lee and Peterson, 2000). Lee and Peterson used Hofstede’s cultural dimensions (2001) to depict a culture most conducive to the development of strong entrepreneurial orientation. For example, thinking about a new business concept or a new organizational form means confronting a great deal of uncertainty. Moreover, in the development
of new ideas and concepts (like franchising), business owners have to make their own decisions in settings where there are few historical trends, and relatively little direct information: it is the case of franchising in Egypt (El Zeini and Cliquet, 2007). Cultures that support this way of thinking are less tolerant of power distance, willing to accept living with uncertainty, are more individualistic, and masculine. In contrast, cultures that express concern about class structure, commitment to the hierarchy, job security, consensus decision making, and entitlement thinking will likely readily accept power distance, have strong uncertainty avoidance, and be more collective and feminine (Lee and Peterson, 2000). Therefore, it is hypothesized that:

**H2: The relationship between the entrepreneurial orientation and the franchising potential is moderated by the Hofstede’s cultural dimensions**

**Power Distance**

Power distance is the extent to which people believe that power and status are distributed unequally and accept an unequal distribution of power as the proper way for social systems to be organized. In organizations, power distance influences the amount of formal hierarchy, the degree of centralization, and the amount of participation in decision making (Newmann and Nollen, 1996). Within organizations as units of society, we inevitably find inequality of members’ abilities and inequality of power. An unequal distribution of power over members is the essence of organization (Hofstede, 1983). In most organizations, the distribution of power is formalized in a hierarchy. The basic element from which hierarchical pyramids are built is the relationship between a boss B and a subordinate S. Power distance measures the interpersonal power or influence between B and S. In Hofstede’s analysis, the power distance dimension scored 80 for the Arab countries, which is relatively high compared to the scores of the United States (40) and the U.K (35) (http://geert-hofstede.com/hofstede_dimensions.php ). Large Power Distance indicates that the Arab societies are highly rule oriented with control. This creates a situation where leaders have virtually ultimate power and authority, and the rules, laws and regulations developed by those in power reinforce their own leadership and control. The high power distance ranking is indicative of a high level of inequality of power and wealth in the society. This inequality is expected and accepted by the population. Atiah (1984) found that Arab managers spend less of their time on planning and more on controlling and commanding. This is
confirmed by results obtained by Abou Zaid (1982) reporting that the main function performed by his sample of Arab managers consisted mainly of assigning work duties to their subordinates and supervising and monitoring their performance. Indeed, the performance of control function appears to be assigned top priority by Arab managers. In a high power distance society, power is a zero-sum entity; one can only obtain it by taking it from someone else and organizations in a high power distance societies tend to be more centralized (Hofstede, 1983). Franchising is about relationship. And like the most sacred of relationships, marriage (Sherman, 2004), if the parties are to stay committed to each other for the long run, then both franchisor and franchisee must respect one another and work together for each other benefits, where the looser is not each other but rather the competition. So the zero-sum Principle is not appropriate to rule the relationship between the franchisor and the franchisee. Therefore it is hypothesized that:

**H2a: Power distance moderates negatively the relationship between the entrepreneurial orientation and the franchising potential.**

**Uncertainty avoidance**

Firms that build an extensive alliance portfolio face a relational uncertainty arising from the inherently risky nature of the alliances due to a dual control of the relationship, the intrinsic incentive to cheat, and the uncertainty about the partner and its changing goals (Inkpen and Beamish, 1997; Parkhe, 1993). The same relational uncertainty can be applied in the context of the franchise relationship. There is always the risk of free-riding and harming the chain as a whole. Compared to managers of company-owned outlets, franchisees have a strong incentive to work hard because their compensation is directly tied to the performance of their outlets. On the other hand, they may also be tempted to increase their short-term profitability by free-riding on the efforts of the chain operator and other outlet managers (Bathélemy, 2008). For instance, they may let quality standards slip, fail to supervise employees, or under-invest in local advertising (Brickley, and Dark, 1987). Chains with a valuable brand name are particularly vulnerable to free-riding (Bathélemy, 2008). Indeed, the more valuable the brand name, the more opportunistic franchisees will benefit from providing a lower-quality product or service than customers typically associated with that brand name (Michael, 2000; Norton, 1988). Chain operators may try to protect the integrity of their brand name using tools such as field audits and automated
management information systems. However, such opportunism mitigating tools are costly to implement. In addition, they tend to undermine the high-powered incentives of franchising (Yin and Zajac, 2004). Tolerance for ambiguity and uncertainty varies across societies (Hofstede, 2001) and across individuals as well (Entrialgo, Fernández and Vázquez, 2000). Because of the uncertainty associated with using the franchise system, an individual's tolerance for uncertainty will influence the relationship between a firm's entrepreneurial orientation and its potential to franchise. In Hofstede’s analysis (http://geert-hofstede.com/hofstede_dimensions.php), the uncertainty avoidance dimension scored 68 for the Arab countries, which is high compared to the US (46) and UK (35) scores. The ultimate goal of Arab societies in general is to control everything in order to eliminate the unexpected. They are likely to welcome the security afforded by the presence of clear laws, rules, and procedures governing their working lives (El-Kot and Lead, 2002). Nydell (1996a) describes people in Arab countries preferring working in the same business doing the same jobs over time, a possible reflection of the desire to avoid uncertainty. Aversion to risk taking and strong friendship ties are to be some of the main characteristics of the emerging Arabic countries like Egypt, as reported by Badaway (1980). Although Steensma et al. (2000) found that the more uncertainty avoidance the culture, the more accepting its entrepreneurs will be of cooperative strategies in general, the researcher believes that in the context of franchising in general, and in emerging countries in particular, the uncertainty associated with the partner’s potential opportunism (franchisee) can offset the advantages associated with franchising. Therefore it is hypothesized that:

\[ H2b: \text{Uncertainty avoidance moderates negatively the relationship between the entrepreneurial orientation and the franchising potential.} \]

\textbf{Individualism}

Societies also differ from each other based on their members’ focus on individual versus collective pursuit. Individualistic societies are societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family. In contrast, collectivist societies are societies in which from birth onwards are integrated into strong, cohesive in-groups (Hofstede, 1980). It is no surprise that Hofstede classified emerging Arab societies such as Egypt as collectivist in context, noting that workers from collectivist
cultures tend to be more involved and identified with their workplaces. As opposed to individualism, collectivism requires the members of a group to work together for survival. Members of individualistic societies especially those who feel self reliant and independent, are less likely to pursue any group affiliation and engage in cooperative behavior (Wagner, 1995), whereas, members of collectivist societies are likely to search-out and value strong group ties (Triandis, 1993) Many studies have found collectivists to be generally more cooperative; enjoying working together, and less inclined to free-ride as compared to individualists (Cox, Lobel and McLeod, 1991). For example, measures of collectivism converge with the Johnson cooperation scale (Triandis, 1995). Students from Asia, Hispanic, and Black American ethnic groups (all cultures that are believed to maintain collective values) behave more cooperatively in a prison dilemma task than do pure Anglo students (Cox et al., 1991). In Individualistic societies, personal goals take priority over group goals (Triandis, 1993). In collective societies, goal congruency is the glue that maintains cohesive in-group (Chen, Chen and Meindl, 1998). Therefore, entrepreneurs from collective societies can be expected to place greater importance on the shared values and goals of their partner as a means of developing trust for cooperation (Steensma et al., 2000). In the analysis of Hofstede (2001), the individualism dimension scored 38 for the Arab countries, which is relatively low compared to the US (91) and the UK (89). This translates into a collectivist society as compared to individualist culture and is manifested in a close long-term commitment to the member 'group', that being a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount, and over-rides most other societal rules. In their research Steensma et al. (2000) found that individualism has a negative influence on an entrepreneur’s acceptance of cooperative strategies, and Marino et al. (2002) found that individualism moderates negatively the relationship between entrepreneurial orientation and strategic alliance portfolio extensiveness.

Looking at franchising as an entrepreneurial cooperation between two different types of entrepreneurs, franchisor and franchisees (Shane and Hoy, 1996; Stanworth, 1995), therefore it is hypothesized that:

\[ H2c: \text{Individualism moderates negatively the relationship between the entrepreneurial orientation and the franchising potential.} \]
Masculinity

Hofstede (2001) distinguishes between national cultures in terms of their masculinity which refers to the overall toughness and competitiveness of the society. People from feminine countries tend to be less aggressive and more modest than those of masculine countries. Feminine cultures reinforce a strong preference for solving conflict through compromise and negotiation (Steensma et al., 2000). Cooperation and the possibility of mutual gains are viewed positively. Multiple winners may coexist in feminine cultures. Alternatively, assertiveness is encouraged in masculine cultures. Masculine cultures take a distributive perspective on competition and view the world in terms of winners and losers. Cooperation is considered a sign of weakness. Thus, cooperation is more consistent with a cooperative mindset, one that is typically found in feminine cultures. In their research Steensma et al. (2000) found that masculinity has a negative influence on an entrepreneur’s acceptance of cooperative strategies. As Marino et al. (2002) found that masculinity moderates negatively the relationship between entrepreneurial orientation and strategic alliance portfolio extensiveness, we hypothesize that:

H2d: Masculinity moderates negatively the relationship between the entrepreneurial orientation and the franchising potential

3. A proposed model

Entrepreneurship is described as a dimension of strategic posture represented by a firm's risk-taking propensity, tendency to act in competitively aggressive, proactive manner, and reliance on frequent and extensive product innovation. Firms with entrepreneurial postures are risk taking, innovative, and proactive. They are willing to take on high-risk projects with chances of very high returns, and are bold and aggressive in pursuing opportunities. Entrepreneurial organizations often initiate actions to which competitors then respond, and are frequently first-to-market with new products offerings (Covin and Slevin, 1991). Covin and Slevin have adopted a firm-behavior model of entrepreneurship. They argue that this model has a number of advantages over more traditional entrepreneurship models and theories that focus on traits of the individual entrepreneur. A behavioral model of entrepreneurship is suggested because behaviors rather than attributes are what give meaning to the entrepreneurial process. An individual's psychological
profile does not make a person an entrepreneur (Covin and Slevin, 1991). On the other hand, they admitted that individual-level behavior on the part of the entrepreneur may affect an organization's actions, and in many cases the two will be synonymous. In our case, the behavior of the owner of the organization is reflected in the behavior of the organization. The business owner is the one who takes the strategic decisions concerning the business. Thus we propose a model which shows the relationship between the entrepreneurial orientation and the franchising potential, as well as the cultural variables that moderate this relationship.

The entrepreneurial orientation is reflected in three dimensions: The extensiveness and frequency of product innovation and the related tendency toward technological leadership, risk taking with regard to the investment decisions and strategic actions in the face of uncertainty, and the pioneering nature of the owner as evident in the firm's propensity to aggressively and proactively compete with industry rivals. In small firms, the strategic orientation of key managers (founder, owner, director) is likely to equal the strategic orientation of the firm (Wiklund, 1998). The growing interest in the study of franchising is a response not only to the belief that franchising will result in positive macroeconomic outcomes but the belief that such organizational arrangement can lead to improved performance. A firm’s economic performance is generally acknowledged to have two primary dimensions: growth and profitability (Covin and Slevin, 1991). While several studies have examined the relationship between entrepreneurial orientation and firm performance (Zahra, 1986; Covin and Slevin, 1989), there is a scarcity of studies examining the relationship between entrepreneurial orientation and franchising potential especially in the Arab world. One factor that may influence the potential of franchising is the national culture from which the potential franchisor originates. Culture can be defined as the shared set of values, beliefs, attitudes, expectations, and assumptions, passed from one generation to the next, that determine the norms for appropriate behavior (Hofstede, 1980). Culture is a key determinant of, and the first step in fostering, entrepreneurial activity. It touches and influences everything that people do (Covin and Slevin, 1991). Clearly, culture can strongly affect entrepreneurial orientation. Entrepreneurship appears to be more compatible with certain cultures than others (Lee and Peterson, 2000). Cultural values and norms will either converge or conflict with the ability to develop a strong entrepreneurial orientation. Research has demonstrated that a firm's innovative capacity is affected by cultural norms (Kanter, 1982).
Culture can encourage or discourage business-related risk-taking (Burgelman and Sayles, 1986). Likewise, the level of competitive pro-activeness exhibited by a firm will be, in part, culturally determined (Miller and Friesen, 1984). Explaining approximately 50% of the differences in work-related attitudes (Hofstede, 1980), culture is clearly an important predictor of differences between nations. However, the use of national sample is not in the restricted sense a sample testing for the impact of culture. What a national sample measures is the impact of nation-specific environmental forces (Kelly and Worthley, 1981). Trying to control the national context (economic, political, legal, social), we will assess the cultural dimensions of respondents within the same nation (Egypt as an emerging Arabic country) on an individual basis, reflecting the individuals' cultural orientations. A model is proposed in Figure 1 linking franchising potential, entrepreneurial orientation, and culture.

4. Methodology

Sample and data

One of the major problems facing researchers in Egypt is the availability of accurate and up-to-date data (Hatem, 1994). Directories and publications that identify either individuals or institutions engaged in different activities in this part of the world are either lacking or inadequate. Another important problem is the limited access to data sets (Tessler, 1987). Due to limitations on accessibility of data on business/entrepreneurship, nongovernmental organizations, and the informal sector, the majority of field surveys conducted in Egypt have used convenience samples (Hatem, 1994). The population of interest in this study is the Egyptian SMEs business owners. In an attempt to select a representative sample in order to draw conclusions that are generalizable across the population being examined, we consulted the official sources of data in Egypt (The annual reports of the CAPMAS, the ministry of trade and industry, and the IDSC) and found general figures for the number of the SMEs in Egypt. SMEs enterprises form merely 99% from all private enterprises and the informal sector (Ministry of Finance website). The number of formal SMEs in Egypt is approximately 40,000 enterprises, and the informal sector counts for 54% of the total (Ministry of Trade and Industry’s Annual Report). This means that
the number SMEs in Egypt (formal and informal) is approximately 95,652 enterprises. In an attempt to get a list of the Egyptian franchisors, the Egyptian Franchise Development Association (EFDA) was contacted, and found no such reliable records. Only estimated numbers exist. The EFDA proposed 28 national franchisors that could be considered as potential respondents for this study. According to the EFDA's 2008 report, the estimated number of the franchised systems in Egypt is 310 where local franchises represent 43% (130 approx.). Retail sector represents 48.9% of the total systems conducted as it covers: clothing and fashions, supermarkets, home products and furniture, leather products, .... Other categories represent 51.1%, distributed among 20+ categories (including 23% for food outlets) (EFDA Report, 2008).

The data for this study were collected between June and December 2008. A randomized sample of 700 SMEs (including the 28 franchisors proposed by the EFDA) from different industries and services listed in the two main Egyptian chambers of commerce (Cairo Chamber of Commerce and Alexandria Chamber of Commerce) was selected. Data collection strategy followed four stages. The first stage involved the construction of the survey instrument. Second, initial background information from the records of Cairo and Alexandria Chambers of Commerce as well as the EFDA, was gathered to identify the owners of a sample of 700 SMEs and their contact information. A third stage of data collection involved contacting these SMEs owners and administering the survey. An initial telephone call was made to gain commitment from the respondents, verify that the firm still existed, and confirm the contact information. The researcher succeeded to reach 422 respondents (including 19 national franchisors). The survey was mailed to the 422 SMEs owners with a cover letter outlining the research goals and stressing on the confidentiality of the data provided by the respondents. A labeled and stamped envelope was provided to return the questionnaire upon completion. After two waves of questionnaires, no single answer was received. We had to rely on another way to get the data needed for the research. Here comes the fourth stage which is changing the technique used from mail survey to face-to-face interview. We conducted successfully 138 interviews (out of 422).

The survey instrument used in this study consists mainly of four parts assessing: the cultural dimensions, the entrepreneurial orientation, the socio-demographic characteristics, and the potential of franchising. Several scales developed by prior researchers were adapted and modified to construct the survey instrument. There is also one scale developed specially for this
survey (the potential of franchising). Churchill's paradigm (1979) was followed in developing the measurement instrument in order to have an acceptable reliability and validity properties. Survey respondents came from different types of businesses mainly fast food, restaurants, construction, mobile services, bakery and confessionary, tourism, retailing, and import and export. The respondents happened to be all men which can be a reflection of the domination of men in business in Egypt. Their age ranged from 21 to more than 65 years old. The number of outlets owned ranged from 3 to 10 outlets, and the number of years in the business ranged from 3 to more than 21 years.

**The measurement of key variables**

Most scales are measured on a Likert scale from 1 (strongly disagree) to 5 (strongly agree) with higher scores reflecting higher perceptions of that dimension. When scales are measured differently (using a larger Likert scale or the anchors have different names), it is noted.

The potential of franchising measures the propensity of the business owners to franchise their business. This dependent variable can be conceptualized as the true willingness of the business owners to engage in a franchising relationship as franchisors. Many studies have measured the propensity to franchise as the proportion of franchised units to company-owned stores in the preceding year (Alon, 2001; Combs and Castigiovanni, 1994; Sorensen and Sørensen, 2001), but the willingness to engage in a franchising relationship for the first time as franchisor has not been studied in emerging countries where the concept of franchising as means of growing national businesses is still under development. Moreover, the lack of reliable records for Egyptian franchised or under franchising businesses made it very difficult to assess the state of franchising in Egypt. The potential of franchising is measured on a 1-5 Likert scale: 1= “I don’t want to be a franchisor”, 2= “May be later I can consider franchising”, 3= “I want to be a franchisor but I am not yet preparing for it”, 4= “I want to be a franchisor and I am preparing for it”, 5= “I am already a franchisor”. This scale was developed specifically for this research.

Entrepreneurial orientation EO is demonstrated by the "extent to which top managers (business owners) are inclined to take business-related risks, to favor change and innovation in order to obtain a competitive advantage for their firm, and to compete aggressively with other firms"
Significant research has been conducted on entrepreneurial dimensions which small business should embrace, including innovation, risk taking, and proactiveness (Miller, 1983). These key dimensions represent the entrepreneurial orientation strategy, which reflecting a firm's propensity to engage in entrepreneurial behaviors to achieve its strategic objectives (Dess et al., 1997). In small firms, the strategic orientation of key managers (founder/director) is likely to equal the strategic orientation of the firm (Wiklund, 1998). Items were adapted from both Miller and Friesen (1983) and Khandwalla (1977) and resulted in the same set of items specified by Ginsberg (1985). Construct validity was established utilizing factor analysis (Allen and Yen, 1979) and all items loaded above 0.5 on a single factor. The scale contains items that focus on innovation, risk-taking, and proactiveness. A high entrepreneurial orientation is characterized by frequent and extensive technological and product/service innovation, a strong risk-taking propensity, and an aggressive competitive orientation. These three components of entrepreneurial orientation or strategic posture were argued by Miller (1983) to comprise a basic, unidimensional strategic orientation. The Covin and Slevin scale (1989) was selected to measure entrepreneurial orientation for the present study: the nine items were retained with a reliability of 0.7485. The first three items of the scale assess the business owners' tendency toward innovation, the second three items assess the business owners' proactive orientation, and the last three items assess the business owners' risk taking propensity. Innovativeness reflects the respondents' tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products (Li, Liu and Zhao, 2006), services, or technological processes (Lumpkin and Dess, 1996), and change in existing technologies or practices and ventures (Kimberly, 1981). Proactiveness reflects the extent to which the respondents attempt to lead rather than follow competitors and their propensity to challenge them. Risk taking reflects the quick pursuit of opportunities, fast commitment of resources and bold actions. The respondents were asked to indicate on a seven-point Likert scale the extent to which each item of the measure characterizes their activities.

Culture has been studied at various levels: national (macro level, cross-national); organizational, group (sub-culture, professional, special interest, social class, etc.) (Hofstede, 2001); and individual (micro level, subjective culture) (Myers and Tan, 2002). Culture can be conceptualized as the collective programming of the mind which distinguishes one person, group
or category of people from those of another. While acknowledging that cultural differences can be found at the regional, national, ethnic, and organizational levels, Hofstede (2001) suggested that cultural influences on organizations "are most clearly recognizable at the national level". However, Triandis (2002) defines culture as an individual's characteristic way of perceiving the man-made part of one's environment. Culture involves the individuals' perception of rules, norms, roles, and values. In this research, culture is measured at this individual level. The Hofstede's four cultural dimensions (2001) namely power distance, uncertainty avoidance, individualism, and masculinity are used to assess culture. The cultural dimensions are measured on a 1-5 Likert scale anchored from 1 = strongly disagree to 5 = strongly agree.

Power distance is the degree of inequality among people which the individual considers normal. This inequality is reflected in the degree of respect and obedience in relation to authority, the degree of dependency on the more powerful persons, the use of authority in making decisions, and the right to disagree/agree with the management decisions. The power distance scale consists of six adapted items (Aycan et al., 2000; Baird et al., 1990; Erez and Earley, 1987; Furrer, Liu, and Sudhashan, 2000). The power distance scale showed a reliability of 0.6414.

Uncertainty avoidance is associated with preferences for clear rules and guidance. It defines the extent to which people within a culture are made nervous by situations which perceive as unstructured, unclear, or unpredictable, situations which they therefore try to avoid by maintaining strict codes of behavior and a belief in absolute truth (Hofstede, 1986). The uncertainty avoidance scale consists of five items adapted from (Ang, Van Dyne, and Begley 2003; Furrer et al., 2000; Vittel et al., 2003). The uncertainty avoidance scale showed a reliability of 0.7249.

Individualism is the degree to which people prefer to act as individuals rather than a member of groups (Hofstede, 1994). Individualism assumes that the person looks primarily after his/her own interest and the interest of his/her immediate family (husband, wife, and children). Collectivism assumes that the person through birth and possible later events belongs to one or more tight "in-group", from which he/she cannot detach him/herself. The in-group (whether extended family, clan or organization) protects the interest of its members, but in turns expects their permanent
loyalty. The individualism scale consists of six items adapted from (Ali, 1987; Earley, 1993; Jung and Kellaris, 2001). The individualism scale showed a reliability of 0.6907.

Masculinity is associated with the extent of the acceptance and preference of the dominance of men in the society in general and at work in particular. It reflects the individuals' view concerning a gender ability to perform certain jobs and the importance of having a professional career. The masculinity scale consists of three items adapted from Dorfman and Howell (1988). The individualism scale showed a reliability of 0.7634.

**Control variables**

As with many studies, there are several control variables that help refute alternative explanations. The dependent variable (the potential of franchising) has its own set of control variables. Three main control variables were generated from in-depth interviews with potential Egyptian franchisors (4) and franchisees (6). These variables are: business ownership, business age and the number of outlets. All respondents (138) are both business’ owners and managers. All businesses included were at least three years old succeeding thus to overcome the first three critical years of their life (Bhide, 2000). Spending more than three years in the business, the business owner becomes more involved, more perceptive to the market and competitive conditions and has more realistic expectations and knowledge, skills, roles and routines learned by doing make survival probability increasing with age (Carroll, Hannan, and Shane, 2003; Stearns et al., 1995). When conducting preliminary interviews potential franchisors argued that they would even not think of franchising before at least three years from their starting time, and potential franchisees showed no interest in new businesses. All businesses included had at least 3 outlets. This number can be an indicator of elements such as: firm’s image, reputation, growth potential, ... We argue that as the number of outlets increases, the more the exposure of the name and the more likely to find someone willing to be a franchisee.

5. Analyses

To test hypotheses concerning the relationship between entrepreneurial orientation, franchising potential and cultural dimensions as moderators, we used an OLS regression and a hierarchical
moderated multiple regression with Franchising potential as dependent variable. The following equations are used to test the hypotheses related to the franchising potential:

Model 1: Potential of franchising = β₀ + β₁ entrepreneurial orientation

Model 2: Potential of franchising= β₀ + β₁ entrepreneurial orientation +β₂ (entrepreneurial orientation * cultural dimension)

Model 3: Potential of franchising= β₀ + β₁ entrepreneurial orientation +β₂ (entrepreneurial orientation * cultural dimension) + β₃ cultural dimension.

A moderator effect will be indicated by a significant difference between model 1 and 2, but not between 2 and 3 (Zedeck, 1971).

6. Results

Descriptive statistics and the correlation matrix are presented in Tables (1) and (2). The relationship between the entrepreneurial orientation and the franchising potential was investigated using Pearson Correlation coefficient. There was a medium to strong positive correlation between the two variables (r = 0.468, n = 138, p<0.01 2-tailed), with high levels of entrepreneurial orientation associated with higher levels of franchising potential. The coefficient of determination (r squared) is 0.219, which means that entrepreneurial orientation helps explaining nearly 22 percent of the variance in respondents' scores on franchising potential.

Insert Tables 1 & 2 here

Two sets of regression analysis are developed to test the research hypotheses. The results for the relationship between the dependent variable (The franchising potential) and the exploratory variable (The entrepreneurial orientation) are reported in Tables 3, 4 and 5, followed by the results for the possible influence of the different cultural dimensions as moderators on this relationship. Because the hypotheses are directional, all reported significance levels are based on one tailed tests.

Insert Tables 3, 4 & 5 here
From the previous three tables, we can notice that the regression equation reflecting the relationship between the franchising potential (Y) and the entrepreneurial orientation (X) could be expressed as follow:

\[ Y = -0.178 + 0.076 X \]

Where, -0.178 is the constant component and 0.076 is the unstandardized coefficient for X. We can notice also that the coefficient of determination R Square is equal to 21.9% meaning that the entrepreneurial orientation explains 21.9% of the variance of the potential of franchising. This model is significant at 5 percent significance level.

Franchising has been an issue for a long debate whether or not it could be considered as an entrepreneurial activity (Kaufmann and Dant, 1999). The contradictory set of definitions of entrepreneurship provided by the literature may be the cause of this debate. The positive relationship between entrepreneurial orientation and franchising potential may support the notion that franchising is an entrepreneurial activity. The results of the previous analysis assert the notion that high levels of franchising potential are associated with higher levels of entrepreneurial orientation, enabling to support H1 for the general model.

While entrepreneurial orientation influences the franchising potential, it is important to appreciate that potential franchisors’ cultural tendencies can affect their willingness to franchise or not. Researches have indicated that cultural tendencies for uncertainty avoidance, masculinity and individualism affect cooperative arrangements (Steesma et al., 2000). The hypotheses suggest that the relationships between the independent variable (entrepreneurial orientation) and the potential of franchising are contingent upon the individuals’ culture namely, power distance, uncertainty avoidance, individualism, and masculinity. The results of the hierarchical moderated regression for the general model show that individualism is the only dimension of the four studied cultural dimensions that could be considered as moderating the relationship between the entrepreneurial orientation and the franchising potential. Table (6) presents the results of the hierarchical moderated regression analysis with individualism as moderator.

Insert Table 6 here
From table (6) several conclusions could be drawn. In model (1), where the entrepreneurial orientation is the exploratory variable and the franchising potential the dependent variable, the entrepreneurial orientation explains 21.9% of the variance in the franchising potential (R squared = 0.291). When incorporating the effect of the interaction between the entrepreneurial orientation and the individualism dimension (model 2), the model explains 27.1% of the variance in the dependent variable (R squared = 0.271). The F. ratio change from model 1 to model 2, is significant at p<0.005. Model (3) explains 29.4 percent of the variance. Compared to 21.9 percent explained in model (1) and 27.1 percent explained in model (2). The F. ratio change from model (2) to model (3), is not significant at p<0.005. Based on the unstandardized coefficients, the three models’ equations could be drawn as follow:

Model 1: \[ Y = -0.178 + 0.076 \times X \]

Model 2: \[ Y = 0.234 + 0.103 \times X - 0.015 \times XZ \]

Model 3: \[ Y = -3.905 + 0.210 \times X - 0.052 \times XZ + 1.419 \times Z \]

In model (2), the negative and significant interaction of coefficient \( \beta_2 \) (0.015) implies that the positive influence of the entrepreneurial orientation (X) on the potential of franchising (Y) is greater when individualism (Z) is small than when the individualism is large. This result is consistent with hypothesis H2c as-well-as previous researches propositions and results (Steensma et al., 2000; Marino et al., 2002). Therefore, hypothesis H2c is supported.

Although Individualism could be viewed as a conductive cultural dimension to entrepreneurship (Lee and Peterson, 2000), results show that individualism moderates negatively the relationship between the entrepreneurial orientation and the franchising potential. Marino et al. (2002) found the same relationship (entrepreneurial orientation-individualism) indicating that individualism weakened the entrepreneurial orientation-strategic alliance portfolio extensiveness relationship.

Contrary to our expectations, power distance, uncertainty avoidance, and masculinity dimensions did not show any significant moderating effect on the entrepreneurial orientation - franchising potential relationship. Power distance, uncertainty avoidance, and masculinity were expected to moderate negatively this relationship. Power distance showed a significant negative correlation (r
= - 0.238, p<0.01), and masculinity either with franchising potential (r = - 0.156, p<0.05). A non significant correlation between uncertainty avoidance and franchising potential was found. When trying to treat these three cultural dimensions independently as moderators, the moderated regression models were not significant. When trying to treat them as independent variables, the models were not significant either, indicating that they do not contribute significantly in explaining the variances in the franchising potential variable. Marino et al. (2002) did not find a significant moderator effect either for uncertainty avoidance on the entrepreneurial orientation-strategic alliance portfolio extensiveness relationship. Table (7) presents a summary of the hypotheses. We see that H₂ is partially verified just because H₂c is supported.

Insert Table 7 here

Discussion

Descriptive statistics of the four cultural dimensions presented in Table 1 shows that Egyptian business owners score high as to uncertainty avoidance (3.9/5) and masculinity (3.5/5), and moderate as to power distance (2.9/5) and individualism (2.7/5). These findings are compatible with previous researches conducted in the Arab world (Hofstede, 2001; Nydell, 1996), and in Egypt in particular (Atiah, 1984; El-Kot and Lead, 2002; Leila, Yassin, and Monte, 1985).

There is a strong link between the domain of franchising and the domain of entrepreneurship. Franchising is considered as an entrepreneurial activity and an entrepreneurial cooperation between two entrepreneurs. Business owners with high levels of entrepreneurial orientation would be willing to franchise more than business owners with lower levels of entrepreneurial orientation. Innovative, risk-taking, and proactive business owners consider franchising as an entrepreneurial opportunity that must be seized. The results suggest that business owners’ entrepreneurial orientation does matter a lot when determining the potential of franchising. A significant positive relationship between the entrepreneurial orientation and the franchising potential (r = 0.468, p< 0.01) is found. High levels of franchising potential are associated with higher levels of entrepreneurial orientation. Entrepreneurial orientation explains approximately 22% of the variance in the franchising potential. In accordance with the entrepreneurial orientation-franchising potential relationship, the researcher also hypothesized that the cultural
dimensions, namely; power distance, uncertainty avoidance, individualism, and masculinity, would negatively moderate this relationship. The introduction of culture as a moderator variable in the relationship between entrepreneurial orientation and franchising potential shows the importance of the collectivistic mindset in strengthening this relationship. This result highlights the challenge of studying the franchising potential under a cultural umbrella. Results show that individualism is the sole cultural dimension that moderates negatively the relationship between the entrepreneurial orientation and the franchising potential. A significant negative interaction coefficient is found for the general model and the business founders' model as well but not for the non-business founders' model. This negative coefficient implies that the relationship between the entrepreneurial orientation and the franchising potential is stronger when business owners are less individualistic. This result is consistent with the results of Marino et al. (2002) who found that individualism weakened the entrepreneurial orientation-strategic alliance portfolio extensiveness relationship. Individualistic people, especially those who feel self reliant and independent, are less likely to pursue any group affiliation and engage in cooperative behavior (Wagner, 1995), whereas collectivistic people are likely to search-out and value strong group ties (Triandis, 1993). Cooperation has been identified as instrumental to attainment of performance goals of franchised systems (Dant and Nasr, 1998).

But, contrary to expectations, power distance, uncertainty avoidance, and masculinity as cultural dimensions did not moderate the relationship between entrepreneurial orientation and franchising potential. One possible reason for this result is that the different cultural dimensions were measured on an individual level, and that only minor differences exist between the respondents of the same society in respect to these dimensions. This is going along with Hofstede’s definition of culture (Hofstede, 2001). This interpretation is supported by the non significant difference between the business founders and the non-business founders in respect to their cultural mindset.

**Implications, limitations and future research directions**

Egypt is a fertile ground for franchising. Not only as a potential market to be conquered by foreign names, but also as a potential Egyptian names exporter. The main result of this study is the positive relationship between entrepreneurial orientation and the franchising potential in Egypt. This result may have many important implications. Enhancing entrepreneurship will
undoubtedly enhance the franchising concept as a means of growing adopted by Egyptian business owners. In order to stimulate economic growth and employment, entrepreneurial traits and activities are often encouraged by countries in terms of creating appropriate environment and market conditions which may enhance the rate of entrepreneurship (Farid, 2007a). Researchers support the idea that national entrepreneurial characteristics and entrepreneurial opportunities are stimulated by multiplicity of cultural and environmental factors (Hayton, George and Zahra, 2002; Farid, 2007b). Entrepreneurship does not necessarily start with a product or service to sell. It starts with an entrepreneurial opportunity rooted in the external environment (Morris, 1998; Shane, 2003). Further, environmental forces probably have their greatest impact when a new organization form is emerging (i.e. a franchise system), shaping the organization in a specific way (Stinchecomb, 1965). Therefore, entrepreneurial orientation within potential entrepreneurs (i.e. franchisors and franchisees) depends on a wide array of environmental conditions that those operating in the environment will face. According to Covin and Slevin (1991), the external environment can include, but is not limited to, economic, political/legal, and social forces that provide the broader context for the organization’s operations. For example, a hostile external environment may impede the level of capital investment, place fiscal and regulatory barriers, and dissuade the rise of the entrepreneurial spirit. A favorable external environment, however, will ease such barriers and encourage entrepreneurial potential.

The researchers faced two types of difficulties in conducting this research: First, the difficulties in finding a relevant literature concerning franchising as a means of growing in Egypt. No such literature was found neither in Arabic nor in English languages. This subject is not treated before the way the researcher intended to do. Egypt and the Middle East in general are only treated in the literature as potential markets for foreign franchisors. Second, the same general difficulties faced by other researchers in collecting data in Egypt (Al-Khatib et.al, 1997, ElBanna and Child, 2007), as well as several additional difficulties specific to the research domain (franchising) are faced. These difficulties included: The non existence of reliable records or data bases, the restrictions from a variety of sources like the CAPMAS (Central Agency for Public Mobilization and statistics) and the Egyptian Chamber of Commerce, the respondents’ fear from disclosure of collected data and their ignorance of the franchising concept. Due to these difficulties, selection-bias, non-response and response bias could be found in this research.
Selection-bias may be present given that the sample used in this study may not be accurately representing the population (Egyptian SMEs business owners), this is mainly due to the non-availability of reliable records as well as the difficulties associated with conducting interviews with a larger sample of business owners given their time and obligations restraints. The non-response and response biases may be present in this research as well. The researchers have tried to get data for the non-responding business owners, but they were very strict in refusing giving any data. Most people like to present themselves in a favourable light, so they tend to be reluctant to admit to unsavoury attitudes. Their responses may be biased toward what they believe is socially desirable. In this survey, 30 respondents (21.7%) said that they don’t know what franchising is, while 108 respondents (78.3%) said that they know exactly the meaning of franchising. The number of the latter is questionable. During the interviews, some of them showed ignorance of some basics of franchising.

This research provides opportunities for further research. It is the first empirical examination of the potential of franchising in Egypt as a means of growth adapted by local business owners. This research has produced findings that can be further explored. The research reveals that the extent literature was not able to describe the range of factors that lead business owners to elect franchising as a means of expansion. Both agency and resource scarcity theories have tried to explain the franchising choice in a pure economic perspective. These theories did not take into consideration the business owners’ (potential franchisors) strategic orientations as factors affecting the franchising choice. Business owners’ orientations as well as their entrepreneurial characteristics can play a significant role in determining their choice. This research has investigated business owners’ entrepreneurial orientation. Other characteristics may be investigated in future researches. A second opportunity offered for further research is the examination of the applicability of the franchising theories in different contexts: “Are these patterns true cross-culturally?” (Dant, 2008). In other words, asking the question of “do the tenets of agency theory (Jensen and Meckling, 1976) or the resource constraints theory (Oxenfeldt and Kelly, 1969) apply cross-culturally to countries like Egypt, Iran, China, or Saudi Arabia” (Dant, 2006). There is a real need to examine the franchising phenomenon in different contexts namely cultures, industries, and life cycles. The franchising industry in the United
States is fast approaching to its maturity state where a number of erstwhile controversial issues have been reasonably settled.
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Triandis, H.C. (2002). In W. J. Lonner, D.L.Dinnel, S.A.Hayes, and D.N.Sattler (Eds.), *Online Readings in Psychology and Culture* (unit 15, Chapter 1), [http://www.ac.wwu.edu/~culture/index-cc.htm](http://www.ac.wwu.edu/~culture/index-cc.htm)


[www.azfranchise.com](http://www.azfranchise.com)
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a. Predictor: (Constant), Entrepreneurial Orientation

b. Dependent Variable: Franchising potential
**Table 4: ANOVA**

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a. Predictors: (Constant), Entrepreneurial Orientation

b. Dependent Variable: Franchising potential
Table 5: Coefficients

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a: Dependent variable: Franchising potential
Table 6: Summary: Hierarchical Moderated Regression

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<td>1.419</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Entrepreneurial Orientation (EO)
b. Predictors: (Constant), Entrepreneurial Orientation (EO), Entrepreneurial Orientation * Individualism (EO * IND)
c. Predictors: (Constant), Entrepreneurial Orientation (EO), Entrepreneurial Orientation * Individualism (EO * IND), Individualism (IND)
d. Dependent variable: Franchising potential
Table 7: Summary of the hypothesis

<table>
<thead>
<tr>
<th>Number</th>
<th>Hypothesis</th>
<th>Supported or not</th>
</tr>
</thead>
<tbody>
<tr>
<td>$H1$</td>
<td>There is a positive and significant relationship between the entrepreneurial orientation and the franchising potential.</td>
<td>Supported</td>
</tr>
<tr>
<td></td>
<td>The relationship between the entrepreneurial orientation and the franchising potential is moderated by the Hofstede's cultural dimensions.</td>
<td>Partially supported</td>
</tr>
<tr>
<td>$H2$</td>
<td>Power distance moderates negatively the relationship between the entrepreneurial orientation and the franchising potential</td>
<td>Not supported</td>
</tr>
<tr>
<td>$H2a$</td>
<td>Uncertainty avoidance moderates negatively the relationship between the entrepreneurial orientation and the franchising potential</td>
<td>Not Supported</td>
</tr>
<tr>
<td>$H2b$</td>
<td>Individualism moderates negatively the relationship between the entrepreneurial orientation and the franchising potential</td>
<td>Supported</td>
</tr>
<tr>
<td>$H2c$</td>
<td>Masculinity moderates negatively the relationship between the entrepreneurial orientation and the franchising potential</td>
<td>Not supported</td>
</tr>
<tr>
<td>$H2d$</td>
<td></td>
<td>Not supported</td>
</tr>
</tbody>
</table>
Figure 1: A proposed model for the franchising potential

Diagram showing the relationships between Entrepreneurial Orientation, Culture (Power Distance, Uncertainty Avoidance, Individualism, Masculinity), and Franchising Potential with hypotheses H2a, H2b, H2c, H2d, and H1.
WHY EGYPT?

The Development of small and medium enterprises (SMEs) is being acknowledged as a key condition in promoting equitable and sustainable economic development (Man and Chan, 2002; Mead and Liedholm, 1998). Indeed, because of their economic weight in emerging African and Middle Eastern countries, SMEs have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation (Mortagy, 2003). They present over 90% of private business in the African continent and contribute to more than 50% of the employment and of GDP in most African and Middle Eastern countries. SMEs’ contributions to employment creation, productivity improvement, and income generation are underutilized in Egypt at a time when economic transformation is shifting the onus for productivity from the public sector to the private sector. Egypt’s population growth and economic restructuring make the creation of substantial new employment opportunities a necessity. In Egypt, SMEs constitute more than 99% of all non-agricultural private enterprises, cover approximately 20% of the total employment market and account for nearly three-quarters of new employment generation (Mortagy, 2003).

Franchising is one of the most important tools to develop the country and generate decent jobs to face the growing increase in population. Egypt’s population currently stands at nearly 80 million people with more than 50% under the age of 20, and is expected to reach 100 million in 8 years (CAPMAS, 2009). Franchise has increased more than 1000% over the last 10 years from approximately 25 to 310 franchise systems. It directly employs more than 45,000 employees and generates more than 9 billion EGY of annual sales. More than 500,000 jobs were created through franchise supply chains. Franchise direct investments exceeded 40 billion EGP. In addition, a range of feeding industries has developed to service the sector. Retail sector represents 48.9% of the total systems conducted as it covers: clothing & fashion, supermarkets, home products,… Other categories represent 51.1%, distributed among 20 categories (including 23% for food outlets) (Country report, 2008).

Egypt as an emerging country has strategic significance in both Middle Eastern and African contexts. It is especially important because of its uniqueness (Egypt is distinct from other Arabic and African nations), its leadership role amongst Arabic Middle Eastern nations, and its strategic location bordering the continents of Africa, Asia, and Europe. Egypt is currently one of many
nations in the Third World implementing an economic reform strategy to address the recurrent economic problems and imbalances that have beset the Egyptian economy over the past years, and to reorient the economy towards the market system. This includes the promotion of the private sector and liberalizing the public sector. Egypt is a fertile ground for franchising as it is the largest single market in the region and has a rapidly growing population, 54 million in 1991, 69 million in 2003, and 80 million in 2009 (Ministry of Foreign Affairs, 2009).

While the Egyptian market is opened to foreign names (franchisors), there are only few Egyptian companies so far using the concept of franchising to expand nationally or internationally (no exact statistics are available) (EFDA, 2006) and even the franchised units are operated and managed by the main company (franchisor) itself. Egyptian companies expand through opening owned stores or licensing.

An extensive search of the relevant literature conducted in the Arab countries in general and in Egypt in particular, produced relatively few empirical studies. Since there were almost no empirical franchising-related works in Egypt, an exploratory study was conducted in 2006 in an attempt to investigate the reasons for not using franchising as means of growth adapted by Egyptian business owners. The main purpose of the study was to point the main barriers to franchising in Egypt. The ignorance of the main issues concerning the franchising concept turned to be the first barrier hindering the use of franchising as means of growing adapted by Egyptian business owners. Environmental conditions like regulations and laws concerning franchising, and brand protection conditions (property right laws) are mentioned to be of a paramount importance to the potential of franchising in Egypt (El Zeiny and Cliquet, 2007).