Determinants of the Evolution of Cooperation in Franchising Networks

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ABSTRACT

We develop a conceptual framework that integrates concepts from evolutionary (game) theory and from cultural anthropology to study how cooperation emerges and persists within organizational contexts. In particular, we argue the case for three rules that govern the evolution of cooperation – kinship selection, direct reciprocity, and indirect reciprocity. We apply these rules to a cooperative arrangement that displays particularly interesting features as regards its entrepreneurial members’ tendencies towards choosing cooperative vs. defective, or “free-riding”, behavior: to the franchise form of organization. We further argue that social learning and cultural transmission mechanisms support these three rules of cooperation, so that cooperation can evolve and remain stable even in noisy and large group environments. The model helps organizations understand factors that affect cooperative tendencies among its network members, and provides direction on how to foster, promote, and fine-tune a cooperative climate in the network – initially, as well as in the long run. Accordingly, we develop specific propositions concerning the evolution of inter-firm cooperation within the franchised type of business.

**Keywords:** organizational structure, organizational culture, evolutionary (game) theory, franchisee cooperation, franchisee selection, cultural anthropology, network theory

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