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For the *Fédération Française de la Franchise*

What different dimensions of  
know-how are sources of  
competitive advantage in  
franchising?

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# Acknowledgements

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The research team remains at the disposition of any franchisor and franchisee who would like further information concerning this study.

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# Introduction

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A survey<sup>1</sup> into the profitability of franchising networks in France has highlighted the essential role of the franchisor's business competence in the survival, profitability and global performance of a network. This competence relies on certain know-how: (1) technical know-how which is codified and transmitted to the franchisees and (2) organisational know-how related to organising and managing the network. These two elements not only determine economic performance and competitive advantage, but they also lie at the very heart of the principle of franchising. This by definition is based on an original and tested combination of know-how, defined by the European code of ethics for franchising as « *a set of non patented practical information resulting from the experience of the franchisor who has tested them (...), secret, substantial and identified* ». This know-how can explain why many entrepreneurs find franchising so attractive. Indeed, in the ten years from 1998 to 2008 the number of franchising networks grew from 530 to 1234 in France with an annual turnover for 2008 of over 47.6 billion Euros<sup>2</sup>. The number of franchise units in the world is well over a million (Michael, 2003). A recent survey<sup>3</sup> on support in franchising networks also emphasised the importance of organisational know-how as a source of competitive advantage: « *In this time of crisis more than ever, supporting a network before, during and after the creation phase is a competitive advantage* ».

However, the relationships between know-how and competitive advantage, and thereby network performance, still have to be specified. As some authors pointed out, “*although growth and survival are improved through franchising (...), the effects of franchising on financial performance remain unclear*” (Combs & Ketchen, 1999a: 204). Indeed, many questions are still unanswered. For example, which particular know-how should be developed in order to create and maintain competitive advantage in a franchise? What is the relative impact on competitive advantage of technical know-how compared to organisational know-how? How can a franchise network be managed in order to improve performance? What managerial choices are inherent to the know-how implemented through the different strategies adopted by franchisors?

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<sup>1</sup> *Franchise Magazine*, n°201, August / September 2007.

<sup>2</sup> Figures on 1 January 2009 (Source FFF).

<sup>3</sup> *Franchise Magazine*, n°212, June / July 2009.

It thus appears essential to understand and demonstrate how management choices can improve franchise performance and economic profitability. In order to better understand how far technical (business specific) know-how and organisational know-how generate competitive advantage for franchising networks, we felt it important in this research to:

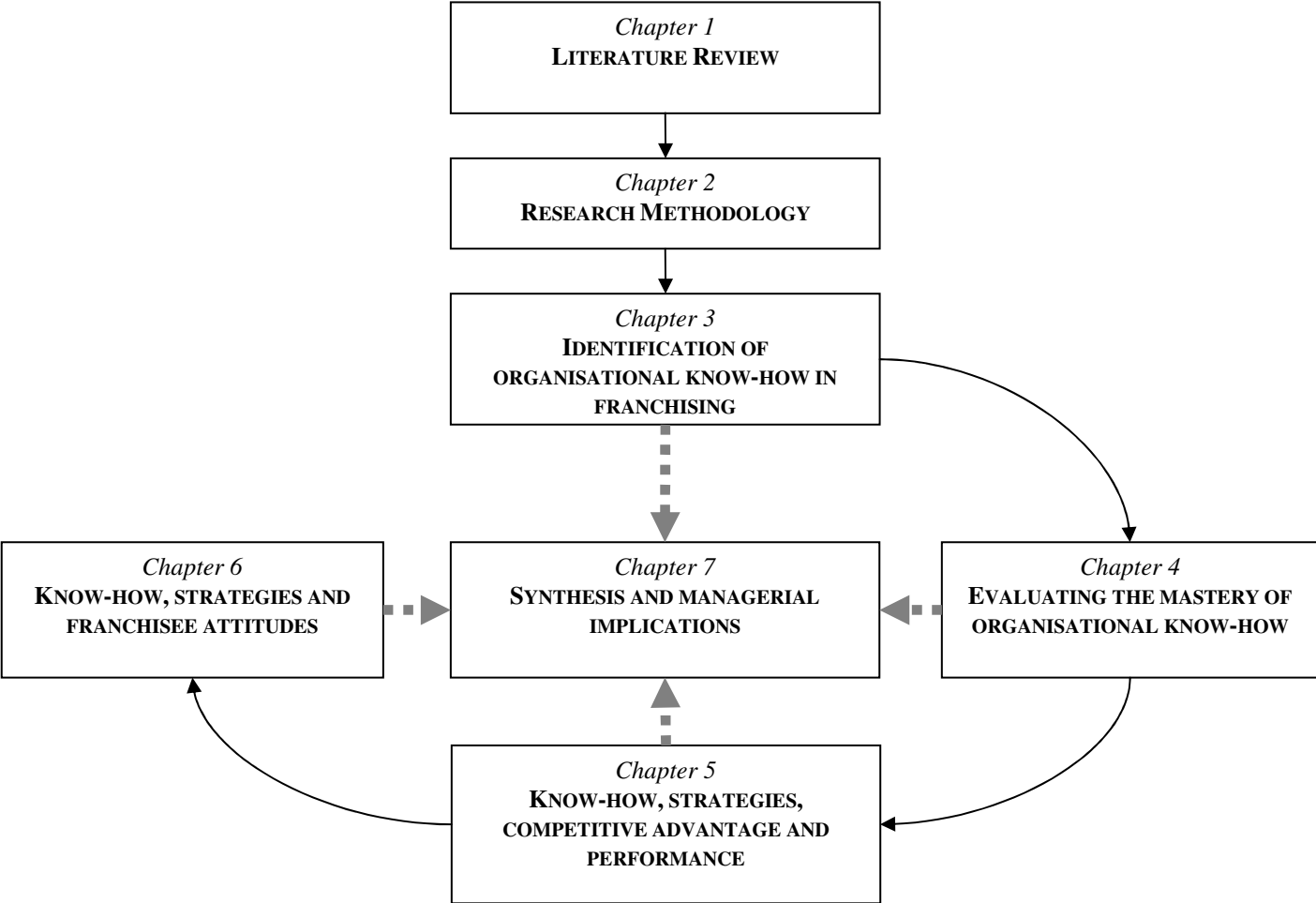
1. Identify and measure the characteristics inherent to the various types of know-how involved in franchising networks.
2. Compare the mastery of these dimensions of know-how with the characteristics of different networks (industry segment, age of network, size, plural form, etc.).
3. Analyse and explain the links between the types of know-how and their organisation and the competitive advantage of franchising and, finally, the performance of networks.

First and foremost, we also considered it necessary to renew the theoretical framework used to understand the sources of competitive advantage and performance differences of franchising networks. Indeed, current leading theories (such as agency theory and resource scarcity theory) do not enable us to understand how and why certain franchisors obtain higher levels of performance than their competitors. We therefore propose an alternative approach, based on resource theory and relationship theory. By clarifying the links between the type of know-how and competitive advantage in franchising, the main aim of this research was to evaluate the relative importance of the different types of know-how (technical and organisational) in franchisors' achievement of higher performance. Furthermore, by analysing franchising know-how according to network characteristics in terms of industry segment, size, age and proportion of plural form, we have tried to show the fit between, on one hand, the types of know-how, their organisation and evolution and, on the other, the characteristics of these networks. These results also enabled us to improve our understanding of the managerial choices inherent to organisational know-how in various strategic cases.

We develop our research into this question over seven chapters. The first describes the theoretical bases of the research, that is, our approach based on resource theory and relationship theory. The second chapter describes the research methodology (qualitative and quantitative phases). The results of the research are presented in chapters three, four, five and six, which deal respectively with identifying the different dimensions of know-how, evaluating the extent to which these are mastered, the links between know-how, strategy,

competitive advantage and performance and finally the franchisees' attitudes towards the strategies and management of know-how in the networks. Chapter seven presents a synthesis and the managerial implications of the research. Figure 1 summarises the stages that were followed and the structure of the report.

**Figure 1 – Structure of the report**



# 1

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## Literature review

This chapter aims to present the theoretical bases that will be needed for the coming empirical examination of different types of know-how and their impact on competitive advantage and franchise network performance. Given the limitations of traditional theoretical frameworks (§1.1), our work attempts to integrate an approach based on the resource-based view (§1.2) and relationship theory (§1.3).

### **1.1 The limitations of traditional theories**

Many authors have recently emphasised the importance of enlarging and renewing the theoretical frameworks about franchising (Dant, 2008; Combs, Michael, & Castrogiovanni, 2004; Gillis & Combs, 2009). Indeed, until now, two theories have been dominant in franchising research: agency theory and resource scarcity theory. According to agency theory, the franchising relationship allows reducing the incentive and supervision costs inherent in the relationship between the principal (the franchisor) and the agent (the franchisee or manager of a company-owned outlet). All agency relationships are in fact marked by diverging interests, environmental uncertainty, asymmetry of information, and the risk of the agent opportunism, all of which involve costs of control or agency costs for the principal (Brickley & Dark, 1987; Nègre, 2004). The franchisees' proprietary interests, however, reduce these agency costs and explain the choice of franchising. Indeed, franchisees are mainly interested in maximising the profits of their outlet and are therefore less inclined to opportunistic behaviours; they neither seek to work less hard nor to cheat. This should reduce the need for and cost of control for the franchisor. Agency theory is thus focused on the conception of an optimal contract and on methods of control within the franchising relationship. However, this theory does not explain the role played by know-how in improving competitive advantage and network performance (Combs and al., 2004).

As for resource scarcity theory, this explains resorting to franchising through the franchisor's need to find certain rare resources which may be financial or knowledge of target markets, but also be the competences and availability of local operators (Oxenfeldt & Kelly, 1996; Minkler, 1992). This theory is used in particular to explain the initial resort to franchising and cases of returning to company ownership through subsequent buy-back of franchised units (Combs & Ketchen, 1999a). Studies that have adopted this point of view focus on the relationships between franchisor characteristics (network size, age, growth rate, etc.) and the propensity to franchise (Castrogiovanni, Combs, & Justis, 2006).

Nevertheless, despite their pertinence, agency theory and resource scarcity theory are limited in several ways. First, recent meta-analyses have shown that these theories have relatively weak explanatory power (Combs & Ketchen, 2003). Besides, results based on these theories do not really enable us to gain deeper understanding of the managerial choices made in certain franchising networks (Combs, Michael & Castrogiovanni, 2004). Finally, both these theories focus essentially on the relevance and choice of franchising compared to internal growth. Neither theory enables us to understand how far the characteristics and know-how of the franchisor explain competitive advantage and network performance. Nor do they enable us to clarify and guide management methods concerning the franchisor/franchisee relationship. Now, these management methods are based on the franchisor's organisational know-how, and can also be sources of competitive advantage.

In this study we therefore propose a renewal of the theoretical bases which will enable a better explanation of the sources of competitive advantage and economic performance in franchising networks. We propose a conceptual framework which integrates contributions from two recent theoretical approaches: the resource-base view (Barney, 2002; Newbert, 2008) and co-operative relationship theory (Dyer & Singh, 1998). Combining these theories seems to us highly relevant in the context of franchising. Indeed, these theories enable us to describe and classify the know-how which determines competitive advantage, while highlighting the importance of managing the franchisor/franchisee relationship.

## 1.2 The resource-based view: technical know-how as a source of competitive advantage

The resource-based view was developed as a general explanation of the sources of competitive advantage (Barney, 2002; Wernerfelt, 1984). Porter (2005) suggested that the most successful companies, that is, those which create value for their clients and achieve above average financial performance, are those that have a competitive advantage. According to this author, competitive advantage often results from the position of the company on the market compared to a set of external competitive forces. The resource-base view contributes another explanation by postulating that competitive advantage is generated by the characteristics of internal rather than external resources (Wernerfelt, 1984; Newbert, 2008). The origin of competitive advantage then lies in any attribute which one company possesses, but which the others do not – that is, **resource scarcity**. This attribute may be a resource, a technology, a practice, or even and in particular an original and specific know-how which competitors cannot imitate, or could do so only with enormous difficulty – this is known as **difficulty of imitation**. It is essentially the distinctive nature of this resource, based on scarcity and difficulty of imitation, which enables the company to gain a competitive advantage and generate profit on the market (Barney, 2002).

According to this perspective, the *differences in performance among franchising networks should be more explicable through the quality of strategic internal assets and how these are co-ordinated than by their market position alone*. These internal strategic assets are essentially technical know-how which is explicitly written, taught and transmitted to franchisees. The main objective of the strategic management of a franchising network is thus the creation, protection and exploitation of this specific know-how which is integrated into the concept of the franchise (Combs, Michael & Castrogiovanni, 2004). “Franchisors have know-how to protect: ‘A combination of techniques, methods and more or less original rules which they cannot afford to lose because it is precisely these which are its secret ingredients’”<sup>4</sup>.

Creating a competitive advantage which is sustainable and key to economic performance thus depends on developing and exploiting a combination of rare and specific know-how which is difficult to imitate (Figure 2). It is specifically the franchisors’ tried and tested know-how and

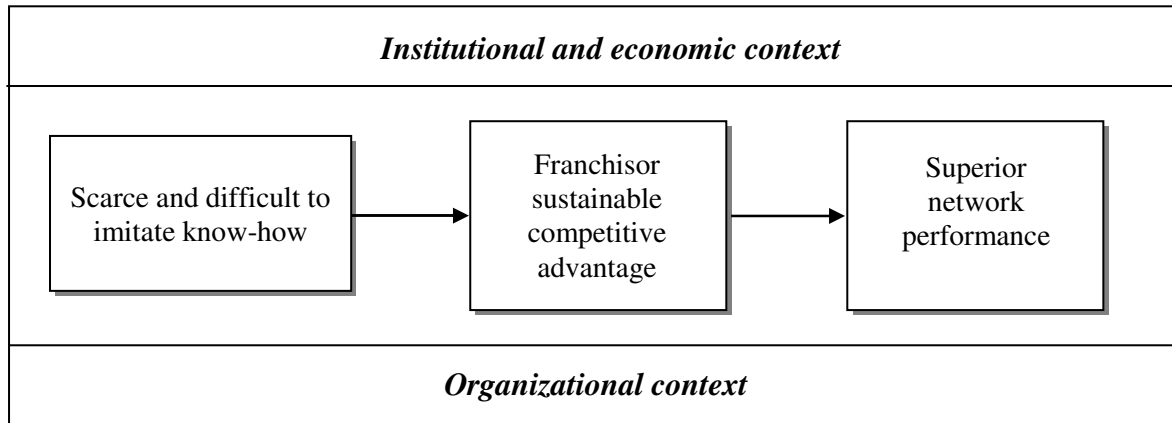
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<sup>4</sup> Franchise Magazine, n° 3284, June / July 2009, p. 90.



their capacities to co-ordinate and combine resources using processes deeply rooted inside the company which enable this competitive advantage to exist (Barney, 2002 ; Eisenhardt & Martin, 2000).

**Figure 2** – *Competitive advantage based on franchise know-how*



The resource-base view thus provides a highly relevant theoretical framework for analysing the links between the characteristics of franchise technical know-how, competitive advantage and network performance, because the franchising contract is at the heart of a triptych “co-ordination/uniqueness of concept/differentiation strategy” (Nègre, 2004). This competitive advantage of a franchise network is linked to the unique and differentiated combination of different facets of technical know-how.

### **1.3 Co-operative relationship theory: organisational know-how as source of competitive advantage**

The franchisor’s capacity to manage, transmit, protect and control his or her specific know-how might explain the high level of performance compared to competitors (Knott, 2003). However, in a dynamic environment, the essential objective for a franchise network is not only to create a competitive advantage, but above all to maintain and develop it and ensure its expansion over time. This leads us to the question of organisational know-how.

Indeed, franchising networks do not only rely on technical know-how, but also of know-how relative to network management. This know-how is the franchisor’s and is not communicated to franchisees. Co-operative relationship theory contributes to shed further light on the

competitive advantage a franchisor may have thanks to this particular organisational know-how (Combs, Michael & Castrogiovanni, 2004; Cochet, Dormann, & Ehrmann, 2008).

The organisational know-how of a franchising network depends on the systemic and transversal capacities of the franchisor who is able to co-ordinate the creation and use of his/her strategic assets and technical know-how on a long term basis in order to reach his/her goals. These capacities determine the network's "strategic architecture". These are the capacities which incite and constrain the dynamics of learning and innovation which will enable the network to evolve more quickly than its competitors (Bradach, 1998; Sorenson & Sorensen, 2001). Organisational know-how also depends on the franchisor's capacity to manage relationships with franchisees and potential conflicts within the network to ensure the faithful, uniform and standardised replication of the franchise concept.

Taking the resource-based view one step further, relationship theory postulates that the form, nature and management of links between two companies (i.e. between franchisor and franchisee) can be a source of competitive advantage which results in a « *relationship income* » (Dyer & Singh, 1998). This theory postulates that *the relationship between franchisor and franchisees can be managed in such a way as to generate added value specific to each network, above and beyond that which is generated by the individual efforts of the franchisor and franchisees*. Given that the franchisor makes specific investments to develop a trusting relationship, it is possible that organisational know-how has a positive impact on network performance by fostering a better transfer of technical know-how, ensuring co-operation between network members in favour of the company and its reputation, and reducing conflicts and control costs (Spinelli & Birley, 1996; Combs, Michael & Castrogiovanni, 2004; Chaudey & Fadairo, 2008).

Relationship theory has often been used to explain competitive advantage resulting from long term co-operation in the context of inter-company alliances (Dyer & Chu, 2003). We propose to apply it to the context of franchising in order to better understand the links between the franchisor's organisational know-how, and his/her strategies and competitive advantage. Even if this organisational know-how is not transmitted to franchisees, it constitutes the basis of co-operation and mutual trust between the franchisor and franchisees. It is also linked to a choice of governance structures better suited to dealing with market evolution and competition. Indeed, franchisors that invest in and develop trusting relationships with franchisees can be

sure of a better level of transfer and replication of technical know-how. Organisational know-how also contributes towards reducing conflicts and litigation, as well as a lower number of franchisees who might adopt opportunistic behaviour; so it is also a source of competitive advantage and, consequently, a source of performance.

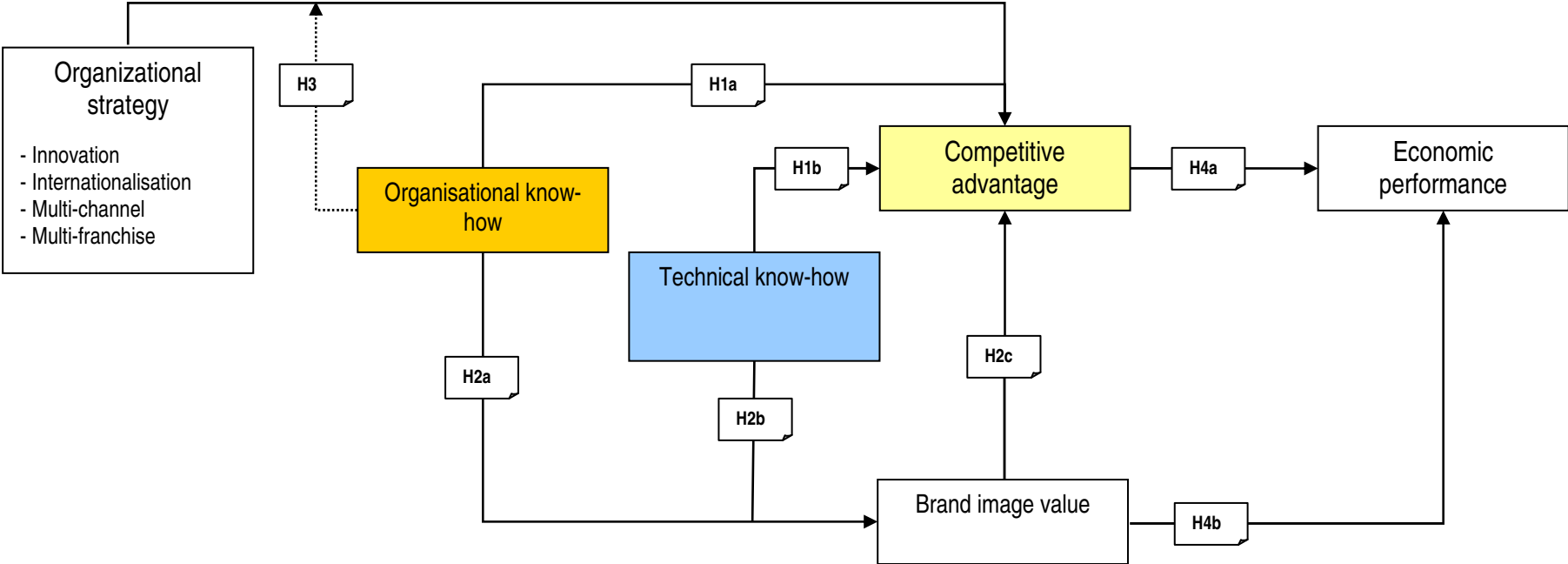
By using relationship theory, we aimed to better understand the nature and consequences of organisational know-how in franchise networks. Two dimensions seem particularly characteristic of know-how in the case of franchises: (1) the transfer of technical know-how to all the franchisees and (2) the management and governance of the network resulting in minimising transaction and control costs (Dyer & Singh, 1998). Reinforcing the dimension of « governance know-how » towards competitive advantage means developing a high level of mutual trust, efficient conflict management, and strategic use of multi franchising.

To summarise, so far we have used and integrated two complementary theories (the resource-base view and relationship theory) in order to explain how and why know-how linked to franchising is a source of competitive advantage. The resource-base view enables us to specify the competitive effects of technical know-how in terms of scarcity and difficulty of imitation. As for the relationship approach, it enlightens us further as to organisational know-how and its role in creating competitive advantage.

To complete our approach to the economic performance of franchising networks, we must take account of another element which is complementary to that of competitive advantage: brand name value. Competitive advantage allows us to apprehend the tangible elements of performance. However, the performance of a franchise network also depends on its capacity to generate activity according to *non tangible* elements. These are separate from the *tangible* elements linked to competitive advantage, even though they may indeed be influenced by the same causes: technical know-how (high value services) and organisational know-how (management of the image). A network's brand name therefore has a value in itself as is the case for any company (e.g. Keller, 1993), in so far as the name of the network is likely in itself to generate activity and thus performance. This has been demonstrated in restaurant franchise networks (Combs & Ketchen, 1999b).

These different approaches have been combined in our research model presented in Figure 3 below. The test of the hypotheses shown in this model will be dealt with in chapter 5. Prior to this, we had to construct a typology and a tool to measure technical and organisational know-how (chapter 3) –since this does not already exist in the literature. We also had to analyse the level of mastery of organisational know-how according to different types of franchise networks (chapter 4).

Figure 3 – Conceptual model



In our model we firstly postulate the hypothesis of a direct link between know-how and competitive advantage. This conforms to the developments proposed in the presentation of our theoretical framework.

**H1: Organisational know-how (H1a) and the characteristics of technical know-how – scarcity and difficulty of imitation – (H1b) have a direct influence on the competitive advantage of a franchising network.**

However, besides this direct link, we postulate that there is also an indirect link by virtue of which know-how does not appear directly as a factor of competitive advantage, but is shown through the brand name value of the network. This hypothesis is posed on account of the crucial role played by the brand image for franchising networks:

**H2: Organisational know-how (H2a) and the characteristics of technical know-how – scarcity and difficulty of imitation – (H1b) contribute to the value of the franchising network's brand image, which in turn plays a part in creating the network's competitive advantage (H2c).**

We also consider that, apart from the direct impact of organisational know-how on competitive advantage and the brand name value, these elements are likely to favour (or on the contrary, to hinder) the implementation of organisational strategies which make for better management of technical know-how.

**H3: The impact of the organisational strategy of a franchising network on its competitive advantage is moderated (increased, decreased or eliminated) by its organisational know-how.**

Finally, the end result of seeking competitive advantage and positive brand name value must ultimately be shown by higher economic performance:

**H4: The competitive advantage of a franchising network (H4a) and the value of its brand name (H4b) contribute to its economic performance.**

It is important to note that in this model competitive advantage and brand name value play a mediating role vis-à-vis technical and organisational know-how and strategy, as shown by

Newbert (2008) in the case of competitive advantage. This means that the impact of know-how on performance is not direct, but indirect *via* competitive advantage and brand name value. The validation of the above research hypotheses depend on a research protocol which is now described in chapter 2.

# 2

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## Research methodology

This chapter aims to present the empirical investigation undertaken to respond to the objectives of this study. The methodology retained is multi-level and multi-method, information being gathered both from franchisors and franchisees. For each of these, two complementary methods were used: a qualitative approach (semi-directive interviews with franchisors and franchisees, a focus group of franchisees) and a quantitative phase (postal questionnaire to franchisors and the franchisees in their network). The details of each of these steps is presented in the following sections, the qualitative approach (§2.1) being distinct from the quantitative one (§2.2).

### 2.1 The qualitative phase

Understanding the nature of the different types of know-how and how they are organised and managed involves an in-depth diagnosis and analysis of franchising networks. Interviews are a very rich source of information for this. They also enable us to better understand choices made. Interviews are highly relevant to the study of the links between know-how, competitive advantage and performance. Interviews with network managers enable us to reconstitute the evolution of the network's competitive position over time, its growth and changes concerning choices inherent to the know-how in question. Interviews are also very useful for gathering the perceptions and points of view of franchisees. The semi-directive interviews were based on two interview guides integrating these dimensions, as well as questions concerning transmitted know-how (technical know-how), non-transmitted know-how (organisational know-how) and managerial choices inherent to these types of know-how.

#### 2.1.1 Franchisors

We carried out ten individual semi-directive interviews with franchisors from different industries with different sized networks of different ages and origins. The interviews lasted on



average for one hour and aimed to elicit which types of know-how were sources of competitive advantage from the franchisors standpoint.

We thus interviewed:

- a franchisor in the specialised foodstuffs industry
- a franchisor in ready-to-wear,
- a franchisor in garden stores,
- a franchisor in the fitness industry,
- two franchisors in real estate,
- two franchisors in the fast food industry,
- a franchisor in the personal services industry,
- a franchisor in the company services industry.

It was interesting to interview two franchisors in real estate and two in fast food in order to see if there were major differences in terms of know-how that was source of competitive advantage within the same industry segment.

The “franchisor” interview guide (cf. appendix 1) consists of six main parts:

- commitment to the franchise,
- types of know-how,
- choice of franchisees,
- competitive advantage,
- performance,
- strategy and outlook for future expansion

Each franchisor gave us between 45 minutes and two hours for the interview. All the interviews were recorded and transcribed into Word in their entirety. The transcriptions amounted to three hundred pages. These semi-directive interviews provided a wealth of information. It made a great contribution to our better understanding of our research question from a practical point of view and, above all, for the follow up to the empirical study, particularly with regard to the creation of the “franchisors” and “franchisee” questionnaires

After these ten interviews, we appeared to have reached the saturation point of information. Indeed, as the interviews progressed, the answers to our questions became redundant. Since the information collected from various franchisors became similar, we estimated that we had collected sufficient information at this stage of the research to begin the quantitative approach.

### **2.1.2 Franchisees**

Given the rarity of studies on the links between the nature of know-how and competitive advantage of a franchise, it appeared useful to resort to the focus group method in order to explore and refine the research question. Cochet, Dormann and Ehrmann (2008) used this exploratory method to clarify the links between the autonomy of franchisees and modes of governance in franchise networks. In the context of this study, by grouping franchisees together, we aimed to obtain their opinions on the nature of the know-how transmitted to them by the franchisor, the reasons why they had chosen to belong to a franchise network, and the advantages and limitations of this situation;

#### ***Focus group: an exploratory phase***

The focus group enabled us to approach the research through raising questions and discussion. We asked for franchisees in Rennes and held this group interview at the Institut d'Administration des Entreprises de Rennes (Université Rennes 1). Mention should be made of the difficulty of gathering all the franchisees at the same time in a location away from their point of sale. Franchisees are usually very busy and have little desire to devote one or two hours to researchers. Eight franchisees nevertheless accepted to discuss the theme "know-how and competitive advantage in franchise networks." This focus group lasted almost two hours and was led by Assad El Akremi and Rozenn Perrigot with a third person as observer taking notes on participants' attitudes. The session was recorded and transcribed in Word in its entirety. We managed to collect franchisees from different industries that were not in direct competition with each other. Most participants were men (seven men and one woman) and were between 30 and 55 years old. The various industry segments represented round the table were:

- various local services,
- real estate,

- kitchens and bathroom,
- theme restaurants,
- home and table decoration,
- fitness club,
- fast food,
- business services.

The protocol of the franchisee focus group consisted of five parts:

- introduction/instructions,
- franchising as seen by franchisees,
- different types of know-how in franchise networks,
- competitive advantage,
- conclusion.

The exchanges and interactions between franchisees from different industry segments were very enlightening. Soft drinks and biscuits were available during the interview, thus providing a relaxed atmosphere conducive to exchange. What is more, the members of this focus group showed themselves to be particularly chatty. At the end of the interview, the participants were given a small gift (chocolates) to thank them for their time. They told us that they had found the exercise very interesting for them also, because it enabled them to get to know practices and experiences of other franchisees facing the same problems despite coming from different industry segments.

## *Interviews*

We then carried out eight semi-directive individual interviews with franchisees from different industry segments from different networks of different sizes, ages and origins. We thus interviewed:

- one franchisee in the specialised food industry,
- one franchisee in the fitness industry,
- two franchisees in real estate,
- two franchisees in the fast food industry,
- one franchisee in the personal service industry,
- one franchisee in the business services industry.

Prior to this, we had carried out interviews with the respective franchisors of these eight franchisees. The “franchisee” interview guide (cf. appendix 2) comprises seven main parts:

- choice to become a franchisee,
- franchisor know-how,
- competitive advantage of the network,
- franchise performance,
- franchisor strategy,
- franchisee satisfaction,
- franchisee future.

These interviews, like those of the franchisors, revealed a wealth of information. Each interview lasted about 45 minutes and was recorded. Each recording was fully transcribed into Word. The transcriptions amount to over two hundred pages. Like the interviews with the franchisors, those undertaken with the franchisees made a valuable contribution to the creation of the “franchisee” questionnaire. Once again, the importance of human relationships within the franchise was particularly emphasised by the eight franchisees who used expressions such as « *it's a win-win situation* », « *it's all about people* », etc.

## 2.2 The quantitative phase

While the qualitative approach is often exploratory and limited to a limited number of semi-directive interviews, the quantitative approach makes it possible to work on far larger populations of individuals. In order to study the differences in types of know-how, their links firstly with some of the characteristics of the network (size, age, industry segment, proportion of franchised outlets, etc.) and secondly with competitive advantage and performance, we relied on two questionnaire surveys. One of these was carried out with franchisors, the other with franchisees.

### 2.2. Franchisors

In the first phase a questionnaire was established on the basis of the existing literature and the main results which had emerged from the individual interviews with the franchisors. This questionnaire was administered to franchisors listed in the directory of the Fédération Française de la Franchise. The questionnaire contained measures concerning the characteristics of know-how and competitive advantage, as well as subjective measures of performance and brand value as these have been put into practice by Newbert (2008) and Barthélemy (2008).

The « franchisors » questionnaire was divided into five main parts:

- Competitive context and strategic orientations,
- Competences related to managing a franchise network,
- Competitive advantage,
- Perceived economic performance of the network,
- Network characteristics

More specifically, the following constructs were measured. The methods used and scales of measurement are described in appendix 3.

- Know-how:
  - Organisational know-how,
  - Scarcity and difficulty of imitation of technical know-how.
- Strategic orientations:

- Multi-franchise strategy,
- Multi-channel strategy,
- Innovation strategy,
- Internationalisation strategy.
- Performance variables:
  - Perception of competitive advantage,
  - Perceived network performance.
- Principal control variables:
  - Competitive intensity,
  - Brand name value
  - Industry segment,
  - Proportion of franchised outlets vs. company owned outlets

The administration of the “franchisors” questionnaire took place in two stages. First, we posted a questionnaire to the 564 franchisors in the « *Toute la franchise 2008 – Les textes, les chiffres, les réseaux* » directory, published by the Fédération Française de la Franchise. Each envelope contained a covering letter, the questionnaire and a stamped addressed return envelope as well as a visiting card. This first batch enabled us to collect 133 questionnaires, a return rate of 23.6% on the initial basis constructed from the « *Toute la franchise 2008* » directory.

We next visited the Franchise Expo in Paris, on Friday 13, Saturday 14, Sunday 15 and Monday 16 March 2009 to thank the franchisors who had responded to our questionnaire, and also to hand the questionnaire to those who had not yet replied to the survey. Some franchisors filled in the questionnaire immediately, others asked us to come back and pick it up at the end of the day or the following day, and others preferred to post it back to us after the exhibition. Consequently, we obtained 74 questionnaires at the salon.

The reactions of the franchisors during Franchise Expo were positive. Indeed several franchisors remarked on the relevance of the questionnaire’s content, even if they noted that certain questions were redundant (as is true for all research questionnaires). Certain franchisors declared that completing the questionnaire had made them think and look more carefully at the know-how they master within their network. Other franchisors even wanted to

keep a blank copy of the questionnaire in order to have a list of know-how useful for their expertise.

After general email reminders and targeted telephone calls to members of the Fédération Française de la Franchise, we obtained a total of 213 useable “franchisor” responses. This response rate is highly satisfactory. Indeed, it represents 38.7% of the « *Toute la franchise 2008* » directory. This is a higher response rate than that often mentioned in the literature on franchising concerning surveys with franchisors.

### **2.2.2 Franchisees**

Our second step consisted of administering a questionnaire to the franchisees of the franchisors who had responded to the first survey. The variables measured in this second questionnaire were the franchisees satisfaction as a subjective dimension of performance, the degree of co-operation with the franchisor and the trust and methods of control of the application of know-how within the network. The measure of these variables enabled us to test co-operation theory within franchising.

The questionnaire was constructed by drawing on existent literature, qualitative approaches on the level of franchisees and franchisors and the questionnaire which had been administered to the franchisors in order to measure similar and/or complementary concepts to those measured in the “franchisors” questionnaire.

The « franchisee » questionnaire comprised six main parts:

- Activity, relationships with clients and the network,
- Relationships with the franchisor,
- Characteristics of the franchisee and his/her franchise outlets,
- Performance,
- Personality of the franchisee.

More specifically, the following constructs were measured in the second “franchisee” questionnaire. The list of items and the validation of scales can be found in appendix 4.

- Satisfaction compared to the investment decision,

- Intention to open another franchised outlet,
- Perceived quality of the relationship,
- Perceived co-operation,
- Opportunistic behaviour,
- Perceived performance,
- Positive /negative affectivity.

Each envelope contained a cover letter, the questionnaire and a stamped addressed envelope for the return. We sent a total of 6 500 questionnaires and received a return rate of 19.8%, or 1 285 usable “franchisee” questionnaires. These questionnaires could be linked to 208 of the 213 franchisors who had participated in the “franchisor” survey. Our follow-up thus dealt with the 208 franchisors for whom we had data on both franchisors and franchisees, as well as the 1 285 relevant franchisee questionnaires.

<i>Method</i>	<i>Sample</i>	<i>Precisions</i>
Semi-directives interviews with franchisors	10 franchisors belonging to diverse industries	Mean duration 1 hr ; 300 pages verbatim
Semi-directives interviews with franchisees	8 franchisees belonging to diverse industries	Mean duration 1h30; 200 pages verbatim
Focus group	8 franchisees	2 hours
Questionnaires with franchisors	208 franchisors	Response rate 38.7%
Questionnaires with franchisees	1285 franchisees	Response rate 19.8%



# 3

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## Identification of organisational know-how in franchising

The academic literature on franchising does not propose any typology of organisational know-how related to an instrument of measurement which could be used in this research. An indispensable first step of our study was thus to construct such an instrument. The protocol for identifying organisational know-how was undertaken in two steps. First, at the qualitative stage, we identified an extensive list of organisational know-how which both franchisors and franchisees considered to be important (§3.1). Next, during the “franchisors” quantitative stage, we collected information on the perceived mastery of this know-how in order to obtain a synthetic typology (§3.2).

### 3.1 Analysis of interviews

In order to identify organisational know-how, we relied on the interviews from the qualitative stage of the research. According to our method of content analysis, we firstly looked over all of the interviews and identified all the elements about organisational know-how. These elements were then grouped by main categories of significance. Finally, for each of these important categories, we obtained a limited number of sub-dimensions.

This work enabled us to elaborate an extensive list of organisational know-how considered important by both franchisees and franchisors. These types of know-how are grouped below. For each of them, we propose an extract of one or two interviews which show its importance.

#### 3.1.1 Developing a network

- Optimal coverage of territory: This is the franchisor’s capacity to be effective in expanding and enlarging the geographical presence of company-owned outlets and franchised outlets in the network. Besides facilitating co-operation among network

members, this coverage ensures greater proximity with clients and thus generates competitive advantage and improved commercial performance.

*« And then another advantage is to have partners all over France, because that can also bring in business. We work all over France with our other colleagues, it's called inter-agency work. We have just made a sale in (town name), so we send it on to our colleagues in (town name). When they complete, of course, there is some remuneration between us, so it is a plus. Yes, that is definitely a plus.*

(Real estate franchisee)

- Attracting new franchisees: Developing a network is linked to the franchisor's capacity to attract new entrepreneurs who are motivated and competent. This depends on the franchisor's capacity to manage both the concept of franchising and the brand image and reputation of the network.

*« Most people who come to see us are people who have just fallen in love with it in fact! »*

(Ready-to-wear franchisor)

- Choosing the right candidates for the franchise: This is the franchisor's capacity to define and implement methods and criteria which allow choosing the best franchisees in terms of technical, commercial and managerial competence.

*« It's true that in any situation, recruiting franchisees is a difficult business. Like any recruitment, it is really the most delicate task and we try to be very careful about it. »*

(Ready-to-wear franchisor)

*« 100 applications per month are dealt with by the girl we recruited; so 100 people we call back and they are they are invited to information sessions every fortnight. Then, after all the filters, there is an individual interview with me, and I would say that amongst the necessary qualities, what I look for today, the most important is 1. They have to be good at dealing with customers, and 2. They have to be dynamic and motivated, and know about the risks involved, that's also important. Often people say: "I'm starting up a restaurant to make some money". Fine, but they forget that there are risks and that after that, it really is a huge amount of very hard work. »*

(Fast food franchisor)

- Prospecting new markets: Strategic watch relies on the franchisor's capacity to mobilise human, technological and financial resources which are suitable and sufficient to prospect markets and seize new opportunities for development. The franchisor has to be able to evaluate and master the costs of this strategic watch.

*« We always have more staff than we need, too many structures and a computer backup, well what you would expect from a multinational. But it doesn't matter. We have always wanted to be too big to avoid being held back in our development. »*

(Real estate franchisor)

- Managing territorial exclusivity in franchise contracts.

In order to manage both synergy among network outlets and co-operative relationships between network members, the franchisor has to be able to manage territorial exclusivities which are a means for franchisees to be attractive and to develop.

*« Exclusivity is one of the elements which mean that certain people come to us, because it makes expansion possible and we encourage that. »*

(Real estate franchisor)

- Planning the opening of new outlets: Mastering the schedule and rhythm of network growth is an important part of organisational know-how.

*« We want this growth to continue because our ambition is to become the number one in France »*

(Real estate franchisor)

- Reactive management of network size (opening and closure of outlets): More than mere reactivity, it seems essential that the franchisor be agile enough to act appropriately in times of crisis if the network is to be sustainable.

*« For the moment we have to put our organisation in place; that will allow us to lower our costs; once the crisis is over we will redeploy our resources. Today, the priority is to do everything to save the maximum number of agencies »*

(Real estate franchisor)

- Access to the best locations for points of sale: The location of franchised outlets is generally considered as an important determinant of profitability. The franchisor's

ability to define, choose and advise his/her franchisees on the best locations is a crucial element of know-how.

*« In fact, success is a good franchise, a good franchisee and a good location. It's a threesome, well, more of a mix. »*

(Focus group franchisee)

*« All the know-how concerned with developing the network, which means recruiting franchisees, their selection and choosing the locations »*

(Specialised food franchisor)

### 3.1.2 Growth strategies

- Diversification of distribution channels (online sales, catalogues, etc.): In the face of increased competition, the franchisor must be able to diversify his/her distribution channels while showing continuous creativity.

*« The idea is simply that there is the e-commerce channel which has completely exploded, so people say: OK it's a national brand, our objective is to remain leader, so e-commerce is both a way of expanding and also a shop-window. So we have analysed it, and finally come to the conclusion that we had to do it if we wanted to be coherent with our ambition to remain a national leader. »*

(Specialised food franchisor)

- Simultaneous management of several distribution channels: This is the franchisor's ability to develop multi-channel activities, while avoiding business cannibalisation between these different channels.

*« OK, it's very little, it isn't even as much as a shop in the network, really not much. But on the other hand, it was always clear with the franchisees that this was the aim, yes, just to develop the site so that the commercial website would be more attractive too. But anyway, it was never intended to have a bigger turnover than one shop. Obviously, we discussed all this with affiliates and everyone understands. It isn't done to hinder the network, quite the opposite, because we did not have outlets everywhere, and since there are a lot of people who ask for us anyway, and this meant that all over France people could just place orders if they wanted to.»*

(Ready-to-wear franchisor)

- Capacity to open new outlets abroad: The franchisor's capacity to expand and set up an internationalisation strategy is becoming a key factor of competitiveness.

*« Because now, we of course have ambitions in France, probably in Europe, but definitely globally.»*

(Real estate franchisor)

- Detecting opportunities in the International market: Developing partnerships and alliances abroad also relies on people skills and strategic watch.

*« Yes of course we like the idea; it's obvious a brand like this has to go international. So we think there are opportunities in Southern Europe and it will be a matter of finding partners and making the necessary resources available to manage this development properly».*

(Garden centre franchisor)

- Access to funding for our projects: The franchisor's capacity to accompany and advise franchisees in their search for funding and in financial management has become very important, especially in a time of crisis.

*« It was after four or five years that we realised that we had a coherent system, then we went through a kind of growth phase and we had to take financial decisions about renewing the brand, developing, etc. »*

(Fast food franchisor)

*« Now I'm not really such a salesman, more of a consultant, so I help. We have budgets, financing, suppliers, outlets; it's all that which helps our franchisees to become company directors more easily. »*

(Fitness franchisor)

### 3.1.3 Integrating new franchisees

- Initial training of new franchisees: This is one of the conditions of success for a franchising contract. The franchisor's capacity to create and implement initial training for new franchisees is often quoted as a criterion of attractiveness and operational performance of franchise networks.

*« So, there's an initial training session that lasts nine weeks. During this time things are approached in a traditional way – we start with the general and move to the more specific so we deal with all the constraints taking in the law, deontology, functioning, commerce, etc., and we end with our methodology. So in nine weeks, we cover all the problems. Having said that, we do realise that it is just an initiation. »*

(Real estate franchisor)

- Integrating new franchisees into the network: The success of a franchise network relies more and more on the capacity to attract, and above all to integrate and render loyal the best franchisees.

*« So, we have a team backstage which helps the franchisee through training. So the franchisee gets a week long training where there is a lot of information – maybe too much for one week, but in fact it is pretty effective. It allows the franchisee once he or she has finished the training, to begin to open the outlet. But we also have someone*

*who in fact, holds their hand and acts a guide once the outlet is open. So for the opening week, there is a supervisor who goes wherever he/she is needed and opens the centre with the franchisee. »*

(Fitness centre franchisor)

- Faithful transmission of know-how to new franchisees: The franchisor's capacity to transmit know-how to franchisees and check that these are implemented in a standardised way is a determinant of success for the franchise.

*« When I said just now that we put things in place at the head of the network which we don't transmit...in fact, we don't transmit them because I'm not going to teach a franchisee how to construct a sales pitch. On the other hand, I will certainly teach him/her to use the sales pitch which we have set up. »*

(Personal services franchisor)

### 3.1.4 Transmitting business specific know-how

- Codifying network know-how: The capacity to codify and make business-specific know-how explicit is a basic element of knowledge management within companies. It is a direct determinant of efficiency for the franchisor.

*« And I mean industrialisation in the way of functioning, not in the way the service is implemented. That is to say, that each element is validated and becomes part of a process of working and then each client case is treated individually. »*

(Personal services franchisor)

- Replicating know-how in different contexts: The standardisation and integrity of the franchise concept relies on the franchisor's capacity to standardise the transmitted know-how and check that it is applied.

*« So we think that know-how in a network is made up of two parts: know-how about consumers, but also know-how about organisation. Both these types of know-how have to be strong, accessible and duplicable. »*

(Real estate franchisor)

- Formalising concepts and methods in a "bible" and/or manuals: The "bible" and manuals play an important part both for knowledge management within the network

and for the respect of commitments between franchisor and franchisees. This is a reason for the importance of the capacity to formalise, conceive and update the “bible” and manuals used by the franchise.

*« Everything that has to be contributed is well explained, all those things are clearly identified. »*

(Real estate franchisor)

*« So, we have our “bibles” and we are trained every day about that, well at least we get some communication about it regularly, as soon as there are new products, how they should be handled, etc.; so there is constant communication. »*

(Fast food franchisee)

### 3.1.5 Innovation management

- Improving and developing new concepts: The continuous evolution of the competitive environment and expectations challenges the franchisor to be innovative and renew the franchise concept while still making sure of the stability of the network’s identity.

*« Well, since I go the States almost every year, I swallow up new concepts. We look at what’s going on. »*

(Fast food franchisor)

*« We are all able to contribute new products for example things we see when we visit exhibitions, new ideas, etc. The franchisor does the same thing. This means that from time to time we show new products and sometimes new concepts to sell when there are conventions or visits to outlets. »*

(Business services franchise)

- Adaptability and continuous improvement of products /services: The franchisor’s capacity to ensure progressive and incremental modernisation of the various characteristics of his/her concept has become a determinant of the network’s competitiveness.

*« You can’t really say that the concept of the outlet is an innovation, it’s just an adjustment, so it’s really a case of making adjustments all the time. For example, today we have a new product in a new outlet and the reason is to give it a more plant-like atmosphere, more feminine, more attractive. So, something like that*



*is a project, a sort of prototype. From next year all the outlets will be based on that format. Inside the shop, all the departments will be renovated one after the other. But I wouldn't call that an innovation, it's really the fact that each concept has to be modernised in its outside appearance all the time, well at least every five or ten years, and each department has to be improved all the time, that, yes."*

(Garden centre franchisor)

- Codifying and diffusing innovations/suggestions for improvements made by franchisees: Because they are in constant contact with their local markets, franchisees can be a source of suggestions for improvement. The franchisor's capacity to encourage this dynamic and integrate these suggestions can improve the network's competitive advantage.

*« But that, and I don't mind saying it, really came from the franchisees themselves. So then there are people who will say "Yes, but that means that somewhere along the line, the know-how comes from the franchisees". OK, that may be right, but the capacity of the franchisor is to make sure that all these good practices are properly organised. »*

(Real estate franchisor)

- Capacity to convince franchisees and get them to take changes on board: The franchisor's capacity to convince, federate and get the franchisees to take on board change, is considered as a determinant of the operational and commercial performance of the network.

*« Right now he has created a new concept which is not the one I have, and they are always coming after me to make the transformation, but the thing is that the transformation costs money, and when I say money, I mean a lot of money... and really we have no choice, if we do make changes to the shop, we have to change it according to the concept they have created. »*

(Specialised food franchisee)

### 3.1.6 Internal control

- Checking the conformity of franchisees' application of know-how: Checking the conformity of the application of know-how throughout the network ensures both that

the franchisor knows his/her franchisees better, and makes for a better mastery of the network's brand image.

*« And in fact, for example, we are checked out every month so there's someone who comes unannounced and who looks to see that we are really respecting the specifications. And really, it wasn't the fact of being checked that bothered me, but at the beginning, I felt that I was no longer "at home". So now it's OK, but at first it was quite hard for me. I felt that I was no longer in my own place. »*

(Fast food franchisee)

*« He's the one who goes round all the outlets... checks the level, sees if they are applying the know-how, because it's important to have "big brother" to check, because I mean when the turnover is not what it should be, it isn't by chance. It means that they are not following the programme. »*

(Business services franchisor)

- Audit of outlets: Even if there is tension between the controlling viewpoint of the franchisor and the independent viewpoint of the franchisee, the existence of auditing know-how is a determinant of the success of the franchise.

*« That means that at the top of the network, there are always one or two people who carry out audits. That is, every year or two we go round really checking point by point to make sure that there is no agency which is getting away from the concept despite everything. »*

(Real estate franchisor)

- Managing legal aspects of franchise contracts: Since it is by definition a contractual relationship, franchising relies on legal know-how.

*« It's pretty tough this franchise contract, because what we say to the franchisees is, "you have to respect it", the relationship could not be clearer. »*

(Fast food franchisor)

- Managing conflict with franchisees: Negotiation and people skills are more and more crucial to the attractiveness of the network and its subsequent performance.

*« For the moment, no, no serious conflict in any case. From time to time small glitches, but not what I would call conflict... things are quickly sorted out by the right person at the head of the network.*

*Are they really conflicts... no, it's more small things, you know, things that need to be made clear. »*

(Personal services franchisor)

- Encouraging effective franchisees through suitable reward systems: Recognising the performances of the best franchisees relies on the franchisor's managerial know-how.

*« And then, we also work a lot with prizes. When you get to a certain turnover, etc. They get rewards, and when we go to (town name) there is the “best kept shop” prize, the “prize for the highest turnover”, that sort of thing. And the result is that when they come to (town name) they always get something and that means they really feel valued, and when they had the meeting, there was the “franchisee of the year” and it was (name of franchisee) and that made them incredibly motivated... I get goose bumps when I talk about it because they were all enormously emotional. That makes them talk about it a lot, so that's good! »*

(Business services franchisor.)

### **3.1.7 Marketing**

- Market trends studies: The franchisor's commercial know-how relies on a complex combination of analysis and market studies. Growing competition makes this know-how essential.

*« So, there they are really justified by an approach which is firstly highly mathematical, that is, with analyses, weekly dashboards, etc. So there you have a complete dossier with dashboards every Wednesday, Thursday and Friday, analyses by restaurant, town, region and country. »*

(Fast food franchisor)

- Analysis of strengths and weaknesses of the competition: The success of a business strategy depends on the franchisor's capacity to diagnose and understand the characteristics of current and potential competitors.

*« But we really consider that there is a difference between our quality and that of the competition because we are much stricter about the ingredients we choose and in our mind, today the market isn't a question of price. So, what we are above all is to maintain this quality, and doing that is a major part of the brand's know-how. »*

(Fast food franchisor)

*« I would say that we are behind, because we are behind our competitors, and it is mainly at that level: the "staging", setting up a programme for the shop. »*

(Garden centre franchisor)

- Reactivity to changes in demand: Organisational agility has become a fundamental characteristic of efficient companies. It relies on both the franchisor's capacity to develop a client centred organisation and set up an atmosphere open to innovation and change.

*« Increasing know-how is never static. It's very dynamic and above all it's a question of knowing what's new, what's in the air getting ahead and sharing a lot with others. »*

(Business services franchisor)

- Renewing the range of products/services: This capacity relies on client-centeredness and the franchisor's sensitivity to their changing expectations.

*« Because otherwise, after a while you get stale, and what's good about the franchise is, I think the fact of being in the group, you're much more reactive in fact to clients' demands. So it is a terrific plus, because if you propose something which is absolutely not in phase with demand, it doesn't work. In fact, we are far more reactive. »*

(Fast food franchisee)

- Fast modulation of prices of products/services: This is the franchisor's capacity to manage the marketing mix especially in terms of adjusting prices and adapting products to certain local markets.

*« And then, we also set up systems comparing prices among the shops which enabled them to see where they were with regard to the competition and adjust their prices accordingly. »*

(Garden centre franchisor)

### 3.1.8 External Communication

- Developing brand attractiveness: The franchisor will only be able to develop the network in the face of increasing competition if he can firstly attract new franchisees willing to invest in a franchise network, and secondly, develop a diverse and loyal clientele.

*« The values and then the price/quality ratio between what they are going to pay and what they will get. That's obvious. So there, we have attractive fees. »*

(Real estate franchisor)

*« Well, to my amazement, it's the fact that this is a really young network, because they want to get on the bandwagon at the beginning rather than later. Because after that, things get big and everyone thinks it will get impersonal but I don't think so. Also, the fact that it's very varied – no two days are the same, and a very varied clientele, so it's never monotonous. »*

(Business services franchisor)

Development of brand awareness: The brand image of a network and its brand awareness depend on the franchisor's capacity to exploit all the new techniques of information and communication.

*« Now, Internet has become very important. If you want to be seen on the web you need to be hard hitting to really be at the top of the list, so its absolutely essential. »*

(Real estate franchisor)

- Advertising management: Advertising campaigns are dependent on the franchisor's marketing know-how from their conception to their diffusion.

*« And also marketing know-how where there, finally, each operation, each marketing campaign is organised from A to Z. The franchisee has absolutely nothing to do – the printing, the distribution, everything is taken care of. So the guy just gets the*

*campaign handed to him on a plate and everything has been done, so he gets a thing where the whole operation is spelled out for him, so he receives the whole thing, like he will get some stickers, and where should he put them? What's the whole objective of the operation...? That's what a campaign is like »*

(Fast food franchisor)

- Brand promotion on a large scale: Managing the relationships with the environment, especially the media, relies on know-how which involves not only good people skills, but also political and technical skills.

*« Then, you can have the most beautiful location in the world but if you don't tell anyone about it, there's no point. There we hired a press officer who has been here for six months. The media don't have the same idea about us as they've had for the last five years. The press officer, whose work is very well paid, is basically an address book; that's what enabled us to get some great articles into Le Monde, Le Figaro, we even got on TV. Today, in France, we are beginning to have a proper structure in that respect »*

(Fast food franchisor)

- Managing brand identity: One challenge that franchisors have to face is being able to reconcile adapting to local markets while keeping to the brand's identity. This involves leadership and control know-how.

*« And that is a slippery slope which causes real harm to our identity, our distinction, outdoor uniform which in fact helps to construct the image of the garden centre. So if we see things like that, we have to put them right. »*

(Garden centre franchisor)

### **3.1.9 Internal Communication**

- Managing cohesion among franchisees: Given the crisis and intense competition, it has become a necessity that members of the network help each other out. The franchisor's know-how enabling him/her to unite people and incite co-operation and solidarity is essential.

*« We help each other out....that's help among franchisees that's a good thing. Tomorrow I have a regional meeting, so in fact I'm*

*independent, but there is still this feeling of belonging to a true network. »*

(Focus group franchisees)

- Developing a network culture: The network's identity can only get stronger with the franchisor's capacity to develop its own values and inculcate these to new franchisees.

*« No, know-how is both something that is highly structured, that is, the bible and everything that is in it. But it's also something else, something highly cultural and which is very linked to the way the network actually functions. »*

(Real estate franchisor)

- Motivating franchisees around the network culture: Franchisees adherence is not always won in advance. The franchisor must be able to convince, unite and motivate the franchisees around a culture which is unique to the network.

*« Because in fact, whatever the situation, whether it's about cars, or launching a concept in tobacco or gardening, the main basis of know-how are all the same, that is, you have a real marketing problem which is strategic, and it means in effect you have to identify the know-how and make sure that you position both the know-how about clients needs and the communication about that know-how. Then you have a lot of know-how in terms of purchasing, because in any case, in one way or another, the products have to be purchased, stocked, taken to the points of sale... and then you have a third dimension which is purely managerial and that's about bringing the network to life and making all this energy, this human energy which is often a kind of centrifugal force, making it work the whole time to feed into the bases of the concept so that the concept is properly represented in every zone where it is sold. So in fact, it's the same. »*

(Garden centre franchisor)

- Franchisees participation in the life of the network: While watching over the control of the network, the franchisor must be capable of making franchisees participate in the life of the network (commissions, animations, training, etc.) and encouraging them to give feedback relative to their respective local markets.

*« And more than that, I like working in that way, that's how I work. Above all I chose the franchise I'm in for the group itself, for the atmosphere and the interrelationships, relationships between franchisor and franchisee are crucial for me, because if you don't have that, everything just comes out of the blue and there's not two*

*way communication, there's no point, so here, there's really an exchange. »*

(Specialised food franchisee)

- Internal Communication within the network: The operational performance of a network also depends on a good social atmosphere within the network and efficient conflict management if needed. These elements depend on the franchisor's communication know-how.

*« I would say that our challenge is to manage to get results which are more, how can I put it, more visible in terms of unity of network co-ordination, but without losing the convivial dimension, the aspect of respect in the relationship ... »*

(Specialised food franchisor)

- Developing tools for exchanges among network members (hotline, newsletter, discussion forums, etc.). Technical know-how is also necessary to exploit the many media available for network members to communicate with each other.

*« When they have technical questions, they ask us like they would ask the network. That means that on our intranet, which is called (X), we can send a question and you get at least six answers right away. »*

(Business services franchisor)

*« I tell him “But it's a good thing to share information with the network”. So he goes through the intranet, talks about what he's doing, and above all, he shows them that he shares information, because he's saying “ Look, I've got information and I'm sharing it with you” .»*

(Business services franchisor)



### 3.1.10 Logistics

- Managing purchasing within the network: Managing supply within the network is an important determinant of competitiveness and performance of a franchise network. Mastering the methods and distribution circuits is important know-how for the franchisor.

*« For example, we have a purchasing centre, where we negotiate national agreements in different areas. So all that is not necessarily transmitted in the training sessions. Its making available a certain number of referenced suppliers for whom we have obtained the best conditions because of group tariffs: in telephone services, photocopies, stationary and above all in everything to do with real estate advertisements, on Internet, in print and everything, because that is after all the third most important part of what the agencies do, communication.... »*

(Real estate franchisor)

*« Of course, absolutely, so in fact, I'd say that there we have three fields: the one I've just described which is analysing the sales and stimulating sales for the franchisee ; Then there's the field of logistics, that's what it is, I mean, we have even developed a logistics platform which is run by a sister company. This company is supposed to push the know-how which we measure here by what we call the service rate. That means making sure that the service we deliver to the franchisee is the best possible and it's up to them to develop this platform of know-how.*

(Specialised food franchisor)

- Implementing an efficient and secure Intranet/Extranet/Internet system: The development of e-commerce supposes that the franchisor has the technological know-how necessary to effect secure payments.

*« The software, it's absolutely essential that the manager and the sales assistant who knows how to use it, Intranet, everything which has to do with communication. And it was a guy here who is in the field who set up this software. We translated it and we have exclusive rights in France which means that it's software where you can do the estimate directly. When you compare it with what our competitors have, you get an estimate in three days or a week, two weeks even, and so that's where we have the advantage when they have weaknesses, and that's how we handle it. »*

(Business services franchisor)

- Computer maintenance and assistance for franchisees: Some franchisees find it difficult to master and manage the computer tools they need for their business. The franchisor has to be able to support them thanks to his/her know-how in this domain.

*« Then, we have a club for computer users ».*

(Real estate franchisor)

*« The good thing is that I have a hot line on a computer department »*

(Focus group franchisee)

- Decoration and relooking of points of sale: Faced with clients who are more and more demanding in terms of the atmosphere they find in shops, franchisees need the franchisor's know-how in terms of design and relooking of points of sale.

*« Why did I choose them? Because of their know-how with regard to the ambience of the shops. They always have something going on, their marketing ... »*

(Focus group franchisee)

### **3.1.11 Personal development of franchisees**

- Continuous education of franchisees: Beyond the initial training, the franchisor's ability to set up suitable practices regarding continuous education is a condition of the franchise's success.

*« Today, our job is becoming more and more involved with laws, so we have continuous education, first initial information by mail with the new laws which our legal department has more or less interpreted, because we have a legal department at our disposal. This is two people who have to give us answers in 48 hours. This means we get more information and also, they make it easy because everyone knows that laws are never simple. Then, after that, there is training. There are two obligatory training sessions per year in legal matters, and then we can get others if needed, but at least two are obligatory. That is very important. »*

(Real estate franchisor)

- Developing franchisees' managerial skills: The network's performance depends on the managerial skills of its members. The franchisor must be able to train and transmit these skills to the franchisees.

*« Our job is team management, that's what it is. Client relations, team management, organising the day's work, sales techniques, all that is part of our bible in the end »*

(Real estate franchisor)

- Follow up and support of franchisees by network co-ordinators: The quality of co-ordination is very often put forward as a characteristic of efficient networks. The franchisor's capacity to recruit, train and motivate the network's co-ordinators is thus a determinant of the network's competitive advantage.

*« Very often I think that in fact, the know-how is the easy part; what is really important, and what a lot of would be franchisees are looking for, is the whole thing of support. »*

(Business services franchisor)

- Helping franchisees to prospect new clients: In a competitive market, attracting new clients is the responsibility each member of the network. The franchisor must guide the franchisees in seeking new clients thanks to his/her marketing know-how.

*« We have a principal, a technique which consists of reaching out to others; this is very important, we do a lot of prospecting, so it's clear: we are not here to sit behind a desk waiting for things to happen. There are mail campaigns, e-mail campaigns, promotions, and we are dynamic, interactive and close to clients ... »*

(Business services franchisor)

- Helping new franchisees to finance projects: At a time of crisis, access to financing is hard especially for young entrepreneurs. The franchisor has to develop know-how related to understanding banks and investors.

*« We found a funding programme here in France today, which will help franchisees to buy back the franchise. »*

(Fitness centre franchise)

*« Just because we are independent, we are often taken as a bit of a joke by bankers, and also, we don't have the resources. The thing that makes you important is your bank account... and in France that's what it's like. So for me, before talking about know-how,*

*what was important for me was that in the franchise, I was accompanied. I came to (name f town) with a name, well, even if it was a young name. There were already four outlets that were working well. So, with the banks, to get loans I didn't need any guarantees and I got the loans quite quickly., It was the same with suppliers – if I had been alone, they would never have granted me a leasing. They accepted because I came with (brand) who they already worked with. He told me that as an independent business, frankly, he would have refused me. So as far as I'm concerned, it's that part which I really want to stress. »*

(Focus group franchisee)

- Helping new franchisees to find a location: The location of outlets is an essential element which must be part of the development strategy.

*« In fact the problem is that when you arrive, you have to have a sales point. So I looked for locations, but even so, it was the head of development who came and gave me the green light. »*

(Focus group franchisee)

### **3.1.12 Human resource management**

- Training franchisees' employees: The faithful replication of the know-how transmitted to franchisees means that it is necessary to give continuous training to their employees. The franchisor must be capable of developing this training and adapting it to the needs of the franchisees and their employees.

*« We have the authorization for training so we are an authorized training centre. That means we can train franchisees, well mostly to the employees. We have a whole catalogue of training which are given by internal coaches, so from head office of the network. »*

(Real estate franchisor)

*« For human resources and professional training they also help. They help us make training programmes. »*

(Personal services franchisee)

- Help and advice to franchisees in managing their employees: While respecting the franchisees' independence, the franchisor has to be able to give him/her advice on human resource management.

*« Managerial skills, that is, how to motivate someone, how to suggest solutions, how, on a daily basis... »*

(Real estate franchisor)

- Help and advice to franchisees when they recruit employees: Some franchisees find the managerial skill of choosing employees hard to master. The franchisor must be able to help and advise them about this.

*« I think it's very important to have the backing of the network and that nowadays, opening an agency of personal services alone, in my opinion, it's a bit difficult, because there is an administrative side that is actually pretty heavy... and there are risks which are to do with the law, because we employ personnel, so it's personnel management and we are not necessarily sheltered from conflicts with our employees. So it's important to have contracts which are real work contracts, properly drawn up and that there are procedures because we also have procedures in case of problems with the personnel... Everything is done within the proper framework according to the labour laws and this avoids things going wrong or conflicts and court procedures. So that's important and I think that all alone it must be difficult to do it nowadays. »*

(Personal services franchisee)

The synthetic groupings carried out at this stage come from our own interpretation of textual material contained in the interviews. In order to quantify organisational know-how, it is important to carry out a specific quantitative analysis on this typology. This analysis is found in the next section

### **3.2 Quantitative analysis: a typology of organisational know-how in franchising**

A total of 57 know-how elements were identified from the full transcriptions of the semi-directive interviews carried out with franchisors and franchisees. These 57 elements were integrated into the “franchisors” questionnaire. Their level of mastery was evaluated by each respondent on a scale going from 1 to 5 (from «*not at all mastered*» to «*perfectly mastered*»). However, this set of 57 elements is too large to be analysed in a pertinent manner. In order to relate organisational know-how to competitive advantage and performance, we therefore have to resort to statistics – factorial analysis using principal components – which aims to “synthesise” the identified organisational know-how into a limited number of coherent dimensions.

We therefore carried out a principal component analysis with the SPSS software. Principal component analysis is a process aimed at reducing a large amount of information – in the form of values on items – to a few main synthetic dimensions. This analysis enabled us to obtain eight principal types of know-how from specific know-how elements. For each of the eight factors retained, we indicate the list of items which it comprises and the factorial contribution of each item. This contribution reflects the measure according to which each item is reflected in the aggregate variable. It is generally considered that an item’s contribution should not be inferior to 0.50 on a dimension in which it is integrated, and it should not be superior to 0.30 on another dimension. We respected both of these criteria when validating our scales of measurement.

It is also important to ensure that our scales are reliable. For this reason, Cronbach’s alpha was retained as the indicator of reliability of our measures. This coefficient enables us to verify whether the items on a scale of measurement share common notions, that is, whether each item is coherent with the ensemble of other statements on the scale. In practice, Cronbach’s alpha is a number which is inferior to 1 and which should be the highest possible. If the Cronbach alpha score is satisfactory, then the items are coherent with each other and can be added to make a global score, because they are supposed to measure the same phenomenon. The quality of the Cronbach alpha is evaluated against an empirical threshold

gion by experience. It is normally estimated that a value superior to 0.70 is necessary to show sufficient reliability. This criterion was more than adequately respected by our scales of measure whose coefficients vary between 0.766 and 0.872.

### 3.2.1 Codification /transmission/replication

**Table 3.1 – ACP dimension n°1**

<i>Know-how dimension</i>	<i>Factorial contribution</i>
Item 4 – Codifying network know-how	.822
Item 1 – Faithful transmission of know-how to new franchisees	.735
Item 17 – Formalising concepts and methods in a “bible” and/or manuals	.719
Item 38 – Continuous education of franchisees	.678
Item 5 – Replicating know-how in different contexts	.659
Item 50 – Codifying and diffusing innovations/suggestions for improvements made by franchisees	.600
<hr/>	
<i>Number of items</i>	6
<i>Reliability</i>	.791

The elements which appear in this first dimension concern structured mechanisms of diffusion of know-how within the network. We have thus called this first know-how « **Codification/transmission/replication** ».

### 3.2.2 HR management support

**Table 3.2** – ACP dimension n°2

<i>Know-how dimension</i>	<i>Factorial contribution</i>
Item 39 – Help and advice to franchisees in managing their employees	.888
Item 40 – Help and advice to franchisees when they recruit employees	.877
Item 57 – Developing franchisees’ managerial skills	.749
Item 41 – Training franchisees’ employees	.738
<i>Number of items</i>	4
<i>Reliability</i>	.829

The elements in this second dimension concern the management of personnel employed by franchisees to work in their outlets. We therefore named this know-how « **HR management support** ».



### 3.2.3 Follow up and control of outlets

**Table 3.3** – ACP dimension n°3

<i>Know-how dimension</i>	<i>Factorial contribution</i>
Item 12 – Checking the conformity of franchisees’ application of know-how	.933
Item 13 – Control of the uniformity of know-how all by all outlets of the networks	.914
Item 14 – Audit of outlets	.815
Item 11 – Follow up and support of franchisees by network co-ordinators	.746
<i>Number of items</i>	4
<i>Reliability</i>	.872

The elements which appear in this third dimension concern the mechanisms set up by the franchisor to ensure the coherence of the methods implemented within the outlets. We have called this third know-how « **Follow up and control of outlets** ».

### 3.2.4 External communication

**Table 3.4** – ACP dimension n°4

<i>Know-how dimension</i>	<i>Factorial contribution</i>
Item 26 – Advertising management	.876
Item 27 – Brand promotion on a large scale	.873
Item 25 – Developing brand attractiveness	.876
<hr/>	
<i>Number of items</i>	3
<i>Reliability</i>	.837

The elements which appear in this fourth dimension are related to the development of the brand image. We have therefore called this fourth know-how « **External communication** ».

### 3.2.5 Internal adhesion/cohesion

**Table 3.5** – ACP dimension n°5

<i>Know-how dimension</i>	<i>Factorial contribution</i>
Item 44 – Motivating franchisees around the network culture	.887
Item 45 – Managing cohesion among franchisees	.845
Item 42 – Franchisee participation in the life of the network	.837
Item 48 – Developing a network culture	.646
<i>Number of items</i>	4
<i>Reliability</i>	.774

The elements which appear in this fifth dimension concern the internal functioning of the network. We have thus called this fifth know-how « **Internal adhesion/cohesion** ».

### 3.2.6 Organisational agility

**Table 3.6 – ACP dimension n°6**

<i>Know-how dimension</i>	<i>Factorial contribution</i>
Item 22 – Adaptability and continuous improvement of products /services	.845
Item 21 – Renewing the range of products/services	.819
Item 23 – Fast modulation of prices of products/services	.709
Item 3 – Improving and developing new concepts	.628
Item 6 – Reactivity to changes in demand	.618
<hr/>	
<i>Number of items</i>	5
<i>Reliability</i>	.766

The elements which appear in this sixth dimension concern the franchisor's capacity to change his/her offer in a changing market context. We have thus called this sixth know-how « **Organisational agility** ».

### 3.2.7 Purchasing/ logistics

**Table 3.7 – ACP dimension n°7**

<i>Know-how dimension</i>	<i>Factorial contribution</i>
Item 29 – Managing purchasing within the network	.926
Item 28 – Managing the supply chain within the network	.926
<i>Number of items</i>	2
<i>Reliability</i>	.832

The elements which appear in this seventh dimension are related to the functioning of the supply chain. We have thus called this seventh know-how « **Purchasing/logistics** ».

### 3.2.8 Access to financing

**Table 3.8 – ACP dimension n°8**

<i>Know-how dimension</i>	<i>Factorial contribution</i>
Item 58 – Helping new franchisees to finance projects	.910
Item 49 – Access to funding for our projects	.910
<i>Number of items</i>	2
<i>Reliability</i>	.793

The elements which appear in this eighth dimension concern the franchisor's capacity to finance the network's growth. We have thus called this eighth know-how « **Access to financing** ».

To summarise, our measure of organisational know-how is finally based on eight main dimensions which cover a total of thirty items (of the 57 at the start):

<i>The eight domains of know-how in franchising</i>	
1	Codification/transmission/replication
2	HR management support
3	Follow up/control of outlets
4	External communication
5	Internal adhesion/cohesion
6	Organisational agility
7	Purchasing/logistics
8	Access to financing

These are the eight organisational elements of know-how which were used, with the technical characteristics (scarcity and difficulty of imitation), in the rest of the statistic analysis which was carried out. For each of these eight dimensions, we have an evaluation of mastery, ranging from 1 to 5. This was obtained by making an average of the individual know-how scores comprising the dimension. We compared the mastery of organisational know-how according to different parameters size, age, industry segment and proportion of franchised outlets. This is contained in chapter 4 which follows.

# 4

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## Evaluating the mastery of organisational know-how

Various studies have shown that a franchise's competitive advantage depends on the franchisor's capacity to create an original and specific combination of technical as well as organisational know-how. In order to do this, it appears important to look carefully at the specific characteristics and the suitability of different elements of know-how to the characteristics of the networks such as its industry segment, stage in the life cycle, size, and proportion of franchised outlets. For example, given that organisational know-how is related to engineering and network management, it seems logical to postulate that large networks at an advanced stage of their lifecycle will tend to capitalize on this know-how more efficiently because they have access to sufficient financial means and have the necessary experience (Combs, Michael & Castrogiovanni, 2004).

In the same vein, concerning proportion of franchised outlets, Barthélemy (2008) has shown that the structure of a network in term of mix between franchised and own-company outlets determines how far know-how influences the network's financial performance. More specifically, when know-how is tacit and the brand well known, there is higher performance in networks with a smaller proportion of franchised outlets (Barthélemy, 2008).

Finally, we can imagine that the characteristics specific to each industry segment demand the mastery of different types of know-how. Here therefore, we propose firstly to evaluate the mastery of know-how according to industry segment (§4.1). This study will then be complemented by another on the relationship between the mastery of know-how and certain important characteristics of franchising networks such as age, size and proportion of franchised outlets (§4.2).

## 4.1 Industry segment and mastery of organisational know-how

### 4.1.1 Know-how in franchising networks

First of all, we have tried to evaluate the know-how which are most and least well mastered within franchising networks in general. The following table indicates the minimum and maximum scores, the average, as well as the standard deviation for each of the eight synthetic know-how elements we identified in the previous chapter. Let us remember that the scores should be interpreted according to a possible theoretical minimum of 1, a possible theoretical maximum of 5 and a median score of 3.

**Table 4.1** – *Most and least well mastered organisational know-how*

<i>Know-how</i>	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>S.D.</i>
Codification/transmission/replication	211	2.00	5.00	<b>3.944</b>	<b>.569</b>
HR management support	211	1.00	5.00	3.500	.894
Follow up/control of outlets	211	1.50	5.00	3.878	.780
External communication	211	1.67	5.00	3.746	.831
Internal cohesion	211	1.00	5.00	3.725	.861
Organisational agility	211	2.40	5.00	<b>3.995</b>	<b>.547</b>
Purchasing/logistics	211	1.00	5.00	3.912	.837
Access to financing	211	1.00	5.00	3.507	1.001

We notice that the best mastered know-how for franchisors concern « **organisational agility** » (3.995) and « **codification/transmission/replication** » (3.944). Not only do these two elements of know-how have the highest average, but also they have the lowest standard deviations, thus demonstrating a higher level of homogeneity amongst all the networks than for the other elements of know-how. The minimum scores of these two elements of know-how are also interesting, because the lowest scores are 2.0 and 2.40 respectively and no franchisor gives itself a score of 1.00 – unlike what can be observed for the four other elements of organisational know-how.

Concerning the least well mastered elements of know-how, we find « **HR management support** » (3.500) and « **Access to financing** » (3.507). Besides having the lowest averages,



these two elements of know-how have the highest standard deviations, which demonstrates a disparity which is more or less acute according to the network concerned.

#### **4.1.2 Know-how in franchising networks according to industry segments**

In order to refine these initial general elements, we made inter-industry comparisons to identify the level of mastery of each of the eight types of know-how according to industry segment. The following tables thus present a know-how by know-how comparison of averages according to industry segment. We based the compilation of these tables on the Fédération Française de la Franchise sixteen-segment classification. However, three segments were not taken into consideration on account of an insufficient number of respondents: cleaning (only one respondent), training (two respondents) and tourism (no respondents). These industry segments can be considered marginal on the French franchising scene. In order to test the statistical significance of the differences in average, we carried out Tukey tests.<sup>5</sup>

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<sup>5</sup> The Tukey test checks which categories within a sample are statistically and significantly different from the others.

4.1.2.1 Codification/transmission/replication according to industry segment

**Table4.2** – Codification/transmission/replication by industry segment

<i>Industry segment</i>	<i>N</i>	<i>Mean</i>	<i>S.D.</i>
Food retail	23	3.783	.327
Clothing shoes and accessories	23	<b>3.394</b>	.610
Home furnishing and improvements	23	3.783	.516
Other retail	22	3.849	.551
Hairdressing and beauty care	19	<b>4.391</b>	.517
Real estate	14	4.048	.564
Other services	27	3.956	.510
Automotive products and services	13	3.851	.554
Hotels	6	3.722	.772
Restaurants	11	3.742	.390
Fast food	7	4.209	.453
Business services	8	<b>4.312</b>	1.014
Building and remodelling	12	3.958	.450
<i>Total</i>	<i>208</i>	<i>3.949</i>	<i>.561</i>

In terms of codification/transmission/replication, three industry segments stand out from the others: clothing (less codified) and business services and hairdressing and beauty care (more codified). A possible explanation of the importance of codification/transmission/replication know-how in these industries is clients' high level of demand in terms of uniformity of service quality throughout the franchise network.

4.1.2.2 HR management support according to industry segments

**Table 4.3** – HR management support by industry segment

<i>Industry segment</i>	<i>N</i>	<i>Mean</i>	<i>S.D.</i>
Food retail	23	3.163	.741
Clothing shoes and accessories	23	3.337	.903
Home furnishing and improvements	23	3.532	.936
Other retail	22	3.352	.936
Hairdressing and beauty care	19	<b>4.355</b>	.555
Real estate	14	3.679	.840
Other services	27	3.509	.908
Automotive products and services	13	3.539	.728
Hotels	6	<b>2.833</b>	.585
Restaurants	11	3.318	.537
Fast food	7	3.536	.906
Business services	8	4.031	.968
Building and remodelling	12	3.354	1.165
<i>Total</i>	<i>208</i>		

In terms of HR management support, here again the hairdressing and beauty care networks (highest averages) stand out from the other types of network, in particular compared to the hotel industry (lowest average). HR management support is know-how that determines quality of service. The low level of mastery of this type of know-how in industries such as the hotel industry can be explained either by a lack of commitment of the franchisors in the recruitment and retaining of their franchisees' personnel, or by a strategy of cost leadership which often relies on reducing the costs of labour that is frequently poorly qualified.

4.1.2.3 Follow up/control of outlets according to industry segments.

**Table 4.4** –Follow up/control of outlets by industry segment

<i>Industry segment</i>	<i>N</i>	<i>Mean</i>	<i>S.D.</i>
Food retail	23	3.510	.677
Clothing shoes and accessories	23	3.793	.722
Home furnishing and improvements	23	3.902	.644
Other retail	22	3.771	.829
Hairdressing and beauty care	19	3.671	.724
Real estate	14	4.052	.887
Other services	27	4.125	.815
Automotive products and services	13	3.842	.888
Hotels	6	3.865	1.126
Restaurants	11	3.625	.459
Fast food	7	3.955	.718
Business services	8	4.156	.844
Building and remodelling	12	3.813	.954
<i>Total</i>	<i>208</i>		

In terms of follow-up/control of outlets, the differences in averages are not statistically significant. The matter of follow-up/control of outlets thus seems to pose the same problems throughout the networks whatever their industry segment. It is important to mention that this follow-up and control of outlets is a type of know-how which is globally mastered to a satisfactory level by the networks interviewed.

#### 4.1.2.4 External communication according to industry segment

**Table 4.5** – External communication by industry segment

<i>Industry segment</i>	<i>N</i>	<i>Mean</i>	<i>S.D.</i>
Food retail	23	<b>3.406</b>	.858
Clothing shoes and accessories	23	3.652	.775
Home furnishing and improvements	23	3.753	.786
Other retail	22	3.712	.831
Hairdressing and beauty care	19	<b>4.281</b>	.756
Real estate	14	3.786	.426
Other services	27	3.765	.861
Automotive products and services	13	4.256	.992
Hotels	6	3.222	.750
Restaurants	11	<b>3.242</b>	.598
Fast food	7	4.191	.690
Business services	8	3.639	.972
Building and remodelling	12	3.748	.797
<i>Total</i>	<i>208</i>		

In terms of external communication, hairdressing and beauty care (high averages) as well as restaurants and fast food (low averages) stand out significantly from the other networks. This result also reflects the existence of a great variety of marketing strategies in different industry segments.

4.1.2.5 Internal adhesion/cohesion according to industry segments.

**Table 4.6** – Internal adhesion/cohesion interne by industry segment

<i>Industry segment</i>	<i>N</i>	<i>Mean</i>	<i>S.D.</i>
Food retail	23	3.359	.746
Clothing shoes and accessories	23	3.609	.801
Home furnishing and improvements	23	3.837	.515
Other retail	22	3.852	1.388
Hairdressing and beauty care	19	4.145	.625
Real estate	14	3.839	.853
Other services	27	3.815	.634
Automotive products and services	13	3.789	.652
Hotels	6	3.417	.983
Restaurants	11	3.318	.699
Fast food	7	3.571	1.077
Business services	8	4.281	.737
Building and remodelling	12	3.833	.717
<i>Total</i>	<i>208</i>		

In terms of internal adhesion/cohesion, there is no statistically significant difference among the networks regarding their average levels of mastery of this know-how. However, we can note a particularly high standard deviation for the industry segment “Other retail” which illustrates a high level of disparity amongst networks within this industry.

#### 4.1.2.6 Organisational agility according to industry segment

**Table 4.7** – Organisational agility by industry segment

<i>Industry segment</i>	<i>N</i>	<i>Mean</i>	<i>S.D.</i>
Food retail	23	4.000	.463
Clothing shoes and accessories	23	4.026	.448
Home furnishing and improvements	23	3.993	.533
Other retail	22	3.984	.639
Hairdressing and beauty care	19	4.211	.631
Real estate	14	3.786	.363
Other services	27	4.007	.591
Automotive products and services	13	4.015	.624
Hotels	6	4.200	.400
Restaurants	11	3.709	.432
Fast food	7	4.000	.516
Business services	8	4.200	.676
Building and remodelling	12	3.983	.562
<i>Total</i>	<i>208</i>		

In terms of organisational agility, there is no statistically significant difference among the industry segments. All the networks seem to have developed capacities of flexibility and fast adaptability in order to face up to changes in the competitive environment, particularly in times of crisis.

4.1.2.7 Purchasing/logistics according to industry segments

**Table 4.8** – Purchasing/logistics by industry segment

<i>Industry segment</i>	<i>N</i>	<i>Mean</i>	<i>S.D.</i>
Food retail	23	3.957	.752
Clothing shoes and accessories	23	3.978	.790
Home furnishing and improvements	23	4.152	.681
Other retail	22	4.068	.745
Hairdressing and beauty care	19	4.132	.797
Real estate	14	<b>3.393</b>	.984
Other services	27	<b>3.482</b>	.727
Automotive products and services	13	4.385	.650
Hotels	6	3.667	.753
Restaurants	11	3.727	.684
Fast food	7	<b>4.786</b>	.393
Business services	8	4.062	1.050
Building and remodelling	12	<b>3.458</b>	1.076
<i>Total</i>	208		

In terms of purchasing/logistics, fast food stands out by its highly significant score which is higher than those observed in the other industry segments. Building and remodelling, real estate and personal services on the other hand, have lower scores than the other industries.



4.1.2.8 Access to financing according to industry segment

**Table 4.9** – Access to financing by industry segment

<i>Industry segment</i>	<i>N</i>	<i>Mean</i>	<i>S.D.</i>
Food retail	23	3.478	.959
Clothing shoes and accessories	23	3.565	.883
Home furnishing and improvements	23	3.543	.952
Other retail	22	3.296	.947
Hairdressing and beauty care	19	4.000	.782
Real estate	14	3.429	.938
Other services	27	3.463	1.168
Automotive products and services	13	3.750	.839
Hotels	6	2.833	1.471
Restaurants	11	3.546	.961
Fast food	7	3.500	1.290
Business services	8	3.750	1.281
Building and remodelling	12	3.458	.940
<i>Total</i>	<i>208</i>		

In terms of access to financing, there is no statistically significant difference among the industry segments. However, the scores in terms of mastery of know-how of access to financing are relatively low and seem to indicate certain gaps in knowledge concerning mastery of the mechanisms for financing new outlets in certain franchise networks.

### 4.1.3 Know-how in franchise networks: retail vs. services

A second analysis tried to make a more global comparison between service networks (n = 91) and retail networks (n = 120). The following tables show the average values for each type of know-how for retail and services. In order to compare these averages, we carried out analyses of variance.<sup>6</sup>

**Table 4.10** – Comparison retail/services

<i>Know-how</i>	<i>Type</i>	<i>N</i>	<i>Mean</i>	<i>S.D.</i>	<i>F</i>	<i>Sig.</i>																																																																										
Codification/transmission/replication	D	91	<b>3.841</b>	.507	5.346	<b>.022</b>																																																																										
	S	120	<b>4.022</b>	.602			HR management support	D	91	<b>3.346</b>	.857	4.820	<b>.029</b>	S	120	<b>3.617</b>	.908	Follow up/control of outlets	D	91	3.786	.713	2.249	.135	S	120	3.948	.824	External communication	D	91	3.630	.811	3.126	.078	S	120	3.833	.839	Internal cohesion	D	91	3.662	.921	.857	.356	S	120	3.773	.813	Organisational agility	D	91	4.011	.516	.021	.884	S	120	3.990	.571	Purchasing/logistics	D	91	<b>4.039</b>	.735	3.680	<b>.056</b>	S	120	<b>3.817</b>	.898	Access to financing	D	91	3.473	.926	.189	.664	S
HR management support	D	91	<b>3.346</b>	.857	4.820	<b>.029</b>																																																																										
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	S	120	3.534	1.067																																																																												

We note that three elements are significant in differentiating between service networks and retail networks. Firstly, know-how linked to the « **Codification/transmission/replication** » dimension as well as those linked to the « **HR management support** » dimension are significantly higher in the case of service networks. This shows that the demands related to

<sup>6</sup> An analysis de variance is a statistical procedure aimed at comparing averages between two groups of observations in a sample. It tries to test the hypothesis that the averages are significantly different.

these two dimensions are greater in the case of services than in retail. These two results are coherent given the importance of the human factor in the provision of services. Indeed, it seems more essential to codify the provision of services and make sure that franchisees' personnel have the right skills in services than in retail.

On the contrary, the « **purchasing/logistics** » dimension has a higher score in the case of retail networks. There again, this result is coherent because the demands related to supply are greater in retail networks than in service networks.

## **4.2 Mastery of know-how and organisational characteristics**

The mastery of organisational know-how in franchising is potentially related to the age, size and proportion of franchise outlets of the network. In order to check this, we carried out multiple regression analyses using the eight organisational know-how elements as dependent variables and the age, size and proportion of franchised outlets as the independent variables.

The procedure was that of hierarchical regression which, by integrating squared variables, allows to test the potential existence of curvilinear effects as well as testing the direct impact of the independent on the dependent variables. The results of these analyses are presented in the following tables. Given the differences observed above between the service networks and retail networks, we carried out a separate statistical analysis for these two categories of network.

#### 4.2.1 Codification/transmission/replication: retail vs. services

**Table 4.11** – Codification/transmission/replication (Retail)

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.066	.628
Proportion of franchised outlets	-.187	.102
Size	-.006	.966
<i>R</i> <sup>2</sup>	.037	
<i>R</i> <sup>2</sup> <i>adj.</i>	-.001	
2. Age	-.152	.762
Proportion of franchised outlets	-.159	.856
Size	.790	.204
Size x Size	-.786	.191
Proportion of fr. outlets x Proportion of fr. outlets	-.031	.972
Age x Age	.179	.713
<i>R</i> <sup>2</sup>	.060	
<i>R</i> <sup>2</sup> <i>adj.</i>	.016	

**Table 4.12** – Codification/transmission/replication (Services)

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	-.074	.526
<b>Proportion of franchised outlets</b>	<b>.288</b>	<b>.003</b>
Size	-.086	.460
<i>R</i> <sup>2</sup>	.094	
<i>R</i> <sup>2</sup> <i>adj.</i>	-.068	
2. Age	-.094	.807
Proportion of franchised outlets	.396	.704
Size	-.508	.220
Size x Size	.443	.285
Proportion of fr. outlets x Proportion of fr. outlets	-.102	.922
Age x Age	.007	.986
<i>R</i> <sup>2</sup>	.104	
<i>R</i> <sup>2</sup> <i>adj.</i>	.051	

There is no statistically significant difference according to age, size and proportion of franchised outlets for retail networks. On the other hand, in the domain of services, the greater the proportion of franchised outlets vs. own-company outlets the better the « **Codification/transmission/replication** » know-how appears to be mastered. Age and size, on the other hand, do not appear to be significant.

#### 4.2.2 HR management support: *retail* vs. services

**Table 4.13** – *HR management support (Retail)*

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.275	.784
Proportion of franchised outlets	.324	.747
Size	.928	.356
<i>R</i> <sup>2</sup>	.024	
<i>R</i> <sup>2</sup> <i>adj.</i>	-.014	
2. Age	-.049	.924
Proportion of franchised outlets	-.128	.886
Size	-.140	.823
Size x Size	.264	.664
Proportion of fr. outlets x Proportion of fr. outlets	.170	.849
Age x Age	.103	.834
<i>R</i> <sup>2</sup>	.029	
<i>R</i> <sup>2</sup> <i>adj.</i>	.050	

**Table 4.14 – HR management support (Services)**

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.086	.466
<b>Proportion of franchised outlets</b>	<b>.250</b>	<b>.010</b>
Size	-.137	.241
<i>R</i> <sup>2</sup>	.077	
<i>R</i> <sup>2</sup> <i>adj.</i>	.050	
2. Age	.685	.075
Proportion of franchised outlets	-.439	.671
Size	.282	.491
Size x Size	-.446	.278
Proportion of fr. outlets x Proportion of fr. outlets	.637	.537
Age x Age	-.590	.117
<i>R</i> <sup>2</sup>	.118	
<i>R</i> <sup>2</sup> <i>adj.</i>	.066	

In the domain of services, the greater the proportion of franchised outlets, the better « **HR management support** » know-how appears to be mastered. This can be explained by the franchisees strong involvement in developing efficient human resource management practices.

### 4.2.3 Follow-up/control of outlets: retail vs. services

**Table 4.15** – *Follow-up/control of outlets (Retail)*

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.142	.275
<b>Proportion of franchised outlets</b>	<b>-.203</b>	<b>.062</b>
Size	.207	.112
<i>R</i> <sup>2</sup>	.136	
<i>R</i> <sup>2</sup> <i>adj.</i>	.103	
2. Age	.468	.329
Proportion of franchised outlets	-.295	.725
Size	-.169	.774
Size x Size	.368	.519
Proportion of fr. outlets x Proportion of fr. outlets	.089	.915
Age x Age	-.312	.501
<i>R</i> <sup>2</sup>	.146	
<i>R</i> <sup>2</sup> <i>adj.</i>	.077	

**Table 4.16 – Follow-up/control of outlets (Services)**

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.026	.829
<b>Proportion of franchised outlets</b>	<b>.241</b>	<b>.014</b>
Size	-.027	.821
<i>R</i> <sup>2</sup>	.060	
<i>R</i> <sup>2</sup> <i>adj.</i>	.033	
2. Age	.116	.766
Proportion of franchised outlets	.758	.473
Size	-.604	.151
Size x Size	.611	.146
Proportion of fr. outlets x Proportion of fr. outlets	-.520	.622
Age x Age	-.119	.754
<i>R</i> <sup>2</sup>	.081	
<i>R</i> <sup>2</sup> <i>adj.</i>	.027	

In retail networks, there is a negative association between the mastery of « **follow-up control of outlets** » know-how (mixed networks with a predominant proportion of franchises do not master this know-how so well), whereas in services, the opposite is the case: mixed networks with a predominant proportion of franchises master this know-how better than in networks which are more own-company outlets. This may be related to the fact that in services, there is a higher risk of opportunism, so the more franchisees there are, the more necessary it is to know-how to control the outlets efficiently.



#### 4.2.4 External communication: retail vs. services

**Table 4.17** – *External communication (Retail)*

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.114	.382
Proportion of franchised outlets	-.155	.152
Size	.252	.055
<i>R</i> <sup>2</sup>	.038	
<i>R</i> <sup>2</sup> <i>adj.</i>	.011	
2. Age	-.423	.371
Proportion of franchised outlets	-.378	.648
Size	1.134	.054
Size x Size	-.870	.124
Proportion of franchised outlets x Proportion of franchised outlets	.227	.783
Age x Age	.500	.276
<i>R</i> <sup>2</sup>	.044	
<i>R</i> <sup>2</sup> <i>adj.</i>	.013	

**Table 4.18** – *External communication (Services)*

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.010	.934
Proportion of franchised outlets	-.017	.862
Size	.190	.113
<i>R</i> <sup>2</sup>	.038	
<i>R</i> <sup>2</sup> <i>adj.</i>	.011	
2. Age	.011	.977
Proportion of franchised outlets	.687	.524
Size	.337	.429
Size x Size	-.142	.739
Proportion of franchised outlets x Proportion of franchised outlets	-.708	.510
Age x Age	-.012	.975
<i>R</i> <sup>2</sup>	.044	
<i>R</i> <sup>2</sup> <i>adj.</i>	.013	

There appears to be no statistically significant difference among the networks for mastery of external communication. This know-how does not therefore seem to be distinctive in terms of competitive advantage and economic performance of the networks.

#### 4.2.5 Internal communication: retail vs. services

**Table 4.19** – *Internal Communication (Retail)*

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	-.026	.849
Proportion of franchised outlets	-.006	.960
Size	.251	.066
<i>R</i> <sup>2</sup>	.057	
<i>R</i> <sup>2</sup> <i>adj.</i>	.120	
2. Age	-.137	.778
Proportion of franchised outlets	.387	.649
Size	1.488	.015
Size x Size	-1.220	.038
Proportion of fr. outlets x Proportion of fr. outlets	-.404	.635
Age x Age	.044	.926
<i>R</i> <sup>2</sup>	.044	
<i>R</i> <sup>2</sup> <i>adj.</i>	.048	

**Table 4.20 – Internal communication (Services)**

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	-.157	.156
<b>Proportion of franchised outlets</b>	<b>.437</b>	<b>.000</b>
Size	.039	.721
<i>R</i> <sup>2</sup>	.192	
<i>R</i> <sup>2</sup> <i>adj.</i>	.169	
2. Age	-.433	.230
Proportion of franchised outlets	-.503	.606
Size	-.354	.359
Size x Size	.394	.310
Proportion of franchised outlets x Proportion of franchised outlets	.972	.318
Age x Age	.293	.406
<i>R</i> <sup>2</sup>	.217	
<i>R</i> <sup>2</sup> <i>adj.</i>	.171	

In the domain of services, the fewer company-owned outlets there are, the easier it is to master the cohesion of the franchisees. This seems to show that it is easier to ensure network cohesion when there are no company-owned outlets

#### 4.2.6 Organisational agility: retail vs. services

**Table 4.21** – *Organisational agility (Retail)*

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.074	.583
<b>Proportion of franchised outlets</b>	<b>-.250</b>	<b>.027</b>
Size	.043	.748
<i>R</i> <sup>2</sup>	.071	
<i>R</i> <sup>2</sup> <i>adj.</i>	.035	
2. Age	-.133	.788
Proportion of franchised outlets	-.041	.962
Size	.572	.350
Size x Size	-.519	.380
Proportion of franchised outlets x Proportion of franchised outlets	-.211	.808
Age x Age	.181	.705
<i>R</i> <sup>2</sup>	.084	
<i>R</i> <sup>2</sup> <i>adj.</i>	.010	

**Table 4.22 – Organisational agility (Services)**

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	-.070	.550
Proportion of franchised outlets	.139	.142
<b>Size</b>	<b>-.242</b>	<b>.039</b>
<i>R</i> <sup>2</sup>	.096	
<i>R</i> <sup>2</sup> <i>adj.</i>	.069	
2. Age	.243	.526
Proportion of franchised outlets	.930	.372
Size	-.378	.359
Size x Size	.157	.703
Proportion of franchised outlets x Proportion of franchised outlets	-.819	.430
Age x Age	-.343	.363
<i>R</i> <sup>2</sup>	.109	
<i>R</i> <sup>2</sup> <i>adj.</i>	.056	

In the domain of services, the larger the network, the weaker the organisational agility – however, this does not appear to be the case for retail networks. On the other hand, in retail, the higher the level of franchised outlets in the network, the less the organisational agility is apparent. Small networks seem to be both more reactive and more pro-active than large ones.

#### 4.2.7 Purchasing/ logistics: retail vs. services

**Table 4.23** – *Purchasing/logistics (Retail)*

<i>Model</i>	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.257	.053
<b>Proportion of franchised outlets</b>	<b>-.277</b>	<b>.012</b>
Size	-.059	.653
<i>R</i> <sup>2</sup>	.116	
<i>R</i> <sup>2</sup> <i>adj.</i>	.081	
2. Age	.473	.330
Proportion of franchised outlets	-.699	.411
Size	-.161	.787
Size x Size	.095	.869
Proportion of franchised outlets x Proportion of franchised outlets	.421	.620
Age x Age	-.214	.649
<i>R</i> <sup>2</sup>	.122	
<i>R</i> <sup>2</sup> <i>adj.</i>	.051	

**Table 4.24** – *Purchasing/logistics (Services)*

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	.160	.184
Proportion of franchised outlets	-.165	.092
Size	-.008	.947
<i>R</i> <sup>2</sup>	.044	
<i>R</i> <sup>2</sup> <i>adj.</i>	.016	
2. Age	.518	.190
Proportion of franchised outlets	.430	.687
Size	-.340	.422
Size x Size	.359	.398
Proportion of franchised outlets x Proportion of franchised outlets	-.623	.559
Age x Age	-.390	.314
<i>R</i> <sup>2</sup>	.061	
<i>R</i> <sup>2</sup> <i>adj.</i>	.005	

In retail, the higher the proportion of franchised outlets, the less the dimension of « **Purchasing/logistics** » seems to be mastered.



#### 4.2.8 Access to financing: retail vs. services

**Table 4.25** – Access to financing (Retail)

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	-.250	.855
Proportion of franchised outlets	-.055	.625
Size	.198	.150
<i>R</i> <sup>2</sup>	.039	
<i>R</i> <sup>2</sup> <i>adj.</i>	.001	
2. Age	.041	.934
Proportion of franchised outlets	-1.400	.110
Size	-.178	.771
Size x Size	.358	.545
Proportion of franchised outlets x Proportion of franchised outlets	1.357	.121
Age x Age	-.045	.926
<i>R</i> <sup>2</sup>	.080	
<i>R</i> <sup>2</sup> <i>adj.</i>	.005	

**Table 4.26** – *Access to financing (Services)*

	<i>Coefficient</i>	<i>Sig.</i>
1. Age	-.156	.195
Proportion of franchised outlets	.180	.066
Size	.172	.147
<i>R</i> <sup>2</sup>	.051	
<i>R</i> <sup>2</sup> <i>adj.</i>	.023	
2. Age	.206	.599
Proportion of franchised outlets	.906	.401
Size	.130	.756
Size x Size	.058	.891
Proportion of franchised outlets x Proportion of franchised outlets	-.758	.481
Age x Age	-.387	.313
<i>R</i> <sup>2</sup>	.066	
<i>R</i> <sup>2</sup> <i>adj.</i>	.010	

There appears to be no statistically significant difference among the networks concerning mastery of access to financing. It is important to recall that the scores of the different networks are globally low for this know-how.

## Summary of evaluation of know-how in franchising networks

Evaluation criteria	Results of survey
Best mastered know-how	<ul style="list-style-type: none"> <li>- Codification/ transmission/replication</li> <li>- Organisational agility (reactivity and adaptability)</li> </ul>
Least mastered know-how	<ul style="list-style-type: none"> <li>- HR management support</li> <li>- Access to financing</li> </ul>
Distinctive know-how per industry	<ul style="list-style-type: none"> <li>- Advantage for the services industry for know-how in codification and HR management support</li> <li>- Advantage for the retail industry in purchasing and logistics know-how</li> </ul>
Significant impact of network characteristics	<ul style="list-style-type: none"> <li>- Proportion of franchised outlets plays a significant role in the mastery of certain know-how.</li> </ul>

# 5

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## Know-how, strategies, competitive advantage and performance

Research on competitive advantage and the performance of franchise networks is still rare. Even if numerous studies have been carried out on the propensity to franchise (Combs & Ketchen, 2003; Castrogiovanni, Combs & Justis, 2006), the links between technical know-how, organisational know-how and network performance have not been explored sufficiently (Combs, Michael & Castrogiovanni, 2004). There is certainly a consensus on the fact that franchising is a source of competitive advantage, but the reasons which enable franchisors to develop and maintain this advantage in order to obtain high performance remain rather vague.

In this situation, we set up this research to clarify the range of relationships which unite know-how, competitive advantage and network performance. We first carried out multiple regression analyses using competitive advantage and brand image value as dependent variables and organisational and technical know-how as independent variables. These analyses enabled us to identify know-how which generates competitive advantage and a good brand image. They were carried out to validate the following hypotheses in our research model: H1a, H1b, H2a, H2b and H2c (§5.1).

We next carried out a series of hierarchical regression analyses to test the interactions between organisational strategies and levels of mastery of organisational know-how needed to obtain competitive advantage depending on the franchisor's strategy according to the strategy followed by the franchisor. These correspond to the validation of hypothesis H3 of our research model (§5.2). Finally, we carried out a series of analyses using competitive advantage and brand image value as independent variables and economic performance perceived by the franchisor as a dependent variable (§5.3).

## **5.1 Links between organisational know-how, technical know-how, brand image value and competitive advantage**

Conforming to the developments presented in Chapter 1, our conceptual framework relies on two elements which are likely to influence the economic performance of franchise networks: competitive advantage and brand image value. These two elements are themselves likely to be influenced by organisational know-how and technical know-how. Table 5.1 firstly concerns the origin of brand image value. It presents the results of a multiple regression analysis based on three main types of independent variables: organisational know-how, technical know-how and a set of control variables considered to be relevant to the context of franchising.

These control variables firstly reflect the probable influence of various factors related to the network size, age, proportion of franchised outlets, network type (services or retail, as Chapter 4 has underlined the differences between these two main industry segments). However, we also take account of the perceived intensity of the competition within a particular industry segment, which can be more or less intense

**Table 5.1 – Impact of know-how on brand image value**

Model	Independent variables	Brand image value		
		Beta	t	Sig.
1	<i>Control variables</i>			
	Network age	.066	.750	.454
	Network size	<b>.326</b>	<b>3.677</b>	<b>.000</b>
	Proportion of franchised outlets	-.010	-.132	.895
	Services (vs. retail)	.081	1.062	.290
	Perceived intensity of competition	<b>-.238</b>	<b>-3.172</b>	<b>.002</b>
		$R^2 = 13.1\%$ (sig.= .000)		
2a	<i>Organisational know-how</i>			
	Codification/transmission/replication	<b>.197</b>	<b>2.196</b>	<b>.029</b>
	HR management support	-.043	-.521	.603
	Follow up/control of outlets	.022	.284	.777
	External communication	<b>.297</b>	<b>4.015</b>	<b>.000</b>
	Internal cohesion	<b>.172</b>	<b>2.259</b>	<b>.025</b>
	Organisational agility	.014	.181	.857
	Purchasing/logistics	.048	.663	.508
	Access to financing	-.055	-.755	.451
		$\Delta R^2 = 25.6\%$ (sig.= .000)		
2b	<i>Technical know-how</i>			
	Scarcity	.001	.006	.995
	Difficulty to imitate	.153	1.842	.067
		$\Delta R^2 = 2.1\%$ (sig.= .102)		

The results show first of all that brand image value is positively related to the size of the network: the bigger the network, the higher the brand image value. On the contrary, the higher the perception of intensity of competition, the lower the perception of brand image value. The first of these results was expected. Indeed, it seems normal that a network's brand image should be in keeping with the size of its implantation in the country. The negative relationship between the intensity of competition and brand image value is more interesting. It suggests that in competitive industries, the image of a network is perceived as having less value because it is no longer enough to guarantee success. In other words, it is more difficult to have a distinctive brand image in a highly competitive industry. Age, proportion of franchised outlets and network type (services or retail) have no impact on the brand image value.

Beyond the influence of the control variables, we next observe that among the eight dimensions of organisational know-how that we identified, **Codification/transmission/replication**, **Internal adhesion/cohesion**, and in particular **External communication** are positively related to brand image value. Besides the evident influence of the mastery of “communication” know-how in itself, it is interesting to note that the aspects linked to internal communication are also linked to the external image. This “interfacing” between internal and external dimensions has already been observed in other situations. Besides, the significance of aspects related to formalisation is interesting. It shows that this formalisation has not only « concrete » consequences on the organisation of work, but that it is “seen” or “reflected” in the brand image as well. Hypothesis H2a is therefore validated: **organisational know-how contributes to the brand image value of the franchise.**

On the other hand, we observe that the characteristics of technical know-how (scarcity and difficulty of imitation) are not significantly related to brand image value. Hypothesis H2b is therefore not validated: technical **know-how does not contribute to the brand image value of the franchise network.** This point is important. Indeed, it underlines that the brand image value does not depend on the type of service provided and its capacity to stand out from what is available elsewhere on the market. It depends rather on know-how regarding the promotion of this service through communication (both internal and external) and formalisation.

Table 5.2 now presents the multiple regression analysis carried out using competitive advantage as the dependant variable. Four types of independent variable were considered: control variables, organisational know-how, technical know-how and brand image value.

**Table 5.2 – Impact of know-how and brand image value on competitive advantage**

Model	Independent variables	Competitive advantage		
		Beta	t	Sig.
1	<i>Control variables</i>			
	Network age	-.156	-1.774	.078
	Network size	.055	.622	.535
	Proportion of franchised outlets	.104	1.454	.148
	Services (vs. retail)	.092	1.229	.221
	Perceived intensity of competition	<b>-.270</b>	-3.615	.000
		$R^2 = 14\%$ (sig.= 0.000)		
2a	<i>Organisational know-how</i>			
	Codification/transmission/replication	<b>.242</b>	2.753	.007
	HR management support	<b>.266</b>	3.280	.001
	Follow up/control of outlets	-.096	-1.264	.208
	External communication	.029	.401	.689
	Internal cohesion	-.068	-.917	.360
	Organisational agility	<b>.156</b>	2.007	.046
	Purchasing/logistics	.066	.946	.346
	Access to financing	.034	.468	.640
		$\Delta R^2 = 27\%$ (sig.= 0.000)		
2b	<i>Technical know-how</i>			
	Scarcity	<b>.235</b>	2.826	.005
	Difficulty to imitate	<b>.210</b>	2.595	.010
		$\Delta R^2 = 13\%$ (sig.= 0.000)		
2c	<i>Brand image value</i>	<b>.356</b>	5.208	.000
		$\Delta R^2 = 11\%$ (sig.= 0.000)		

We first observe that competitive advantage is negatively linked to the perceived intensity of competition, which seems coherent. On the other hand, no other control variable is significant. For organisational know-how, three dimensions appear to be significant: **Codification/transmission/replication**, **HR management support** and **Organisational agility**. We find here the beneficial effect of formalisation to which are added two aspects which have closer links to management, and this in both internal (HR) and external (organisational agility) dimensions. Hypothesis H1a is thus verified: **organisational know-how has a direct influence on competitive advantage in a franchise network.**



Similarly, we note that both elements of technical know-how are significant. The regression coefficient of scarcity amounts to .235 and that of difficulty of imitation to .210. Hypothesis H1b is thus verified: **the characteristics of technical know-how – scarcity and difficulty of imitation – have a direct influence on the competitive advantage of the franchise network.** It is at this level and not at the level of brand image value that the influence of this know-how is felt.

Finally, the brand image value is also significant in the multiple regression (coefficient = .356). Hypothesis H2c is therefore verified: **the brand image value of a franchise network contributes to the creation of competitive advantage for the network.** We can note that its influence seems even stronger than that of technical know-how.

## **5.2 Organisational know-how and the impact of strategies**

Until now we have shown that organisational know-how is likely to contribute to the generation of a favourable brand image as well as to the creation of competitive advantage for a franchise network. However, it also appears to be essential to connect the impact of organisational know-how on the franchisor's strategy. Indeed, a strategy can only have a significant impact if the network is able to implement it correctly, that is, unless the network can rely on organisational know-how which is mastered. In the case of franchising, four types of strategy have been identified: innovation strategy, multiple channel strategies, internationalisation strategies and strategies of developing multiple-franchises.

**Innovation strategies:** A growing number of franchisors adopt strategic choices aimed at promoting innovation by launching new networks (e.g. *Les Déménageurs Bretons* and *Déménagerseul.com* or *Pizza del Arte* and *Café del Arte*), new concepts (e.g. *Yves Rocher*, *Phildar*) or new services within the network (e.g. *Point Mariage* and the photo service, *Guy Hoquet Real estate* and the website *ma-residence.fr*). The success of these different types of innovation depends on the franchisor's capacity to develop and organise specific know-how, which is essentially organisational. A recent study by Szulanski and Jensen (2008) showed that the exact replication of know-how allows for stronger growth than innovation and adapting to local markets. According to these authors, innovation in franchise networks can only succeed if there is a deep understanding of know-how and the conditions necessary for its implementation in new markets.

*« If what we bring has no particular interest for the consumer, all we are doing is bringing another thing, not bringing innovation. So, we wanted to be sure that we were being innovative both for our franchisees and for the consumers. »*

(Franchisor, Real estate industry)

**Multi-channel strategies:** Several franchisors offer clients the possibility to buy their products from online sites complementary to franchised and own-company points of sale (e.g. *Yves Rocher*, *Cache-Cache*, *Troc.com*). Others only use their site as a communication channel from which they redirect their clients to points of sale, giving names, addresses and opening hours of the latter. The success of implementing a multi-channel strategy in terms of minimising conflicts will depend on the role of the franchisees, and their involvement. It will also depend on the technical mastery of the process. The notion of know-how is apparent here at two levels.

*« Yes, we're working on it. In six months it'll be ready. But we did all that ten years ago – they haven't exactly invented the wheel. Ten years ago we had an internet site and we gave our orders online. »*

(Franchisor, Fast food)

**Internationalisation strategy:** Several French franchise networks have set up abroad at the same time that other foreign networks have penetrated the French market (e.g. *Sign-A-Rama*, *Cartridge World*, *Pizza Hut*). According to Chen and Dimou (2005), the successful internationalisation of a franchise depends on the nature of the technical know-how but also on the capacity of the franchisor to organise the replication of this know-how abroad, taking

account of local particularities, and even the capacity of foreign-based outlets to generate innovations which might be taken up in the home country.

*« Because now our ambitions are certainly French, probably European, but worldwide (...) we are developing our concept in “master”....We are creating two contracts of “master” franchise, and it is enough to transpose this, whether it be in Morocco, the Caribbean, ...one day in China... »*

(Franchisor, Real estate industry)

***Multiple-franchise strategies:*** Multiple-franchise may allow faster development through a transfer of the experience of existing franchisee, compared to recruiting new franchisees. This strategy however, comes with a number of challenges whose management requires specific organisational know-how.

In table 5.3, we present the results of a hierarchical multiple regression analysis using competitive advantage as the dependent variable. Three types of independent variables were used. Besides the control variables, we included the direct impact of the four organisational strategies, but also the effects of interaction between organisational know-how and the strategies. The aim is to see if the impact of a specific strategy is affected by the mastery of one or several types of organisational know-how.

**Table 5.3** – Direct impact of organisational strategies on competitive advantage of networks (model 2) and interactions effects between these strategies and organisational know-how (models 3a to 3h)

Model	Independent variables	Competitive advantage		
		Beta	t	Sig.
1	<i>Control variables</i>			
	Network age	-.156	-1.774	.078
	Network size	.055	.622	.535
	Proportion of franchised outlets	.104	1.454	.148
	Services (vs. retail)	.092	1.229	.221
	Perceived intensity of competition	<b>-.270</b>	-3.615	.000
		$R^2 = 14\%$ (sig.= 0.000)		
2	<i>Organisational strategies (+ control variables)</i>			
	Multi-franchise	-.069	-1.038	.301
	Multi-channel	<b>-.253</b>	-3.779	.000
	Internationalisation	-.040	-.609	.543
	Innovation	<b>.198</b>	2.992	.003
		$\Delta R^2 = 11.2\%$ (sig.= 0.000)		
3	<i>Interactions Strategies × Organisational know-how</i>			
3a	Codification/Transmission/Replication × Multi-channel	<b>.126</b>	1.987	.049
	× Internationalisation	<b>.194</b>	3.153	.002
		$\Delta R^2 = 6.1\%$ (sig.= 0.001)		
3b	HR management support × Internationalisation	<b>.174</b>	2.812	.005
		$\Delta R^2 = 5\%$ (sig.= 0.006)		
3c	Follow up/control of outlets × Internationalisation	<b>.132</b>	2.053	.042
		$\Delta R^2 = 4.1\%$ (sig.= 0.034)		
3d	External communication × Internationalisation	<b>.252</b>	3.978	.000
		$\Delta R^2 = 7.1\%$ (sig.= 0.001)		
3e	Internal cohesion × Internationalisation	<b>.154</b>	2.280	.024
	× Multi-canal	<b>.153</b>	2.218	.028
		$\Delta R^2 = 5.9\%$ (sig.= 0.005)		
3f	Organisational agility × Multi-channel	<b>.152</b>	2.363	.019
		$\Delta R^2 = 3.4\%$ (sig.= 0.056)		
3g	Purchasing/logistics × Multi-franchise	<b>.182</b>	2.648	.009
		$\Delta R^2 = 4.8\%$ (sig.= 0.016)		
3h	Access to financing × Multi-channel	<b>.140</b>	2.168	.032
	× Internationalisation	<b>.161</b>	2.522	.013
		$\Delta R^2 = 5.1\%$ (sig.= 0.010)		

Note. Significant coefficients are in bold. Beta coefficients are standardised. Models 3a à 3h include the following variables: control variables + strategies + organisational know-how + interactions terms; only significant interactions are shown.

Looking at the results of model 2, we note that innovation strategies have a significant effect on the networks' competitive advantage independently of their organisational know-how. On the other hand, a multi-channel strategy would probably have a negative effect (perhaps by loss of mastery of the distribution channel, or by alteration of the concept), unless this effect is the consequence – and not the cause – of a perceived diminution of competitive advantage and the search of a way to face this.

Regarding the interaction between strategies and mastery of organisational know-how (models 3) we can summarise the results in the following table:

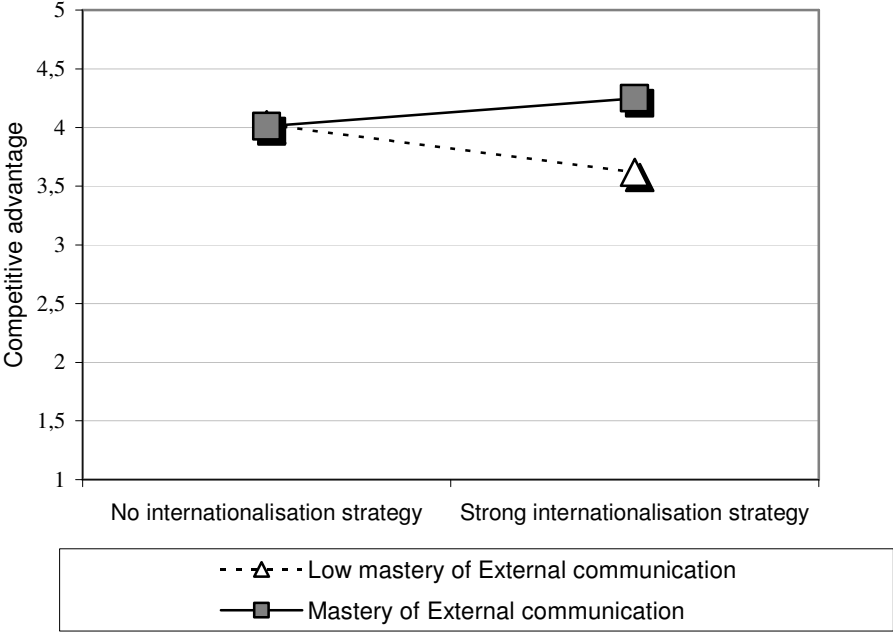
<i>Network strategy:</i>	<i>Mastering this organisational know-how brings <b>competitive advantage</b></i>	<i>Non mastering this organisational know-how leads to <b>competitive disadvantage</b></i>
Multi-franchise	<ul style="list-style-type: none"> <li>▪ Purchasing/logistics</li> </ul>	<ul style="list-style-type: none"> <li>▪ Purchasing/logistics</li> </ul>
Multi-channel		<ul style="list-style-type: none"> <li>▪ Codification/Transmission/Replication</li> <li>▪ Internal cohesion</li> <li>▪ Organisational agility</li> <li>▪ Access to financing</li> </ul>
Internationalisation	<ul style="list-style-type: none"> <li>▪ Codification/Transmission/Replication</li> <li>▪ External communication</li> <li>▪ Internal cohesion</li> <li>▪ Access to financing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Codification/Transmission/Replication</li> <li>▪ HR management support</li> <li>▪ Follow up/control of outlets</li> <li>▪ External communication</li> <li>▪ Internal cohesion</li> <li>▪ Access to financing</li> </ul>

The following figures propose a diagram of the observed interactions. The first series of figures concerns networks with a strategy of internationalisation. The figures show four types of network according to the presence or absence of an international strategy and according to the good or poor mastery of organisational know-how.

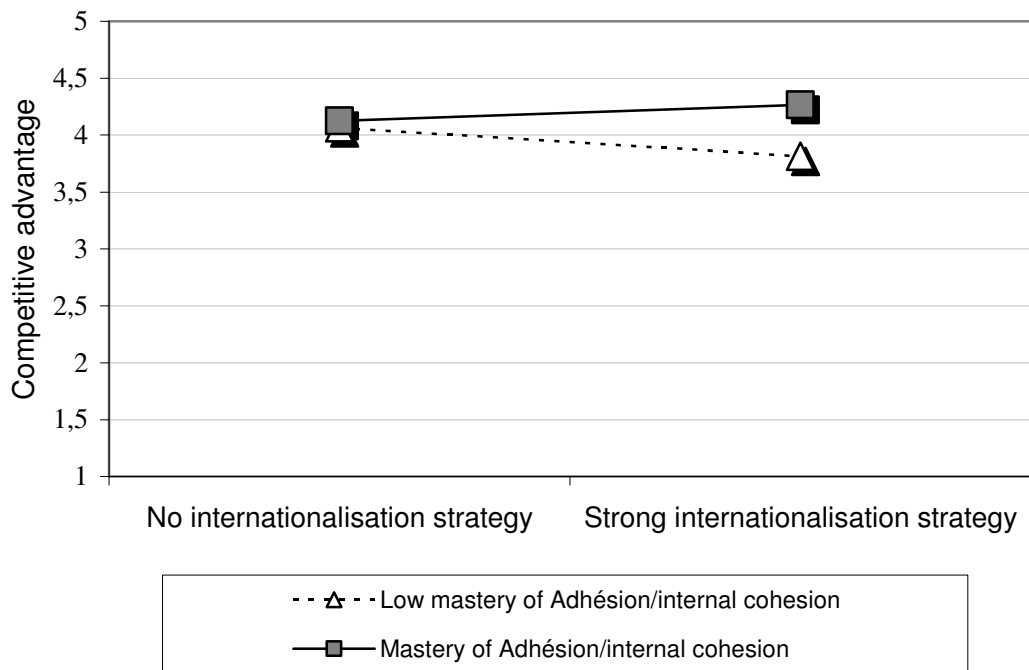
We firstly note that networks with an internationalisation strategy but which do not master « **Codification/transmission/ replication** » know-how, have a weaker competitive advantage than those having the same strategy but who also master the know-how (in the right hand area, the dark square is higher than the light triangle). In other words when a network has an internationalisation strategy, the poor or non-mastery of « Codification/Transmission/Replication » know-how constitutes a handicap. These results are coherent with those of Szulanski and Jensen (2006) who show that the strict respect of the basic concept, made

possible by a high level of codification and the precise replication of the concept, is a measure of growth in the franchise. We also note that besides, for networks which master « Codification/transmission/replication » know-how, implementing an internationalisation strategy results in a higher competitive advantage (the line which links the two dark squares is rising). On the contrary, the slope descends for networks which do not master « Codification/transmission/replication » know-how (line linking the two pale triangles). In other words, in the case of networks which do not master this know-how, an internationalisation strategy is related to a weaker competitive advantage. Similarly, networks with an internationalisation strategy which do not master « **external communication** », « **Internal cohesion** » and « **Access to financing** » know-how have a weaker competitive advantage than networks with the same strategy but who do master this know-how, whereas those which do master it have a competitive advantage. And the impact of the internationalisation strategy is either positively or negatively related to competitive advantage depending on whether the know-how is mastered or not. These effects are shown in figures 5.2, 5.3 and 5.4.

**Figure 5.2 – Internationalisation and External communication**



**Figure 5.3 – Internationalisation and Internal cohesion**



**Figure 5.4 – Internationalisation and Access to financing**

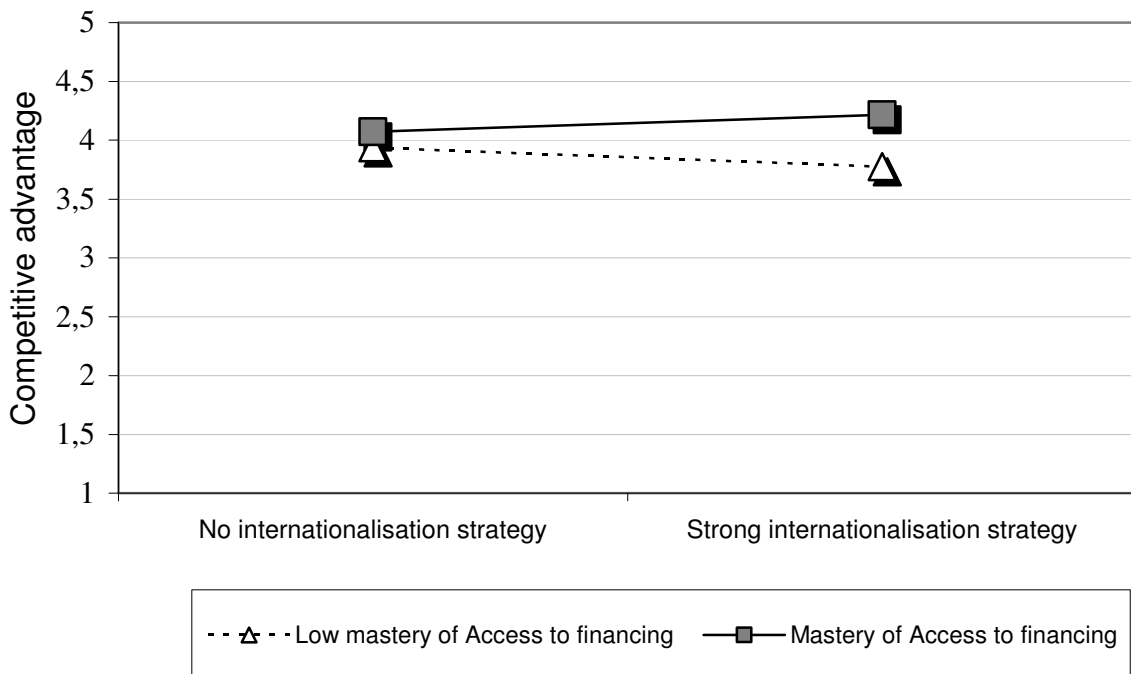
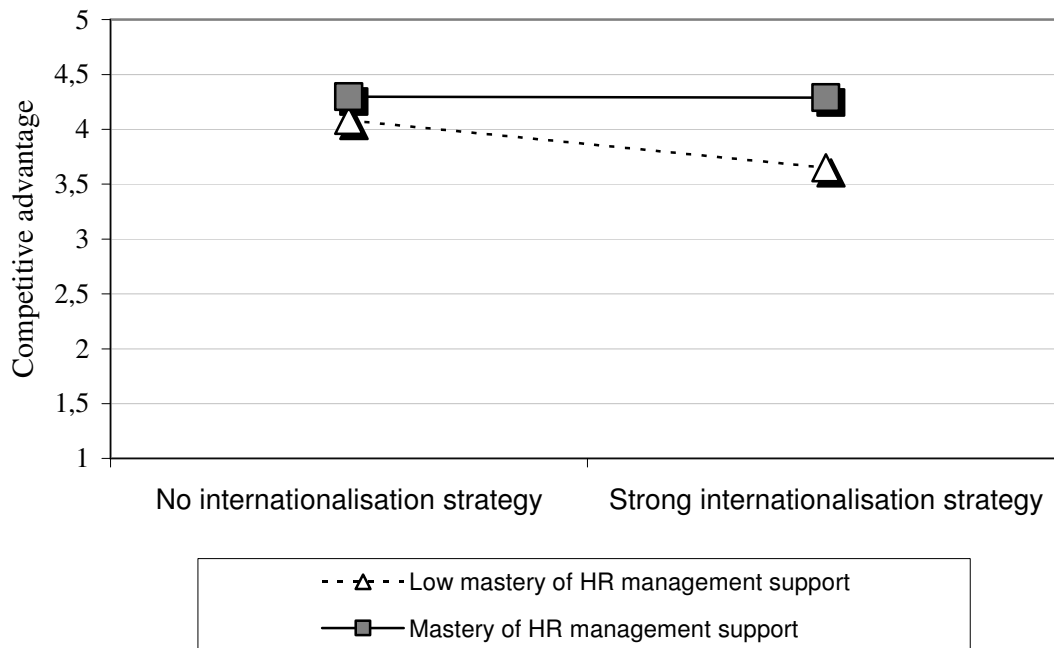


Figure 5.5 shows another type of configuration between « HR management support » know-how and internationalisation strategy.

**Figure 5.5 – Internationalisation and HR management support**

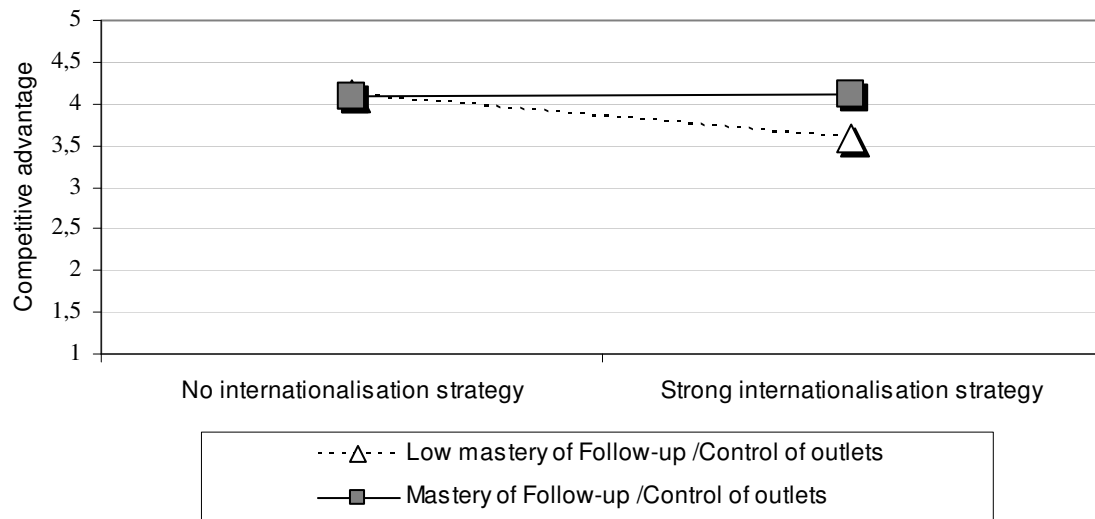


We notice that networks which have an internationalisation strategy but which do not master « **HR management support** » know-how have a weaker competitive advantage than those networks with the same strategy who do master this know-how. In other words, when a network has a strategy of internationalisation, the poor or lack of mastery of “HR management support” know-how constitutes a handicap. On the other hand, the mastery of this know-how is not in itself a source of success for this strategy (the line linking the two squares is horizontal). Nevertheless, the poor mastery of this know-how is related to a weaker competitive advantage.

Figure 5.6 shows that it is the same for “**follow-up/control of outlets**” know-how.

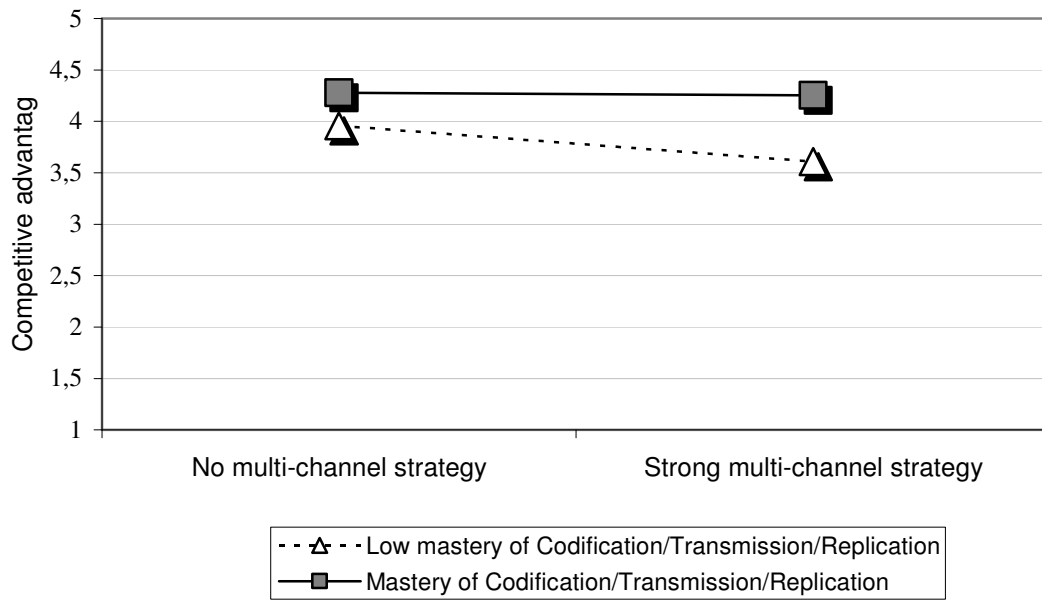


**Figure 5.6 – Internationalisation and Follow up/control of outlets**



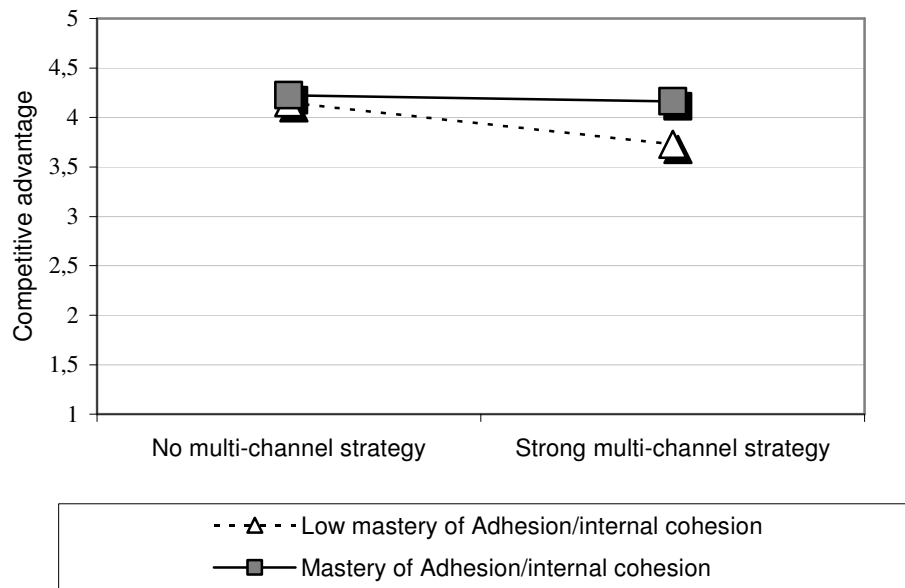
We now go on to multi-channel strategy. As we can see from figure 5.7, networks with a multi-channel strategy which do not master « **Codification/transmission/replication** » know-how have a weaker competitive advantage than those networks with the same strategy but which do master this know-how. In other words, when a network has a multi-channel strategy, the poor mastery or lack of mastery of “Codification/transmission/replication” know-how means that the implementation of this strategy is related to a weaker competitive advantage.

**Figure 5.7 – Multi-channel strategy and Codification/transmission/replication**

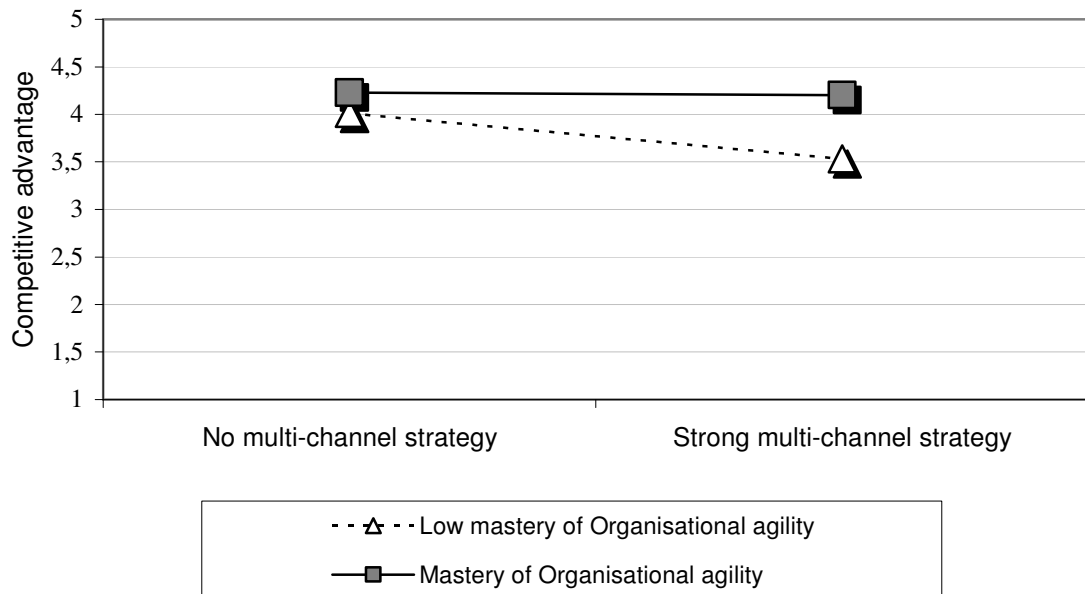


Figures 5.8, 5.9 and 5.10 show that it is the same for « Internal adhesion/cohesion », « Organisational agility » and Access to financing » know-how.

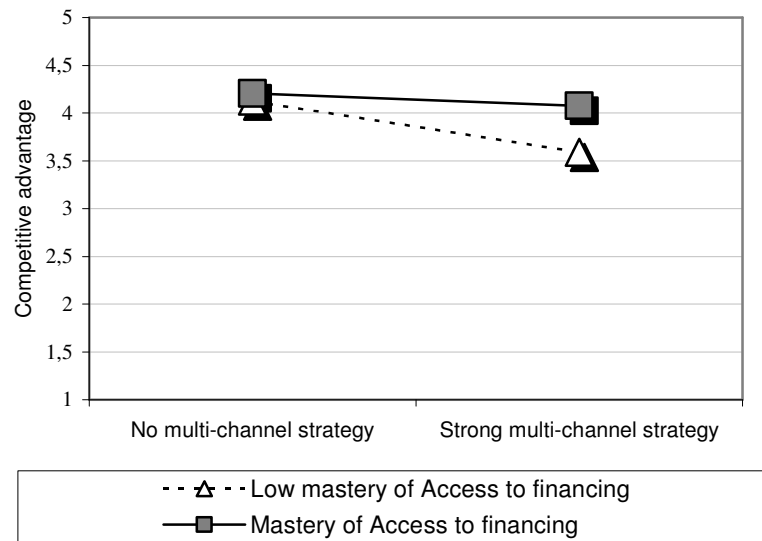
**Figure 5.8 – Multi-channel Strategy and Internal cohesion**



**Figure 5.9 – Multi-channel strategy and Organisational agility**

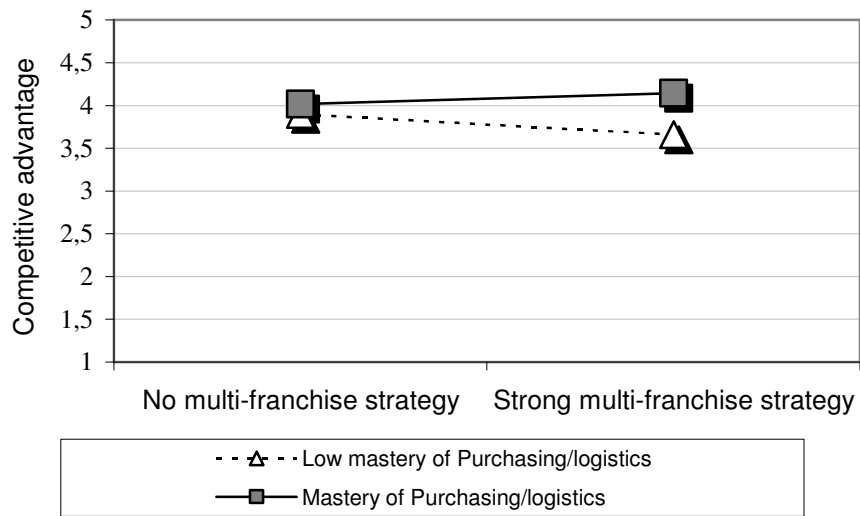


**Figure 5.10** – *Multi-channel strategy and Access to financing*



The last interaction to be illustrated is that concerning multiple-franchise strategy. Figure 5.11 shows that development which relies on multi-franchising requires the mastery of « Purchasing/logistics » know-how. This results in a stronger competitive advantage if multiple-franchising has been implemented, whereas conversely, poor mastery of this know-how results in a weakening of competitive advantage when such a strategy has been followed.

**Figure 5.11** – *Multi-franchise strategy and Purchasing/logistics*



These results enable us to validate hypothesis H3: **the impact of a network’s organisational strategy on its competitive advantage is moderated by the extent to which it masters organisational know-how.**

### **5.3 The impact of brand image value and competitive advantage on economic performance**

The scarcity of studies on competitive advantage and performance in franchising could at least partly be explained by the operational difficulties, measurement difficulties and difficult access to data. It is true that financial and economic results of franchise networks are difficult to access for reasons of confidentiality and competition (Shane, 2005). Three types of data are more accessible: growth rate, available financial data and subjective measures of performance.

**Growth rate:** The success of a franchise brand can be evaluated by the number of franchised outlets and company-owned outlets. The growth rate can also be obtained by dividing the number of newly created outlets by the total number of units over a period of two or three years. Access to this data is easy in as much as the figures are published each year in the directories of the *Fédération Française de la Franchise*. However, there are some problems of comparability depending on the degree of maturity of the respective industry segments.

**Financial data:** Some studies of franchising have used financial measures of performance. Michael (2003) showed that companies which first franchise on a market benefit from first mover advantage, and obtain higher market shares and profits. Sorenson and Sorensen (2001) have shown that franchise networks which are highly dispersed geographically have a better evolution of turnover. More recently, Barthélemy (2008) measured the financial performance of franchise networks using two indicators: economic profitability (ROA) and sales profitability (ROS (ROS)<sup>7</sup>). This financial data is available in databases such as DIANE, AMADEUS and Dafsaliens.

**Subjective measures of performance:** In the context of franchising, evaluations of performance are also used through questionnaires to franchisors. Being a multi-dimensional construct, performance can be measured by dimensions including innovation, standardisation and quality (Combs, Michael & Castrogiovanni, 2004). It is also possible to resort to

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<sup>7</sup> Return On Assets (ROA) and Return On Sales (ROS).

measuring consumer satisfaction when the analysis concerns a specific network in a given industry segment, such as fast food or hotels (Michael, 2000).

In this study, we relied on a subjective measure of financial performance. Indeed financial data is not easily available in the franchising industry. More specifically, performance data for 2008 are only available for a small number of networks. Table 5.4 shows the results of the multiple regressions using economic performance as an independent variable and brand image value and competitive advantage as dependent variables to complete the control variables.

**Table 5.4** – *Impact of brand image value and competitive advantage on economic performance*

Model	Independent variables	Economic performance		
		Beta	t	Sig.
1	<i>Control variables</i>			
	Network age	-.140	-1.575	.117
	Network size	<b>.354</b>	3.946	.000
	Proportion of franchised outlets	.030	.413	.680
	Services (vs. retail)	.065	.849	.397
	Perceived intensity of competition	<b>-.265</b>	-3.499	.001
		R <sup>2</sup> = <b>12.6</b> % (sig.= 0.000)		
2	<i>Brand image value</i>	<b>.345</b>	4.848	.000
	<i>Competitive advantage</i>	<b>.211</b>	2.961	.003
		ΔR <sup>2</sup> = <b>19</b> % (sig.= 0.000)		

Note. Statistically significant coefficients are in bold. Beta coefficients are standardised.

The results show that two control variables are related to performance: the size of the network (the larger the network the better its economic performance) and the intensity of competition (the higher the intensity of competition, the lower the economic performance of the network). Both independent variables appear to be significant. This enables us to validate hypothesis H4a: **a franchise network's competitive advantage contributes to its economic performance** as well as hypothesis H4b: **a franchise network's brand image value contributes to its economic performance**.

We note that the coefficient of the brand image value is nevertheless higher than that of competitive advantage. This point is important. Indeed, we can recall that the brand image value is related to the mastery of organisational know-how, and not to technical know-how, whereas competitive advantage depends at least in part, on technical know-how.



# 6

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## Know-how, strategies and franchisee attitudes

Franchisors capacity to ensure and improve the congruence between their portfolio of know-how and the characteristics of their network can certainly determine their level of performance in terms of quality and innovation. However, it can also generate internal effects in terms of the satisfaction and/or efficient behaviour of the franchisees (Combs, Michael & Castrogiovanni, 2004). It is for this reason that the relational approach which we have used in our theoretical framework makes the network's performance depend at least partly on the motivation and behaviour of the franchisees. Indeed, the relational dimension can in turn contribute directly or indirectly to the improvement of the network's performance.

Our study has tried to capture this relational dimension in franchise networks by gathering data both from franchisors and franchisees, doing this by sending questionnaires to franchisees belonging to networks for which we had previously collected information from the franchisor. Our multi-level analyses examined the links between the data collected from the questionnaires to both franchisors and franchisees in order to check the impact of technical know-how and organisational know-how on the functioning of the franchising networks and, more specifically, on various facets of the relationship between franchisor and franchisee.

Concretely, five dependent variables (franchisee data) were measured in order to grasp the relational quality of each franchise network: the franchisee's satisfaction regarding their investment decision (§6.1), the performance perceived by the franchisees (§6.2), their intention to open a new outlet (§6.3), franchisees' behaviour of co-operation with their franchisor (§6.4) and franchisees opportunistic behaviour (§6.5).

These five variables reflect various distinct but complementary dimensions of the relationship between franchisors and franchisees. They were subjected to multiple regression analyses using the following independent variables (franchisors' data) as explanatory variables likely

to influence them: the franchisor's strategy, its technical and organisational know-how. The analyses aimed to identify the essential know-how or context to predict the franchisees' behaviour and attitudes. Concretely, we postulate that franchisees' attitudes and behaviour are determined by two levels of direct phenomena: individual determinants of each franchisee (level 1) and the characteristics of the network he/she belongs to (level 2).

We also tested two series of interaction phenomena (level 3). Firstly, conforming to the results found in chapter 4, the interactions between organisational know-how and industry segment (retail or services). It did indeed appear that the industry segment could modify the impact of organisational know-how. Next we tested the interactions between technical know-how and proportion of franchised outlets which also appeared as an important element in the functioning of networks, as Barthélémy (2008) has shown elsewhere.

## **6.1 Determinants of satisfaction regarding the investment decision**

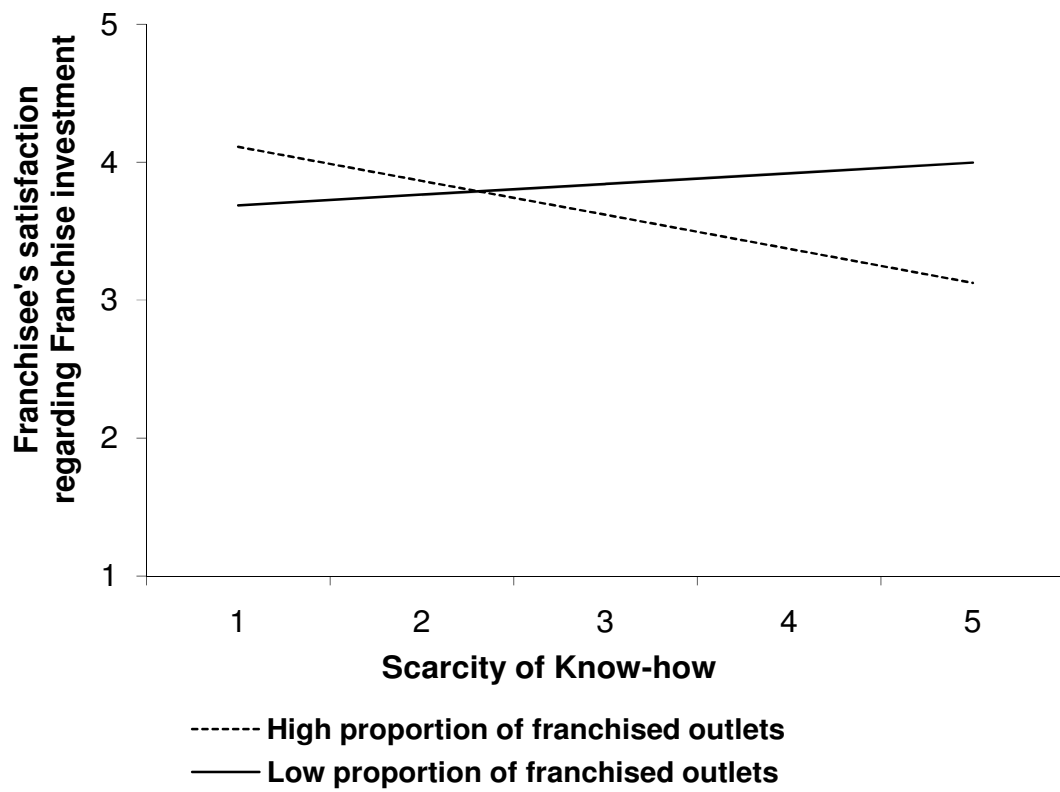
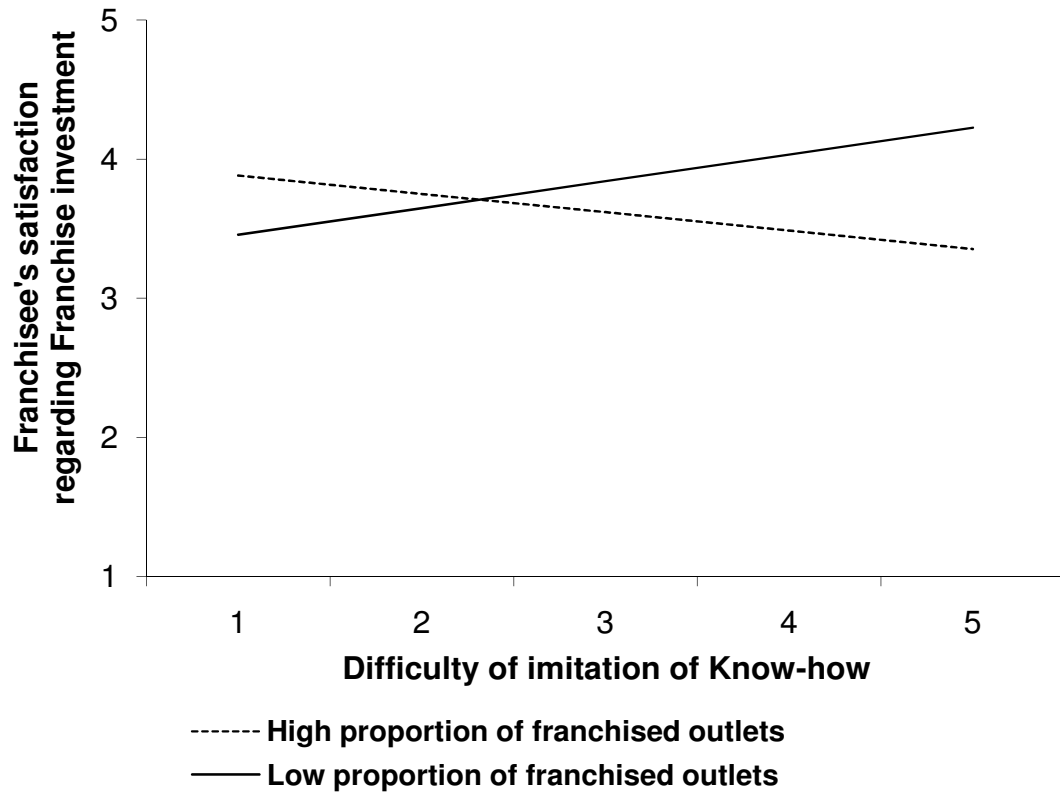
Franchisees' satisfaction with regard to the investment decision reflects the general level of satisfaction of the franchisee towards his/her participation in the network. In this way, it constitutes the main synthetic reflection of the quality of the relationship between franchisee and franchisor. Table 6.1 presents the results of the multiple regression analysis undertaken to study the multi level determinants.

**Table 6.1 – Multi-level analysis of the impact of know-how and organisational strategies on satisfaction regarding their investment decision**

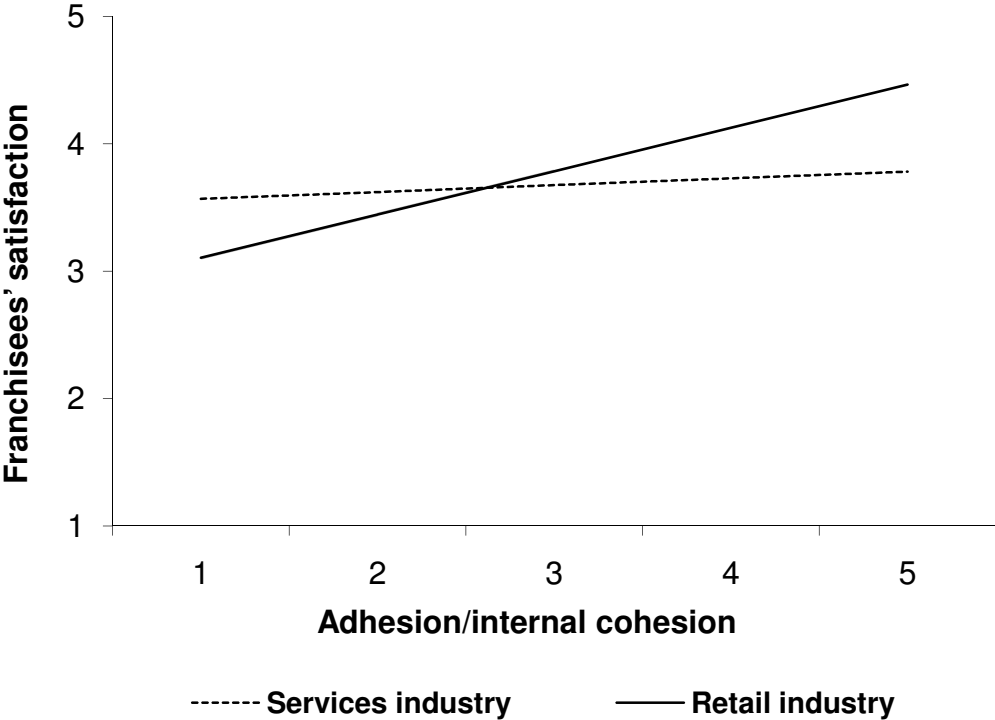
Model	Independent variables	Satisfaction regarding investment decision		
		Beta	t	Sig.
1	<i>Level 1 variables - Franchisee</i>			
	Age	<b>-.381</b>	-2.415	.016
	Gender	-.001	-.111	.913
	Network tenure	.044	.908	.364
	Multi-franchise	<b>.100</b>	2.094	.037
	Territorial exclusivity	<b>.194</b>	2.330	.046
	Negative affectivity	<b>-.278</b>	-6.707	.000
		$R^2 = 17\%$		
2	<i>Level 2 variables – Network</i>			
	Network age	-.076	-1.068	.288
	Network size	<b>.114</b>	1.961	.052
	Proportion of franchised outlets	<b>-.344</b>	-2.065	.041
	Services (vs. retail)	-.116	-1.099	.275
	Competition intensity	<b>-.220</b>	-2.071	.040
	Brand image value	.042	.545	.586
	Multi-franchise strategy	<b>.111</b>	2.100	.038
	Multi-channel strategy	-.040	-.685	.495
	Internationalisation strategy	-.022	-.563	.558
	Innovation strategy	.021	.361	.719
	Codification/transmission/replication	<b>-.206</b>	-2.255	.026
	HR management support	.057	.797	.427
	Follow up/control of outlets	-.013	-.177	.860
	External communication	.043	.556	.579
	Internal cohesion	<b>.197</b>	2.307	.023
	Organisational agility	-.139	-1.083	.282
	Purchasing/logistics	-.012	-.178	.860
	Access to financing	.058	.913	.364
	Difficulty to imitate of technical know-how	.025	.424	.672
	Scarcity of technical know-how	-.067	-1.169	.249
		$R^2 = 15\%$		
3	<i>Interactions Organisational know-how x industry</i>			
3a	Codification/transmission/replication × Industry	-.115	-.633	.528
3b	HR management support × Industry	<b>-.252</b>	-1.956	.056
3c	Follow up/control of outlets × Industry	-.219	-1.580	.117
3d	External communication × Industry	-.147	-.964	.337
3e	Internal cohesion × Industry	<b>-.301</b>	-2.034	.042
3f	Organisational agility × Industry	.048	.258	.797
3g	Purchasing/logistics × Industry	-.061	-.446	.656
3h	Access to financing × Industry	.143	1.031	.305
4	<i>Interactions Technical know-how characteristics x Proportion of franchised outlets</i>			
4a	Difficulty to imitate × Proportion of franchised outlets	<b>-.496</b>	-2.919	.005
4b	Scarcity × Proportion of franchised outlets	<b>-.499</b>	-2.650	.010

We can firstly note that satisfaction regarding the investment decision is negatively related to age ( $\beta = -.381$ ). In other words, the older the franchisee, the lower his/her satisfaction. Similarly, taking account of personality traits such as negative affectivity, the higher the franchisee's negative affectivity, the lower the degree of satisfaction ( $\beta = -.278$ ). It thus appears that beyond any "objective" evaluation, the franchisee's personality plays a role in the evaluation he/she gives of the investment decision.

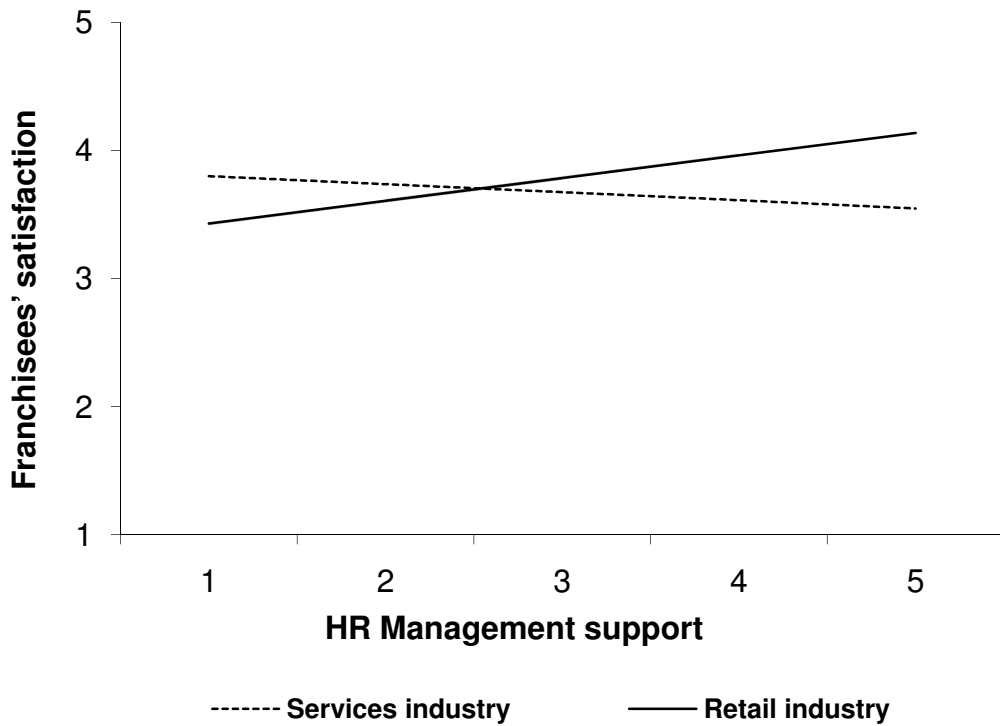
Amongst determinants related to network characteristics, there firstly appears to be a negative relationship between intensity of competition and satisfaction towards the investment decision ( $\beta = -.220$ ). As could be predicted, the weaker the intensity of competition, the higher the franchisee's satisfaction with the investment decision. What is more curious is that we observe a negative effect of the proportion of franchised outlets in the network on the franchisees' satisfaction. ( $\beta = -.344$ ). In other words, the more franchisees in the network (the less it is mixed), the less the franchisees are satisfied. In order to look more closely at this point, we can refer to the tests of interaction effects between organisational know-how and industry segment and between the proportion of franchised outlets and the characteristics of technical know-how, some of which turned were found to be significant. We thus note that when the proportion of franchised outlets is high, the characteristics of metier know-how (difficulty of imitation and scarcity) are negatively correlated with franchisee satisfaction. Conversely, when the proportion of franchised outlets is low, the characteristics of metier know-how are positively correlated with franchisee satisfaction. In other words, in networks where there are few franchisees, the level of satisfaction of the latter is higher when the franchisor's know-how is very original and hard for competitors to imitate.



As far as the influence of organisational know-how is concerned, a first interaction effect of « Adhesion/internal cohesion » know-how appears significant. In the retail industry, the franchisees' satisfaction is strongly linked to the mastery of the know-how, while in the case of services the link is weaker (line less sloping).



In the same way, we notice that in the services, the better HR management support is mastered, the less the franchisee is satisfied, whereas in retail networks, the opposite is observed for this relationship.



## 6.2 Determinants of perceived performance

Table 6.2 presents the results obtained by using the franchisees perceived performance as the dependent variable. Indeed, we asked each franchisee to evaluate his/her own performance comparing it globally with the other franchisees belonging to the same network.

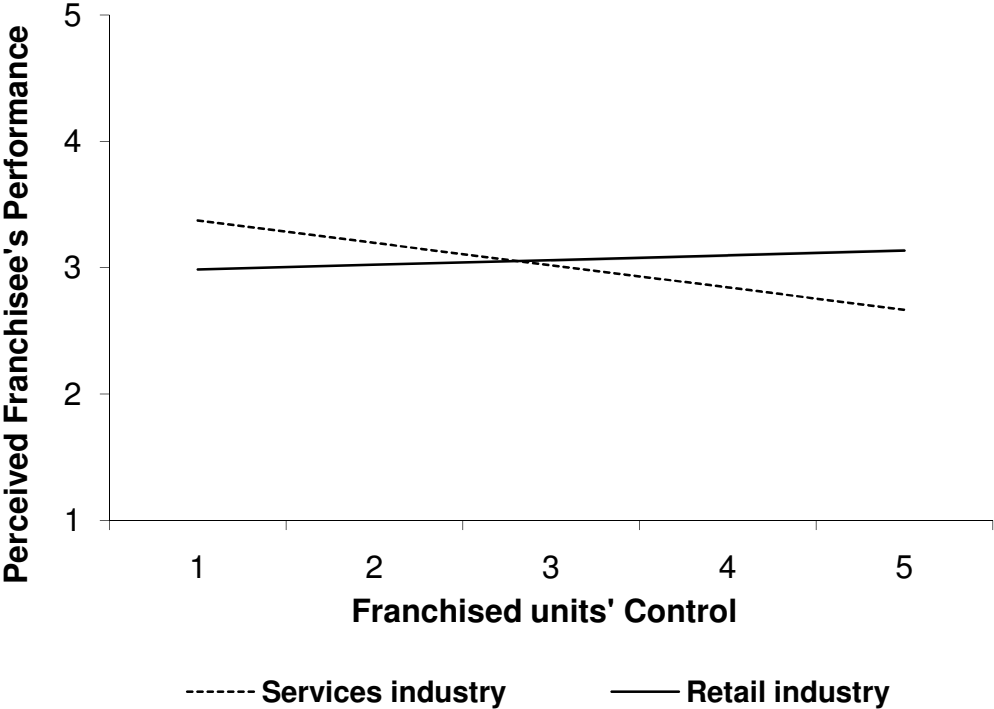
**Table 6.2 – Multi-level analysis of the impact of know-how and organisational strategies on perceived performance**

Model	Independent variables	Perceived performance		
		Beta	t	Sig.
1	<i>Level 1 variables – Franchisee</i>			
	Age	<b>-.349</b>	-2.747	.007
	Gender	<b>-.134</b>	-2.187	.029
	Network tenure	<b>.155</b>	4.135	.000
	Multi-franchise	<b>.090</b>	1.948	.065
	Territorial exclusivity	.041	.673	.501
	Negative affectivity	<b>-.261</b>	-6.901	.000
		$R^2 = 21\%$		
2	<i>Level 2 variables – Network</i>			
	Network age	-.032	-.902	.369
	Network size	.040	1.234	.220
	Proportion of franchised outlets	-.013	-.134	.897
	Services (vs. retail)	-.042	-.694	.514
	Competition intensity	-.072	-1.186	.238
	Brand image value	.019	.456	.649
	Multi-franchise strategy	-.031	-.958	.341
	Multi-channel strategy	.011	.292	.771
	Internationalisation strategy	.004	.172	.864
	Innovation strategy	-.001	-.041	.967
	Codification/transmission/replication	-.024	-.263	.793
	HR management support	.020	.351	.726
	Follow up/control of outlets	-.070	-1.257	.212
	External communication	-.006	-.124	.902
	Internal cohesion	-.023	-.352	.725
	Organisational agility	.010	.108	.911
	Purchasing/logistics	.004	.084	.934
	Access to financing	<b>.122</b>	2.613	.011
	Difficulty to imitate of technical know-how	.019	.454	.650
	Scarcity of technical know-how	.017	.406	.685
		$R^2 = 4\%$		
3	<i>Interactions Organisational know-how x Industry</i>			
3a	Codification/transmission/replication × Industry	-.107	-.862	.391
3b	HR management support × Industry	-.063	-1.082	.282
3c	Follow up/control of outlets × Industry	<b>-.225</b>	-3.328	.000
3d	External communication × Industry	-.080	-1.107	.271
3e	Internal cohesion × Industry	-.023	-.279	.781
3f	Organisational agility × Industry	.062	.636	.526
3g	Purchasing/logistics × Industry	.012	.152	.880
3h	Access to financing × Industry	-.066	-.996	.322
4	<i>Interactions Technical know-how x Proportion of franchised outlets</i>			
4a	Difficulty to imitate × Proportion of franchised outlets	-.161	-1.362	.176
4b	Scarcity × Proportion of franchised outlets	-.110	-1.051	.296

Note. Statistically significant coefficients are shown in bold. Beta coefficients are standardised.



We notice that only the control variables are significant, especially the age of the franchisee ( $\beta = -.349$ ) and his/her negative affectivity ( $\beta = -.261$ ). Only one interaction effect appears to be significant: the one which takes account of the influence of the industry (services or retail).



The diagram shows that the follow-up/control of outlets results in a higher perceived performance in the case of distribution networks, and lower in service networks.

### 6.3 Determinants of the intention to open a new outlet

The intention to open a new outlet can be considered as an important reflection of the quality of the franchisee/franchisor relationship. Table 6.3 presents the results of the multi-level analysis using this variable as the dependent variable.

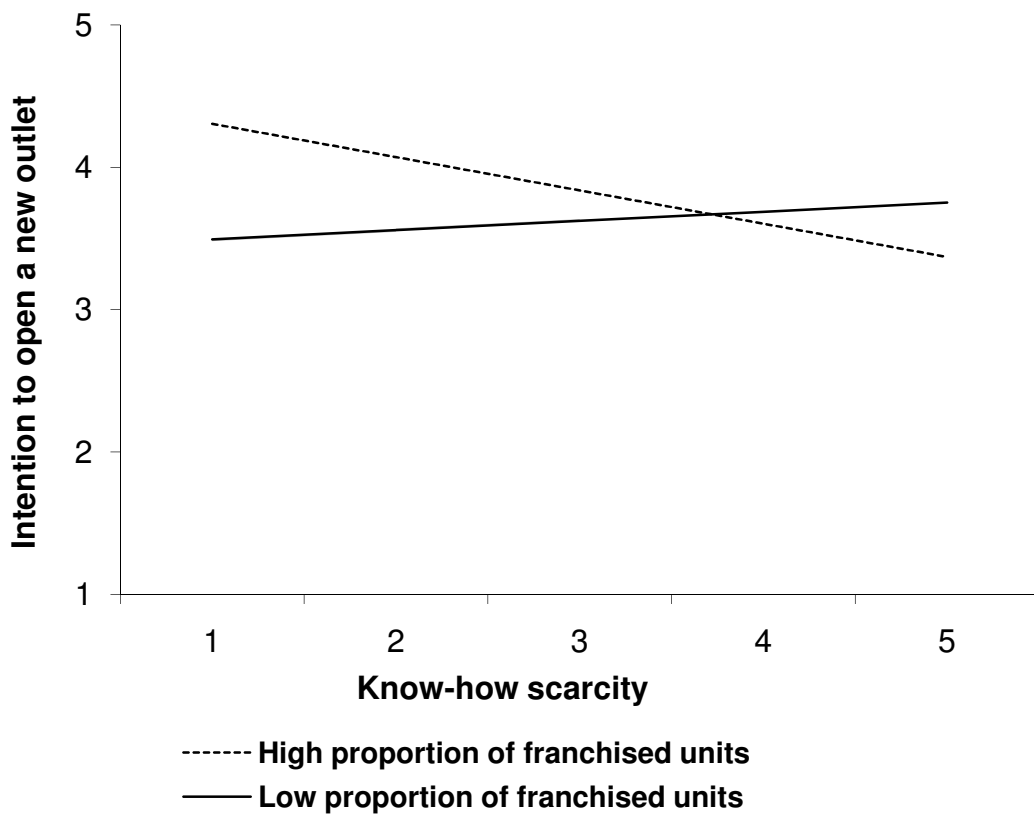
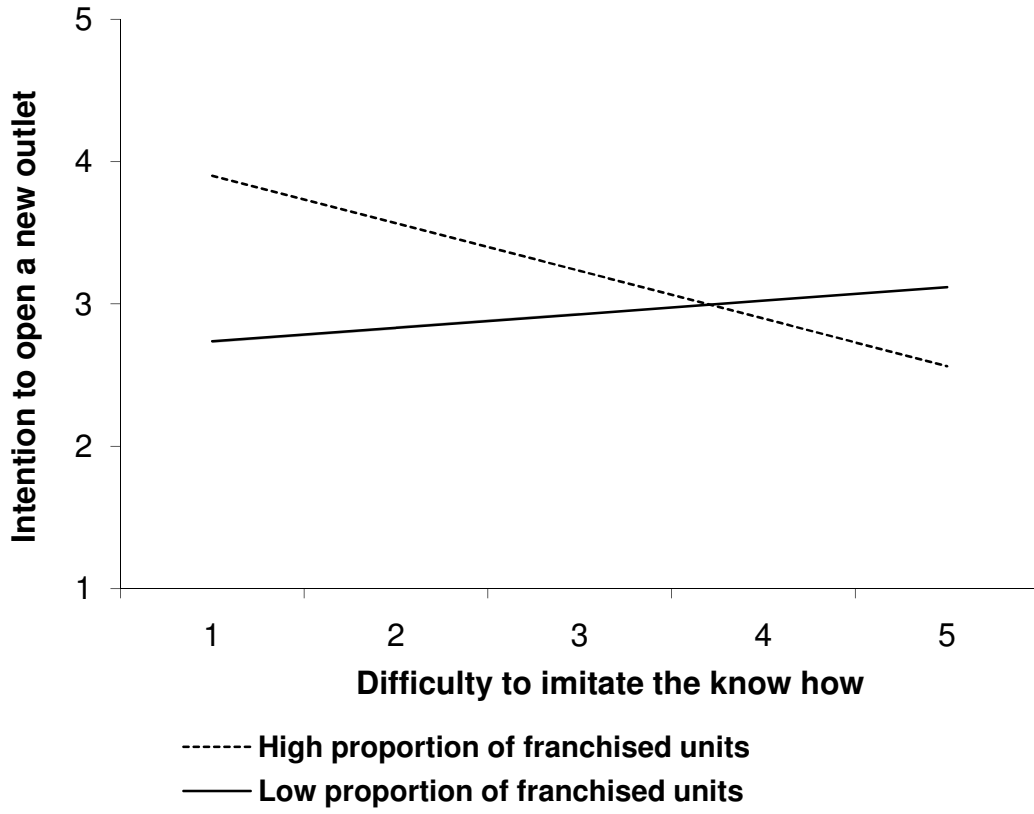
**Table 6.3** – Multi-level analysis of the impact of know-how and organisational strategies on intention to open a new outlet

Model	Independent variables	Intention to open a new outlet		
		Beta	t	Sig.
1	<i>Level 1 variables – Franchisee</i>			
	Age	<b>-.506</b>	-2.713	.007
	Gender	<b>-.215</b>	-2.686	.008
	Network tenure	<b>-.178</b>	-3.418	.001
	Multi-franchise	<b>.321</b>	3.904	.000
	Territorial exclusivity	.138	1.273	.204
	Negative affectivity	<b>-.189</b>	-4.200	.000
		$R^2 = 22\%$		
2	<i>Level 2 variables – Network</i>			
	Network age	<b>-.325</b>	-4.874	.000
	Network size	.077	1.464	.146
	Proportion of franchised outlets	-.249	-1.398	.165
	Services (vs. retail)	-.094	-.844	.401
	Competition intensity	-.009	-.095	.925
	Brand image value	.052	.660	.510
	Multi-franchise strategy	<b>.248</b>	5.601	.000
	Multi-channel strategy	-.046	-.800	.426
	Internationalisation strategy	-.039	-1.005	.317
	Innovation strategy	-.037	.549	.584
	Codification/transmission/replication	.166	1.159	.249
	HR management support	-.122	-1.269	.207
	Follow up/control of outlets	-.074	-.803	.424
	External communication	.045	.553	.581
	Internal cohesion	.006	.055	.956
	Organisational agility	-.160	-1.110	.270
	Purchasing/logistics	.029	.384	.701
	Access to financing	<b>.182</b>	2.557	.012
	Difficulty to imitate of technical know-how	.055	.721	.472
	Scarcity of technical know-how	.033	.460	.646
		$R^2 = 14\%$		
3	<i>Interactions Organisational know-how x Industry</i>			
3a	Codification/transmission/replication × Industry	-.122	-.577	.565
3b	HR management support × Industry	.137	.912	.364
3c	Follow up/control of outlets × Industry	-.132	-.847	.399
3d	External communication × Industry	.077	.492	.623
3e	Internal cohesion × Industry	.056	.304	.764
3f	Organisational agility × Industry	.241	1.122	.266
3g	Purchasing/logistics × Industry	-.072	-.460	.645
3h	Access to financing × Industry	-.122	-.870	.386
4	<i>Interactions Technical know-how characteristics x Proportion of franchised outlets</i>			
4b	Difficulty to imitate × Proportion of franchised outlets	<b>-.461</b>	-2.574	.012
4c	Scarcity × Proportion of franchised outlets	<b>-.459</b>	-2.908	.005

Regarding the intention to open a new outlet, the control variables appear once again to be highly significant, especially the age of the franchisee ( $\beta = -.506$ ). The younger the franchisee, the more he/she envisages opening another outlet ( $\beta = -.321$ ). Besides this, the fact of being already multi-franchise is significant.

For the elements linked to the network, the intention to open a new outlet is negatively related to the age of the network ( $\beta = -.325$ ): the younger the network, the more the franchisees seem to want to become multi-franchise. As a logical conclusion, the relationship with multiple-franchising strategy is also positive.

Concerning interaction effects, only those linked to interaction with the proportion of franchised outlets appeared significant. We notice that when the proportion of franchised outlets in the network is high, the intention to open a new outlet is weaker when the franchisor's know-how is scarce and difficult to imitate. Conversely, when the proportion of franchised outlets is low, the characteristics of technical know-how correlate positively with the intention to open a new outlet. These results are similar to those obtained previously for the franchisees' satisfaction regarding their investment decision.



## **6.4 Determinants of the frequency of co-operative behaviours**

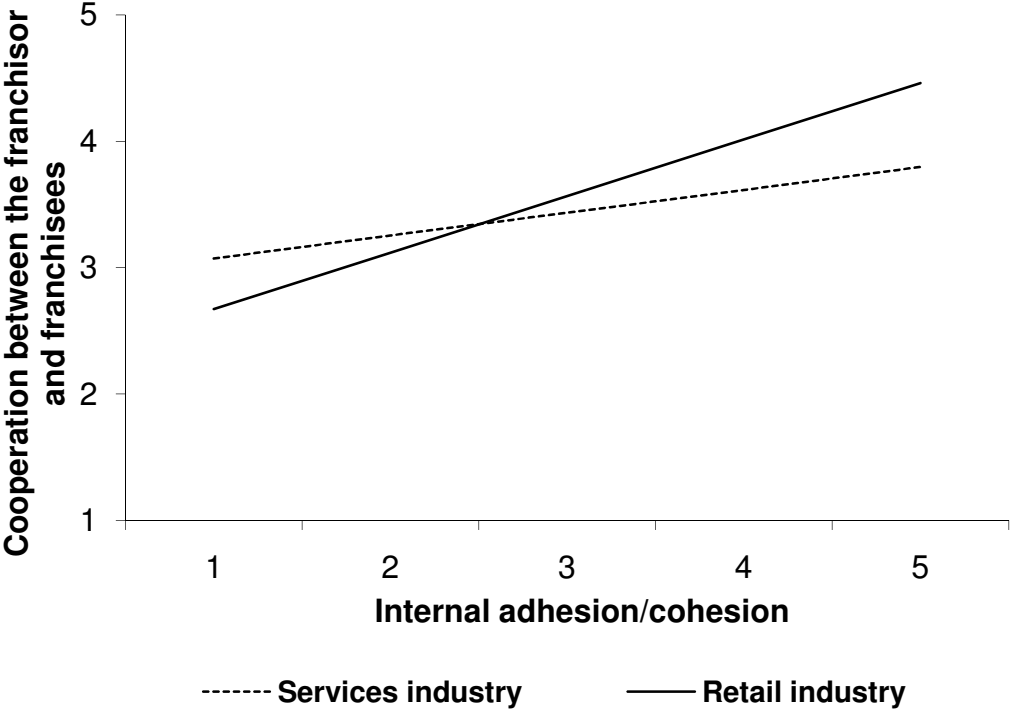
Table 6.4 presents the results of the multiple regression analysis which used franchisees' co-operation as the dependent variable. Franchisees' co-operation can be considered as the behavioural facet of their satisfaction regarding the franchise relationship.

**Table 6.4** – Multi-level analysis of the impact of know-how and organisational strategies on frequency of co-operative behaviours

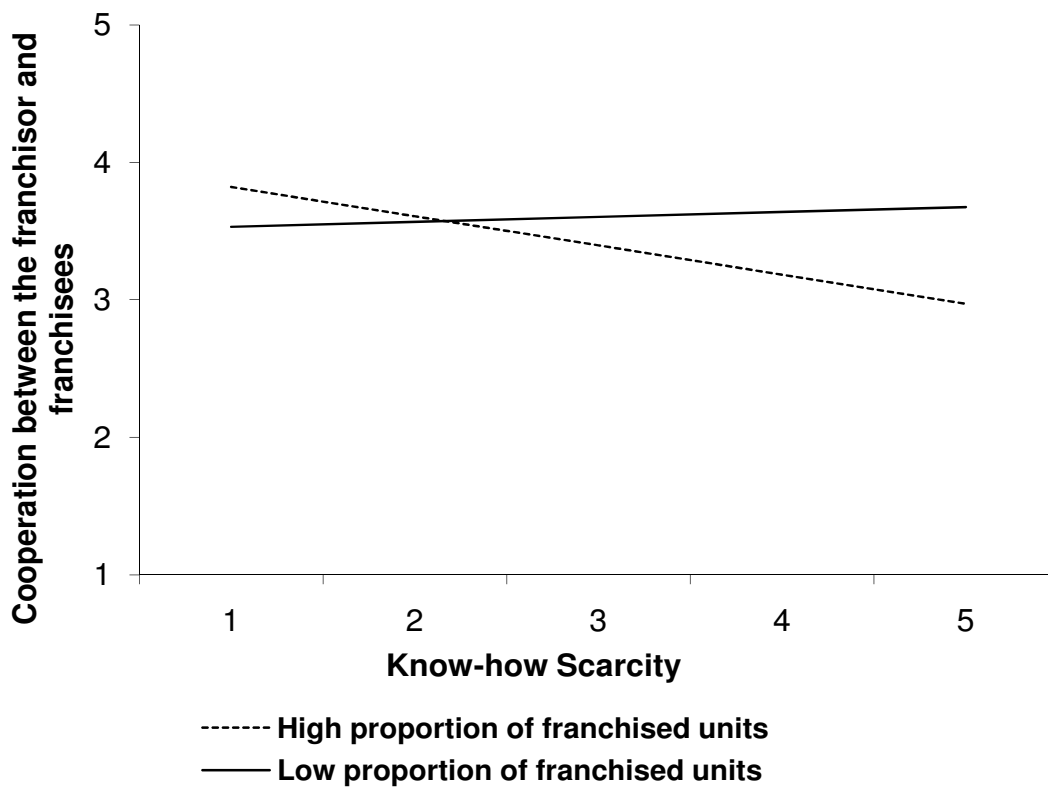
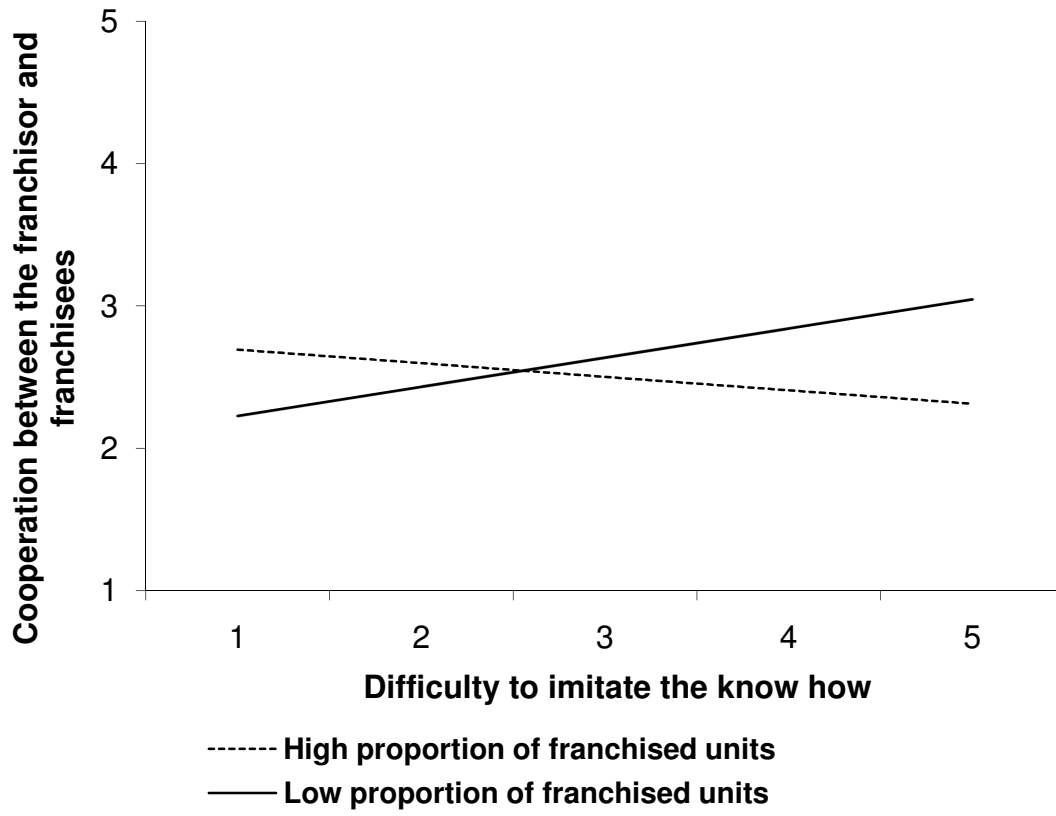
Model	Independent variables	Co-operative behaviours		
		Beta	t	Sig.
1	<i>Level 1 variables – Franchisee</i>			
	Age	-.146	-1.115	.265
	Gender	-.043	-.631	.528
	Network tenure	<b>-.110</b>	-2.344	.020
	Multi-franchise	.003	.069	.946
	Territorial exclusivity	<b>.162</b>	1.947	.053
	Negative affectivity	<b>-.215</b>	-5.526	.000
		$R^2 = 12\%$		
2	<i>Level 2 variables – Network</i>			
	Network age	-.052	-.775	.440
	Network size	-.067	-1.055	.294
	Proportion of franchised outlets	<b>-.319</b>	-1.961	.050
	Services (vs. retail)	-.138	-1.515	.133
	Competition intensity	<b>-.221</b>	-2.379	.019
	Brand image value	.006	.057	.955
	Multi-franchise strategy	.057	1.152	.252
	Multi-channel strategy	-.053	-1.398	.165
	Internationalisation strategy	.003	.080	.937
	Innovation strategy	.042	.555	.580
	Codification/transmission/replication	-.044	-.352	.725
	HR management support	.014	.164	.870
	Follow up/control of outlets	-.010	-.129	.898
	External communication	.059	.818	.416
	Internal cohesion	<b>.314</b>	3.079	.003
	Organisational agility	<b>-.210</b>	-1.865	.063
	Purchasing/logistics	-.040	-.617	.538
	Access to financing	.047	.805	.423
	Difficulty to imitate of technical know-how	-.088	-1.655	.101
	Scarcity of technical know-how	.015	.287	.774
		$R^2 = 16\%$		
3	<i>Interactions Organisational know-how x Industry</i>			
3a	Codification/transmission/replication × Industry	.034	.211	.834
3b	HR management support × Industry	-.095	-.882	.380
3c	Follow up/control of outlets × Industry	-.121	-.983	.328
3d	External communication × Industry	-.056	-.444	.657
3e	Internal cohesion × Industry	<b>-.280</b>	-2.312	.023
3f	Organisational agility × Industry	.106	.558	.578
3g	Purchasing/logistics × Industry	.012	.095	.925
3h	Access to financing × Industry	.215	1.967	.050
4	<i>Interactions Technical know-how x Proportion of franchised outlets</i>			
4b	Difficulty to imitate × Proportion of franchised outlets	<b>-.428</b>	-2.651	.010
4c	Scarcity × Proportion of franchised outlets	<b>-.382</b>	-2.750	.007

The degree of co-operation with the franchisor is even higher when the «Internal adhesion/cohesion» organisational know-how is well mastered by the franchisor ( $\beta = .314$ ). Conversely, it is even weaker if the intensity of competition is perceived as strong ( $\beta = -.221$ ). Also, the higher the proportion of franchised outlets in the network, the less there is of co-operative behaviour ( $\beta = -.319$ ).

Three interaction effects appear significant. The first takes account of the network’s industry segment. Indeed, we notice that the relationship between “Internal adhesion/cohesion” know-how and co-operation is stronger in the retail industry than in the services industry (steeper line). This means that this know-how is an important plus in retail networks.



Regarding the influence of the proportion of franchised outlets, we notice that in networks with a high proportion of franchisees, there is a negative relationship between the characteristics of technical know-how (difficulty of imitation and scarcity) and franchisees’ co-operation whereas this relationship is positive when the proportion of franchised outlets is low.





## 6.5 Determinants of the frequency of opportunistic behaviours

Opportunism can be considered as the behavioural consequence of a low quality relationship between franchisor and franchisee. Table 6.5 presents the results obtained with the frequency of opportunistic behaviour as the dependent variable.

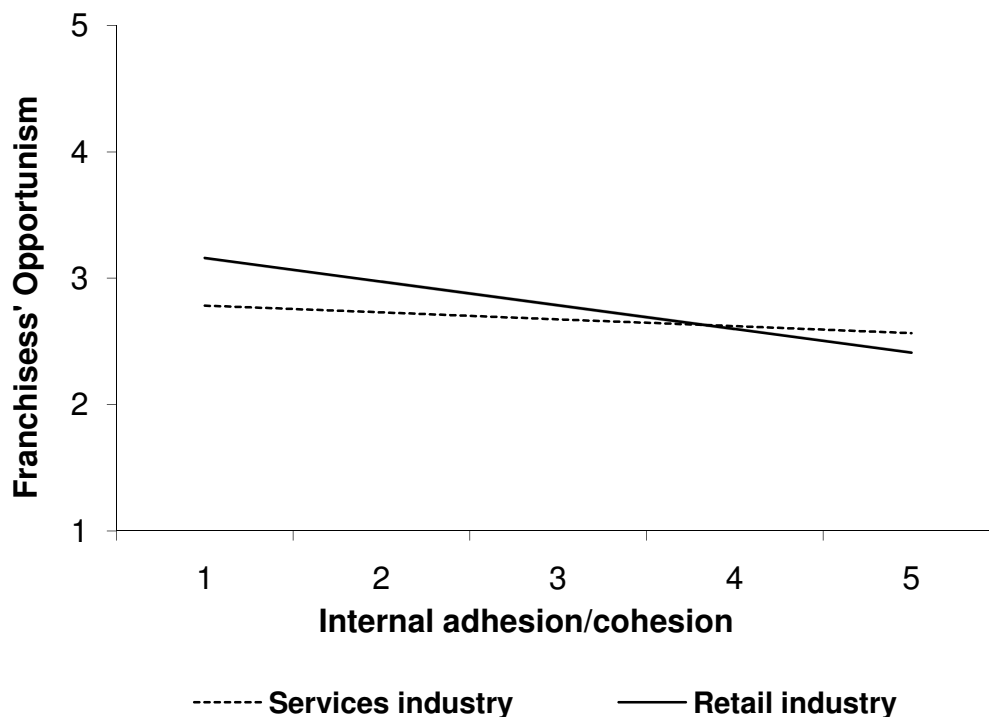
**Table 6.5** – *Multi-level analysis of the impact of know-how and organisational strategies on frequency of opportunistic behaviours*

Model	Independent variables	Opportunistic behaviours		
		Beta	t	Sig.
1	<i>Level 1 variables – Franchisee</i>			
	Age	<b>-.283</b>	-2.366	.018
	Gender	-.025	-.625	.532
	Network tenure	-.015	-.585	.558
	Multi-franchise	.039	1.202	.230
	Territorial exclusivity	-.055	-1.346	.204
	Negative affectivity	<b>.102</b>	4.159	.000
		$R^2 = 11\%$		
2	<i>Level 2 variables – Network</i>			
	Network age	.006	-.219	.827
	Network size	.007	.266	.791
	Proportion of franchised outlets	<b>.157</b>	2.137	.035
	Services (vs. retail)	.017	.333	.740
	Competition intensity	<b>.076</b>	1.947	.055
	Brand image value	-.008	-.221	.826
	Multi-franchise strategy	-.016	-.705	.482
	Multi-channel strategy	-.007	-.293	.770
	Internationalisation strategy	.006	.379	.705
	Innovation strategy	-.009	-.234	.816
	Codification/transmission/replication	.037	.956	.342
	HR management support	.029	.834	.406
	Follow up/control of outlets	-.060	-.191	.849
	External communication	-.004	-.161	.873
	Internal cohesion	<b>-.121</b>	-2.188	.031
	Organisational agility	-.035	-.533	.595
	Purchasing/logistics	-.023	-.753	.453
	Access to financing	.003	.115	.909
	Difficulty to imitate of technical know-how	<b>-.067</b>	-1.960	.050
	Scarcity of technical know-how	.039	1.385	.169
		$R^2 = 13\%$		
3	<i>Interactions Organisational know-how x Industry</i>			
3a	Codification/transmission/replication × Industry	.041	.402	.651
3b	HR management support × Industry	.005	.076	.940

3c	Follow up/control of outlets × Industry	.061	1.125	.263
3d	External communication × Industry	.056	1.063	.290
3e	Internal cohesion × Industry	<b>.140</b>	2.092	.038
3f	Organisational agility × Industry	.035	.414	.679
3g	Purchasing/logistics × Industry	.051	.824	.412
3h	Access to financing × Industry	-.079	-1.560	.122
4	<i>Interactions Technical know-how characteristics x Proportion of franchised outlets</i>			
4b	Difficulty to imitate × Proportion of franchised outlets	.028	.302	.763
4c	Scarcity × Proportion of franchised outlets	.106	1.238	.219

Note. Note. Statistically significant coefficients are shown in bold. Beta coefficients are standardised.

The results show that the older the franchisee, the fewer are his/her opportunistic behaviours ( $\beta = -.283$ ). Besides this, we notice that the model has little explanatory power because only “Internal adhesion/cohesion” know-how is significant, both directly, but also through the intermediary of an interaction effect, because apparently the relationship between know-how and opportunistic behaviours are less negative in service networks than in retail networks.



# 7

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## Synthesis and managerial implications

This last chapter aims to propose a synthetic analysis of the results obtained in the different phases of our study and to draw from these a number of concrete recommendations about the pertinence and management of organisational know-how in franchise networks. More specifically, we shall firstly try to identify the principal empirical elements of the characteristics of the mastery and impact of organisational know-how, and based on his evidence, to show for each of them a series of observations which could then be applied practically.

The first part of this chapter recalls the main results shown over the various stages of our empirical study (§7.1). In the second part we will show operational applications which can be drawn from the empirical elements obtained for each of the eight dimensions of organisational know-how (§7.2).

### **7.1 Research results: forms and correlates of organisational know-how in franchises**

Our synthesis will be divided into three sections corresponding to the three objectives which we decided on at the beginning of this research: showing the different synthetic dimensions of organisational know-how (7.1.1), connecting the characteristics of the networks and the level of mastery of the different dimensions of organisational know-how (7.1.2) and the impact of know-how on competitive advantage and brand image value as determinants of performance (7.1.3).

### 7.1.1 Dimensions of organisational know-how

A first contribution to this work is the building and remodelling of a synthetic typology of organisational know-how in franchising. This thus responds to our first objective which was to “*identify and measure the characteristics inherent to organisational know-how in franchising networks*”. The typology which comes out of our work relies on eight dimensions of organisational know-how, identified in a first approach through interviews carried out during the qualitative phase of our research and measured and validated by questionnaires administered during the quantitative phase. The eight dimensions are: codification/transmission/replication, HR management support, follow-up/control of outlets, external communication, internal adhesion/cohesion, organisational agility, purchasing/logistics and access to financing.

This first step enabled us to shed some light on the global level of mastery of organisational know-how in the world of franchises in France. In this respect, the dimensions of know-how which appeared to be the best mastered were « codification/transmission/ replication » and « organisational agility», as shown through calculating their average level throughout the sample of franchisors. These dimensions of know-how are also those whose standard deviation was measured to be the weakest. This is an important point, because « codification/transmission/ replication »and « organisational agility» are the two dimensions of know-how which are traditionally linked to the good functioning of a franchise network: identify a business opportunity and develop it (organisational agility) and diffuse it within a network (codification/transmission/replication). The fact that these dimensions of know-how are perceived as well mastered shows the level of professionalism reached by the world of franchising in France.

Conversely, the dimensions of know-how that appear to be the least well mastered are, on average, « HR management support » and « access to financing ». These dimensions are also those where the differences between networks are the greatest, as is shown by the high standard deviation of the levels of mastery obtained by these two dimensions of know-how. These constitute thus two places where franchises could potentially progress. These aspects could therefore be considered as the right direction for improvements to be undertaken. In the long run, once these efforts have borne fruit, we should see an improvement in the general

mastery of these dimensions of know-how and a narrowing of the gap between the networks. If this effort is to be undertaken however, it must evidently constitute an important element of differentiation in terms of performance, and this is what we shall deal with further in this chapter.

### **7.1.2 Organisational know-how and the characteristics of networks**

Beyond the study of the level of global mastery of organisational know-how, another objective of this research was to identify the specific characteristics of different types of network in terms of know-how. More precisely, as we said in our introduction, we aimed to “*compare the mastery of these dimensions of know-how according to the networks’ characteristics (industry segment, age, size, proportion of franchised outlets, etc.)*”. In this respect, the results of the analyses of variance carried out in Chapter 4 did not show really significant results when the unit of analysis was the industry segment. Only the “hairdressing and beauty care” industry segment stood out by a higher level of mastery on certain dimensions (codification/transmission/replication) compared to other industry segments. Conversely, some industry segments might have presented weaker levels of mastery on certain dimensions: clothing (codification/transmission/ replication), hotels (HR management support), restaurants and fast food (external communication), real estate, building and remodeling, other personal services (purchasing/logistics), or stronger levels: business services (codification/transmission/ replication), fast food (purchasing/logistics).

This tends to show that the differences between industry segments, in the strictest sense of the term as understood by the typology of the Fédération Française de la Franchise which we used, are not as essential as one might think at first sight. On the other hand, at a more aggregate level, significant differences came to light between retail networks and service networks, which seems to indicate that this is the main distinction which enables us to see significant differences, while inside these two main families, apart from a few exceptions, there are not essential differences between industry segments.

More specifically, for the retail industry, our results show that « purchasing/logistics » know-how is the best mastered on the whole. It is also the only one for which the level of mastery is better in the retail networks than in the service networks. For service networks, the know-how

which is globally well mastered is that concerning « codification/transmission/replication ». Moreover, “HR management support”, although the least mastered, is nevertheless mastered to a higher degree than in the retail industry. Finally, « codification/ transmission/ replication », « purchasing /logistics » and « HR management support » are the only three dimensions of know-how which are significantly different in the two main types of network.

Beyond taking account of the industry segment, we also looked at the size, age and proportion of franchised outlets of networks and their potential link with the level of mastery of each of the dimensions of organisational know-how. The results show that the age and size of networks has no statistically significant impact on the level of mastery of organisational know-how except for a negative link between size and organisational agility in the case of service networks. It is worth mentioning this point, because we might have expected differences according to age. However, even if we could make the *a priori* hypothesis that mastery of know-how would increase with age, our study did not reveal any significant difference.

Even if taking account of size and age did not reveal major results, proportion of franchised outlets did show a positive relationship, in service networks, with « codification/transmission/ replication », « follow-up/control of outlets » and « internal communication » dimensions of know-how. Conversely, for the retail industry, proportion of franchised outlets is negatively linked to the dimensions of «follow-up/control of outlets », « organisational agility » and « purchasing /logistics». It therefore seems that the proportion of franchised outlets is linked to better mastery in service networks, and weaker mastery in retail networks. This shows that methods of co-ordination and franchisor-franchisee relationships are not the same in these two different types of network.

### **7.1.3 Organisational know-how and performance**

Finally, the third objective of this research was to “*analyse and explain the links between, firstly the different types of know-how and how they are organised, and secondly, competitive advantage in franchising and network performance*”. In order to do this, we relied on certain recent studies which proposed to operationalise and measure competitive advantage in the context of the resource-base view. Newbert (2008) thus developed a questionnaire to measure

the capacity of a company, in comparison with competitors, to exploit opportunities, reduce costs and neutralise threats.

Multiple regression analyses using the brand image value as a dependent variable showed that this was related to three dimensions of organisational know-how: « codification/transmission/replication », « external communication » and « internal adhesion/cohesion ». Regarding competitive advantage, three dimensions of know-how appeared as important: « codification/transmission/replication », « HR management support » and « organisational agility ».

These results serve to stress firstly the crucial role of « codification/transmission/replication » know-how. Even though on the whole it is well mastered, it remains a lever of competitive differentiation among networks. As for the significance of « organisational agility » know-how, this underlines how important it is for a network to be able to perceive, analyse and use information concerning the evolution of the market and products. Finally, the “HR management support” dimension which has sometimes been neglected, at least in certain networks where it is poorly mastered, appears as a source of competitive advantage.

The dimensions « follow-up/control of outlets», « purchasing/logistics » and « access to financing» did not appear to be related to the brand image value, nor correlated with competitive advantage. However, this does not mean that they are not important. Indeed, they play a role in the successful implementation of certain network development strategies such as internationalisation and developing multi-franchises. Finally, the characteristics of technical know-how (scarcity and difficulty of imitation) appeared as a direct source of competitive advantage, but these dimensions are not related to brand image value.

## **7.2 Observations and recommendations for each know-how dimension**

The last part of our work summarizes and analyses the results obtained for each dimension of know-how. We approach these in the following order: codification/transmission/replication (§7.2.1), HR management support (§7.2.2), follow-up/control of outlets (§7.2.3), external communication (§7.2.4), internal adhesion/ cohesion (§7.2.5), organisational agility (§7.2.6), purchasing /logistics (§7.2.7) and access to financing (§7.2.8).

### **7.2.1 Codification/transmission/replication**

The know-how dimension « codification/transmission/replication » is at the heart of the very notion of franchising. It is therefore not surprising that this know-how emerges clearly from the interviews, and that it also appeared sharply in our analyses of main components. It is also not surprising that it is, on the whole, a dimension of know-how which is one of the best mastered and amongst those where there is the least difference amongst the networks. « Codification/transmission/replication » is also particularly important in service networks and this is even truer when the proportion of franchised outlets is high, whereas this is not the case in retail networks

However, despite the relative uniformity observed in « codification/transmission/replication » know-how, which might have lessened its impact on performance (because it is hard for networks to truly stand out in this dimension), this know-how still remains an important predictor of both brand image value and competitive advantage. Moreover, it is a criterion for the successful implementation of internationalisation or multi channel strategies.

Nevertheless, this know-how did not appear as significant in the multi-level analyses on franchisees' attitudes. It even appeared as a negative predictor of their satisfaction with their investment decision. This shows that the benefits related to this dimension are not always perceived at their true value by the franchisees whose might above all see the constraints resulting from application of « codification/transmission/replication » know-how.

### **7.2.2 HR management support**

HR management support appeared as a dimension of know-how that was on the whole relatively less well mastered than the others, and for which there were big differences amongst the networks. This is particularly true of networks in retail compared to those in the service industry, and this was even more so if the network had a high proportion of franchised outlets. It is thus clearly an aspect which could potentially be developed.

This aspect is relevant because the level of mastery of « HR management support » know-how, like those of « codification/transmission/ replication » and « organisational agility», is a



predictor of competitive advantage. The problem of managing franchisees' personnel is thus an element to be taken into consideration.

This know-how also presents a particular interest in the retail industry, because it contributes to increase the franchisees' level of satisfaction with their investment decision. Franchisees are thus sensitive to this dimension and the help they can obtain from the franchisor on managing their personnel.

Finally, « HR management support » was found to give competitive advantage to networks pursuing a strategy of internationalisation.

### **7.2.3 Follow-up/control of outlets**

No difference was found between the industry segments for the mastery of « follow-up/control of outlets » know-how. However, it is less well mastered in retail networks with a high proportion of franchised outlets than in similarly diversified service networks.

Moreover, this know-how is not a predictor of brand image value nor does it generate competitive advantage exception the context of implementing a strategy of internationalisation.

Curiously, in the retail industry, this know-how involves a stronger perception of performance by franchisees. This indicates that franchisees might perceive the control exercised over them by the franchisor as a lever of performance, or possibly as a signal of their performance sent by the franchisor.

### **7.2.4 External communication**

The know-how dimension of « external communication » is important for improving the brand image value of which it is the greatest predictor. Even if this know-how does not generate competitive advantage directly, it contributes to it indirectly through its capacity to improve brand image value.

External communication is particularly well mastered in industries such as hairdressing and beauty care, probably because these industries base their success more on communication

than on the differential characteristics of their service to clients. Moreover, external communication is important for implementing a strategy of internationalisation.

### **7.2.5 Internal adhesion/cohesion**

The know-how dimension of « internal adhesion/cohesion » is similar to that of « follow-up/control of outlets » in as much as no significant difference appears for the different industry segments. However, it does have a greater standard deviation which indicates bigger differences in the mastery of this know-how according to network.

Moreover, this know-how does not generate competitive advantage. However, it is positively related to brand image value. This means that the image of a network also depends on its capacity to master internal, not just external communication. It is also a factor of success in multi-channel and internationalisation strategies.

Finally it is a predictor of satisfaction regarding the investment decision especially in the retail industry, whereas this is less true of the service industry. More basically, it is positively related to the frequency of co-operation of franchisees, and negatively related to the frequency of their opportunistic behaviours.

### **7.2.6 Organisational agility**

Organisational agility is the dimension of know-how which appears to be best mastered and where this varies least amongst the networks. There are neither statistically significant differences according to industry segment nor, more globally between service networks and retail networks. This is unlike « codification/transmission/replication” know-how to which it is similar in other contexts.

Organisational agility is negatively correlated with proportion of franchised outlets in the retail industry and negatively with the size of network in the services industry. It is a determinant of competitive advantage but it weighs slightly less in this respect than the « codification/transmission/replication » and « HR management support» dimensions. Finally, it is important for obtaining competitive advantage in implementing a multi-channel strategy.

It is not significant for franchisees' attitudes and behaviour, except for a negative correlation with franchisees' co-operation. This might be a sign that the nimblest networks manage their development centrally, by-passing their franchisees' co-operation.

### **7.2.7 Purchasing/ logistics**

Logically enough, « purchasing/logistics » know-how is an important element in networks in the retail industry where it is usually better mastered than in the case of services. It is however essential in the fast food industry. The more the network is mixed, the less this know-how is mastered in networks of retail as has been noted for organisational agility. However, the proportion of franchised outlets has no impact in the service networks. Finally, mastering “purchasing/logistics” know-how is important in implementing a multi-franchise strategy.

### **7.2.8 Access to financing**

Like « HR management support», this is a dimension of know-how which is generally less well mastered than the other dimensions of organisational know-how. However, it is important for multi-channel and internationalisation strategies. On the other hand, it does not in itself generate brand image value or competitive advantage. From the franchisees' point of view, it is positively linked to perceived performance and intention to open a new outlet.

## **Conclusion**

According to the resource-based view, franchising know-how should be specific, of value, scarce and difficult to imitate to be a source of competitive advantage and result in superior performance. However, on the contrary, franchising relies on know-how which is codified, explicit and easily taught to franchisees. Knott (2003) showed performance can be explained by the characteristics of know-how and the flow of information exchange between franchisor and franchisees. Technical know-how must be both easily transferable to franchisees inside the network, and difficult to imitate by competitors outside which appears to be paradoxical. It is not therefore surprising that in the multiple regression analysis on performance, the proportion of variance explained by organisational know-how (27%) is higher than that explained by technical know-how (13%). It is thus this organisational know-how which

provides an important contribution to network performance, and this illustrates the relevance of the relational approach used in this research. Indeed, despite the importance and originality of the concept of franchising, it appears that competitive advantage and the success and sustainability of a network depend more and more on the capacity of the franchisor to manage relationships with and among franchisees, motivating them and uniting them around a common project.

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# Appendices

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Appendix 1 – Interview guide « Franchisors »

Appendix 2 – Interview guide « Franchisees »

Appendix 3 – Questionnaire items « Franchisors »

Appendix 4 – Questionnaire items « Franchisees »

## **APPENDIX 1: INTERVIEW GUIDE « FRANCHISORS »**

### **1. Your commitment in franchising**

- 1.1. What has motivated your commitment in franchising?
- 1.2. Why did you choose franchising and not another growth strategy?
- 1.3. What were/are the advantages and drawbacks of this growth strategy?

### **2. Your know-how**

- 2.1. What know-how characterise your network?
- 2.2. Among these know-how, what are those that you describe as technical know-how, that is, those that are related to your franchise concept, are codified and transmitted to the franchisees?
- 2.3. What are your organisational know-how, that is, those that are related to designing and managing the network and that you hold without transmitting them to the franchisees?
- 2.4. In terms of future network development, what know-how are you going to focus on?

### **3. Your choice of franchisees**

- 3.1. What profile of franchisees are you looking for? How are they selected and integrated into the network?
- 3.2. What know-how is standardised and transmitted to these franchisees (technical and organisational)? What know-how is not transmitted?

#### **4. Your competitive advantage**

4.1. How do you position yourself with respect to your competitors? What is your market share?

4.2. What do you think is your competitive advantage, that is, the attributes that your competitors do not have? It may consist in a resource, a technology, a practice or a know-how that competitors do not have or cannot imitate.

4.3. In terms of know-how, what is the know-how that is the basis of your competitive advantage?

4.4. What factors are the basis of the attractiveness of your network? Are there barriers to entry?

#### **5. Your performance**

What do you think is your performance

- in terms of brand image?
- in terms of customer satisfaction?
- in terms of innovation?
- in terms of network growth?
- in terms of franchisee satisfaction?
- in terms of financial performance?

#### **6. Your strategy and perspectives of future development**

6.1. What is your strategy

- in terms of innovation?
- in terms of multi-channel?
- in terms of internationalisation?
- in terms of multi-franchising?
- in terms of the proportion of franchised outlets?

6.2. What does it imply in terms of technical and organisational know-how development?

## **APPENDIX 2: INTERVIEW GUIDE « FRANCHISEES »**

### **1. The choice of becoming franchisee**

- 1.1. Why did you choose franchising?
- 1.2. What are the advantages and drawback of being a franchisee?

### **2. The know-how of your franchisor**

- 2.1. What is the know-how that characterises your franchise network?
- 2.2. What is the technical know-how of your franchisor, that is, that is codified and transmitted to you?

### **3. The competitive advantages of your network**

- 3.1. Why did you choose to join this network and not another one?
- 3.2. In terms of competition, how do you position yourself in you area? What are your strength with respect to competitors? What are your weaknesses?
- 3.3. What do you think are the competitive advantages of your network les avantages concurrentiels of your network, that is, the attributes that your competitors do not have? It may consist in a resource, a technology, a practice or a know-how that competitors do not have or cannot imitate.
- 3.4. What is the know-how that is at the root of this advantage?

### **4. Your performance**

- 4.1. What do you think is your performance, your own or your franchisor's
  - in terms of brand image?
  - in terms of customer satisfaction?
  - in terms of innovation?
  - in terms of quality?
  - in terms of financial performance?
- 4.2. What could be changed or improved in the network to increase performance?

### **5. The franchisor's strategy**

5.1. What is the strategy of your franchisor:

- in terms of innovation?
- in terms of multi-channel?
- in terms of internationalisation?
- in terms of multi-franchise?
- in terms of coexistence of franchised and company-owned outlets?

5.2. What could be the changes in terms of know-how in your unit?

## **6. Your satisfaction as franchisee**

6.1. Generally, are you satisfied with being a franchisee? Why?

6.2. And more particularly, are you satisfied of being a franchisee in this n network? Why?

6.3. How do you collaborate with your franchisor?

6.4. How would you characterise the relationship you have with your franchisor?  
Trust, control?

6.5. Are there conflicts within your network?

## **7. Your future**

7.1. Do you plan to remain with this network in the future?

7.2. Do you plan to open another outlet?

**APPENDIX 3: QUESTIONNAIRE ITEMS « FRANCHISORS »**

## **Know-how**

### **Organisational know-how**

See chapter 3

### **Technical know-how – Scarcity**

<i>Scarcity</i>	<i>Factorial contribution</i>
RAR3 Our network has a truly unique concept	.872
RAR5 Our network uses a concept that is very different from our competitors	.858
RAR4 Our concept is not specific as such; other competitors have a similar one, although they use it differently	.789
RAR1 Few networks have a concept close to ours	.727
RAR2 Many elements that constitute our concept already exist in other networks	.646

<i>Number of items</i>	5
<i>Reliability</i>	.838

### **Technical know-how– Difficulty to imitate**

<i>Difficulty to imitate</i>	<i>Factorial contribution</i>
IMIT4 It would take a lot of time for our competitors to imitate us	.816
IMIT3 Even if they wanted to, our competitors would have difficulty in duplicating our concept	.810
IMIT2 Our competitors could easily get a concept that is equivalent to our own (reversed)	.788
IMIT1 It would be difficult and costly for our competitors to imitate our concept	.731

<i>Number of items</i>	4
<i>Reliability</i>	.794



## Strategic orientations

### **Multi-franchise strategy**

<i>Multi-franchise strategy</i>	<i>Factorial contribution</i>
MUFS1 We encourage our franchisees to hold several units	.871
MUFS4 To have franchisees hold several units is part of our strategy	.839
MUFS2 We are reluctant that a franchisee manages more than one unit (reversed)	.817
MUFS3 We limit the number of units that a same franchisee can hold (reversed)	.667

<i>Number of items</i>	4
<i>Reliability</i>	.779

### **Multi-channel strategy**

<i>Multi-channel strategy</i>	<i>Factorial contribution</i>
MCHANS1 Well sell our products/services only in our own outlets (reversed)	.890
MCHANS4 Our products/services are also available in other outlets than our brand outlets	.778
MCHANS5 Our franchisees and own units have the exclusivity of our products/services (reversed)	.723

<i>Number of items</i>	3
<i>Reliability</i>	.720

## Innovation Strategy

<i>Innovation Strategy</i>	<i>Factorial contribution</i>
INNOVS1 In our network, the development of innovations is a priority	.775
INNOVS5 We actively seek news ideas to develop	.773
INNOVS2 We encourage innovation within our network	.762
INNOVS3 We invest in research and development of new concepts	.706

<i>Number of items</i>	4
<i>Reliability</i>	.747

## Internationalisation Strategy

<i>Internationalisation Strategy</i>	<i>Factorial contribution</i>
INTERN3 We are willing to develop our activity abroad more	.956
INTERN2 We actively search for development opportunities abroad	.954
INTERN1 We think that international expansion would have a positive impact on our network	.895

<i>Number of items</i>	3
<i>Reliability</i>	.928

## Performance variables

### Brand image value

<i>Brand image value</i>	<i>Factorial contribution</i>
BRAND4 Compared with our competitors, our network has a good brand image	.825
BRAND2 Compared with our competitors, our network a good reputation in terms of quality of products and services	.796
BRAND1 Compared with our competitors, our brand has a strong image	.789
BRAND3 Our brand name is one of our most precious competitive assets	.771

<i>Number of items</i>	4
<i>Reliability</i>	.806

### Perception of competitive advantage

<i>Perception of competitive advantage</i>	<i>Factorial contribution</i>
COMPADV5 Thanks to our know-how, we have a beneficial competitive position	.879
COMPADV6 Our know-how enable us to satisfy our customers' needs	.837
COMPADV4 Our know-how enable us to answer the market's needs more quickly than our competitors	.828
COMPADV7 We have a sustainable competitive advantage compared to other networks in the industry	.752

<i>Number of items</i>	4
<i>Reliability</i>	.843

### **Perceived network performance**

« For each of the following criteria, our network's performance over the past three years is:  
(1) Much lower than our competitors, (2) Slightly lower, (3) Equivalent to our competitors,  
(4) Slightly better, (5) Much better than our competitors »

<i>Perceived network performance</i>	<i>Factorial contribution</i>
PERF3 In terms of sales	.866
PERF1 In terms of market share	.826
PERF4 In terms of growth	.736
PERF2 In terms of profitability	.688

<i>Number of items</i>	4
<i>Reliability</i>	.785

### **Control variables**

#### **Perceived intensity of competition**

<i>Perceived intensity of competition</i>	<i>Factorial contribution</i>
PEH1 Competition is very intense in our industry segment	.836
PEH2 Our activity is characterised by a price war	.804

<i>Number of items</i>	2
<i>Reliability</i>	.601

**Industry segment** (FFF typology)

Home furnishing and improvements

Clothing shoes and accessories

Food retail

Other retail

Automobile supplies and services

Building and remodelling

Cleaning

Hairdressing and beauty care

Other services

Business services

Training

Hotels

Fast food

Restaurants

Real estate

Tourism

**Network age**

**Network size**

**Proportion of franchised outlets**

**APPENDIX 4: QUESTIONNAIRE ITEMS « FRANCHISEES »**

## Dependent variables

### Satisfaction regarding investment decision

<i>Satisfaction regarding investment decision</i>	<i>Factorial contribution</i>
SBD3 If my franchise contract came to an end today, I would not hesitate renewing it	.930
SBD2 I took the right decision in investing in that franchise	.924
SBD4 If I had to do it again, I would take the same decision to invest in that franchise	.916
SBD1 I plan to renew my contract when it expires	.887

<i>Number of items</i>	4
<i>Reliability</i>	.935

### Intention to open another outlet

<i>Intention to open another outlet</i>	<i>Factorial contribution</i>
INT_MULTI1 In the next two years, I plan to open a new outlet with this network	.929
INT_MULTI2 In the next six months, I will open a new outlet with that network	.855
INT_MULTI3 I don't plan to open a new outlet with that (reversed)	.849

<i>Number of items</i>	3
<i>Reliability</i>	.851

### Perceived performance

<i>Perceived performance</i>	<i>Factorial contribution</i>
PERF3 profitability	.902
PERF2 profit growth	.901
PERF5 cash	.812
PERF1 sales growth	.810
PERF4 labor productivity	.764

<i>Number of items</i>	5
<i>Reliability</i>	.894

### Perceived cooperation

<i>Perceived cooperation</i>	<i>Factorial contribution</i>
COOP6 I can say that the relations with my franchisor are cooperative	.921
COOP4 My franchisor and I have a loyal and equitable relationship	.910
COOP3 I can count on my franchisor to behave with me as if we were in the same team	.903
COOP5 I take care of the interests of my franchisor and it takes care of mine	.901
COOP2 I can cooperate well with my franchisor in conducting the business	.893
COOP1 My franchisor and I reap the rewards of mutual benefits in our relationship	.858
COOP7 In our relationship, no party makes too much demand of the other in order not to cause it harm	.832

<i>Number of items</i>	7
<i>Reliability</i>	.955



## Opportunism

<i>Opportunism</i>	<i>Factorial contribution</i>
OPPORT3 I think of information that I have could be helpful to my franchisor, I don't hesitate to tell it (reversed)	.737
OPPORT2 I always keep the promises that I make to my franchisor (reversed)	.684
OPPORT1 I sometimes do vague promises to my franchisor that I next forget	.620
OPPORT5 I don't hide anything to my franchisor even if it could bring me in a bad light	.610
OPPORT4 I am reticent to share information with my franchisor about the knowledge and know-how that I have found myself	.550
<i>Number of items</i>	5
<i>Reliability</i>	.642

## Control variables

Age

Gender

Network tenure

Multi-franchise

Territorial exclusivity

Negative / positive affectivity