

On Identities of Networks and Organizations – The Case of Franchising*

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Abstract

The case of franchise systems is used to investigate the constitution of the identity of an interorganizational network and its relationship to the identities of its member organizations. While identity has been quite a popular object of organizational research in recent times, identity research on the network level is still in its infancy. Conceptualizing the constitution of network identities – and their recursive interplay with organizational identities – from a structuration perspective, this paper presents two explorative case studies of identity constitution in two very successful German franchise networks and draws some first conclusions for typifying networks with regard to identity and network management. Thereby, it offers a new (identity-based) perspective for network and franchising research.

Keywords: Franchising, Strategic Network, Organizational Identity.

Introduction

In recent years, franchising has become a very popular form of economic organization and McDonald's, in particular, has become a symbol of arguably modern economic organization. For this reason alone, franchising should be a major concern for organization and management research. This is even more so since, due to several distinct structural properties of

*A former version of this paper was presented at the EMNet-Conference on "Economics and Management of Franchising Networks" in Vienna, Austria, June 26–28, 2003. We thank not only the participants of this conference, but also Hamid Bouchikhi and Craig R. Scott for their invaluable comments on earlier drafts of this paper. Last but not least, we are grateful to the managers we interviewed for their time and patience.

this network form of organization. For instance, the discretion of member organizations to develop and sustain a unique identity within the frame of a rather pronounced network identity may be studied.

In this paper, taking the case of franchise systems as an example, we try to develop a theory-based and, if compared to the present academic discourse on identity issues, systemic or system-centered understanding of organizational identity and network identity and to clarify their relationships within this organizational form. Moreover, we try, at least in a first step, to highlight some implications for managing this form with respect to identity issues. A suitable *theoretical* foundation of such a network perspective on franchise systems that focuses on social systems and, nevertheless, highlights processes of social interaction is provided by the theory of structuration, which was developed by Anthony Giddens (1984) as a social theory and, in the meantime, has been applied to the analysis of management, organizations and networks (e.g., Whittington 1992; Sydow & Windeler 1998; Sydow 1998, 2002; Windeler 2001; Feldman 2004; Pozzebon 2004). Several authors have even also applied structuration theory to the analysis of identity, both individual and organizational (e.g. Giddens 1991; Sarason 1995; Bouchikhi & Kimberly 1998; Scott *et al.* 1998; Kuhn & Nelson 2002). Anchoring identity research in the theory of structuration ensures that the network perspective is based upon an advanced theoretical understanding of practices, how they emerge in an embedded social context, and what effects they produce in organizations, networks, or even more encompassing social systems. Structuration theory is, furthermore, a particularly appropriate basis to conceptualize the interrelationship of organizational identity (as a rather stable outcome) and organizational identification processes (Scott *et al.* 1998; Hatch & Schultz 2000; Kuhn & Nelson 2002) and, thereby, to overcome methodological problems in theorizing structure-agency, voluntarism-determinism and stability-change (Giddens 1976: 27; Weaver & Gioia 1994; Bouchikhi & Kimberly 1998: 15; Scott *et al.* 1998: 309). Since structuration theory is, in addition, able to integrate multiple levels of analysis (e.g. individual, organization, network) that are apparently relevant for identity constitution, it may also offer a more suitable framework than theories like social identity theory (e.g. Tajfel & Turner 1986; Ashforth & Mael 1989; Hogg & Terry 2001) that focus primarily on the individual (e.g. Pratt 2003).

In *empirical* terms we explore two very successful franchise networks in the German fast food industry, McDonald's and Subway. Concerning the institutional arrangement, Subway's outlets are exclusively operated by franchisees whereas McDonald's operates in the plural form (Bradach 1997, 1998). With the exception of this difference, both networks show significant similarities in the constitution and relation of organizational and network identities. As will be shown later, in both networks, recruiting and training

franchising systems, it offers ample opportunities to research topics of more general theoretical and managerial interest. This is true, for instance, with respect to the role of the identity of interorganizational networks as well as of organizational identity within interorganizational networks which, despite the abundant network research and the exploding literature on organizational identity issues since the seminal contribution of Albert & Whetten (1985), have only very recently received first scholarly attention (Beech & Huxham 2004; Huemer *et al.* 2004). In particular, it is still unclear how the identity of a network, if any, evolves and relates to the identities of the member organizations (*et vice versa*). What, then, is the role of network management in building or shaping the identities of the network and the single organizations?

These are important questions, since such identities often seem to be tightly related to strategic issues (e.g. Dutton & Penner 1993; Ashforth & Mael 1996; Barney *et al.* 1998), directing attention towards certain organizational operations and suggesting what issues of the environment seem to be relevant (e.g. Dutton & Dukerich 1991; Sahlin-Andersson 1996). Along similar lines, pronounced identities can provide meaning, purpose, and excitement for managers and employees. This may result in increased loyalty, sustained commitment and even passion towards the social system (Stimpert *et al.* 1998: 88). In the case of interorganizational networks, identity may ease system integration (Bradach 1998) and facilitate the forming of legitimacy (Human & Provan 2000) as well as lowering the costs of communication, coordination and knowledge-sharing (Dyer & Nobeoka 2000; Kogut & Zander 1996). However, the management of such networks is often confronted with the fact that organizational identities in such networks may be in conflict with one another or not relate smoothly to the identity of the network itself.

While it may be useful, especially from a managerial perspective, to look at franchise systems as a network form of organization (Sydow 1998), they certainly represent an extreme case. Even if conceived as a "strategic network" (Jarillo 1988), that is, as an interorganizational network which is strategically led by a hub firm, they are exceptional with respect to power asymmetries and the tightness of control of network members (i.e. the franchisees or franchise outlets) by this firm (i.e. the franchisor). That franchise systems constitute an extreme case of strategic networks is also true with respect to the role of network identity. For franchise systems such as McDonald's or Subway, in sharp contrast to more loosely coupled networks, are very likely to exhibit a rather unified network identity which, at least at first sight, is likely to dominate the identities of member firms to an extent that franchisees or franchise outlets may find it hard to develop or preserve distinct organizational identities. This outlier status of franchise systems offers unique opportunities for researching identity issues in and of

practices, detailed operation manuals, boundary spanning activities, inter-organizational committees, and other coordination and control mechanisms serve as important media and locals for the constitution of a shared network identity.

The next section introduces franchise systems as strategic networks and outlines some basic ideas and concepts of structuration theory. Then, identity is presented as a specific structural property of social systems in general and of organizations and interorganizational networks in particular that has to be reproduced via organizational and interorganizational practices respectively. Based upon this structurationist understanding and taking the case of franchise systems as strategic networks as an example, the relationship between the identity of the network and the identities of the member organizations, i.e. franchisor and franchisees, is conceptualized. The section that follows makes a first attempt at investigating this relationship in the case of the two franchise systems mentioned, before drawing some conclusions for typifying networks with regard to identity issues and for managing identities in and of interorganizational networks. In consequence, this paper does not only contribute to a better understanding of the relationship of the identities of networks and their organizational members – and their management.¹ By focusing on the structuration of identities of and in social systems, it also offers a new theoretical perspective for franchising research which still focuses on the choice of the organizational form rather than on how it is managed (see, however, Bradach 1998; Sydow 1998).

Franchise Systems as Strategic Networks: A Structuration Perspective

Given the principal choice between three basic forms of economic governance, i.e. market, hierarchy, and network (Powell 1990), franchising is most suitably conceptualized as a *network* form of organization. This is because on the one hand, the relationships established in franchise systems are, for the most part, too tightly coupled to be considered as market relations. Rather, the highly formalized and integrated procurement, marketing, and management concept that is characteristic of franchise arrangements suggests that these relations are quite “organization-like” (Sydow 2002). Though sometimes considered as a generic organization (Bradach 1998),

¹ As already mentioned, issues of interorganizational identity have not been studied in detail yet. Nevertheless, this topic seems to be encountering greater attention from researchers. For some exemplary studies of broader concepts like district and industry identities, see Peteraf & Shanley (1997), Sammarra & Biggiero (2001), Hoffman & Ocasio (2001), Beech & Huxham (2004), Huemer (2004) and Huemer *et al.* (2004).

the relationships in this kind of system do not adhere to the typical mode of interorganizational coordination either: franchise outlets, in sharp contrast to company-owned subsidiaries, are not coordinated by hierarchical fiat. Rather, franchisor and franchisees have to consult and to negotiate and to collaborate, though in franchise systems, due to very obvious power asymmetries, to a significantly lesser extent than in more polycentric interorganizational or multilateral networks (Human & Provan 2000). Last but not least, the residual gain and the financial risk remain with the franchisee, who formally keeps the status of an entrepreneur.

In more precise terms, franchise systems can and should be considered as strategic networks (Sydow 1998). According to Jarillo (1988) a *strategic network* is a long-term institutional arrangement among distinct but related for-profit organizations that is based upon extensive interfirm division of labor and intensive interfirm cooperation, and, as opposed to other, more polycentric types of interorganizational networks, is led by a hub firm. Conceiving franchise systems as (strategic) networks makes researchers and practitioners aware of the importance of collaborative interorganizational relationships for constituting this form of economic governance – despite the obvious power asymmetries.

From a structuration perspective, these relationships are produced and reproduced via social practices. In these practices, agents – these are, in the case of franchise networks, the franchisor as the hub firm on the one hand and the franchisees as the strategically led firms on the other – refer to the structures of the single member organizations, of the interorganizational networks, and to those of the wider “organizational field” (DiMaggio & Powell 1983) that these organizations and networks are embedded in. On all these system levels, structures, from a structurationist perspective at least, are conceived as rules *and* resources that are, according to the theorem of “duality of structure” (Giddens 1984), produced and reproduced in social interaction via modalities of structuration (see Figure 1).

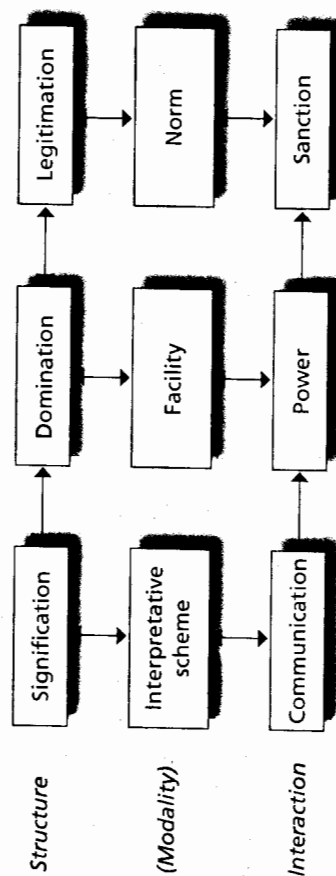


Figure 1: The Duality of Structure (Giddens 1984: 29).

As far as *signification* is concerned (see Figure 1), franchisor and franchisees in their interactions, or more precisely in their communications, refer to rules of meaning constitution via interpretive schemes. For example, they may stick with the rules laid out in the franchise contract and accompanying manuals, but also take into account the more informal rules of how to reciprocate in the network. On the one hand, these rules enable them to make sense of a particular event such as the change of the franchisees' incentive structure or the sanctioning of a particular network behavior. On the other hand, these same rules restrict the sense-making and communication process, thereby limiting the entrepreneurial impact of the franchisee on the development of the network. Of equal importance is the fact that individual and organizational agents, via the very reference to these structures in their practices, reproduce them as rules of signification.

The same recursive reasoning applies to the other two dimensions of social practices: *legitimation* and *domination*. As far as *legitimation* is concerned, agents refer to this kind of rules via norms and, thereby, reproduce or transform the rules of *legitimation* prevailing in an organization, in a network or in a field. Again, the agents' interaction, this time in the form of sanctioning, is enabled and restricted by these very rules of *legitimation*. In the case of a particular franchise network, this sanctioning behavior may aim at franchisees who do not conduct their business according to the formal and informal rules of the network and, thereby, do not reproduce the respective rules accordingly. In general, franchise networks raise questions about the legitimacy of the network form to a significant lesser extent than other types of interorganizational networks (Human & Provan 2000).

Finally, and with respect to the dimension of *domination*, agents use a wide array of allocative and authoritative resources in order to intervene powerfully in ongoing network practices. For instance, while a franchisor is certainly likely to be the most powerful actor in the network due to its control over the more strategic resources, a franchisee may well use his or her position in a network, or critical relationships with customers or suppliers, to demand a fair share of the "network effect" (Uzzi 1996).

In any case, in franchise systems and other types of strategic networks, the "dialectic of control" (Giddens 1984) that governs every social system demands from the hub firm that its leadership makes sense to the strategically led firms (for instance, because of its positive impact upon the network effect) and is thus perceived by them as legitimate (Human & Provan 2000). This latter example illustrates not only the necessity to reproduce rules of *legitimation* recursively, but the fact that the three dimensions of social structure, i.e. *signification*, *legitimation*, and *domination*, are also related recursively in practice.

Though agents are assumed to reflexively monitor their actions, the conditions under which they act (including the actions of others), and the

intended and unintended outcomes of these very actions, like most social practices, are anchored in their practical rather than their discursive consciousness (Giddens 1984). In consequence, the production and reproduction of structures including the structural properties of organizations, networks and fields occurs partly behind the back of the agents, though they actively contribute to their structuration. This is particularly likely to occur in the case of evolving identities that, until now, have hardly been subject to intentional managerial action.

Due to the prevailing tensions and contradictions caused by differences in interests and power between the organizations of a network and the prevalence of the dialectic of control, franchise systems, even though to a lesser extent than other types of strategic (not to mention more polycentric) networks, are likely to be characterized by rather "fractured social practices" (Sydow & Windeler 1998: 273). This is because any integration efforts on the part of the hub firm are confronted with at least some organizational autonomy of the network members. These adhere to their own interests and mobilize their own resources when acting strategically. In the case of franchise networks, the franchisees' knowledge of the local markets typically represents one of the major resources, social relations with important agents in the locality another. The resulting fragmentation is an important source of variety in form, even in franchising, as confirmed by an earlier empirical study of six franchise systems in Germany (Sydow 1998).

As is to be expected from a structuration perspective, network leadership is by and large exercised by the franchisor in accordance with prevailing rules of signification and legitimation which are not simply determined by the franchisor, but recursively co-produced by the franchisees. The fact that the franchisees have joined the networks deliberately, that the franchisor is the author of the business concept and creator of the brand, and that, at least in their view, it has a significant know-how advantage, legitimizes the strategic leadership in at least five of the networks investigated in that earlier study (Sydow 1998). Network leadership appears to be recognized as legitimate by franchisees as long as the franchisor is able to keep this advantage and, thus, to contribute significantly to the overall success of the network, including the organizational performance of the franchisees or their single outlets.

In summary, a structuration perspective on franchise networks emphasizes, firstly, the importance of interorganizational relationships and practices for system (re-) production. Secondly, it highlights the constitution of these practices via the duality of structure, i.e. by agents' more or less reflexive reference to and reproduction of organizational structures, network structures and field structures, and thirdly the rather fragmented social character of franchise systems despite the strategic and intentionally integrative leadership by the franchisor. Such a perspective, thus, contributes to a more

processual understanding of (managing) franchise systems, including the unfolding of the identities of and within the network – without, however, neglecting the relevance of structures in this process.

Structuration of the Identity of Networks and Organizations

The identity of an organization informs one about how organizational members collectively perceive and construct their organization. In their seminal article, Albert & Whetten (1985) refer to the works of James (1890), Mead (1934) and Erickson (1968) when adapting the originally individual-centered notion of identity for organizations. That is, Albert & Whetten (1985) define organizational identity according to notions of individual identity as self-reflective questions ('Who are we?' or 'What kind of organization is this?'). These questions then relate to three features of any organizational identity which have been referred to continuously ever since: *centrality*, focusing on the essence of an organization, *distinctiveness*, referring to uniqueness in comparison to other organizations, and *continuity*, as denoting the enduring aspect of identity. These three characteristics, usually expressed in organizational members' self-reflective "narratives about the 'soul' or essence of the organization" (Ashforth & Mael 1996: 21; Czarniawska-Joerges 1994), seem to function at least as a starting point throughout much of the organizational identity literature (e.g. Hatch & Schultz 2000). However, the question has already been raised whether the characteristic of continuity should be opened up in order to account for the unfolding of identities and organizational change (Gioia & Thomas 1996; Corley et al. 2000; Gioia et al. 2000). Indeed, in our view, that follows Giddens' understanding of identity constitution, identity should not be seen as "something that is just given ... but something that has to be routinely created and sustained in the reflexive activities" (Giddens 1991: 52), here of the organization or the network. Hence, this view opens up a conceptualization of identity that allows for the putative paradox "that identity is both a dynamic process that unfolds over time and a source of stability" (Hatch & Schultz 2004: 5).

While the origins of an organizational identity lie in the decisions and actions taken at the time of organizational founding (Bouchikki & Kimberly 1998: 7), the identity forms and solidifies over a longer period of time in a somewhat *path-dependent* process (Albert & Whetten 1985). Once emerged, organizational identity refers to the institutionalized beliefs about 'who we are as an organization' that are manifested in 'objective' characteristics such as the core business, operating principles, structures and systems, people employed, the relationships developed, patterns of decisions, and

a variety of artefacts (Bouchikki et al. 1998: 37; Bouchikki & Kimberly 1998: 7). With regard to the institutionalized, somewhat taken-for-granted character of organizational identity, the reference to organizational identity in day-to-day activities may for the most part be implicit (e.g. Glynn 2000; Bouchikki & Kimberly 2003). However, in times of crisis and change, it is expected that identity questions in and about organizations are brought up more explicitly and discursively (Albert & Whetten 1985; Czarniawska-Joerges 1996; Bouchikki & Kimberly 2003).

"When discussion of goals and values becomes heated, when there is deep and enduring disagreement or confusion, someone may well ask an identity question: 'Who are we?' 'What kind of business are we in?' or 'What do we want to be?'" (Albert & Whetten 1985: 265).

In their seminal contribution these authors already question whether organizations necessarily have only one identity. Rather than being of a holographic form, they assume that most organizations are ideographic in the sense that organizational subsystems do not simply mirror the identity of the organization as a whole, but adopt identities that are at least partly different from and independent of the identity of the entire system. This idea of multiple identities (e.g. Pratt & Foreman 2000; Pratt 2003), together with the three continuous features of organizational identities and the insight that identity questions are most often raised in times of crisis and change, can be used to explore the nature of the identity, not only of organizations, but also of interorganizational networks. Before doing so, the structuration perspective on the identity of (any) social system(s) will be somewhat more clarified.

Identity as a Structural Property of Social Systems

From a structuration perspective, organizations, interorganizational networks and, consequently, franchise networks are social systems. Giddens (1984: 25) defines social systems as "reproduced relations between actors or collectivities, organized as regular social practices". According to Giddens (1979: 66), systems have structures or, more accurately, structural properties, but are not structures in themselves. For social systems, by contrast to structures, exist in time and space and are constituted by social practices via the duality of structure (see, once again, Figure 1).

In the course of reproduction, social systems, depending much upon and influencing the degree of systemness, tend to develop more or less central, distinct, and stable structural properties. In the case of organizations as well as of interorganizational networks, this may be – among others – a certain (system) identity that is collectively perceived, shared, and conceived by the system members (Giddens 1990: 302–303). In more concrete terms, this structural property is instantiated in those social practices that concern the

system as a whole and are associated with "who" related questions (self-referential meaning). That is, "... identity is about an entity's attempt to understand itself" (Pratt 2003: 164). Further on, it reflects mainly inwardly targeted sense-making (Pratt 2003), though this sense-making is not independent of the organizational environment. Rather, self-referential meaning is always established in face of hetero-referentialities, the views and images of important customers for example. However, references to the environment of the organization (hetero-referentialities) remain social practices of the respective organization - i.e. they are internally constructed.

Nevertheless, not all social practices refer to identity-related structural properties and, consequently produce or reproduce a system identity; at least not to the same extent. For example, most of the usual social practices of organizations in networks such as contracting, employee evaluation, or complaint management do not directly refer to identity-carrying structural properties. However, those practices could well be influenced by identity-related social practices and, in turn, influence identity building. For instance, self-descriptions such as "We are extraordinarily customer oriented and pursue the norm of fairness" are likely to affect the kind of social practices concerning complaint management. That is, one can distinguish different degrees of 'connectedness' of social practices with identity-related structural properties. For example, practices of storytelling about founding circumstances are expected to be more directly related to identity-constituting structural properties than practices of timekeeping.

However, the strength of connectedness to identity-related structural properties much depends on the context. For instance, if an organization describes itself as employee-oriented, in the sense of not demanding overtime work, practices of timekeeping should be expected to be more relevant to identity constitution.

As a collective structural property or trait (Bouchikhi & Kimberly 1998: 15), the identity of a social system is assumed to be not only an outcome of actors referring to these manifestations, but also a medium of system reproduction. Agents refer to this structural property in their social interactions via the duality of structure: ascribe meaning to it by means of interpretive schemes in communications, sanction it as positive or negative with the help of norms, and use it as a facility in order to powerfully intervene into interaction sequences, for instance when the franchisor tries to oblige the franchisees to follow the rules laid down in the franchise manual. However, as little as the single individual member can intentionally change the identity of an organization, not to mention of an interorganizational network, this identity never fully determines the perceptions and actions of organizational or organization members (Bouchikhi & Kimberly 1998).

The evolving system identity of an organization or network, like other structuring properties, allows for "the 'binding' of time-space in social

systems" and "makes it possible for discernibly similar social practices to exist across varying spans of time and space and which lend them 'systemic form'" (Giddens 1984: 17). This is because knowledgeable agents refer to certain system-specific modalities (e.g. interpretive schemes and norms) and thereby reproduce the existing structural properties, which, however, do not fully determine action, but rather function as a filter and thus mould the system's interpretation of an action on an issue (Dutton & Dukerich 1991: 520).

Following the proposal by Albert & Whetten (1985), this systemic identity concerning the similarity of social practices within a social system like an organization or an interorganizational network has, first, to be of rather central character to the system members and, second, to enable its distinction from other systems. Following the proposal by Gioia & Thomas (1996), one should, and this seems particularly wise in the case of more fluid interorganizational networks, be less strict with regard to the third characteristic of system identity: temporal continuity. In consequence, while we agree with Bouchikhi & Kimberly (1998), who propose that identity in this respect should be seen as varying along a continuum of malleability (fluid to strength), some well-established franchise networks like McDonald's are likely to score rather high in terms of centrality, distinctiveness and stability, but others are not.

While it may well be difficult to operationalize these criteria with respect to a concrete social system (Barney *et al.* 1998; Margolis & Hansen 2002), one is tempted to claim that the more central, the more distinct and the more stable, the more clearly pronounced is the identity of an organization or interorganizational network as a collective structural property of the system in question. However, much depends upon the actual organizational and interorganizational practices, including the textual narrative about the essence of the respective system, and upon the contextual conditions (e.g. culture) under which the narrative is produced and integrated into the system identity (as a structural property). Indeed, (autobiographical) texts and shared interpretations of them seem to be of particular importance for identity constitution (e.g. Czarniawska-Joerges 1994, 1996; Humphreys & Brown 2002a, b). These texts can range from mission statements over narrations about organizational founders to operation manuals. As already mentioned, particularly in times of crises, references to founders are important drivers to identity constitution. "The telling of one's own story, particularly at points when an identity is challenged from the 'outside', becomes an important contributor to identity itself. Many organizations are intuitively aware of this; that is why they present detailed and dramatic tales of their founders and their triumphs over adversity" (Christensen & Cheney: 229). According to McPhee (2004: 363), these and other kinds of text "can be used imperatively to guide actions or constrain outcomes.

They can thus contribute to the process of system integration; they can also reproduce hierarchic or less formal power divisions of the organization." With regard to franchise systems, these effects are for instance explicitly mirrored in the use of detailed operation manuals.

Among the contextual conditions which matter most in creating and diffusing such practices are the culture and the image of a social system. At least the frequent reference of scholars of organizational identity to these related, and yet distinct concepts seems to suggest this (cf. Dutton & Dukerich 1991; Fiol 1991; Hatch & Schultz 1997, 2000, 2002; Fiol *et al.* 1998). In part, this emphasis is understandable because of the almost exclusive focus on rules (of signification and legitimation) of almost all identity theories. Despite its general acknowledgement of the relevance of context, much of the organizational identity literature, particularly if based upon social identity theory, remains mainly within these dimensions and neglects resources and processes of power (e.g. Brown 2001). However, especially in franchise networks, power plays an important role in the constitution of organizational and interorganizational identities. If we can expect that organizations inherently consist of multiple identities and the idea of a monolithic organizational identity is the exception rather than the rule (e.g. Humphreys & Brown 2002b), this seems even more true of interorganizational networks. In the case of franchise systems – particularly in the restaurant industry – that strive towards uniformity, it is of major concern that these networks try to construct and maintain rather consistent organizational and network identities. But how do network identity and the identities of the member organizations interrelate from a structurationist perspective?

Network Identity and its Relationships to Organizational Identities

Depending upon the degree of systemness and its reproduction, an interorganizational network is more or less likely to exhibit a pronounced network identity (Anderson *et al.* 1994; Sammarra & Biggiro 2001; Huemer *et al.* 2004). If it does, this network identity is more or less likely to support mutual exchange of knowledge, to suppress free-riding, and ease coordination (Dyer & Nobeoka 2000), depending, however, on the practices and narratives and how they relate to this identity. To be analyzed in terms of rules (of signification and legitimation) and resources (of domination), a network identity informs us about how network members, member organizations in particular, collectively perceive and construct their interorganizational network as a distinct social entity. This self-referential construction, as in the case of organizational identities, is influenced by the (network) environment, i.e. by hetero-reference – towards a competing network for example.

According to our definition of organizational identity, we conceive net-

work identity as a structural property of the network that emerges from the (inter-)organizational practices of network members when answering the question "Who are we as a network?". Like in the case of organizational identity, these structural properties refer to the network as a whole, are relational, concern rather central and distinct aspects, and are more or less enduring. In franchise networks, particularly the business format, the products², the network's (brand) name and the operation manual seem to be of outstanding importance for the development of a network identity, both established and backed by a mostly powerful franchisor. These artifacts and symbols form much of the everyday life in franchise networks, though less everyday practice like referring to the ideas and views of the founder may also be highly influential.

As stated earlier, such a network identity evolves not only from such interorganizational but also from organizational practices. Thereby, the present state of the organizational identities of the network members is likely to influence the constitution of the network identity – and *vice versa*. Particularly the franchisor, as an organizational network member, is of decisive importance for the formation of the network identity. But the identities of the other organizations may or may not match the identity of the interorganizational network and, hence, support or undermine the evolution of a common network identity. In most real cases, the network identity and the organizational identities may overlap to an extent and in a manner that the network members, i.e. all organizations of the network, draw on the same texts or semantics to describe themselves. This is particularly likely in strategic networks led by a hub firm that has better access to important network resources. In the case of franchise networks this is the franchisor. Despite this asymmetry in these types of networks, the identities of the network are always constituted recursively, and the organizational identities of the single network members play, at least potentially, a significant role in this process.

This recursive process of identity constitution on the organization and network level is supplemented by similar processes on a more macro as well as on a more micro level. With regard to the former, the influence of the identity of a sector or industry, of a region or a district, on the constitution of organization and network identities would have to be accounted for (and *vice versa*).³ With regard to the latter, the impact of individual actors

² Bradach (1998: 26) denotes the particular importance of the respective product in franchise networks: "While the entire business format is integral to a chain's identity, the core element of the identity of most chains is the menu. The names of many chains reflected this emphasis (Burger King, Pizza Hut)."

³ Glynn & Abzug (2002), for example, explicitly argue that an organization's identity is rooted in institutional fields, and Hoffman & Ocasio (2001) accentuate the influence of a district identity on the perceptions and sense-making activities of industry members. On the other hand, Ritzer (2004) argues for the impact of 'McDonaldization' on the wider societal level.

– “boundary spanners” (Adams 1976) in particular – with their personal identities contribute to the constitution of the identity of the organization and the interorganizational network (and *vice versa*). As much emphasized by structuration theory, the production and reproduction of structural properties is not possible without individuals.

Emphasizing the relationship between the individual and organizational or network level of course touches the relationship between identity and identification. Whereas identity concerns the structural level, *identification* “represents the dynamic social process by which identities are constructed, through which they guide us, and by which they order our world” (Scott *et al.* 1998: 306). That is, in terms of structuration theory, identity and identification form a duality (Scott *et al.* 1998; Kuhn & Nelson 2002). Since structuration theory emphasizes the role of the practical consciousness, identities on all these levels are particularly likely to result from processes of interaction anchored in the practical consciousness of the agents. Thereby, the hierarchical position of the boundary spanners is likely to be one of many contingencies that influence what they describe as central, distinctive, and enduring about the organization (or the interorganizational network) they belong to.

If compared with more polycentric or multilateral networks, franchise networks are likely to exhibit a rather high degree of systemness and are thus, even more than other types of strategic networks, likely to exhibit a clearly pronounced network identity. In the case of well-established franchise systems like McDonald’s, this identity, though self-reflexive in principle, is likely to mirror not only the strong image outsiders hold, but also to express the cultural understandings of the network members. These constitutive mechanisms on the network level have to be supplemented by similar considerations on the organizational level, where organizational members refer in their practices to organizational structures via the duality of structure.

Though similar in process, in which not only rules (of signification and legitimation), but also resources (of domination) matter, the outcomes on the organizational level may well differ from that on the network level, for instance resulting in an organizational identity that, at least in some cases, is in conflict with the identity of the network as mentioned above. Clearly, a high degree of systemness and a strongly pronounced identity on the network level does not exclude the possibility of identifiable identities on the level of the single member organizations. As already mentioned, however, the structure of domination and how it is reproduced by network practices has to be taken into account when investigating identity constitution, if one wishes to answer questions like ‘Who has the power over the dominant definition of, or narration about the identity of the network, respectively the organizations in detail?’

In the case of franchise systems as a specific type of strategic network, one would expect a strong asymmetric structure of domination caused by the allocative and authoritative resources of the franchisor and reflected in its central position in the network. Under these circumstances it seems likely – at least in most cases – that the franchisor will define the identity of the entire network and, thereby, strongly influence the identities of the member organizations. The imprinting by the founder and the initial conditions of the founding of the network seem to be of significant relevance here (Stinchcombe 1965). Together with the originally established brand name and the business format, as well as the formal rules laid down in the franchise, these already make up a great portion of what is likely to be considered as the identity of the system. Furthermore, the recruiting practices and trainings at the beginning of a franchisee-franchisor partnership are of particular importance in socializing the franchisee to the network identity. As a result, every franchisee is likely to refer in his/her social practices to (nearly) the same semantics and texts, for instance, provided by similar operation manuals or trainings. Thus, and this corresponds to Bradach’s (1997, 1998) insights, a widely shared identity is likely to diffuse within the franchise network. Of course, this does not exclude the existence of deviant narrations at all. However, particularly in franchise networks, they seem to be marginalized, disguised or exist only in back regions (Goffman 1959; Giddens 1984), i.e. behind the dominant self-description that is expected to be communicated officially (cf. Coupland & Brown 2004).

In conclusion, and corresponding to the notion of holographic organizations (Albert & Whetten 1985), one would expect a kind of dominant network identity which infuses each member organization – here the franchisee in particular – to a degree that the organizational identity of the franchisee is at best *encapsulated by the identity of the network*. One reason for this is the strategic leadership of the franchisor, another is the complete overlap of the organizational domains of the franchisees with the network domain. Nevertheless, according to structuration theory, this asymmetric structure of dominance has to be reproduced (and stabilized) in day-to-day interactions as a specific structural property of the franchise network via the organizational and interorganizational, more or less collaborative practices of the franchisor and the franchisees. This is done most effectively if the structure of domination is either quite invisible or considered as legitimate. By initially signing the franchise contract, by accepting the business format, and by acting according to the rules accepted thereby, the franchisor’s control over the identity constitution is likely to be seen as legitimate by the franchisees and hence reproduced and stabilized. Furthermore, the legitimacy associated with a fairly strong brand might motivate the franchisees to abstain from deviating practices. Nevertheless, with regard to the notion of the dialectic of control, the franchisees always have a minimum organiza-

tional autonomy which they could use to deviate, at least partly, from the imposed identity prescription and to build up a distinct organizational, more local identity. From a managerial perspective, this could even be preferable, since an increased plurality in identities may foster overall creativity and may lead to more innovative behavior (Pratt & Foreman 2000) and, in the case of franchising, to a cleverer balancing of global standardization and local adaptation (Bradach 1997, 1998).

Constitution of Network Identity in Practice – Two Explorative Case Studies of Franchise Networks in Germany

The expectation of organizational identities being at best encapsulated by the identity of the network seems to hold true in the franchise network of McDonald's in Germany, that – at the time of investigation (May 2003) – consists of 815 restaurants operated by 263 franchisees. Together with 396 company-owned restaurants led by McDonald's Germany Inc. with its headquarters in Munich, this network constitutes the typical "plural form" (Bradach 1997, 1998) to be found in the global restaurant industry (see Figure 2). Apart from the headquarters and five regional offices and, of course, the franchisees, several suppliers and an independent provider

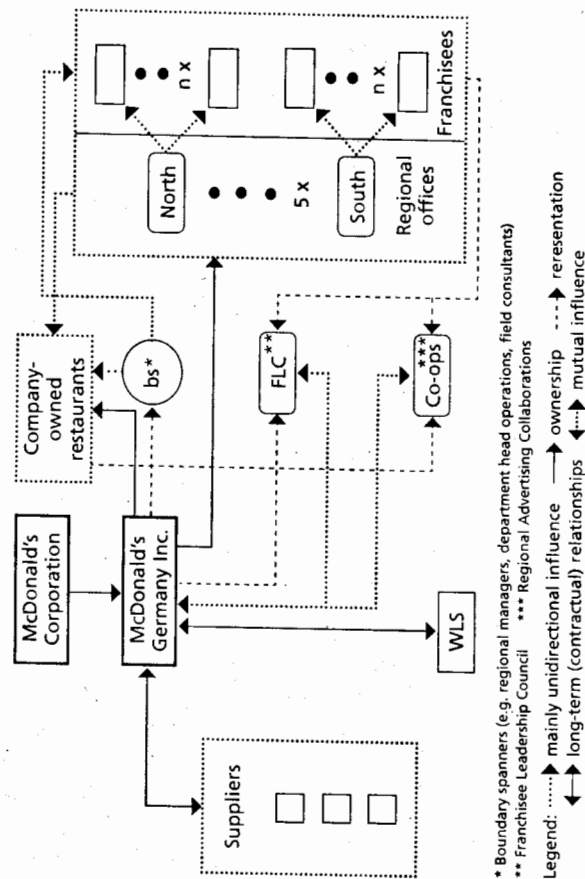


Figure 2: The McDonald's network in Germany (2003) and its locales of identity constitution.

of logistic services (WLS) are included in the network and provide social locales for identity constitution. The sustained strategic leadership, based upon economic success, ample resources and, hence, powerful control of the network rules, suggests that a clearly pronounced network identity has been built up over time, to which the member organizations have to conform.

The same holds true for the second franchise network investigated so far, the network of Subway in Germany (see Figure 3). At the time of investigation (August 2004), this network consisted of 108 restaurants. In contrast to McDonald's and most other fast food businesses, Subway restaurants are exclusively operated by franchisees.⁴ The Subway network is strategically led by the franchisor, Doctor's Associated Inc. headquartered in Milford, Connecticut, assisted by several regional offices. Since there is no regional headquarter or operational office in Germany, the contracting party for German franchisees is International B.V. (Amsterdam), the European office of the franchisor. For each of the 14 territories in Germany, a so-called Development Agent (DA) functions as an intermediary between franchisor and franchisee, and selects, supports and controls the local franchisees, rather independent of the franchisor.⁵ The relationship between franchisees and the DAs, who often operate restaurants as franchisees themselves, is usually very tight. Furthermore, there is an Area Development Agent (ADA) who is employed by the franchisor and serves primarily as a consultant to the DAs and the franchisees of respective areas. Apart from the franchisor, the franchisees, the DAs and the ADA, several (interorganizational) committees serve, at least potentially, as locales of identity constitution: the Subway Franchisees Advertising Funds Trust (SFAFT), the North American Association of Subway Franchisees (NAASF), the (European) Independent Purchasing Cooperation ((E)IPC), and the Development Agent Advisory Corporation (DAAC). The SFAFT consists of elected franchisee representatives, acts primarily on a local level, and coordinates marketing measures. The NAASF, although open to members all over the world, is exclusively focused on North America.⁶ This committee is comparable to a union advocating for the rights of the franchisees. The IPC or EIPC respectively consists of elected franchisee representatives who rather autonomously authorize local suppliers⁷ to deliver food etc. Finally, the DAAC, which is, as the NAASF, almost exclusively important in North America, serves as a lobby of DAs. Basically, with respect to identity issues, one can assert that, as comparable to McDonald's (see above), a rather clearly

⁴ The one company-owned unit is mainly used for testing and training reasons by the headquarters' Research and Development Department.

⁵ The DAs are legally independent and usually have a ten year contract with the franchisor.

⁶ A European counterpart is expected, but still missing.

⁷ Since Subway started to operate in Germany only five years ago, no long-term and stable supplier-relationships have been established yet.

pronounced network identity has been built up over time. This, again, is owed to the strategic leadership of the franchisor, but also to the important role of the DAs, which corresponds to that of the regional managers in the McDonald's case.

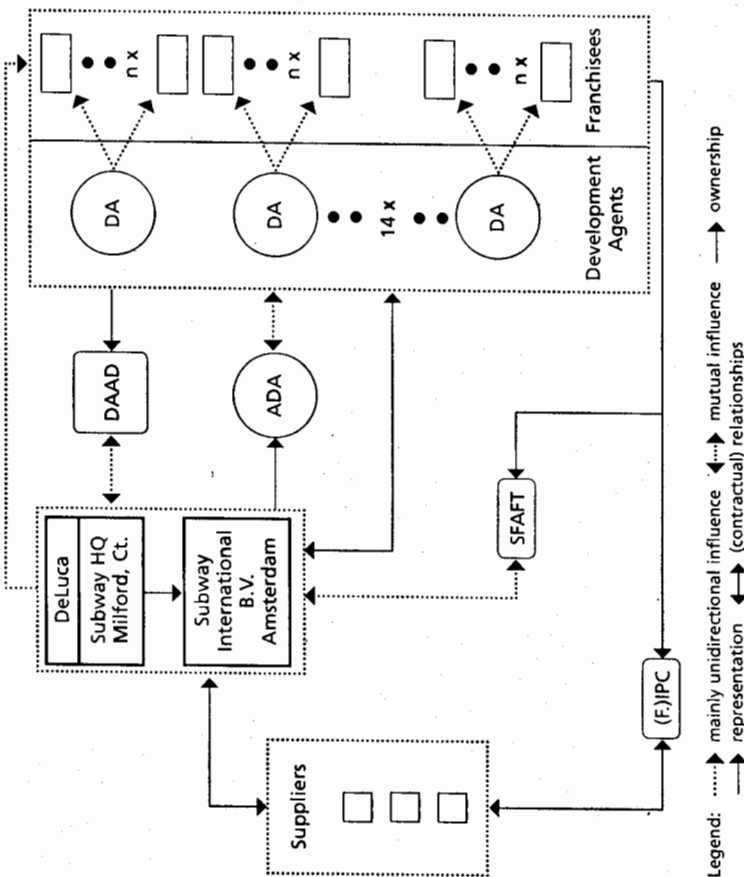


Figure 3: The Subway network in Germany/Europe (2004) and its locales of identity constitution.

Given the variety of locales for identity constitution, this very process and, in particular, the relationship between network identity and organizational identities in these two franchise networks will be looked at more closely in what follows. However, it must be mentioned that the empirical study of these networks is (still) strongly biased towards a unitary view of the network identity and, therefore, of only explorative nature. In any case, it serves more the purpose of illustration than of confirming our structuralist understanding of identity constitution.⁸

⁸ Up to now, rather extensive initial semi-structured interviews have been conducted with two managers of McDonald's Germany Inc., and with a Development Agent of Subway in Germany. Besides that, a variety of secondary sources such as business reports, internet documents etc. has been consulted.

Exploring the Network Identity of McDonald's and Subway

It is claimed that the core of McDonald's identity is its well-known QSC & V principle: Quality, Service, Cleanliness & Value (Love 1986; Sydow 1998). Via this principle, formulated as early as 1957, McDonald's tries to insure that its products are reliably of high quality and offered in a secure and tidy environment at very reasonable prices. That is, the QSC & V principle is referred to by social practices of recruiting new franchisees or employees, training practices as well as by consulting practices of respective boundary spanners. As such it is at the core of what we would refer to as identity-related structural properties of McDonald's. The self-description as a "family restaurant" – and its manifestation in the assortment and services that attract families world-wide – is another property that contributes to the identity of the network. As already mentioned, stories or narratives about important persons in companies' founding processes seem to be of particular importance for identity constitution. In the case of McDonald's, Raymond Albert Kroc (Ray Kroc) is such a person. Although deceased, narratives about and from him still prevail within the network and are of significant importance for the constitution of McDonald's identity. For example, one of Ray Kroc's legendary sentences "We have an obligation to give something back to the community that gives so much to us" is manifest in the requirement of every franchisee to be the Mrs. or Mr. McDonald's of her/his respective community.⁹

These features, together with the highly routinized processes and procedures and still the conception of being part of "McFamily", directly or indirectly define the network identity of McDonald's that is reproduced daily in the franchise outlets (as well as in the company-owned restaurants) under the leadership of the headquarters and its regional representatives. Thereby, hardly any discretion on the organizational level is left to the franchisees; and this is just what the hub firm tries to avoid by reinforcing the QSC & V principle, the family character of the restaurants, the standard operating procedures and so forth, through rather effective incentives systems and control mechanisms (e.g. Ritzer 2004).¹⁰

The situation is, of course, entirely different with respect to WLS and the other suppliers of the McDonald's network. With regard to their long-term relationship, which is described by McDonald's managers as "symbio-

⁹ In the case of Subway, Fred DeLuca, the current president and founder, seems to have a similar significance for identity constitution.

¹⁰ With respect, for example, to communication policy practices, franchisees are often not allowed to be interviewed. Furthermore, in another well-known franchise network in the restaurant industry 'public relations' has been completely sourced out. By such buffering franchise networks control the information flow and thereby reinforce the use of exclusive self-descriptions.

tic", these suppliers are an important part of the strategic network.¹¹ Not included in the franchise network in its narrow sense, they have always had the opportunity to develop and preserve an organizational identity of their own. This, however, is not unaffected by McDonald's network identity. For instance, some of the suppliers, especially those which deliver a large share of their output to McDonald's, profit from the "company's" reputation – for better or for worse.¹² This interrelatedness of the network identity with organizational identities is not at all surprising, because the triad of the "company", its franchisees and suppliers have always been considered as a "three-legged stool", a metaphor originally introduced into the vocabulary of McDonald's by its founder.

Like McDonald's, Subway claims to deliver high quality, service, cleanliness and competitive prices. But, although it seems to be a significant text which is used in (official) self-descriptions, it is not the aspect of self-description (network identity) that distinguishes Subway from its direct competitors. Rather, the 'QSC'-self-description has to be ascribed to the identity of the organizational field of the fast food business (Bradach 1998) that, in turn, has been much influenced by McDonald's (e.g. Ritzer 2004). A more distinct – in the sense of Albert & Whetten (1985) – self-description seems to be the claim for freshness, 'made-to-order', 'healthiness' and 'simplicity'. Such self-descriptions, here too, are socialized by training practices¹³ at the beginning of a franchise-partnership. They are reinforced by certain practices of internal communication policy such as regular newsletters, voicemails, e-mails or 'homevideos' from the headquarters as well as by the operations manual. In addition, particularly the DAs with their tight relations to the franchisees seem to contribute a great deal to the diffusion of the network identity. Moreover, it is the DA who is responsible for site retrieval, site analysis etc. at the beginning of a partnership and it is the DA who tightly supervises his/her franchisee(s) during the partnership.¹⁴

In comparison to McDonald's, the relationships between Subway and its suppliers do not (yet) seem to be as relevant for identity constitution, neither for the franchise network nor for the suppliers. Referring to the distinction between direct and indirect identity-related social practices (see above), Figure 4 contrasts the examples of McDonald's and Subway.

¹¹ Eleven of these have been suppliers to McDonald's for more than 20 years.

¹² This seems particularly to apply to WLS as they explicitly mention their partnership to McDonald's on their webpage (see <http://www.wls-logistic.de>).

¹³ Subway operates five training centres worldwide, one of them in Cologne, Germany.

¹⁴ This includes unannounced monthly 'evaluations' of the stores, where temperature, cleanliness, freshness of the products as well as employee behaviour towards customers is controlled. Further on, several financial ratios, such as productivity, are discussed.

Relation of social practices to structural properties of identity

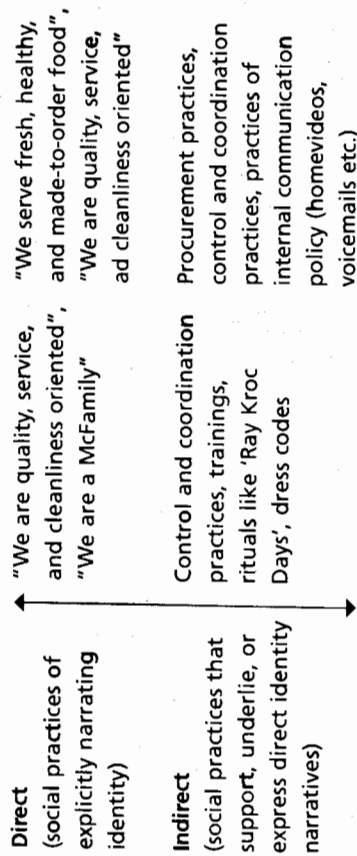


Figure 4: Connectedness of social practices with structural properties of identity.

Exploring the Interplay between Network and Organizational Identities

In the case of the McDonald's network, the QSC & V principle, the concept of the family restaurant and the conception of being part of the "McFamily" are present in many narratives in and about the "company" and supplement the role of the brand name, the business formula and the network rules in their constitutive influence on the network identity. Together with the omnipresent routines, these features – mediated by successful strategic leadership – are not only decisive for the constitution of the identities of the franchise outlets, but contribute significantly to the fact that the organizational identity of the franchise outlets is, at the most, encapsulated by the identity of the network.

While such a network identity evolves from organizational and, in particular, interorganizational practices, the present state of the organizational identities of the network members, i.e. of the franchisees, could also influence the constitution of the network identity. In the case of the McDonald's network, this potentially recursive relationship between network identity and organizational identity, however, seems to work only in one direction: from the network to the organizations. On the one hand, it seems particularly hard for an organization in this very competitive field of fast food, with its extremely high turnover of personnel, to develop an enduring organizational identity. On the other hand, the strategic and sustained leadership of the network by McDonald's Germany Inc. seems to leave hardly any social space for the constitution of organizational identities that

are, at least to some extent, independent of the network identity imposed on the franchisees and their outlets.

The strategic leadership is, at least in part, mediated and supported by regional managers. The strategic importance of these boundary spanners is reflected in the fairly high hierarchical positions of the regional managers. These do not only transmit the interpretative schemes and norms to the franchisees that contribute to the constitution of the network identity in terms of rules of signification and legitimation, but, by referring to resources of domination, also powerfully reinforce their compliance with the quality and service standards through incentives and tight controls.¹⁵ In consequence, the franchisees and their outlets, at least in the case of McDonald's, are less locales of identity creation than of identity adoption.

In the case of Subway, the interplay between network identity and organizational identities seems to be very similar to the case of McDonald's. The network identity is overarching and leaves hardly any social space for developing organizational identities within the network. That is, the franchisees develop their organizational identities or self-descriptions essentially by referring to the network's identity via interpretive schemes and norms that are ascribed to the network as whole. The respective semantics are manifest in the business format or operation manuals (see above). The franchisees - by referring to these rules (and resources) via interpretive schemes, norms (and facilities) - (re-)produce the asymmetrical structure of domination between franchisor and franchisees. In accepting and adopting the network self-description as organizational self-description, the franchisees, although legally independent, (have to) give up much discretion to build up distinct organizational identities. Indeed, with respect to the logo, the interior, the food offered, or just the manner of preparing it, there is a strong similarity among all franchisees worldwide.¹⁶ As in the case of McDonald's, the potentially recursive relationship between network identity and organizational identities seems to be unidirectional: from network to organization. Indeed, as already discussed, the strength of the brand should to a great deal account for (new) franchisees' willingness to give up much of their potential discretion as entrepreneurs. Further on, the business format seems to be legitimate and, as such, reduces risks of investment.

¹⁵ This can best be illustrated with reference to HACCP (hazard analysis critical control points), which is used along the value chain, the external quality controls by independent companies (e.g. Fresenius), and the so-called secret shopper programme, in which test customers check franchise outlets for service and cleanliness.

¹⁶ Of course, the franchisees are welcome to innovate, but for example, if there are suggestions about new sandwich products, they have to be tested by the headquarters first. If accepted, they become obligatory for all franchisees. One of the only possibilities to distinguish themselves as franchisees from one another is to offer breakfast, but again there are detailed rules on how to do it.

Both of our exploratory cases convey the insight that the overwhelming influence of the network identity on the organizational identity even questions the description of the organizational identities of the franchisees as 'encapsulated'. For encapsulation leaves space for building up organizational identities, though to a rather limited extent. But in both cases investigated it is extremely hard to identify organizational identities that are not derived from the network identity. This result may reflect our still limited access to the franchisees' views, for franchisees, very much in contrast to the company-owned outlets in the case of McDonald's, have at least some discretion with regard to aspects of the interior and exterior design of the outlet and with regard to some elements of marketing policy (e.g. pricing).¹⁷

The lack of social space for creating organizational identities independent of the identity of the network is quite surprising, given both McDonald's and Subway's strong (at least rhetorical) emphasis on the franchisee as an entrepreneur and, secondly, an increasing number of franchise outlets that are left to the heirs of the original franchisee and are thus owned by the second or even third generation. Because of the path-dependent nature of the evolution of identities one should, at least in some of these cases, expect organizational identities to emerge along the identity of the franchise network and to survive 'encapsulated'. Perhaps these presumably exceptional cases can be detected in a further exploration of the two networks.

Inquiring more deeply into the identity of the member organizations in these two networks is still on our agenda. This is also true with respect to the role of regional franchisee meetings and of the Franchise Leadership Council (FLC) in the case of McDonald's¹⁸ or the (E)IPC in the case of Subway (see again Figures 2 and 3 respectively), that can be locales of holistic or ideographic identity constitution. With regard to both issues, interviewing has surely to be extended and to include franchisees and maybe even employees. In addition, some participant observation would be helpful to cross-check the findings from interviewing. Further on, in contrast to franchise networks in the restaurant industry, one has to explore whether our findings apply to franchise networks in other industries. Finally, since identity questions are mainly brought up in and about organizations and interorganizational networks in times of crisis and change, future studies, including our own ongoing research, should pay particular attention to crisis-issues that may have affected the identity of the McDonald's and Subway networks.

¹⁷ Moreover, both franchise as well as company-owned outlets should have some discretion with regard not only to design, but also to employee relations, leadership etc. However, due to the standardized Taylorist work organization, this influence is assumed to be very limited.

¹⁸ In the case of Subway, similar institutions do not exist. However, as our interview partner told us, it is common for the DAs to invite their franchisees to an informal information exchange every 6-8 weeks.

Conclusions: Towards a Typology

Franchise systems constitute an extreme form of strategic networks, not only, but certainly also with respect to identity issues. Thus, the relationship between organizational identity and network identity in this archetype of network should not be expected to be generally valid. Other networks, like the strategic alliance of Renault with TotalFinaElf, may consist of firms with clearly pronounced organizational identities and hardly exhibit any network identity (yet). This archetype could be named 'organizationally dominated identities'. Even others, like the well-known StarAlliance in the airline industry or the Toyota supplier network in the automotive industry (Dyer & Nobeoka 2000) for example, seem to be characterized by strong organizational identities, but struggle for some coherence, distinctiveness and continuity on the network level. They seem to belong to a type that could evolve to what may be called co-existing or even 'balanced identities'. Franchise networks, in sharp contrast, seem to belong to a type of (strategic) network that is characterized by almost the contrary: a very pronounced network identity and organizational identities that can hardly be distinguished from that network identity (see Figure 5). At best, the organizational identity may be 'encapsulated', but as the two networks investigated show, at least sometimes there may be no social space for an organizational identity to emerge that is any different from the identity of the network. Due to the sustained and tight strategic leadership of the networks by the headquarters

and its boundary spanners, the network identity of both networks seems to interpenetrate the identities of the franchisees and their outlets to an extent that leaves the outlets with identity adoption rather than with the chance for identity creation. As to whether this holds true of all franchise networks, this could and should be a matter of future empirical study. Given the significant diversity of the extent to which franchise networks are strategically led by the franchisor/hub firm (Sydow 1998), we expect that this is not the case, but rather that in some cases our expectation of 'encapsulated identities' holds true. Finally, there is the possibility of 'unpronounced identities'. This fourth archetype is characterized by rather unpronounced organizational identities and a weak identity of the network. This may be common for networks of entrepreneurial firms that have not yet had a chance to develop an organizational or a network identity.

From a managerial standpoint, our theoretical understanding, as well as the two cases studied, demonstrates the efficacy of network management with regard to unification and standardization - also in terms of identity constitution. However, the achieved degree of unity and standardization in the cases studied may cause problems, since it suppresses variety and, thus, innovation (Pratt & Foreman 2000). For that reason alone, somewhat more multiple organizational identities, framed by a still coherent, distinct and enduring network identity, may well offer economic advantages, even in franchise networks. In other types of networks and alliances, however, the managerial challenge may be just the opposite: to harmonize organizational diversities in order to build at least some network identity that helps to integrate often rather loosely coupled network practices. However, the way in which the relation between network and organizational identities should be developed is, last but not least, dependent on the main purpose of the network. In the case of more explorative oriented network types like technological alliances, a greater diversity of organizational identities may be beneficial, whereas in the case of more exploitative oriented networks like the franchise networks, a greater uniformity of the organizational identities is assumed to be more effective.

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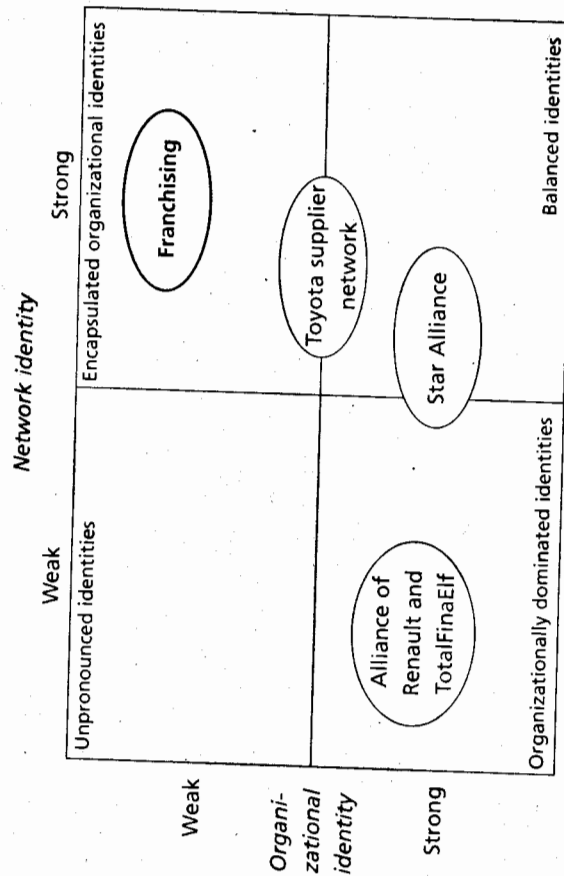


Figure 5: Relationships of the identities of networks and organizations - A typology with examples.

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