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Strategic Interactions in Franchise Relationships

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9 Summary, conclusions and discussion

9.1 Introduction

In this thesis I have tried to grasp the complexity of how franchise partners as strategic alliance partners respond to each other given the exploration/exploitation paradox. I have posed the following basic research questions:

- How does the exploration/exploitation paradox manifest itself in franchise relationships?
- How do the franchise partners respond to each other in dealing with this paradox, and why do they adopt these responses?

Since franchise relationships are considered as a specific form of strategic alliance, Chapter 2 has discussed several perspectives used in research on strategic alliances in general and franchise relationships in specific. Chapter 2 demonstrates that in order to gain insight into strategic interactions between franchise partners related to the exploration/exploitation paradox a combination of different theoretical perspectives is required. Therefore, in Chapter 3 a research model has been introduced in which different perspectives are combined. Based on a preliminary study, this model distinguishes five 'franchise system characteristics' on the basis of which franchisors have to make strategic choices in dealing with the exploration/exploitation paradox in their franchise system. These characteristics are: the positioning of the system, the system's degree of hardness, the system's rate of innovation, the organization of the franchisees' strategic participation and the type of growth objectives of the system. It was hypothesized that on the relationship level, these five characteristics influence the degree of strategic compatibility between the franchise partners. This has resulted in five types of strategic compatibility (SC): SC pos, SC hard, SC innov, SC org, and SC growth. Next to strategic compatibility, other variables were hypothesized to influence the responses of franchise partners toward each other. These variables were operational compatibility (OC), the attractiveness of alternatives (Attalt) and switching costs (Swico). Operational compatibility consists of three elements: OC capa, OC profit, and OC trust/fair dealing.

The empirical part of this study consists of case studies conducted in the Dutch drugstore industry (Chapter 4). Four franchise systems were studied and in each of these cases two 'strategic change trajectories' (SCTs) were chosen, in which the exploration/exploitation paradox manifested itself. In total, eight SCTs were studied. During these SCTs the franchisor aimed at changing one or more of the franchise system characteristics, which resulted in various responses by the franchisees to which the franchisor had to respond in return. Chapters 5 up to and including 8 have described and analyzed the developments in the four Dutch franchise systems: DA, STIP, ETOS and Uw Eigen Drogist (UED) and have discussed the conclusions of each case-study.

In each case, three types of conclusions were drawn (see Chapter 4):

- 'Type 1 conclusions': conclusions with respect to the contents of the independent variables of the research model: the variables of strategic compatibility, the variables of operational compatibility, attractiveness of alternatives and switching costs. This type consists of two elements. First, conclusions about the indicators of the independent variables. Second, conclusions about the franchise partners

perceptions of the independent variables. Section 9.3 compares the ‘type 1 conclusions’ of the different cases.

- ‘Type 2 conclusions’: conclusions about the relationship between the independent variables and the dependent variable. In other words, how did the franchise partners’ perceptions of strategic compatibility, operational compatibility, attractiveness of alternatives and switching costs influence their responses toward each other? This was the central question in this study. Section 9.4 compares the ‘type 2 conclusions’ of the different cases.
- ‘Type 3 conclusions’: conclusions about ‘background variables’. These are variables that exert indirect or moderating influences on the relationships within the research model. With respect to indirect influences, the question was: which variables indirectly influence the franchise partners’ perceptions of the independent variables? With respect to moderating influences the question concerned: which variables moderate the relationship between the independent variables and the dependent variables? Section 9.5 focuses on comparing the ‘type 3 conclusions’ of the cases.

The following chapter will compare the results of the case studies in order to gain a more general insight into the strategic interactions between the franchise partners during the SCTs. The structure of this chapter is as follows: section 9.2 first presents a brief overview of the cases and the SCTs. After that, the three types of conclusions are discussed separately (sections 9.3, 9.4 and 9.5). As pointed out, the question why franchise partners respond to each other in a certain way during an SCT (conclusion type 2) is central in this thesis. However, the different types of conclusions are necessary for developing a full understanding of why franchise partners adopt certain responses. The type 1 and type 3 conclusions help in understanding the reason why the franchise partners have adopted certain responses. Type 1 does so by focusing on the franchise partners’ perceptions of the independent variables, while type 3 provides insight into why franchise partners attach a certain importance to certain indicators and independent variables.

After discussing the comparisons between the different types of conclusions regarding the four franchise systems, section 9.6 will summarize the most important conclusions of this study (‘Final conclusions’). Section 9.7 will offer an opportunity for discussion and suggestions concerning further research. Finally, the practical implications for franchisors (section 9.8) as well as for franchisees (9.9) are dealt with.

9.2 Overview of the cases and their SCTs

This study has focused on the four drugstore systems DA, STIP, ETOS and UED. Within these systems the following SCTs were investigated:

- SCT1 ‘Toward business-format thinking’ (DA).
- SCT2 ‘Integration and renegotiation’ (DA).
- SCT3 ‘Reanimation’ (STIP).
- SCT4 ‘STIP’s integration and renegotiation’ (STIP).
- SCT5 ‘Two-front attack’ (ETOS).
- SCT6 ‘Introduction of the Four Worlds format’ (ETOS).
- SCT7 ‘Prospective acquisition’ (UED).
- SCT8 ‘Some hardening’ (UED).

The franchise systems dealt with in this study belong to the same industry and are therefore competing systems. Focusing on a single industry has made it possible to gain insight into the developments in independent systems that co-evolved with each other. In several cases, developments in relationships during the SCT in one particular system influenced developments in relationships in other (competing) systems. Fig. 9.1 presents an overview of the SCTs in relation to each other and the switches made by franchisees between the systems.

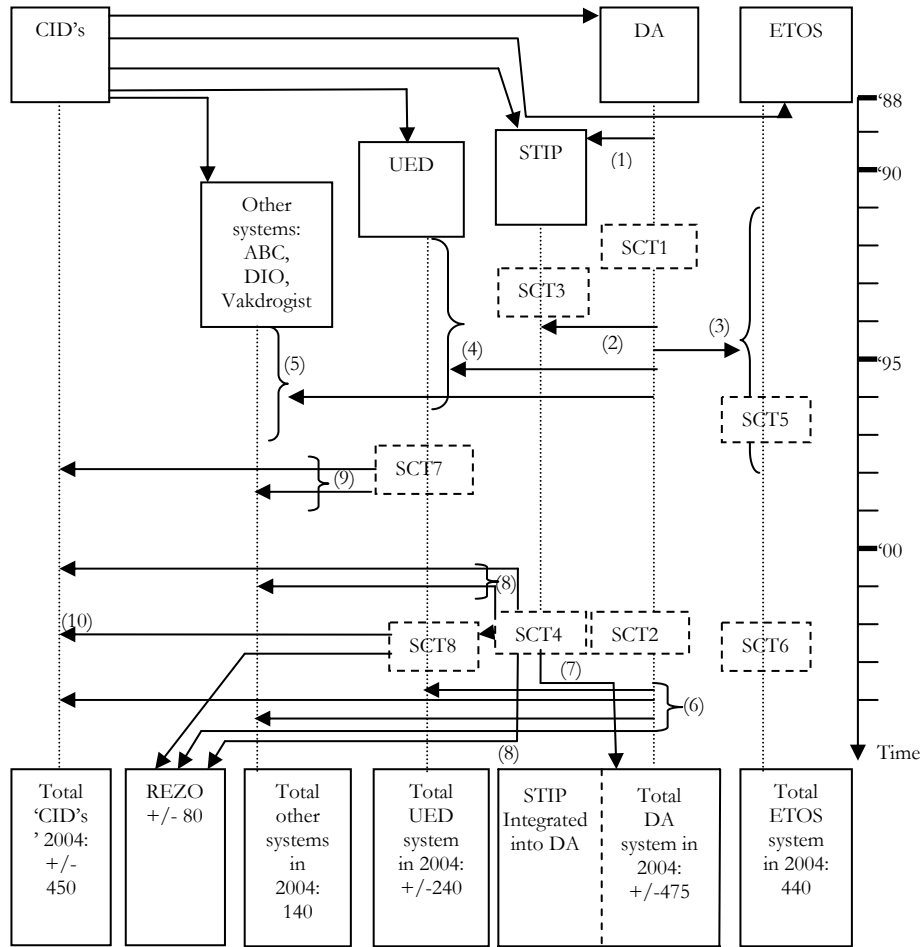


Fig. 9.1: Overview of SCTs and switches made by franchisees between franchise systems in the Dutch drugstore industry

The numbers in Fig. 9.1 depict the switches of druggists and franchisees between systems in chronological order. The numbers in Fig. 9.1 reflect estimations of the total number of drugstores in the systems in 2004. The total number of ETOS stores includes about 220 company-owned stores. The total number of DA stores is without about 75 DA Beauté stores.

- 1) Before SCT1 started several DA franchisees had already switched to STIP because of the increasing obligations imposed upon them by DA, which they could not fulfill.
- 2) During SCT1, more DA franchisees changed over to STIP because the obligations imposed at DA in this period increased even more.
- 3) Mainly due to these obligations, several DA franchisees switched from DA to ETOS. At that time, ETOS was a relatively hard system. However, in order to attract DA franchisees, management deliberately lowered the degree of hardness by not confronting the former DA franchisees with certain obligations.
- 4) In reaction to SCT1 some DA franchisees switched to the UED system.
- 5) In addition, some DA franchisees switched to other soft systems, such as ABC, DIO, De Vakdrogist, or de Drogist.
- 6) During SCT2, several DA franchisees either switched to the UED system or to systems such as ABC, DIO, Vakdrogist, or De Drogist, or they became CIDs, or members of the new REZO-group that did not work under one brand name, but only sent out brochures and engaged in a certain degree of joint purchasing. The case studies have shown that the entry of DA franchisees to the UED system influenced the developments within this system. It is also interesting to observe that during SCT2 ETOS was no longer an attractive alternative because its degree of hardness had increased over time and DA franchisees considered ETOS as even harder than DA.
- 7) At the same time, during SCT4, the STIP system was integrated into DA. As a result, several STIP franchisees converted their stores into DA stores.
- 8) Other STIP franchisees, who did not want to switch to DA, switched to UED or to other soft franchise systems, to REZO, or became CIDs.
- 9) As regards the UED system, during SCT7 several druggists switched to other soft franchise systems, or they became CIDs.
- 10) In reaction to SCT8 several UED franchisees exited the system and decided to continue as CIDs.

I would like to emphasize that some of these processes took several years. Franchisees did not adopt exit responses simultaneously; some did so early after the introduction of the SCT, while others exited several years after that.

9.3 Comparison of type 1 conclusions: perceptions of independent variables

This section presents the insights gained from the different cases with respect to the franchise partners' perceptions of the independent variables. It consists of three subsections:

9.3.1 Independent variables from the franchisees' perspective.

9.3.2 Independent variables from the franchisor's perspective.

9.3.3 Relationships between indicators and independent variables. While conducting this study, it became clear that several indicators were related to each other, and consequently influenced the franchise partners' perceptions of the independent variables. A distinction needs to be made between:

- a) Relations among franchise system characteristics.
- b) Relations among other indicators.

9.3.1 Independent variables from the franchisees' perspective

Strategic compatibility regarding positioning [SC pos]

With respect to positioning the following indicators were used: assortment, service level, price level, store appearance and promotion activities. Among these indicators the assortment and promotion activities appeared to be the most important factors influencing SC pos. This can be explained by the fact that 1) in most cases they were the franchisees' motivations to become part of a franchise system, and 2) because in most cases these factors were obligatory. Whenever franchisees perceived a low degree of SC pos, this was mostly because of promotion activities and the assortment related to it.

Strategic compatibility regarding degree of hardness [SC hard]

With respect to the degree of hardness, the following indicators were used: degree of obligatory business format elements, degree of other requirements and degree of enforcement. It turned out that the degree of enforcement was central in this respect; even if there were many requirements on paper, it did not matter if the franchisor did not enforce them in practice. That is why several franchisees within the DA- and STIP system still rated strategic compatibility regarding hardness as medium, and therefore did not feel the need to adopt an active response.

An additional aspect of enforcement emerging in the ETOS case was the presence of a certain degree of 'peer-monitoring'. This means that franchisees often 'monitored' each other whether they fulfilled their obligations. This was only detectable in the ETOS system because it was the hardest of the four systems, requiring of franchisees to make relatively high specific investments. Therefore, franchisees 'monitored' colleagues in an effort to prevent them from free-riding by making less specific investments, while still benefiting from the ETOS-name. These franchisees saw it as one of management's tasks to enforce the requirements upon all franchisees. It is likely that such 'peer-monitoring' gets more common as franchise systems become harder.

Strategic compatibility regarding rate of innovation [SC innov]

With respect to rate of innovation, the following indicators were used: importance of introducing new products, the importance of introducing new product groups and other adaptations to the business format, and the importance of adapting the business format as a whole. In general, franchisees believed that the introduction of innovations required investments that were risky because their returns were uncertain. Therefore, they weighed the risks and benefits (profits) of adopting this innovation. However, there were differences in the levels of innovation in terms of these investment requirements and risks.

- On the level of *new products*, the costs and risks were perceived as the lowest. Therefore this level often did not pose any problems. Moreover, on this level most franchisees desired a certain degree of innovation in order to keep up with the competitors. Only very small stores operating under relatively weak competitive circumstances (mostly STIP and UED stores) were hesitant even on this level to make innovative investments.
- The level of *new product groups and other business format adaptations* required more investments, and franchisees generally considered these as more risky. Therefore, in the eyes of the franchisees this sometimes resulted in low SC innov. This was especially the case in the DA, STIP and UED systems, where several franchisees thought they could not increase their turnover by a higher rate of innovation. In

other words, in their view the extra costs resulting from a higher rate of innovation would not lead to higher turnovers, and therefore not to higher profits. In fact, they were afraid that it would result in lower profits. Within the ETOS system, the situation was slightly different because franchisees were often located in places with stronger competitive circumstances. Therefore, they believed that a high rate of innovation was indeed required to attract more customers, or at least to maintain the current customer level and avoid losing turnover to competitors.

- On the level of adapting *the business format as a whole*, the investment requirements were the highest. Therefore this kind of innovation was considered most risky. Most franchisees were very careful in this respect and they were eager to know if and when they could recoup their investments (SCT2, 4, 6 and 8). During SCT8, at UED these investments and risks were the smallest because the franchisees only needed to adapt their store exterior. However, for several UED franchisees the costs of this adaptation were still high compared to their turnover levels, which made them hesitant. In sum, to understand a franchisee's motives for innovation, it is important to gain insight into the proportion of the investment compared to the franchisee's turnover, and to determine in what term the franchisee can recoup this investment. Additionally, some franchisees did not want to invest in the new format at all, or the investment was delayed for more 'practical' reasons: franchisees about to retire did no longer want to invest; they would wait for the renovation of the shopping mall so they could renew their stores simultaneously. These aspects were considered important by the franchisees of all four drugstore systems, and they influenced the development of the franchise system characteristics. However, so far no attention has been paid to these factors in the existing literature.

Strategic compatibility regarding the organization of strategic participation [SC org]

The organization of the franchisees' strategic participation was added on the basis of the preliminary study. With respect to this issue the following indicators were used: presence of a Franchisee Association and/or Franchise Board, the existence of formal decision rights for the Franchise Board, the degree to which subjects of decision rights were explicitly recognized, and the degree of detail in procedures. Within the ETOS- and UED systems, franchisees had no formal decision rights and the Franchise Board was used as a 'consultation partner'. In order to create support among the large group of franchisees, management often tried to reach consensus with these Boards before making strategic decisions⁷⁶. In the 'new' DA system (after SCT2 and SCT4), the Franchise Board did in fact have formal decision rights with respect to certain topics. This is because the DA franchisees were also members/owners of the Druggists' Association that in turn owned DA's franchisor: Dynadro BV.

The most important indicator of the organization of strategic participation concerns the procedures related to it, and especially the 'fairness' of these procedures as perceived by the franchisees. Three types of procedures were considered important:

- Procedures for selecting franchisees as members of the Franchise Board.
- Procedures concerning the replacement of these franchisees.
- Procedures for the rights of the Franchise Board.

⁷⁶ Examples of such strategic decisions were the introduction of Some Hardening at UED (SCT8), and the introduction of the Four Worlds format at ETOS (SCT6).

These were considered important because the franchisees considered the Franchise Board as an institution for representing their interests. During SCT1 and SCT3 the importance of ‘fairness’ became clear within the DA- and STIP systems. Here, the way in which franchisees were selected (‘cooptation’) and the lack of procedures around the duration of their membership led to low SC org perception ratings by the DA- and STIP franchisees.

Chapter 2 suggests that Franchise Boards could be used for ‘intentional variations’. So, in theory, Franchise Boards can play a role in the development of innovations within the franchise system. In general, there was a difference between the ETOS franchisees and the franchisees from the other systems. The ETOS franchisees were of the opinion that innovation was mainly the task of the franchisor, because it possessed the knowledge of the market and of what was good for the system. The DA, STIP and UED franchisees had always felt they had enough room to innovate on their own initiative (because of the low degree of hardness), so, in that respect they did not need the franchisor. In sum, rather than initiating innovations most franchisees shared the view that the most important task of the Franchise Board was the representation of their interests.

All four systems operated in collaboration with a Franchise Board, but franchisees differed in their opinion about the importance of such a Board. Section 9.4 discusses those particular situations in which a Franchise Board was considered important and why.

Strategic compatibility regarding the type of growth objectives [SC growth]

The distinction between qualitative and quantitative growth objectives was made on the basis of the preliminary study, and has not previously been dealt with in the franchising literature. This franchise system characteristic refers to the way in which the franchisor prefers the franchise system to grow: by means of adding a large number of new units to the system (quantitative growth) or by focusing on the growth of the existing units by means of relocation or renovation (qualitative growth).

From the franchisees’ perspective, the question was merely whether they expected problems from the franchisor’s growth objectives in their individual units. In the case of quantitative growth, problems could arise if the franchisor should decide to open a new unit within or near the exclusive territory of the franchisee. In the case of qualitative growth, problems could arise because the franchisor wanted the franchisee to renovate or relocate his store in order to improve his performance.

In the case studies, problems due to growth objectives did not occur; franchisors did not (yet) enforce franchisees to renovate or relocate and there were no problems (yet) with exclusive territories.

Operational compatibility regarding capabilities [OC capa]

With respect to OC capa from the franchisees’ perspective, the following franchisor capabilities were distinguished: automation, purchasing prices, logistics, communication, information provision and support. These aspects were not considered as equally important by the franchisees. The most important issues were automation, purchasing prices, logistics and support. Especially obligatory issues, the investments required of the franchisee and factors influencing the franchisee’s cost level were considered important. This differed among the four systems because they were all faced with different obligations with respect to these factors. As soon as they became obligatory, operational compatibility with the franchisor in this respect would also become an important issue to the franchisee.

Operational compatibility regarding profitability [OC profit]

As regards OC profit, the profitability of the relationship as perceived by the franchisee was the only indicator. Some franchisees mostly focused on the costs (as part of profitability) of participating in a franchise system because they did not expect to increase their turnover and profits by means of more investments. Especially when franchisees perceived their competitive circumstances as weak they considered their turnover as stable. Additionally, franchisees of this kind often had small floor areas resulting in relatively low turnover levels, which only increased the share of costs and risks. These franchisees assumed it would take a long time to recoup their investments. They were mostly STIP- and UED franchisees or franchisees of 'small' DA- and ETOS stores. Other franchisees mostly focused on the difference between turnovers and costs, in other words: profitability. They expected that it would be possible to increase their turnover and therefore their profits by means of certain investments. And they believed that they could recoup their investments within an acceptable period of time. This difference in focus can be explained by the way they perceived their competitive circumstances as well as their turnover levels (see 9.5 about background variables).

Operational compatibility regarding trust/fair dealing [OC trust/fd]

In Chapter 3 it was assumed that fair dealing is a specific form of trust. The research model distinguishes one type of fair dealing. However, the case studies show that no less than three types of 'fair dealing' can be distinguished:

- 1) Fair dealing *between the franchisor and the individual franchisee (individual franchise relationships)*. This relates to Ring and Van de Ven's concept of fair dealing (Ring and Van de Ven, 1994) that was included in the research model. It refers to the franchise partners' belief that costs and benefits are divided between them in a fair way. As will be pointed out in section 9.4, fair dealing is especially important with respect to requirements. Although the DA- and STIP systems were not really hard systems, management introduced several requirements that the franchisees did not consider as true examples of fair dealing. The fact that fair dealing was perceived as low was mainly the result of the intransparency in the way the costs involved in these requirements were calculated. The 'implicit charges' made by management played an important role in this. In the case of ETOS, in which there were even more requirements, there were no problems concerning fair dealing because the costs were more transparent, and purchasing prices were the same for company-owned and franchised units, which was monitored by a third party (an accountant).
- 2) Fair dealing *within the franchise system* as perceived by the franchisees. This refers to whether the franchisees felt that they were treated equally by the franchisor. In some cases there were rumours and suspicions among franchisees that certain franchisees could buy goods from the franchisor more cheaply, which resulted in the emerging of a perception of 'unfairness'. Additionally, this applied to the enforcement issue; franchisees sometimes felt that the franchisor was permissive to particular franchisees. Of course, other franchisees perceived this as 'unfair' (and also as undesirable because it damaged the system's uniformity). Another important element is Franchise Board membership. In the DA and STIP cases certain franchisees, who had been appointed by management to the Franchise Board, had been members for a very long time, and other franchisees felt that these were favored by the franchisor. This was due to a lack of procedures regarding the organization of the Franchise Board, resulting in a perception of

unfairness among some franchisees. The term ‘dealing’ might sound as if it is only about the division of financial benefits, but it also refers to a more general level of ‘treatment’ or ‘dealing with’: does the franchisor deal with its franchisees in a fair way?

- 3) Fair dealing *among the franchise systems of the same franchisor*. This level is only relevant in situations where the same franchisor administers more than one franchise system, which was the case with DA and STIP. Especially, in the STIP case fair dealing among franchise systems appeared to be important: several STIP franchisees believed that their payments were invested in the DA system and not in STIP. This notion was reinforced by the low transparency in the way costs were calculated. Additionally, the STIP franchisees not only considered fair dealing from a financial perspective, but also from a more psychological perspective: they felt they received less attention and believed that the franchisor put fewer efforts into them because they were given a low priority and management expected that their stores would be closed down soon anyway.

Fair dealing is considered as a specific form of trust, but, as argued in Chapter 2, also other forms of trust can be distinguished. In order not to complicate matters much I have not used separate indicators to deal with these forms, but the cases illustrate that different forms of trust are indeed relevant. Chapter 2 distinguishes:

- ‘Personal trust’ on the personal level.
- ‘Organizational trust’ on the organizational level.
- ‘System trust’ on the level of the ‘socio-economic system’.

Each of these forms exists in the investigated cases. However, the levels should be slightly adjusted. ‘Personal trust’ evolves on the level of interpersonal relationships, while ‘organizational trust’ refers to the level of interorganizational relationships. These two levels are related to the first level of fair dealing: the level of individual franchise relationships involving personal and organizational trust. On this level, the partners must believe that the costs and benefits of the relationship are divided fairly between them. However, as indicated above, the case studies have shown that a second level of fair dealing needs to be added; fair dealing *within* the franchise system, which refers to the notion that franchisees also want to be sure that the franchise system works in a fair way, that the franchisees are treated equally and that each franchisee will get what he deserves. This is what I call ‘franchise system trust’. It actually refers to an intermediate level between ‘organizational trust’ and ‘system trust’. Franchise system trust relates to another level than the ‘system trust’ that was initially distinguished in Chapter 2, because the latter refers to the level of the wider institutional framework, in which factors such as legal regulations or the presence of trade associations influence the trust in the ‘socio-economic’ system. I refer to trust on the level of the franchise system as ‘franchise system trust’, while trust on the highest level remains ‘system trust’. Section 9.6 discusses various instruments that were ‘institutionalized’ within the franchise systems (especially within ETOS), which improved the franchisees’ perception of ‘franchise system trust’.

Attractiveness of alternatives [Attalt]

The research model distinguishes four types of alternatives for franchisees:

- Becoming a franchisee within another drugstore system.
- Continuing as a CID (‘completely independent druggist’).
- Starting a business in another industry possibly within another franchise system.

- Becoming an employee.

On the basis of the case studies, another type of alternative for franchisees can be added, namely renting out the location to another organization. This is only possible if the building is the franchisee's property. This alternative was mainly considered by ETOS franchisees who did not really regard themselves as druggists, and felt they could also conduct other business activities (mostly in retailing). Next to their ETOS stores these franchisees also often had other types of stores, so the drugstore was not their only activity.

The franchisees differed in their perceptions of the attractiveness of alternatives. For example, ETOS franchisees considered different types of alternatives as relevant than the UED franchisees did. And even within franchise systems, franchisees had different perceptions of the attractiveness of alternatives.

Additionally, the case studies have shown that alternatives can change through time because new drugstore systems may arise, or existing drugstore systems adapt certain characteristics of their system to attract franchisees.

The reasons why franchisees within the same industry have such different perceptions of alternatives will be discussed in 9.5.1, in which the background variables of franchisees are dealt with.

Switching costs [Swico]

The following indicators were used to determine switching costs: the amount of specific investments, guarantees and hostages, and the income from the relationship as percentage of the total income. With respect to the indicators of switching costs four additional comments can be made.

First, the case studies have shown that, next to financial and contractual switching costs, sometimes social/emotional switching costs played a role. These social-emotional costs were the highest in the DA system, especially around SCT1. This can be explained by the fact that the DA system had a long history with a certain 'social' value. In its earlier years, DA did not merely represent a form of economic cooperation, but its members considered the system as a 'family' to which they attached a certain status and value. However, as explained in section 9.4.1, switching costs were never a reason for franchisees to stay in a franchise system when they were dissatisfied and wanted to switch. In the case of DA during SCT1, the franchisees were hesitant to exit because of emotional reasons, but they eventually exited when their dissatisfaction had reached a certain level. In the other franchise systems and SCTs, the social/emotional switching costs hardly played a role. Within these systems switching costs were mostly considered from a financial and contractual perspective.

Second, switching costs include 'exit barriers' as well as 'entry barriers' with respect to alternatives. The abovementioned indicators are all focused on barriers to exit the current franchise system, but franchisees also pointed at the costs of entering an alternative. When entering another franchise system, a franchisee may need to make specific investments, which he will consider as costs resulting from switching to this alternative. The costs of entering a soft system are lower than those of switching to a harder system, because in the first case there is less need for specific investments. There is a relationship between the alternatives perceived as attractive and the height of entry barriers. Franchisees who only consider hard systems as alternatives have to deal with higher entry barriers than those considering soft franchise systems in which there are often hardly any entry barriers.

Third, there is a difference between 'contractual switching costs' and 'financial switching costs' in the sense that they sometimes have different 'life cycles'. This especially became clear within ETOS, where the franchise contract had a five-year duration. So near

the end of the contract, contractual switching costs were low. However, in some cases a franchisee had recently made specific investments, such as new store interior, and thus suffered high financial switching costs as a result. Therefore, to understand the actual height of switching costs it is important to understand these cycles. However, it is unlikely that franchisees will make large specific investments when the franchise contract is about to end, because they need to have time to recoup their investments.

Fourth, another aspect of switching costs is related to so-called 'future switching costs', which can be either contractual or financial. In the cases of DA, STIP and UED an example of this is the signing of a (new) franchise contract that would result in future contractual switching costs. A more general example is investment in new formats (Four Worlds for ETOS and DA-2005 for DA and STIP, and a new store presentation for UED), which increases the financial switching costs. It turned out that when adopting a certain response franchisees also took these future costs into account.

9.3.2 Independent variables from the franchisor's perspective

Strategic compatibility regarding positioning [SC pos]

The indicators of the positioning issue from the franchisor's perspective and those from the franchisees' perspective were identical: assortment, service level, price level, store appearance and promotion activities. In the franchisor's view, the assortment and promotion activities were the most important; in all four cases participation in certain promotion activities was obligatory. This participation entailed sending out brochures and having the products available in the assortment. The franchisors regarded this as the most important way to realize a uniform identity toward customers, which is why these indicators were in general obligatory.

Strategic compatibility regarding degree of hardness [SC hard]

Here again applied that the indicators from the franchisor's and the franchisees' perspectives were identical: the degree of obligatory business format elements, the degree to which other issues were obligatory and the degree of enforcement.

It has already been discussed that the degree of enforcement played a central role in the degree of hardness and therefore in the degree of uniformity: on paper there can be several requirements, but when the franchisor does not enforce them, the system is still neither hard nor uniform. So, a difference should be made between the desired degree of hardness and the 'actual' degree of hardness. The actual degree of hardness is only high if it is high on paper and actually enforced by the franchisor. In the case studies there were several situations where the degree of enforcement was low. This had various reasons. First, it could have been a conscious decision of management; in the case of ETOS in the early 1990s, management deliberately applied a lower degree of enforcement in order to attract DA franchisees, and to realize a certain degree of quantitative growth of the system. Especially in the cases of DA and STIP, management did not really dare to enforce certain rules because it was afraid that many franchisees would exit and thus it would lose them as franchisees and wholesale customers. Second, the degree of enforcement is influenced by the way in which operational managers enforce obligations on the work floor. This was especially visible within ETOS during SCT6, when some franchisees adopted certain assortments that the higher management actually did not approve of, but upon which they had decided in consultation with the operational managers who had visited their stores.

The case studies have shown that franchisors experience a considerable tension in maintaining uniformity in a system versus giving franchisees room to adapt locally. This is a

well-known tension in the franchising literature. Dealing with this tension appears to be more difficult in franchise systems with a large heterogeneity of stores. It was especially visible in the DA system. The DA franchisor has dealt with this tension over time in two ways:

- Before the start of SCT1, DA was a very large system consisting of different types of DA stores. To achieve uniformity in the DA system, the franchisor set up two other franchise systems next to DA: STIP for franchisees with smaller stores in villages and the DA D'Attance system for franchisees with more luxury stores. In this way the systems would become more homogeneous in terms of store type, which would make it easier to carry out standardization without losing sight of local circumstances. So, within these separate systems the tension between maintaining uniformity versus allowing local adaptation was lower. However, this approach resulted in lower economies of scale, which made operating three systems an expensive solution to both franchisor and franchisees (for whom cost levels were very important, especially to franchisees with low and stable turnover levels).
- Therefore, during SCT2 the systems were reintegrated into one large DA system, consisting of different modules. Once STIP and DA D'Attance were reintegrated into DA they became separate modules (with slightly different requirements), but operating under the same general brand name. In this way a larger scale was realized while keeping track of local circumstances.

Strategic compatibility regarding rate of innovation [SC innov]

With respect to the rate of innovation the indicators were identical with respect to both the franchisor's perspective and the franchisees' perspective: the importance of introducing new products, the importance of introducing new product groups and other adaptations to the business format, and the importance of adapting the business format as a whole.

By all franchisors the level of new products was considered important because it was necessary to remain up-to-date. Moreover, these products were also introduced in other drugstore systems. They were not new to the industry, but were often introduced on a large scale by suppliers such as L'Oréal. The franchisor often aimed at promoting these products (in cooperation with the suppliers) on a regular basis by presenting them in brochures or in television campaigns. Therefore, franchisors considered it important that franchisees participated in these activities, and so they tried to make them obligatory.

On the higher levels of innovation, franchisors were often less strict because they knew these required larger investments by franchisees. Therefore, franchisors often gave franchisees some time to carry out these larger adaptations (SCT2, 4,6 and 8) by setting a 'deadline' for making the necessary investments. As pointed out, to the franchisees an important issue was whether the costs and benefits of these adaptations were in balance, and therefore they demanded a sufficient amount of information about this. One advantage to the ETOS system during SCT6 was that the introduction of the Four Worlds format took place in its company-owned units. In these company-owned stores management tested the new format before introducing it on a large scale to the franchisees. It presented the test results to the franchisees in order to convince them of adopting it. The other systems in this study (DA, STIP and UED) did not have company-owned units, which made this kind of information more difficult to obtain. Moreover, because the franchisor adopted innovations in his company-owned stores on a large scale, the franchisees were more willing to accept them. It was obvious that the franchisor would not adopt them if he did not believe them to work. In sum, the existence of company-owned units made a high rate of innovation possible within the ETOS system.

Strategic compatibility regarding the organization of the franchisees' strategic participation [SC org]

The organization of the franchisees' strategic participation was measured by the following indicators: the presence of a Franchisee Association and/or Franchise Board, the existence of approval rights of the Franchise Board, the degree to which subjects of approval rights are laid down, and the degree of detail in other procedures.

Most franchisors did not really regard this as a strategic choice, but more as an instrument for dealing with franchisees. The case studies show that in the franchisor's view far the most important role of the Franchise Board was to create support for decisions among the large group of franchisees. The role of the Franchise Board in providing 'intentional variation' was small. This was mostly done by the franchisor itself, while the franchisees were sometimes involved to work out the details in 'working groups' who did not have any decision power.

Strategic compatibility regarding type of growth objectives [SC growth]

For type of growth objectives I used the following indicators: growth objectives in terms of number of units and growth objectives in terms of 'quality' of units referring to sales level and floor area. These units can be either franchised or company-owned units. Through quantitative growth, the franchisor aims at growing by means of adding more units to the franchise system, showing relatively less concern for the performance of the individual units. In case of qualitative growth, the franchisor mainly aims at improving the performance of the existing units by means of renovation or relocation. This could be problematic in case the franchisee does not agree with this.

As pointed out, these types of growth objectives for the franchise system are only relevant from the franchisor's perspective. To the franchisees these are only relevant when problems arise with respect to their exclusive territory (in case of quantitative growth) or when they are asked to renovate or relocate (in case of qualitative growth).

One addition that can be made based on the cases is that the franchisors did not only look at criteria for stores in terms of floor area or sales levels, but also started to apply criteria based on franchisee characteristics, such as franchisee capabilities and personal characteristics. With these criteria franchisors wanted to make sure that franchisees fitted in their systems.

Operational compatibility regarding capabilities [OC capa]

Operational compatibility regarding capabilities from the franchisor's perspective refers to the question whether the franchisee can fulfill his financial obligations toward the franchisor. Franchisees had to pay fees/royalties to the franchisor and had to pay for the goods they purchased at the wholesaling department.

Operational compatibility regarding profitability [OC profit]

To determine operational compatibility regarding profitability the franchisor evaluated the profitability of the franchise relationship with the franchisees. The franchisor obtained its income from the franchise relationships by means of the fees/royalties paid by franchisees (all four systems) and from the wholesaling activities (DA, STIP and UED). The more income the franchisor gained from the relationship with a certain franchisee, the higher the level of operational compatibility with the franchisee regarding profitability.

Operational compatibility regarding trust/fair dealing [OC trust/fd]

To the franchisor it was important that he could trust that the franchisee is likely to cooperate even if he is not coerced to do so and has no direct material interest. From the

franchisor's perspective, it was important that franchisees did not misrepresent information, so that the franchisor was able to calculate fees/royalties correctly and that the franchisee adopted certain requirements.

Attractiveness of alternatives [Attalt]

With respect to the attractiveness of alternatives from the franchisor's perspective, two types were considered as alternatives to a specific franchisee: placing another franchisee at that location or turning that particular unit into a company-owned unit.

In the case studies, the ETOS system was the only system consisting of both franchised and company-owned units; in the other systems company-owned units were not really considered as an alternative. This could be explained by the history of the systems (background variable, see section 9.5).

For franchisors one additional alternative was losing a store at a specific location. This could be a conscious choice. It also depended on who was the proprietor of the building. If the franchisee owned the building he could exit a system without having to leave the store⁷⁷. In that case the franchisor would lose the location. In case the franchisor was the 'controlling' actor (via ownership or renting it from another party) it could replace a franchisee by another one or turn the store into a company-owned unit. In some cases the franchisor did not consider a particular location as important and simply let the franchisee go. In these cases, there was a tension between maintaining uniformity and keeping the franchisee within the system. The franchisee was a source of income for the franchisor in one way or another⁷⁸. To DA, STIP and UED, wholesaling activities had always played an important role, and for this reason they did not want to lose franchisees. During several SCTs (SCT1, 2, 3, 4, 6 and 8) this was an issue, but still the franchisor sometimes chose to lose a location because that particular franchisee was not willing to fulfill certain obligations.

Switching costs [Swico]

The indicators of switching costs from the franchisor's perspective are identical to those from the franchisees' perspective: the amount of specific investments, guarantees and hostages, and the income from the relationship as a percentage of the total income.

To the franchisors the income from the relationship with the franchisees was the most important switching cost. As pointed out, franchisors have to deal with the tension of maintaining uniformity and losing franchisees. If a franchisee was not willing to adopt certain requirements and was the proprietor of the building, the franchisor would lose that location as well as the income from the franchisee's royalties and wholesaling activities. This tension was of course higher when the franchisor's income from this franchisee was relatively large.

For the UED-franchisor switching costs were generally lowest because the franchisee had the possibility to exit and to retain the UED-franchisor, Brocef, as wholesaler. This also applies to DA druggists switching to STIP; because they switched between systems of the same franchisor, the franchisor's switching costs remained low.

⁷⁷ However, this does not necessarily mean that at that particular location the franchisee could continue as a druggist (role of 'restrictive covenants', see section 3.5).

⁷⁸ The way in which fees/royalties are calculated varies between franchise systems.

9.3.3 Relationships between independent variables

This subsection consists of two parts:

- Relations among franchise system characteristics (as indicators of strategic compatibility)
- Relationships between other indicators and independent variables

Relations among franchise system characteristics

The case studies show that there were relations among franchise system characteristics because franchisors mostly aimed at adapting more of these franchise system characteristics simultaneously. For example, when franchisors decided to change the degree of hardness they also aimed at changing the organization of the franchisees' strategic participation. After the case studies had been conducted possible relations among franchise system characteristics were analyzed in a more systematic way. Table 9.1 presents this more systematic analysis of possible relationships. The numbers in the Table refer to the explanations in the text (see below) and the lines in Fig. 9.2. The Table should be read as follows: the Table depicts the relationship between a franchise system characteristic in the left column and the other franchise system characteristics. For example, according to the Table, there is a relationship between positioning and degree of hardness (1). If a franchisor wants a low positioning the system's degree of hardness must be high ('hard'). On the other hand, there is no relationship between degree of hardness and positioning: if a franchisor aims at a certain degree of hardness, this does not say anything about the system's positioning.

	Positioning	Degree of hardness	Rate of innovation	Organization of franchisees' strategic participation	Type of growth objectives
Positioning	X	(1)	No relationship	No relationship	(5)
Degree of hardness	No relationship	X	No relationship	(3)	(4)
Rate of innovation	No relationship	(2)	X	Indirect relationship via (2)	(6)
Organization of strategic participation	No relationship	No relationship	No relationship	X	No relationship
Type of growth objectives	No relationship	No relationship	No relationship	No relationship	X

Table 9.1 Systematic analysis of relationships between franchise system characteristics

Let us take a closer look at the relationships suggested in Table 9.1:

- (1) *Positioning and degree of hardness.* Especially when a franchisor wants to lower the system's positioning it is necessary to increase the degree of hardness⁷⁹ to achieve economies of scale, which are necessary to compensate for the lower profit margins. This happened in the DA- and STIP system during SCT1 and SCT3, when lower purchasing prices were required to make products with low customer prices profitable. In general, in a chain consisting of solely company-owned units management has a relatively large degree of control, which allows a 'pile-it-high-sell-it-cheap' retailing strategy. In a hard franchise system there is less control than in a completely company-owned system, however, a lower positioning is still possible because of this high degree of hardness and the considerable amount of control. In a soft franchise system management has the least amount of control. Therefore, in a system of this kind it is very difficult to control costs and to maintain a low positioning that is actually profitable. This idea is reflected by the Dutch drugstore industry, where discounters, such as Kruidvat and Schlecker, are composed of chains consisting of company-owned units only and where the relatively higher positioned systems consist of franchise-like systems, such as DA, ETOS, UED, DIO and ABC. However, a lower positioning does not have to be the only reason for increasing a system's degree of hardness. For example, when a franchisor wants a high brand awareness to be reflected by the system, a uniform presentation is required, and this can only be realized by a certain degree of hardness. The same applies to maintaining a certain quality level.
- (2) *Rate of innovation and degree of hardness.* In order to introduce certain innovations within a franchise system as a whole, the system needs to be hard⁸⁰, otherwise franchisees can not be forced to adopt these innovations. Especially on the levels of new products, franchise systems need a certain scale in order to negotiate with suppliers of new products. Often, at least in the drugstore industry, these suppliers want their new products and articles to be introduced on a large scale. Therefore, it is important for them to deliver their products to a system with a sufficient number of units that can realize a widespread introduction, and in which the units are enforced to adopt these new products in their assortments. The cases show that the UED- and STIP franchisees often introduced new products in a later stage. This could be explained by the relatively small size and the softness of these systems, which made them less attractive to suppliers. To these stores, innovativeness was often less important because of their store characteristics (background variable, see section 9.5). In contrast, most ETOS- and DA franchisees did consider rapid product introductions as important, and because of their size and degree of hardness they were attractive systems as far as the suppliers were concerned. Relationship (2) suggests that for a high rate of innovation a higher degree of hardness is required, and relationship (3) suggests that when the degree of hardness increases, the organization of strategic participation should be increased too.
- (3) *Degree of hardness and the organization of the franchisees' strategic participation.* From the cases the following can be concluded: in each case where the franchisor aimed at a

⁷⁹ Here the difference between the degree of hardness desired by the franchisor and the 'actual' degree of hardness is again relevant; with respect to economies of scale a low positioning can only be attained by means of a high 'actual' degree of hardness.

⁸⁰ See footnote 79: an 'actual' degree of hardness is required to realize a certain scale.

higher degree of hardness, it also aimed at a higher organization of the franchisees' strategic participation. In all cases, the most important reason for increasing the organization of strategic participation was to create support among the franchisees for certain requirements. Because of the requirements franchisees had less room for local adaptation. The franchisors were aware of this, which is why they considered it important that the franchisees at least had the sense that they could exert some power with respect to the requirements. That is why they established a Franchise Board, which would take the franchisees' interests into account.

- (4) *Degree of hardness and type of growth objectives.* In all cases where the franchisor wanted to increase the hardness of the franchise system, it also adapted the system's type of growth objectives. These growth objectives became more qualitatively-oriented. The franchisor started to set more requirements in terms of floor area and turnover level as well the personal characteristics of the franchisees. This was supposed to make the franchise systems more homogeneous, which would increase the franchisor's possibilities for standardization. Again the franchisor had to deal with the tension of maintaining or creating uniformity versus losing franchisees.
- (5) *Positioning and type of growth objectives.* As pointed out, in case of low positioning a certain scale of activities is required to realize economies of scale and to achieve lower cost levels. A certain scale of activities can be realized by having a large number of smaller units (quantitative growth) or by having a smaller amount of larger units (qualitative growth). However, there are always certain boundaries with respect to the qualitative growth of a unit. Therefore, in case of quantitative growth the franchisor can benefit more from economies of scale, because there are more opportunities for growth. However, for the franchisor to really benefit from economies of scale, he has to be certain that these units will perform certain activities. Therefore, a certain degree of hardness is required. During SCT1 and 3, within the DA- and STIP systems the franchisor tried to realize a lower positioning. It therefore tried to increase requirements, but did not (dare to) enforce these, which made it difficult to realize a certain scale. Additionally, because several franchisees left the system, it became even more difficult to realize a particular scale. UED had a relatively high positioning and undertook only few price promotions, which made a large scale relatively less important than in the case of DA. ETOS had always been relatively hard, and it operated on a large scale. Moreover, as regards realizing scale ETOS was not totally dependent on its franchised units, because it also had its company-owned units.
- (6) *Rate of innovation and type of growth objectives.* This issue relates to the previous relationship. In order to establish a certain rate of innovation a certain number of units is required to realize a certain scale. It was already explained that franchisors can choose between qualitative and quantitative growth, and that there are always certain boundaries to the qualitative growth of a unit, while quantitative growth has less boundaries. However, in order for the franchisor to really benefit from the economies of scale, it has to be certain that these units will carry out certain activities and therefore a certain degree of hardness has to be enforced.

The above analysis results in the following presentation (see Fig. 9.2). These relations show that franchise system characteristics are interconnected, and when a franchisor aims at

changing a certain system characteristic it has to be aware that this change may have consequences for other franchise system characteristics.

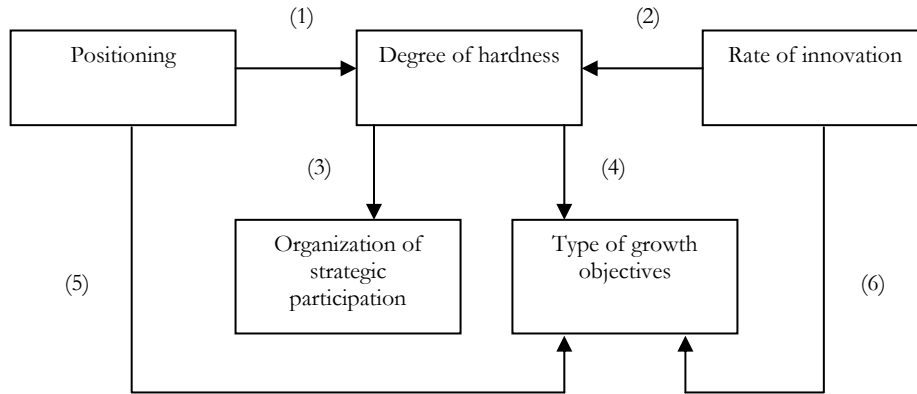


Fig. 9.2 Relations among franchise system characteristics

Relations among other indicators

On the basis of the case studies the following relations among other indicators and variables have been found:

- *Actual degree of hardness and cost level of franchisees.* When a franchise system becomes harder, and the franchisor *actually* enforces the proposed requirements on its franchisees, the latter have to invest in more activities, which results in a higher cost level. As pointed out earlier, whether franchisees consider this as a problem depends on whether or not they believe these higher costs will eventually result in higher profits.
- *Actual degree of hardness and switching costs.* In a hard franchise system, financial switching costs are generally high because franchisees have to make specific investments on a regular basis, although clauses may state that certain specific investments made by the franchisee can be bought back when the relationship ends. This only applies when the franchisor actually enforces the requirements on the franchisees, because franchisees who do not make these investments do, of course, not make these switching costs. This was often the case within DA and STIP during SCT1 and SCT3, where franchisees perceived switching costs as low as a result of a low degree of enforcement by the franchisor. The UED system had always been a soft system dealing with a low level of switching costs. For ETOS the switching costs were generally the highest, but as explained, these changed over time thanks to ‘financial and contractual life cycles’.
- *Rate of innovation and cost level of franchisees.* A high rate of innovation means that franchisees may need to adopt innovations more frequently. As explained, different levels of innovation can be distinguished and with each level different cost and risk levels are associated. When a franchisee is enforced to adopt certain innovations his cost level rises. However, as mentioned, whether the franchisee considers this as a problem depends on his expectation with respect to profits. Additionally, it is likely that the required investments are specifically made in view of the relationship, which may result in higher (financial) switching costs.

- *Type of growth objectives and cost level of franchisees.* When a franchisor aims for more qualitative growth, this means he aims at increasing the individual units' performance by renovation or relocation. In the case of a franchised unit, the franchisee then needs to renovate and/or relocate, which results in certain costs on his part. Again, this is only the case when the franchisor actually enforces a renovation or relocation, and an important consideration for franchisees is whether the costs of renovation/relocation will eventually result in higher profits.

In sum, the relationships between indicators and variables demonstrate that the actual degree of hardness is the most important aspect of franchise relationships, because it also has consequences for the other indicators and independent variables (see Figs. 9.5 and 9.6 in section 9.4).

9.4 Comparison of type 2 conclusions: relationships between independent variables and responses

This section discusses the relationship between the independent variables and the dependent variable of the research model. In other words, how do the franchise partners' perceptions of strategic compatibility, operational compatibility, attractiveness of alternatives and switching costs lead to certain responses toward each other?

This section consists of the following subsections:

9.4.1 Relationships between independent variables and responses of the franchisees

9.4.2 Relationships between independent variables and responses of the franchisor

9.4.1 Relationships between independent variables and responses of the franchisees

Before the influence of the independent variables on the responses will be discussed, two comments need to be made about the responses in general.

1) Triggers of response switches

All cases and SCTs have shown it has become clear that through time franchisees have switched between responses, which contradicts the assumption of many authors that franchise relationships are static. Every SCT showed changes in franchisee responses through time, and regarding each franchisee, preceding, initial and subsequent responses were discussed (see Figs. X.10 and X.11 in each case study chapter). Switches between these responses were always caused by one or more of the following 'triggers':

- Modifications in the franchise system characteristics, which may result in changes in strategic compatibility. When the franchisor changed a certain franchise system characteristic, this could change the franchisee's perception of the 'actual' score of this characteristic, resulting in a different degree of strategic compatibility regarding this characteristic. In the cases studied, modifications in the degree of hardness most often resulted in response switches. Moreover, these changes often involved increasing requirements with respect to positioning and rate of innovation, which made strategic compatibility on these aspects more important in the view of the franchisees.

- Changes in one of the other ‘independent variables’: operational compatibility, attractiveness of alternatives or switching costs. This section will point out that in explaining responses not every independent variable was equally important, and the cases have shown that mostly changes in certain types of strategic and operational compatibility resulted in certain responses.
- Responses of the franchisor. The cases illustrate that franchisees can switch between responses in reaction to a response of the franchisor. In several cases, franchisees initially adopted *covo* in reaction to certain changes, but when the franchisor’s response was neglect, the franchisee switched to an exit response.
- Changes in ‘background variables’. These variables will be discussed in section 9.5.1. Examples are the store location or competitive circumstances. These background variables indirectly influence the perceptions of the franchisee regarding the independent variables, which, as a result, influence the franchisee’s responses. The cases have shown some examples where a franchisee’s response to an SCT was determined by a change in his competitive circumstances.

2) *Response heterogeneity*

A second comment that can be made about the responses is that they appear to be more heterogeneous than so far suggested in the literature. The most interesting finding is the occurrence of the ‘ambiguous loyalty response’ (*amloy*) next to the types of responses distinguished in the research model. *Amloy* is a form of passive response which is more destructive than *loy*, but less destructive than *negl* (see Fig. 9.3). Franchisees adopting these responses were in doubt of how to react to certain changes, and therefore they waited to see what would happen and how their relationship with the franchisor would be affected. *Loy* and *negl* are both adopted more explicitly. A franchisee is loyal when he passively adopts or plans to adopt certain requirements, because he expects that things will work out eventually. The franchisee adopts *negl* by deciding not to adopt changes because he expects the relationship to deteriorate eventually. *Amloy* is quite ‘dangerous’ to franchisors because it is not so easy to detect. Especially when it concerns a franchisee who the franchisor does not want to lose, an unfavorable situation could emerge when this franchisee suddenly makes a switch from *amloy* to exit, while the franchisor has not had the chance to adopt *covo*.

Additionally, the case studies show that franchisees may have different motives for adopting *covo*, exit and *agvo*, resulting in different categories within these response types.

- In all cases, the franchisees differed in their motives for adopting *covo*. Some franchisees adopted *covo* because they felt ‘forced’ to do so; they felt that if they would not adopt *covo* the relationship with the franchisor would deteriorate. And this would be undesirable. This type of *covo* can be termed as ‘forced *covo*’. In contrast, other franchisees adopted *covo* because they agreed with management’s plans but wanted to be actively involved in discussing future developments. The response of these franchisees can be considered as ‘voluntary *covo*’. They often had close personal contacts with management and in turn were ‘used’ by management to create support among the large group of franchisees.
- With respect to the exit response, there were also different motives. In some cases, the franchisees felt forced or ‘pushed’ to exit because they felt the relationship had deteriorated or would deteriorate beyond a certain threshold in the near future. It is interesting to observe that because these franchisees felt forced to exit, they would sometimes enter an alternative franchise system while adopting *amloy*. The

franchisee entered the system to see what would happen but did not leave out the option of returning to the former system once the situation there had become more stable. This is especially a risk for soft systems because their entry and exit barriers are low. In other instances, franchisees decided to exit because they believed they had better options elsewhere.

- One specific form of agvo response is the ‘collective agvo’, in which franchisees join forces to try to put more pressure on the franchisor.
- Finally, with respect to the exit response a difference should be made between exiting the franchise system and exiting the relationship. In some cases, a franchisee exited a franchise system, but switched to another system of the same franchisor (case of DA-STIP). In the UED case several franchisees exited the franchise system but did not switch to another franchisor and kept Brocacef as their wholesaler. This type of exit kept switching costs low for both partners.

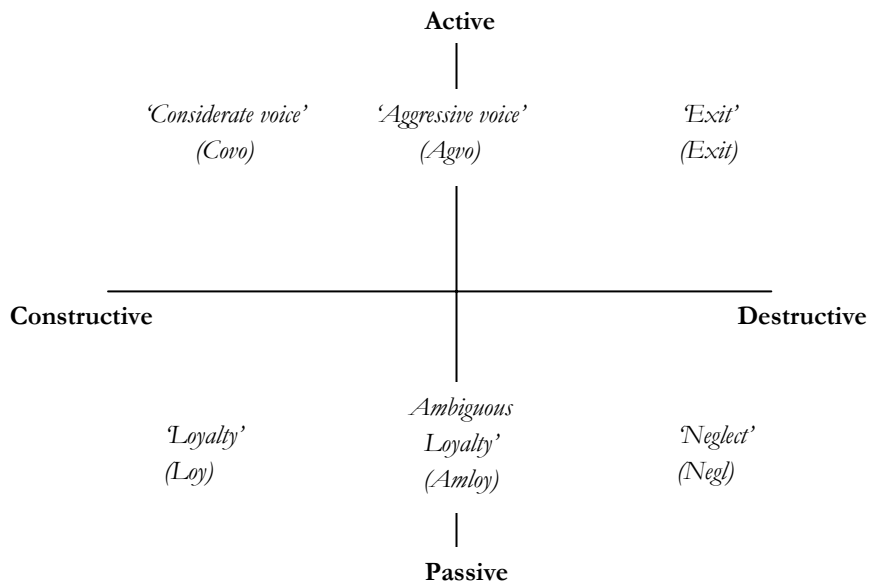


Fig. 9.3: The adapted typology of responses

The remainder of this section will discuss the relations among the independent variables and the responses considered from the franchisees’ perspective.

First of all, in order to understand why franchisees adopt a certain response at a particular moment it is important to gain insight into the following factors:

- The franchisee’s determining variables at that particular moment.
- The franchisee’s perceptions of these variables at that moment.
- The franchisee’s perceptions of these variables as expected in the near future.
- The franchisee’s ‘thresholds’ with respect to these variables; what are acceptable scores of certain variables in the view of the franchisee?

Strategic Interactions in Franchise Relationships

These factors are, in turn, influenced by franchisee background variables, which are discussed in section 9.5.1.

Fig 9.4 presents the research model as presented in Chapter 3. This model is presented from the franchisee’s perspective, but it can be reversed to the franchisor’s perspective (see Fig. 3.3 and 3.4). In this Chapter Fig. 9.4 presents this research model only from the franchisee’s perspective. The cases have shown that franchisors and franchisees differ with respect to the independent variables they take into account when adopting a response. Therefore, the empirical models are presented in separate figures (Fig. 9.5 for franchisees, Fig. 9.6 for franchisors).

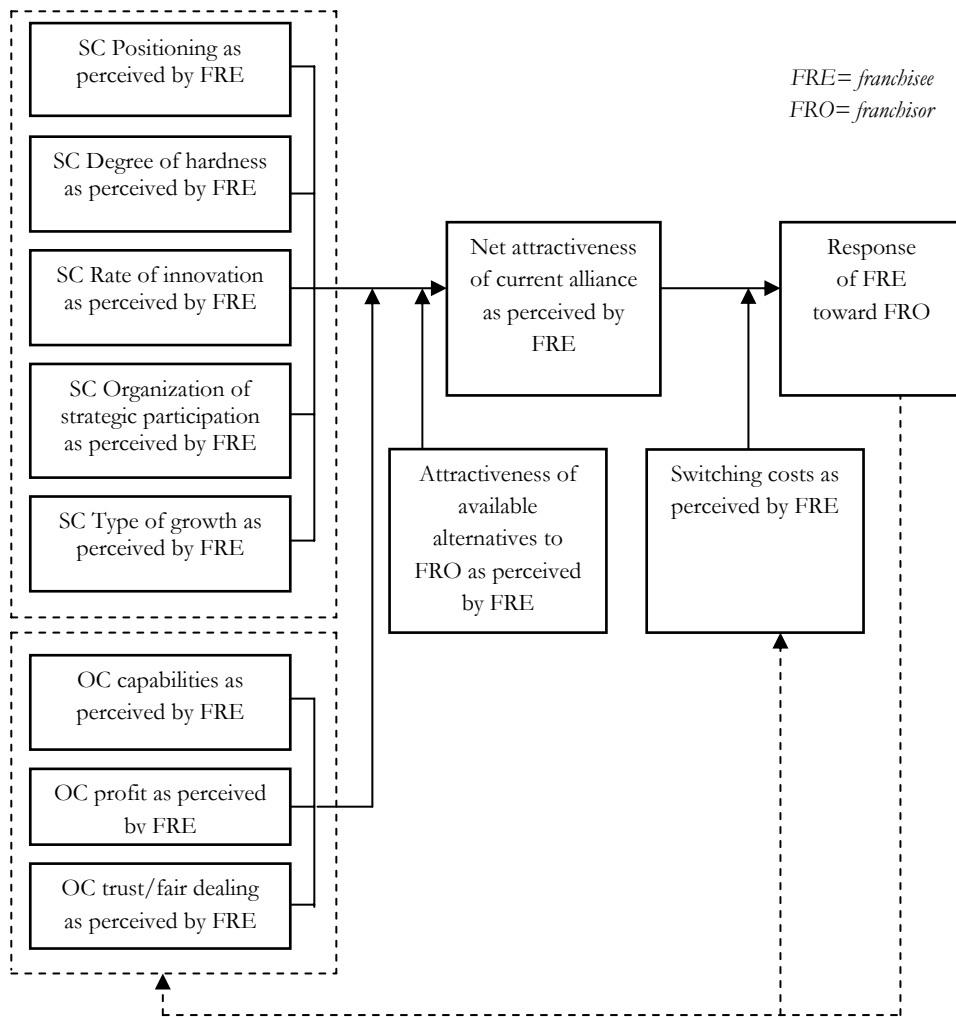


Fig.9.4: Research model for understanding the response of FRE toward FRO at a certain point in time

Fig. 9.5 (see below) summarizes the conclusions about why franchisees adopt certain responses in their relationship with the franchisor. From the franchisees' perspective the main conclusion is that the *actual* degree of hardness⁸¹ is the most important issue. The degree of hardness influences which variables are determining variables and which are not in the opinion of the franchisees. Whenever a franchisor introduced and enforced requirements, the franchisees demanded a certain degree of compatibility regarding these requirements. They were not willing to adopt obligations that they disagreed with or that did not work. Therefore, the exact order of importance of the determining variables depended on the degree and the types of requirements. However, as far as the franchisees were concerned, OC profit and SC hard were always considered as determining variables. Moreover, the larger the range of obligations, the more important OC trust/fd and SC org became.

Fig. 9.5 illustrates this in more detail. The numbers in Fig. 9.5 refer to the comments. These comments are the following:

1. In all franchise relationships the system's actual degree of hardness was the most important issue. The degree of hardness influenced which variables were determining variables and which were not.
2. When the actual degree of hardness was low (soft), franchisees had a great deal of freedom in running their businesses, and therefore strategic and operational compatibility with respect to several factors were not considered as important. In that case, the franchisee merely evaluated OC profit.
3. If the franchisee considered the relationship with the franchisor as profitable, he was willing to stay, which resulted in a constructive response. In most cases this was a loyal response. In some situations, franchisees who were satisfied with the relationship adopted changes, because they wanted to be more involved in the effectuation of certain changes within the franchise system.
4. If OC profit was low the franchisee would first attempt to improve this variable by adopting an active response toward the franchisor.
5. If this did not have the desired result, and OC profit remained low, the franchisee would evaluate his alternatives.
6. In case of a low attractiveness of alternatives franchisees again would adopt an active response toward the franchisor in a final attempt to improve OC profit. When this did not work, the franchisees highly differed in their responses. For example, some of them exited to an alternative with medium attractiveness, while others stayed in the system because they were almost retiring.
7. In case of a high attractiveness of alternatives, the franchisee evaluated the costs of switching to this alternative.
8. If these switching costs were perceived as acceptable, the franchisee would adopt exit and switch to the alternative.
9. However, if switching costs exceeded certain boundaries the franchisee would adopt a different kind of response. As already argued, several franchisees indicated that they would accept high switching costs if they were really dissatisfied with their current relationship. Regarding this issue, the franchisees adopted different types of responses.

⁸¹ Note that the *actual* degree of hardness is different from the *strategic compatibility* regarding degree of hardness. As pointed out in section 4.3.5, strategic compatibility as perceived by a partner is measured as the difference between this partner's *desired score* of a franchise system characteristic and the *actual score* in the relationship.

10. When the degree of hardness was high, more variables served as determining variables and the franchise relationship became more complex. The harder the system, the higher the complexity. The exact order of importance of variables of strategic and operational compatibility depended on which elements were compulsory and which were not. Regarding all obligatory aspects the franchisee desired a certain degree of strategic and operational compatibility. The order of determining variables is presented in the way it most often occurred in the case studies.
- OC profit was always a determining variable; the relationship with the franchisor had at least to be profitable. The same applied to SC hard: especially when the franchise system was harder than deemed desirable by the franchisee. As pointed out in Chapter 4, during the case studies many variables turned out to be ‘determining’ variables, which means that these variables were considered as important. However, OC profit and SC hard are the variables that can be considered ‘really’ determining. To the other variables applies that as soon as a certain aspect became obligatory (and was actually enforced by the franchisor), compatibility regarding this aspect became a determining variable. The obligations mostly enforced by the franchisors in the cases were those with respect to positioning and rate of innovation. This is why SC pos often served as a determining variable. To SC innov applies that obligations with respect to rate of innovation were mostly enforced on the level of new product introductions. On the levels of other adaptations and changes of the business format as a whole, the franchisor was mostly more permissive to the franchisees, but especially in the contemporary SCTs (SCT2, 4, 6 and 8) the franchisor wanted all franchisees to adopt these kinds of innovations within a certain period of time. Therefore, SC innov became more determinant on all levels of innovation. With respect to SC growth, there were few problems during the SCTs because, at the time of the interviews, obligations with respect to qualitative growth were not (yet) enforced, and there were no problems (yet) with exclusive territories. Therefore, in Fig 9.5 SC growth has been left out. However, there may be situations in which a franchisor wants to enforce certain growth objectives. In these cases, SC growth will also become a determining variable.
 - OC trust/fd. The harder the system (i.e. the more requirements for franchisees), the more important OC trust/fd became in the view of the franchisees. Because the franchisees had to fulfill an increasing number of obligations and were required to make more investments, they felt they became more dependent upon the franchisor. Therefore, as the actual degree of hardness increased OC trust/fd became more important.
 - The importance of SC org differed between franchise systems and SCTs. This had various reasons. At DA and STIP SC org was considered important because of the increasing number of requirements that many franchisees did not approve of. Moreover, DA and STIP franchisees were also the owners of the Druggists’ Association and therefore felt that they needed to have decision rights. Even though ETOS was a hard system, the organization of strategic participation was not considered a

very important issue, which can be explained by the fact that ETOS had a large stake in company-owned units. Because of these company-owned units, the franchisees were convinced that ETOS would not introduce obligations that would not benefit their own stores. In this way, the franchisor automatically took into account the franchisees' interests. As far as the ETOS franchisees were concerned, the Franchise Board was only considered important in case a franchisee did not agree with certain obligations. To UED the organization of strategic participation was not so important because the franchisees were still given much room to adapt locally.

- OC capa became a more important variable when certain aspects in this area were enforced by the franchisor, such as automation, or purchasing. To the franchisees, compatibility with the franchisor regarding these issues was only important if the franchisor actually enforced them to use his capabilities. But even in that case, OC capa was not a very important determining variable, because most franchisees expected these issues not to be different at other organizations. Additionally, in the ETOS system, franchisees believed that the franchisor would put an effort into dealing with these issues adequately. This was of course also for the sake of its company-owned units, which would suffer if errors were made in this respect.
11. When the results from the evaluation of the various factors of SC and OC were favorable, the franchisees were satisfied with the relationship and adopted a constructive response. This was mostly a loy response, because there was no direct reason to adopt an active response. However, in some situations franchisees adopted covo to be able to discuss the details of certain plans with management and to be more involved.
 12. When the results from the evaluation of the determining variables regarding SC and OC were negative, franchisees often first adopted an active response to try to improve the relationship. In some cases this worked. The franchisee then again perceived the relationship as highly attractive and thus adopted a constructive response (mostly loy).
 13. If the franchisee's active response did not have the desired result, and the franchisees' perceptions of SC and OC remained low, they evaluated the attractiveness of alternatives.
 14. In case of low attractiveness of alternatives the franchisees sometimes again adopted a response versus the franchisor, in a final attempt to improve the relationship. If this did not work, franchisees differed in their responses depending on the particular situation.
 15. In case of a high attractiveness of alternatives, the franchisees evaluated their switching costs.
 16. If these switching costs were rated as low, the franchisee would adopt exit.
 17. However, when switching costs exceeded a certain threshold, franchisees adopted a different response. As mentioned, some franchisees indicated they would accept high switching costs if they were really dissatisfied with their current relationship and were offered an attractive alternative. This highly differed among franchisees.

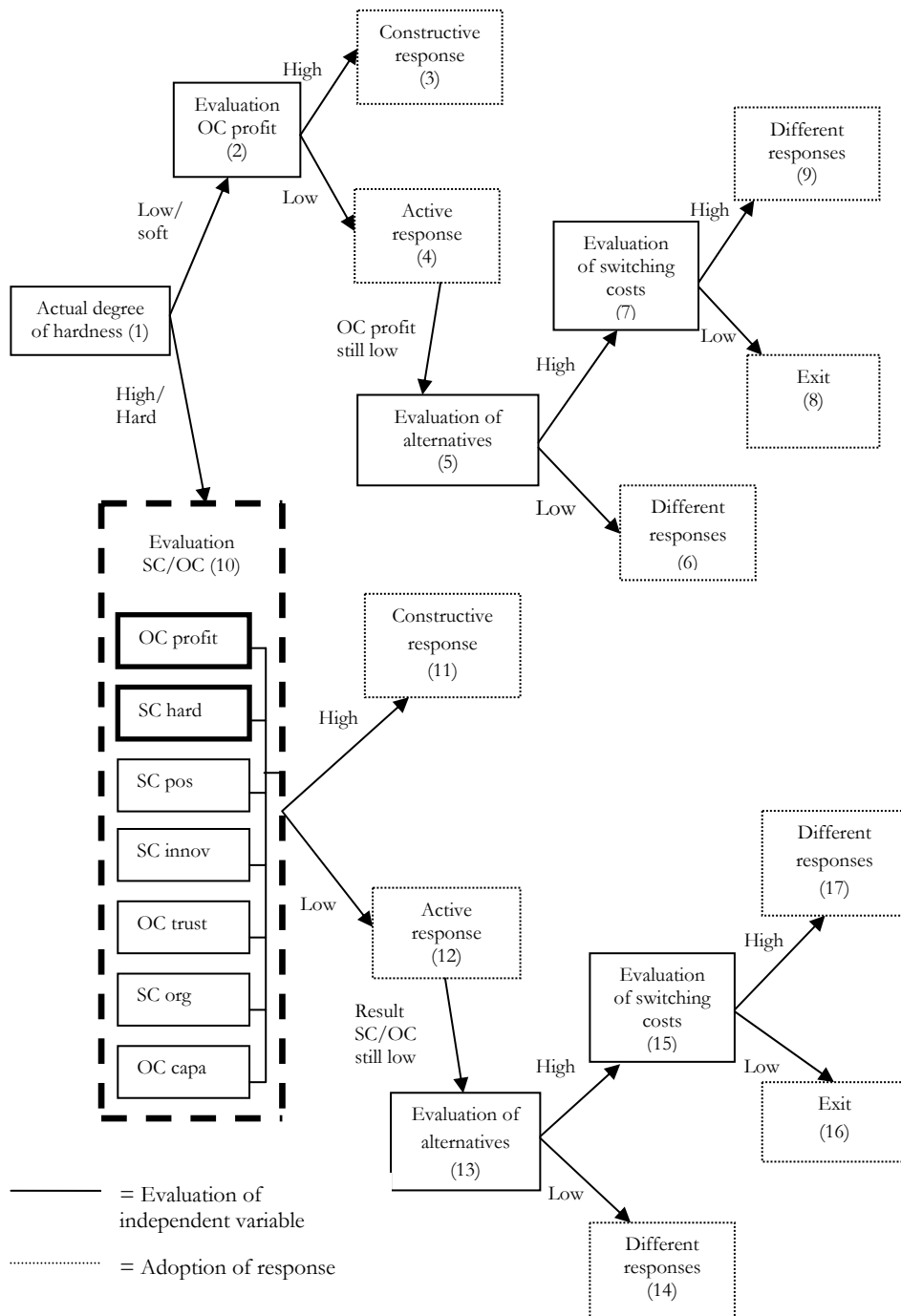


Fig. 9.5 Empirical model from the franchisees' perspective (numbers refer to explanations in the text)

9.4.2 Relationships between independent variables and responses of the franchisor

In all cases the franchisors' responses were more 'stable' than those of the franchisees, which also applies to the determining variables. The main conclusion regarding the franchisor's perspective is that the franchisor's desired degree of hardness was the most central variable. When the franchisor preferred a low degree of hardness, it gave the franchisees a great deal of freedom. As far as the franchisor was concerned, the only important variable was whether individual franchisees could fulfill their financial obligations (OC capa). OC capa was always a determining variable. However, when the franchisor aimed at a high degree of hardness, SC hard and OC profit also became determining variables. Moreover, the higher the desired degree of hardness, the higher the tension between SC hard and OC profit.

Fig. 9.6 illustrates this in more detail. The numbers in Fig. 9.6 refer to the comments. These comments are the following:

1. As pointed out, the degree of hardness as desired by the franchisor was central in understanding its responses.
2. If the desired degree of hardness was low/soft, the franchisor would only consider OC capa: can the franchisee fulfill his financial obligations to the franchisor?
3. If OC capa was evaluated positively, meaning that the franchisee could fulfill his financial obligations, there were no problems and the franchisor would adopt a constructive response, which was mostly loyal.
4. Whenever OC capa was low (which happened only once in the cases), the franchisor adopted an active response to try to help the franchisee fulfill his obligations.
5. However, if this still did not work (which actually happened in a case), the franchisor would adopt exit toward the franchisee.
6. When the franchisor aimed at a high degree of hardness, OC capa also served as a determining variable. It was crucial that the franchisee could fulfill his financial obligations.
7. Whenever the franchisee was able to fulfill his financial obligations, additional variables also became determinant because the franchisor desired a certain degree of hardness. During several SCTs franchisors aimed at an increasing degree of hardness, and therefore they paid more attention to the way franchisees performed with respect to SC hard (whether franchisees were willing and able to adopt the requirements). In these situations an important tension developed between SC hard and OC profit. The higher the desired degree of hardness, the more important SC hard became. A high score of SC hard by a specific franchisee meant that this franchisee was willing to adopt the obligations, and, in the most positive case, the franchisee adopted all obligations that the franchisor had imposed. From the franchisor's perspective, this automatically resulted in a high SC pos, SC innov and SC growth. Therefore, these factors are not presented in Fig. 9.6. However, if the franchisor wanted the franchisee to adopt certain obligations, but the franchisee refused and SC hard was low, the franchisor had to evaluate his options. He had to choose between enforcing the obligations with the risk of losing the franchisee versus accepting a lower degree of hardness in order to retain the franchisee. In this situation a tension between SC hard and OC profit

became apparent. With respect to the tension between SC hard and OC profit there were four possibilities (see 8 up to and including 11):

8. SC hard=high, OC profit=low (H/L). The franchisor adopted a constructive response because the franchisee was willing to meet the obligations. In most situations the franchisor adopted loy. In some situations he adopted covo to try to improve the franchisee's profitability and to make up for lost profits due to the exit of other franchisees.
9. SC hard=high, OC profit=high (H/H). This situation was favorable to the franchisor because the franchisees were willing to adopt their obligations and made high profits for the franchisor. The franchisor therefore adopted a constructive response. In the cases studied, the franchisor adopted covo toward some of these franchisees in order to create support among the large group. These franchisees then served as 'role models' for the other ones. This happened in the DA-, STIP- and UED cases, where management approached certain franchisees to become members of the Franchise Board⁸².
10. SC hard=low, OC profit=low (L/L). In this case the franchisors mostly adopted a destructive response because both variables were low. In several cases the franchisor had adopted negl, mostly because he did not really dare to enforce obligations. However, this damaged the uniformity as desired by the franchisor because the franchisees still had a large amount of freedom in running their businesses. To all cases applied that, the higher the desired degree of hardness, the more the franchisor put the emphasis on their possibility of adopting an exit response. Although this did not occur in the cases, in some situations it is possible that a franchisor does not want to lose certain locations and therefore adopts an active response toward a particular franchisee in order to improve SC hard and/or OC profit.
11. SC hard=low, OC profit=high (L/H). The tension between SC hard and OC profit was most obvious in this situation. The franchisor had to make a choice between the enforcement of obligations versus losing a highly profitable franchisee. In this case the franchisor evaluated the alternatives to this franchisee.
12. If the attractiveness of alternatives was high, the franchisor would evaluate the costs of switching to this alternative.
13. If switching costs were high, the tension between OC hard and OC profit would become even more apparent. This was for example the case within DA, when a very large franchisee intended to exit, and the franchisor adopted agvo. However, in such situations, responses differed depending on the particular situation.
14. When switching costs were low, you would expect the franchisor to adopt exit. However, in the cases, the franchisors seldom adopted exit by themselves. In several cases the franchisor kept making compromises.
15. When the attractiveness of alternatives was low, the tension increased and the franchisor adopted an active response in a final effort to improve the relationship.
16. When the situation did not improve in the franchisor's view, responses differed depending on the situation.

In the case studies, franchisors themselves seldom adopted an exit response toward a franchisee, even when the franchisee did not want to adopt certain obligations. During the

⁸² However, within DA and STIP (SCT1 and SCT3) the consequences were that several other franchisees considered the strategic participation as low and unfair, while within UED this was not an issue because the franchisees enjoyed a great deal of freedom.

contemporary SCTs (SCT2, 4, 6 and 8, which were all dealing with an increasing the degree of hardness), managers argued that they were going to adopt more active responses because they wanted the degree of hardness to really increase. The exit response was considered a viable one by franchisors; if a franchisee did not want to cooperate the franchisor would end the relationship. However, in some situations the franchisor still made compromises, which can be explained by a low attractiveness of alternatives or high switching costs.

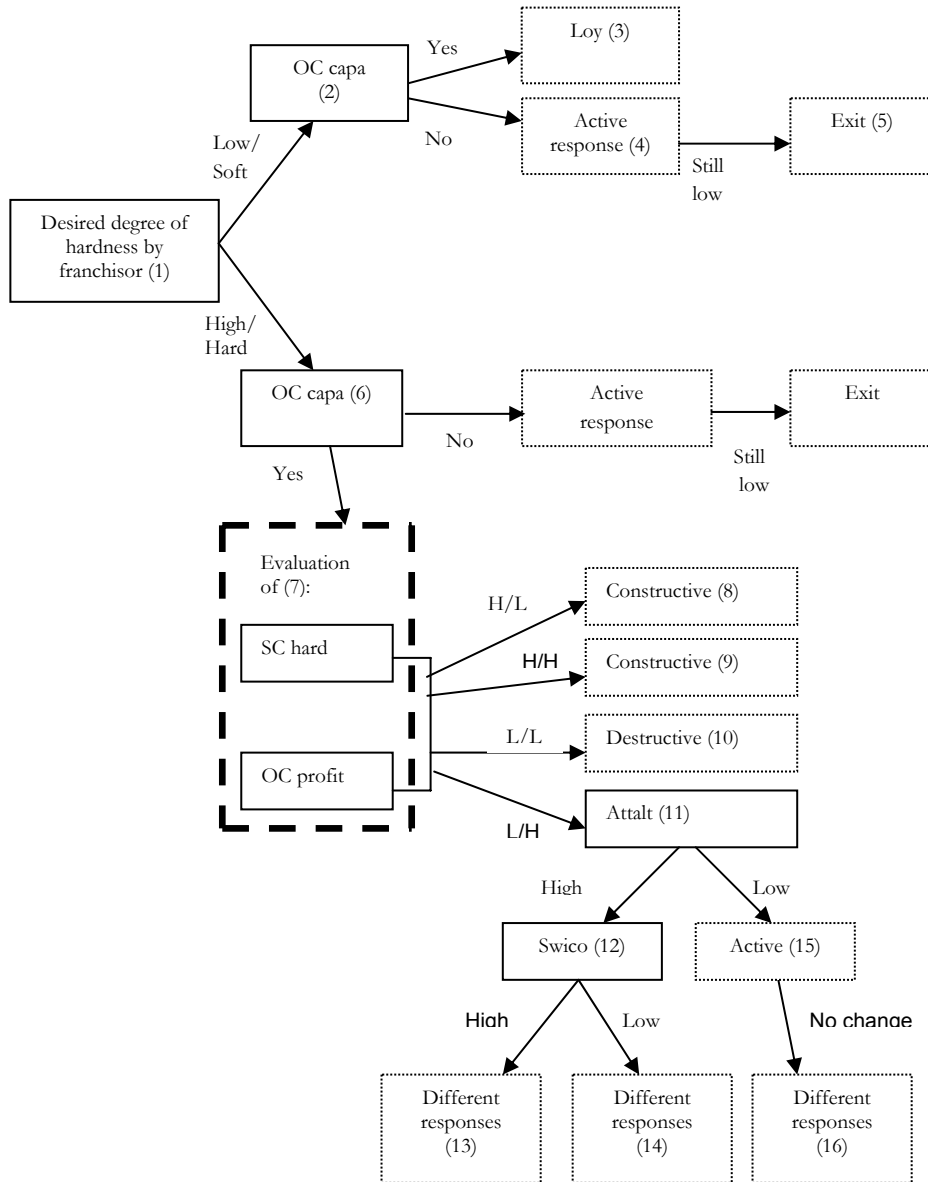


Fig. 9.6 Empirical model from the franchisor's perspective

9.5 Comparison of type 3 conclusions: background variables

Background variables are variables that have an indirect or moderating influence on the relationships between the independent variables and the responses. As pointed out, the background variables are important for understanding the differences in the following elements:

- The variables that are considered important ('determining variables') by franchise partners at a certain point in time.
- The franchise partners' perceptions of these variables at this point in time.
- The perceptions the franchise partners expect to have of these variables in the near future.
- The franchise partners' 'thresholds' with respect to these variables; what are acceptable scores of certain variables in the view of the franchise partners?

9.5.1 Background variables from the franchisees' perspective

The following categories of background variables have been distinguished from the franchisees' perspective:

- Store characteristics;
- Franchisee characteristics;
- Franchisor characteristics;
- Characteristics of the franchise system.

Store characteristics

These consist of:

- Location characteristics. In all cases and SCTs the location characteristics of the franchisees' stores appeared to be very important. The general question here was how the franchisee perceived his store's competitive circumstances. The stores' competitive circumstances had an indirect effect because they influenced the franchisees' desired scores of franchise system characteristics. At a location with strong competitive circumstances, franchisees considered a well-known brand name and thus a certain degree of hardness as necessary. At such a location franchisees believed that they could increase their turnovers by making investments. In this way they expected to attract customers away from competitors. However, franchisees in lower competitive circumstances considered their turnover as stable and were of the opinion that extra investments would not result in higher profits. These competitive circumstances were largely related to the store's location. In small villages the franchisees considered competitive circumstances as weak. However, some franchisees increasingly perceived competition from stores in city centers nearby. In suburbs and city centers the franchisees perceived competitive circumstances as strong. At the outset of SCT1, the composition of the DA system in terms of stores was highly heterogeneous: DA consisted of stores at varying locations, which explains the differences in franchisee responses during that time. At STIP, the stores were more homogeneous and therefore responses did not differ a great deal. ETOS had always mostly consisted of stores located in larger city centers and suburbs (although there were few exceptions), and therefore franchisee responses did not

differ so much as at DA. In addition, the UED system mostly consisted of stores operating in more or less comparable competitive circumstances.

- Store performance. When stores performed well, in general, franchisees did not really feel the need to adopt certain changes in their stores. In other words, they had a 'low sense of urgency'. According to management¹, this was one of the reasons why in the early 1990s DA franchisees did not approve of increasing obligations. Because their turnover levels were still good, they did not consider it necessary to make investments.

Franchisee characteristics

These consist of:

- 'History' of the franchisee. It made a difference whether franchisees had always been independent druggists (such as in the DA-, STIP- and UED systems) or whether they had experience in working as employees (as was the case with several ETOS franchisees who had worked as ETOS-store managers). The independent druggists still considered their independence as very important and therefore did not so easily accept a higher degree of hardness, while former ETOS-store managers were used to a hierarchical relationship with ETOS, and so they relatively easily adopted certain obligations.
- Membership of the Franchise Board. In all cases studied, franchisees who were involved in the Franchise Board stood close to management and therefore possessed more information about why certain decisions were made. Consequently, they had a higher degree of trust (and OC trust/fd). Moreover, their membership influenced the scores of franchise system characteristics as desired by the franchisees; because the franchisor and these franchisees were in close contact, the franchisor could more easily convince them of the need for certain decisions.
- General characteristics of the franchisee, such as age, gender, education level and psychological characteristics. For example, one moderating effect of age was that some older franchisees were more inclined to accept low degrees of strategic compatibility regarding degree of hardness or other variables, because they would retire in a few years time.
- 'Type' of small business owner/entrepreneur. A well-known distinction in entrepreneurship literature is Smith and Miner's (1983) distinction between 'craftsmen' and 'opportunists'⁸³. These two types have been widely accepted in the literature and they vary on several dimensions. In general, craftsmen prefer 'technical' work and are more motivated to achieve personal autonomy than financial or organizational success. On the other hand, opportunists are more likely to be motivated by financial gains and they aim for opportunities to build a successful organization. This distinction could be applied to the franchise systems dealt with in this study. Especially at DA, the distinction between two types of druggists was apparent; 'craftsmen druggists' and 'opportunist druggists'. The craftsmen druggists were highly focused on their craftsmanship; according to a manager of management¹ they saw themselves as semi-doctors. The 'opportunist druggists' considered themselves more as small business owners (or entrepreneurs) who 'accidentally' owned a drugstore, but as far as they were concerned it could

⁸³ Smith and Miner were not the first ones to distinguish craftsmen from opportunists. This was initially done by Smith (1967); however, the article of 1983 elaborates on this typology.

have been any other business. Over time, the composition of types of druggists within the DA system had changed from more craftsmen to more opportunists. ETOS had always consisted of a relatively large group of opportunists, while STIP and UED mostly contained of craftsmen. The cases presented several ‘craftsmen’ who valued their independence and therefore preferred a low degree of hardness. Moreover, they desired a high positioning. This issue has not been the explicit focus in this study and the typology is quite rough, but it may be an interesting topic for further research (see section 9.7).

- ‘Number of units owned (‘multi-unit franchising’). Franchisees who owned multiple units within the same system often preferred a higher degree of hardness because they considered it crucial that the units could also operate without them. Because they could not be present in all stores simultaneously, they aimed at a certain degree of standardization (and therefore degree of hardness).
- Scope of franchisee activities. The same applies to the way in which the franchisees’ activities were divided. Some franchisees were more engaged in business activities (either stores at other franchise systems or other engagements) and they pursued a certain degree of standardization so they could focus more extensively on the management of their portfolio rather than having to run the work floor.

Franchisor characteristics

- The ‘style’ of the management. ‘Style’ can be characterized by an ‘authoritarian style’ on the one side, and a ‘participative style’ on the other side. The management style had indirect effects on franchisee responses. One example is the influence it had on the franchisees’ perceptions of the ‘actual’ degree of hardness. In the DA case management’s style was perceived as authoritarian (mostly during SCT1), which meant that the franchisees perceived a higher degree of hardness. It also resulted in a perception of distrust and unfair dealing on the part of the franchisees. Moreover, the DA franchisor’s organization had a certain reputation with druggists in other franchise systems. At UED, the management’s style was perceived as participative and friendly. Therefore, there was a high degree of trust (at least on the personal level). Also the ETOS-management’s style was often considered as participative, and therefore franchisees perceived a lower degree of hardness and they rated the organization of their strategic participation as very high.
- History of management. It appeared that the previous activities of managers involved in the SCTs influenced the franchisees’ expectations regarding the way in which the franchise system characteristics would develop in the future. This was especially visible at DA during SCT1, where management originally came from large organizations owning harder franchise systems (C1000 and ETOS). Several DA franchisees believed that these managers wanted to ‘take control’ of their businesses, which caused annoyance among some franchisees.

Characteristics of the franchise system

- The presence of company-owned units in the franchise system. Of the four franchise systems in this study, only ETOS had company-owned units. As explained, ETOS’ relatively large stake in company-owned units had an indirect effect on OC trust/fd as perceived by the franchisees. It also had moderating

effects on the relative importance of certain variables in the model: because of the large number of company-owned units SC org was considered less as a determining variable, since the franchisees knew that when obligations were introduced in the company-owned units, management would have to be certain that they would work. The same applies to OC capa: because ETOS had a large number of company-owned units, it would suffer just as much as the franchisees would in case things went wrong. Therefore, the franchisees expected that management would do everything it could to prevent operational problems.

- History of the franchise system. DA, STIP, ETOS and UED very much differed in their histories. DA had started as a cooperation owned by the druggists themselves, who administered the DA and STIP system on behalf of its members. Therefore, DA and STIP druggists did not easily accept an increasing degree of hardness. They were used to a soft system and therefore it was difficult for them to accept an increasing degree of hardness. UED had also been a soft system, in which druggists only accepted obligations to a certain extent. ETOS had started as a system consisting of company-owned units only. Therefore, it had instantly started off as a relatively hard franchise system, and thus had fewer difficulties in increasing its degree of hardness.
- Role of the corporation. In some situations, the role of the corporation indirectly influenced the responses of the franchisees. This was mostly visible within ETOS during SCT6 at the introduction of the Four Worlds format. Some franchisees adopted amloy because of the problems at ETOS's corporation AHOLD at the time. They considered it a possibility that AHOLD would sell ETOS to another organization, and that this would change their franchise relationship. The same applies to SCT7 at the UED system; the Prospective Acquisition by the DA was imposed by the corporation, but it influenced the relationships between the UED management and the franchisees.

9.5.2 Background variables from the franchisor's perspective

The background variables from the franchisor's perspective consist of the following categories:

- Managerial characteristics;
- Characteristics of the franchise system.

Managerial characteristics

This variable consists of the following categories:

- Management's experiences with former strategies. This issue had an indirect and moderating effect because it exerted influence on what management perceived as viable strategies for the franchise system and how these strategies should be implemented.
- Personal characteristics of the managers. The managers from the management teams had certain personal characteristics that indirectly influenced their management style and the way in which they responded to franchisees.

Characteristics of the franchise system.

This variable consists of:

- The history of the franchise system. Another explanation for the reason why the franchisor's responses in the franchise systems differed is the fact that the systems had different histories. ETOS started as a chain organization consisting of company-owned units only. When it started franchising it used the contents of the contract of one of AHOLD's other subsidiaries, who had many years of experience in franchising. Therefore, the ETOS system started off as a relatively hard franchise system (compared to other forms of cooperation in the Dutch drugstore industry at the time). DA, STIP and UED started from completely different perspectives. DA and STIP were initiated on the basis of cooperatives, and UED was set up as a loose form of cooperation introduced by a drugstore wholesaler.

9.6 Final conclusions

In the previous sections, the conclusions have been discussed on three different levels. These levels are all required for a complete understanding of why franchise partners adopt certain responses toward each other when dealing with the exploration/exploitation paradox. This section summarizes the most important conclusions of this study. They revolve around the following 'themes':

1. An adapted typology of responses;
2. Franchise relationships as dynamic relationships;
3. 'Soft is simple, hard is complex';
4. Trust and fair dealing in franchise systems.

1. *An adapted typology of responses*

This study shows that responses are more heterogeneous than assumed so far in the literature. The most important addition made to the typology of responses is that of 'ambiguous loyalty' as specific type of response. It was argued that ambiguous loyalty is more destructive than loyalty but less destructive than neglect. Ambloy refers to situations where a partner is not sure how to react to certain changes in the relationship and waits to see what happens before adopting further responses. It is highly likely that this particular response also occurs in other types of relationships, such as employer-employee relationships or consumer relationships. In these situations ambloy can be tricky because it may easily trigger one partner to switch to a more destructive response, while the other one is not prepared for this.

2. *Franchise relationships as dynamic relationships*

This study also demonstrates that franchise relationships are actually more dynamic than suggested in the current franchising literature. In a franchise relationship there can be several situations in which changes occur that 'trigger' franchise partners to switch between responses. In the cases, it was mainly the franchisees who switched between responses, while the franchisor's responses were relatively stable. The triggers of franchisees' response switches as shown in this study are the following (see 9.4.1):

- Modifications in franchise system characteristics, which may result in changes in the strategic compatibility as perceived by the franchisees. Changes in strategic compatibility, especially SC hard, SC pos and SC innov, often triggered franchisees to switch responses.

- Changes in one of the other independent variables: operational compatibility, attractiveness of alternatives or switching costs. As pointed out in section 9.4.1, in the view of the franchisees OC profit was always a determining variable, and therefore changes in OC profit often resulted in response switches. Changes in the attractiveness of alternatives and in switching costs only led to response switches when the franchisee was not satisfied with certain aspects of his strategic and operational compatibility.
- Responses of the franchisor. Franchisees adapted their own responses on the basis of the responses of the franchisor. In some cases, the franchisor gave them a passive response when they wanted to discuss certain issues. As a result, they would then adopt an exit response in return.
- Changes in 'background variables'. The most important changes in this respect were changes in the stores' competitive circumstances, to which the franchisee felt inclined to react.

It also became clear that franchise systems and the relationships within them co-evolved with the developments in other franchise systems. Franchisors monitored developments taking place within competing systems and sometimes they adapted their strategies (i.e. franchise system characteristics) to attract franchisees from these systems. These franchisors aimed at increasing their attractiveness to these franchisees, which made some decide to switch.

Additionally, franchisees within a particular system differed in their responses toward the same SCT. This indicates that groups of franchisees within franchise systems can indeed be more heterogeneous than assumed so far in the literature. As indicated in section 9.3.2, from the perspective of franchisee types/stores⁸⁴, the DA system was the most heterogeneous system, which is why management tried in several ways to deal with the tension between maintaining uniformity versus allowing local adaptation. As was pointed out in section 9.5.1, franchisee types can be based on various dimensions, which could be an interesting topic for further study.

3. *Soft is simple, hard is complex*

In the early stages of this study, based on the preliminary study five franchise system characteristics were distinguished regarding which franchisors had to make strategic choices when dealing with the exploration/exploitation paradox. It appeared that this distinction into different franchise system characteristics was valuable because they were not considered as equally relevant by the franchise partners. It can be concluded that the most important franchise system characteristic is the degree of hardness. The case studies have shown that to gain insight into (and to manage!) a soft franchise system a 'simple model' suffices, while for understanding a hard franchise system a more 'complex model' is required. There are two reasons for this:

- A higher degree of hardness resulted in more determining variables. Most SCTs in this study (SCT1, 2, 3, 4, 6, and 8) focused on an increasing degree of hardness of the franchise system; at least this was intended by the franchisor. The cases show that whenever requirements were introduced that were actually enforced by management, the compatibility with respect to these requirements became important to the franchisees. They did not approve of obligations regarding issues

⁸⁴ It goes too far to discuss this here in detail, but it is highly likely that certain 'types' of franchisees run certain 'types' of stores.

they did not agree with or that did not work. This resulted in an increase in determining variables, which were mostly related to the requirements the franchisees were confronted with, namely positioning, rate of innovation, and franchisor's capabilities. Additionally, when a franchise system actually got harder issues of trust and fair dealing as well as the organization of the franchisees' strategic participation became more important in the franchisees' view. The reason for this was that due to the increasing obligations the franchisees felt more dependent upon the franchisor. It was therefore important that they could rely on it that the franchisor would take their interests into account. Trust and power are central issues in the social exchange and resource dependence perspective, which shows that these perspectives are indeed relevant in understanding the developments in franchise systems. Another reason why a hard system increases complexity is that, from the franchisor's perspective, whenever the franchisor wanted to increase the degree of hardness, the tension between maintaining uniformity and enforcing obligations versus the risk of losing franchisees became more apparent, which was a complicating factor.

- Relations among variables. It was pointed out that there were several possible relationships between variables and indicators (see section 9.3.4). If a franchisor desires a certain positioning and/or a high rate of innovation the system has to be hard. It appeared that as a system becomes harder, the organization of strategic participation has to increase in order to create support among the large group of franchisees. Additionally, a higher degree of hardness influences which type of growth objectives are desirable. Moreover, it will heighten investment requirements and cost levels, which may not be desirable as far as the franchisees are concerned. Finally, an increasing degree of hardness will create 'future switching costs', which some franchisees may not approve of. These may then trigger an exit response.

4. *Trust and fair dealing in franchise systems*

The issue of trust and fair dealing requires some extra attention here. Trust and fair dealing became more important when the franchise systems became harder. However, the franchising literature has hardly paid any attention to the role of trust and fair dealing in franchise systems. Through the increasing degree of hardness, franchise partners became more dependent upon each other, and, as a consequence 'franchise system trust' became more important. This form of trust is only relevant to franchisees and it refers to the first two levels of fair dealing distinguished in section 9.3.1. To the franchisors it was only important that franchisees did not misrepresent information that was used to calculate fees and royalties and that they did not ignore the requirements that were actually enforced by the franchisor. The franchisor had several instruments to monitor this, for example by means of mystery shoppers and visits by operational managers.

Franchise system trust refers to the franchisee's trust that 1) the franchisor runs the franchise system fairly and effectively so costs and benefits are divided equally between the franchisor and the franchisees, 2) that the franchisor takes franchisees' interests into account, and 3) that every franchisee in the system is treated equally (no preferential treatments). The cases have shown the following instruments 'institutionalized' in the franchise system in order to (try to) increase 'franchise system trust':

- A certain amount of company-owned units. This turned out to be very important in the ETOS case. The franchisor has to have a significant share of company-owned units in order for this instrument to work, and the franchisees have to be

aware of this. Franchisors with company-owned units can show their franchisees that by getting involved in certain innovations and requirements, they run risks themselves. Therefore, the franchisees can rely on it that in introducing certain obligations the franchisor always has the best intentions. Because of the large share of company-owned units, the franchisor will almost automatically take into account the interests of the franchisees, because introducing obligations that work is in his own interest. Moreover, at ETOS the purchasing prices were the same for the franchisees as for the company-owned units (which was monitored by an accountant). Because of its company-owned units, ETOS itself had an interest in keeping the purchasing prices as low as possible, and the franchisees trusted that it would try very hard to do this. At DA and STIP the franchisees noticed that the franchisor's wholesaling interests prevailed, resulting in irritation when obligations were introduced (to which certain purchasing prices were attached). Within UED wholesaling also formed an important part of the franchisor's income, but because there were only few obligations no problems arose here.

- A high level of the organization of strategic participation. This instrument refers to the existence of a Franchise Board, and the procedures around the functioning of this Board. In all cases, the most important role of the Franchise Boards was to create support among the large group of franchisees. It was pointed out that when the degree of hardness increases the franchisees wish to be 'compensated' for this by means of a higher level of organization of their strategic participation, because they want to make sure their interests are taken into account. The higher the level of the formal organization of strategic participation in terms of selection procedures, replacement and decision rights, the higher the franchisees' perception level of franchise system trust. At ETOS, there was a very high level of the organization of strategic participation, which was, however, considered less important because of ETOS' company-owned units. At DA and STIP strategic participation was considered as important due to the increasing obligations but because it was ill-organized the perception level of franchise system trust was low. Strategic participation at DA and STIP was also considered important due to its cooperative structure. At UED there had not been many problems with strategic participation because of the system's softness.
- The role of third parties. As was already explained, at ETOS an accountant monitored certain financial issues, such as purchasing prices and the calculation of fees and royalties, resulting in trust on the part of the franchisees that these activities were performed in a fair way.
- The way of calculating fees. The ways in which fees were calculated influenced the franchisees' perceptions of trust in the franchisor. This became clear when comparing DA/STIP and ETOS with respect to this issue. The franchisor of DA/STIP based a large part of its fees on turnover levels and was therefore tempted to increase turnovers without taking into account the costs and the resulting profitability of the franchisees. Because ETOS calculated fee over the purchasing value, it did not have an interest in increasing turnover levels at any cost. Because ETOS had to take the profitability of its company-owned stores into account, it automatically did so for the franchised stores. Within UED franchisees paid a fixed fee and so the franchisor could not undertake actions to influence its height.

- The right to send back automatically sent-in goods. Also here there was a difference between DA/STIP and ETOS. At ETOS, franchisees had the right to send back automatically sent-in goods. According to the ETOS franchisees, management showed its conviction that a certain product would sell, and when it would not work ETOS was prepared to accept the losses. At DA franchisees could not send back the goods, and therefore they sometimes had to face these losses.

I see the abovementioned discussion about franchise system trust as a preliminary step toward understanding trust in franchise systems. Trust has been only one of the many aspects in this study, and therefore trust within franchise systems could be an interesting topic for further research. In recent years, trust on various organizational levels has increasingly received attention from researchers. However, trust in franchising contexts has rarely been dealt with.

9.7 Discussion and suggestions for further research

This thesis is part of the increasing stream of research on dynamic phenomena, such as organizational learning, co-evolution, innovation, strategic change and development. As argued in Chapter 1, there is, however, still a lack of research on franchising and franchise relationships as dynamic phenomena. Chapter 1 points out that the possible scientific contributions of this thesis are fourfold. First, it provides a multifaceted insight into franchise relationships by focusing on both exploitative and explorative aspects of franchise systems and relationships, and by incorporating issues of trust and fair dealing. Second, the framework considers alliances and franchise relationships as dynamic relationships rather than of static ones. Third, franchisors and franchisees are both considered as ‘intelligent players’ who are capable of contributing to the exploration in the franchise system and of adopting their own responses. Fourth, franchisees are considered as a heterogeneous group rather than a homogeneous group.

The case study results have proven that these four contributions are indeed relevant. Moreover, the following suggestions can be made concerning further research:

- The study has shown that in order to understand strategic interactions between franchise partners a combination of theoretical perspectives is indeed required. Especially the social exchange perspective and the (co)evolutionary perspective have proven to be of great relevance. However, they have rarely been used in earlier studies. Issues of trust and fair dealing in franchise systems should be studied more in-depth by applying a social-exchange perspective. A perspective of this kind could provide further insight into which types of trust can be distinguished in franchise systems and franchise relationships, the instruments for influencing the franchise partners’ perceptions of trust, and the way in which these instruments work. Section 9.6 has already pointed at several instruments, but further study is required to find possible other tools and to study their degree of importance. A (co)evolutionary perspective can be useful in franchising research because it provides a more dynamic approach and it helps in the study of strategic processes. Moreover, the case studies have shown that to understand the developments in one franchise system it is necessary to understand those in other franchise systems.
- During the SCTs the franchisors aimed at significantly changing one or more of the franchise system characteristics. Except from the ETOS system, the franchise partners could not turn to a franchise contract that exactly specified what

procedures to adopt when the franchisor decided to introduce certain changes within the system. Further research is needed on procedures for introducing (strategic) changes in franchise systems, because franchise organizations as well as other organizational forms increasingly have to deal with this issue.

- This study has shown that franchise relationships are indeed more dynamic than currently assumed in the literature. Therefore, more research is required that views franchise relationships (and strategic alliances in general) as dynamic. Such approaches also involve requirements with respect to the methodology. According to Langley (1999), research on dynamic phenomena has been approached in two ways (see section 4.2). Some researchers have used coarse-grained research approaches in order to test a-priori formulated theories, while others have used fine-grained qualitative research approaches in an attempt to build theory. The current franchising literature is often based on coarse-grained approaches (Elango and Fried, 1997). However, a great deal of literature calls for more in-depth process research, which helps understand organizational phenomena over time on more levels than just the superficial one. A relevant suggestion for further research is to conduct a 'real' longitudinal study in which the responses of partners toward each other are traced in 'real time' over a longer period of time. In this study, four of the SCTs dealt with contemporary change processes, but at the end of the data collection process, these SCTs had not ended yet. It would be interesting to continue to follow the developments in these franchise systems in order to obtain a more longitudinal understanding of this kind of strategic interactions.
- With respect to studying (franchise) partners' responses in relationships, two comments can be made:
 - Responses are more heterogeneous than currently assumed in the literature. The most important contribution to the current literature in this respect is the addition of the 'ambiguous loyalty' response. It is highly likely that this response also occurs in other relationships to which the response typology was applied in earlier studies, such as consumer relationships and employer-employee relationships. This study also shows that within the various types of responses other categorizations can be made; especially with respect to the exit and the considerate voice responses.
 - Studies on responses can be conducted on various levels. Hagedoorn et al. (1999) consider responses on a general level; they studied how employees generally respond to 'problematic events' in the relationship with the employer. However, events can vary in the degree to which they are considered problematic, and it is likely that people will differ in their responses to different events. Therefore, this study has explicitly focused on specific strategic change trajectories (SCTs) and the way in which different franchisees react to the same events. From the case studies it became clear that individual franchisees differed in their responses to the SCTs studied as well as in their responses to other events in the franchise system. Moreover, franchisees sometimes respond toward the higher management level while in other cases they only react to the operational management or to the secretary of these. In subsequent research it is important to establish more explicitly what kind of response a partner adopts to which event and to whom.

- Various background variables appeared to be relevant (see section 9.5) and it turned out that franchisees within the same system can vary with respect to these variables, such as store characteristics or personal characteristics. These background variables influence the scores of the franchise system characteristics as desired by the franchisees, and thereby indirectly affect the franchisees' responses to certain changes. In recent years, more attention has been paid in small business and entrepreneurship literature to how groups of entrepreneurs and/or small business owners differ from each other. It is increasingly recognized that entrepreneurs form a heterogeneous group. However, in the franchising literature this is not (yet) apparent: there are only a few studies that distinguish different types of franchisees in general and within specific franchise systems⁸⁵. It is very likely that franchise systems with certain franchise system characteristics attract certain types of franchisees. Moreover, franchisors may find it more difficult to change a system of heterogeneous franchisees than a homogeneous system. Future research should study which classification dimensions are the most useful to distinguish different types of franchisees and 'ideal' compositions of franchisee types within different types of franchise systems.

9.8 Practical relevance

This section discusses the practical relevance of this study for both franchisors and franchisees.

9.8.1 Practical relevance for franchisors

The final conclusions of section 9.6 already implied several practical implications for franchisors. This section summarizes the most important implications for franchisors on the basis of the following structure:

- Franchise system characteristics and relationship dynamics
- 'Dangerous' responses
- Soft is simple, hard is complex
- Relationships between franchise system characteristics
- Managing trust and fair dealing
- Dealing with the exploration/exploitation paradox

Franchise system characteristics and relationship dynamics

The main objective of this study has been to gain insight into the responses that franchise partners adopt toward each other in dealing with the exploration/exploitation paradox, and why they adopt these responses. It was argued that franchisors have to deal with the paradox of exploiting a business format by standardizing it through the whole system and over time versus exploring by means of local adaptation of the business format and by adaptation of the system over time. A factor complicating this issue is the fact that the franchisor is engaged in relationships with franchisees who have to be willing to adopt the franchisor's decisions.

⁸⁵ The article of Dant and Gundlach (1998) is one of the few presenting a typology of franchisees.

The exploration/exploitation paradox has been translated into five strategic characteristics of franchise systems that franchisors should consider in the strategic management of their systems: positioning, degree of hardness, rate of innovation, organization of the franchisees' strategic participation and type of growth objectives. Franchisors have to decide how they want their franchise system(s) to 'score' on these franchise system characteristics. This will influence the franchise system's identity in the market as well as the relationships with the franchisees. The cases have shown that once franchisors change certain franchise system characteristics, the franchisees' perceptions of their strategic compatibility also changes, which, in turn, could result in certain (undesirable) responses on the part of the franchisees.

Dangerous' responses

From the franchisor's perspective there are certain responses, both adopted by the franchisor and the franchisees, which can be 'dangerous'. With 'dangerous' is meant that these responses can result in the loss of profitable franchisees or in damage to the system's uniformity.

The ambiguous loyalty response appears to be a dangerous response, and franchisors should be aware of the occurrence of such a response type. In the case studies, there were several franchisees who were considered as loyal by the franchisor, but who were actually not sure about how the relationship would develop and what responses they should adopt in the future. Ambiguous loyalty by franchisees is dangerous to the franchisor for the following reasons:

- It might lead to unexpected exits by profitable franchisees. The cases have shown that franchisees adopting an ambiguous loyalty response were sometimes inclined to exit, while the franchisor never expected such a course of action. Then, the franchisor had to react quickly, and sometimes aggressively, in order not to lose these franchisees. The risk of an unexpected exit is especially relevant when the franchisor does not want to lose this franchisee, for example because he generates high profits. Franchisors –especially in the soft franchise systems- should also be aware that franchisees may adopt ambiguous loyalty, but leave again relatively quickly once they have found a better alternative. This especially applies to franchise systems with low entry and exit barriers, which are mostly the softer systems.
- Ambiguous loyalty can lead to damage to the system's uniformity. There are examples of franchisees signing the new franchise contract while expecting that they can ignore certain obligations. Signing the franchise contract seems a loyalty response, but once they are faced with obligations they do not approve of, their real response will reveal itself.

A passive response by the franchisor also turned out to be 'dangerous'. Franchisors are always dealing with the tension between enforcing certain obligations versus losing profitable franchisees. In some cases, the franchisor did not dare to enforce particular obligations, whereby the intended development of the franchise system characteristics was impeded. Franchisors sometimes adopted a passive response, and therefore several franchisees did not have to adopt certain requirements. This resulted in damage to the system's uniformity. Moreover, because the franchisees were not enforced to make specific investments they kept their switching costs relatively low, which sometimes also led to sudden exits.

Soft is simple, hard is complex

The case studies show that managing a soft system is relatively simple, while managing a hard system is complex. The change from a soft system to a hard system is even more complex, because franchisees in soft systems are used to their large degree of freedom and might not be willing to adopt certain obligations. In systems that have been hard from the beginning, franchisees are used to a certain degree of hardness and are therefore more apt to accept certain obligations. Franchise or franchise-like systems that started off as soft systems and that want to harden are faced with a highly complex management task. Franchisors have to make sure that there is a certain degree of compatibility with respect to obligatory issues, such as a certain positioning in the market or the adoption of an automation system. The results also show that franchisees start to consider trust and fair dealing and a high level of organization of their strategic participation as more important once a system becomes harder (see 'Managing trust and fair dealing').

In recent years, the problems of changing from soft to hard have become clear to several franchisors who are engaged in looser forms of commercial cooperation. In recent years, several administrators of franchise-like forms of cooperation ('franchisors') have aimed at introducing an increasing range of obligations to be met by the participants ('franchisees'). This has become clear from franchise specialist magazines (Franchise+) and from several graduation theses I have supervised over the years. It is very likely that franchisors operating in such relatively loose systems will have to deal with these problems if they want to tighten the cooperation with their participants. They will also have to deal with the change from simple relationships to more complex relationships if they introduce certain obligations. The results of this study can provide them insight into how to deal with their franchisees during such processes.

Relations among franchise system characteristics

The results show that there are several relations among the franchise system characteristics. To franchisors it is important to know how a desired change in one of the franchise system characteristics may require changes in other system characteristics. The possible relations among the system characteristics have been discussed in section 9.3.4.

Managing trust and fair dealing

As pointed out, in the view of the franchisees 'trust and fair dealing' become more important once a system becomes harder. Franchisors who aim for a higher degree of hardness within their systems should pay a great deal of attention to the franchisees' perception of 'franchise system trust'. Franchise system trust refers to a franchisee's trust that 1) the franchisor will run the franchise system fairly and effectively so costs and benefits are divided equally between the franchisor and the franchisee, 2) that the franchisor takes the franchisees' interests into account, and 3) that every franchisee in the system is treated equally (without preferential treatments). This study's results show that franchisors can influence the degree of franchise system trust by means of institutionalizing certain instruments within their franchise systems. These instruments have been discussed in section 9.6 and include the role of company-owned units, the organization of the franchisees' strategic participation, the role of third parties, the way of calculating fees and the right to send back automatically sent-in goods. This study shows franchisors how they could use these instruments to improve the franchisees' perception of franchise system trust. However, as section 9.7 indicates further research on trust in franchise systems is required to offer more specific recommendations on how franchisors could influence the franchisees' perceptions of trust.

Dealing with the tension of exploration versus exploitation

The franchisors in this study dealt with the paradox of standardization and adaptation in different ways (see section 9.3.2):

- Option 1: Working with one business format without any modules. This is the most standardized form. Because of the complete standardization, here the economies of scale are the largest. However, due to this large standardization some franchisees may want to adapt their stores locally, and the franchisor has to deal with the tension between standardizing and allowing for local adaptations by individual franchisees.
- Option 2: One solution to this problem is to create different modules within the same business format. In this way franchisees can benefit from certain economies of scale, while working with a module that is appropriate for their stores. This seems to be the golden mean between option 1 and option 3, because in this way one can capitalize on certain economies of scale while each module fits in with certain local circumstances to which relatively few local adaptations need to be made.
- Option 3: Starting another system with another business format consisting of different franchise system characteristics next to the existing system. In this way, franchisees who perceive a certain degree of incompatibility in the existing system can change to the other system in order to improve it. From the franchisor's perspective, this will then result in a high level of homogeneity of franchisees within the different systems, which facilitates the standardization of their business formats. In this case, the tension between standardizing versus local adaptation will be small because franchisees can switch to systems that best suit their needs. However, the use of separate systems will lead to higher costs because there are fewer economies of scale.

The more heterogeneous a system in terms of 'types' of franchisees and/or 'types' of stores, the more difficult it is to standardize. The cases have shown that franchisors who attracted different types of franchisees sometimes had problems when introducing certain requirements. This was because these obligations were not consistent with the desires of all franchisees in the system. In later years, the franchisors who participated in the case studies started to make 'profiles' of suitable franchisees to make the systems more homogeneous and better manageable.

9.8.2 Practical relevance for franchisees

This study provides insights into how franchisees can evaluate and manage their relationships with the franchisor. It helps them understand the challenges the franchisor has to deal with and his motivations for adopting certain responses. This study will therefore also help franchisees in assessing adequately the way in which their responses influence those of the franchisor.

Moreover, this study offers insights that can be used by prospective franchisees to estimate whether a franchisor and a franchise system will fit their needs. There are many checklists that can be addressed by franchisees when evaluating a franchisor and its franchise system. In this study a distinction has been made between different factors of strategic and operational compatibility. To evaluate their relationships with the franchisor franchisees should investigate all these factors.

One very important choice for franchisees to make is the choice between the costs of participation versus the benefits. This study has shown that the costs of participation are influenced by certain other aspects, such as the degree of hardness of the system and the rate of innovation. A hard system often operates under a well-known brand name, but it requires more investments from the franchisees. Franchisees have to decide whether they believe a well-known brand name is important for their stores. Moreover, the franchise system should be in line with the franchisee's personal characteristics, especially with respect to the degree of hardness.

In this study five franchise system characteristics have been distinguished; positioning, degree of hardness, rate of innovation, the organization of strategic participation and the type of growth objectives. For prospective franchisees it is important that they can estimate the degree of compatibility with the franchisor as it is at that particular moment *and* as it will be in the future. More specifically this means that the franchisee has to reflect upon his wishes with respect to the franchise system characteristics, and consider the franchisor's intentions at that point in time and in the future. In this respect, franchisees have to address at least the following issues:

- Degree of hardness: how much freedom do I want in my business? Am I willing to sacrifice freedom for the sake of a well-known brand name? What is the actual degree of hardness in this system? What degree of hardness does the franchisor pursue at this point in time, and is this likely to change in the future?
- Positioning: what kind of positioning do I consider suitable for my store, and how is the situation in the franchise system? What kind of positioning does the franchisor pursue at this point in time, and is this likely to change in the future?
- Rate of innovation: how frequently do I want to adopt innovations in my store, and what are the franchisor's objectives in this respect, now and in the future?
- Organization of the franchisees' strategic participation: How important do I consider the possibility that I can participate in the system's decision-making processes? And how is this organized within this particular franchise system?
- Type of growth objectives. Franchisees have to be aware that conflicts can arise due to incompatibility in growth objectives. In all case studies, over time franchisors have switched from a more quantitative growth type to a more qualitative type. In some cases franchisors wanted individual franchisees to renovate or relocate so they could meet the increasing requirements. Therefore, franchisees should take into consideration what exactly their aims are with respect to growth; whether they want to grow and if so, how. In addition, the growth objectives of the franchisor are also important here.

The case studies have shown that when a franchise system becomes harder 'franchise system trust' becomes more important (see section 9.6). To the franchisees personal trust in people on the part of the franchisor is not enough when there are many obligations to fulfill. They have to be certain that the franchisor takes their interests into account. Moreover, because management teams are inclined to change in terms of people, personal trust is not sufficient: when a certain manager leaves, the franchisees nonetheless have to be sure that their interests will be taken into account. As section 9.6 indicates, in the case studies various instruments were 'institutionalized' within the franchise systems to guarantee that the franchisor would more or less automatically take the franchisees' interests into account. For franchisees it is important to collect information about the ways in which the franchisor takes into account the franchisees' interests.

In my opinion prospective franchisees should obtain as much information as possible from franchisees who are already operating in the franchise system. These franchisees know how the system works and they can answer questions about the development of the franchise system characteristics and the way in which the franchisor takes the franchisees' interests into account. It is also important that prospective franchisees gather information from both satisfied and dissatisfied franchisees, and that they learn to understand their motivations. Acquiring information from a number of franchisees will help the prospective franchisee to predict whether or not the system is suitable for him, which could avoid many problems in the future.

