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The capacity to react of franchise networks in a context of crisis

Executive Summary

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Introduction

The franchise is built on a close cooperation between several companies linked by systematic solidarity and a common project: the franchiser, who is generally the initiator of the partnership, and the franchisees, independent shop owners as for the judicial and financial aspects, becoming members of a network in order to profit from a system of commercial success founded on the supervisory management, by the franchiser, of a set of know how (Boulay et Chanut, 2010). The contracts shares roles and profits between the franchiser and its franchisees. The former chooses the franchisees, defines the network strategy and promotes the brand name, transmitting to the franchisee a tried know-how and controlling the activities so as to guarantee the homogeneity of the product for the clients. The latter being the owner of his shop, brings his financial, human and managerial resources for the benefit of the shop.

The franchise networks have had a fast and steady development for several years in a large number of countries and not only in the most emerged ones. In (metropolitan ?) France, the number of franchises has doubled in ten years, making the French networks one of the most powerful ones in Europe and a reference for the European Regulation.

In the beginning of 2010, France had 1,369 franchise networks, and more than 51,600 franchised outlets, for services as well as products. Add to this that the sector represents 315,000 employees and 725,000 related jobs, which makes it a major economic structure of food and non-food commerce in France.

It is acknowledged that the franchise system has a certain number of assets allowing its stakeholders to develop a sustainable competitive edge, this one being built on the inherent nature of franchise. It is a system where the network franchiser, endowed with multiple know how, takes the responsibility of the network development. The franchisee benefits from the support of the franchiser as for economical, technical and logistical aspects. The notions of

working in a network and of partnership, so difficult to establish in other types of commerce, are the essential principles for the performance of the system. From a broader point of view, franchise is set on a successful economical model based on economies of scale, the rationalization of the processes, the profit and its balanced distribution between franchiser and the franchisee, with sustainable development objectives.

The economic crisis the developed countries have experienced since autumn 2008 raises essential questions as for the capacity of the franchised network to resist external impacts more efficiently than other types of commerce. More generally speaking, the question is if franchised networks, because of their structure, are better armed to resist and to react. If that was the case, one should draw conclusions about the economic and political interest in promoting this system of commercial success, in a political environment favorable to entrepreneurship.

The objective of our process is of a comprehensive nature to bring light on the dynamic of franchised networks through the creation of a research model whose central parameters are the management of resources and skills, as well as the nature of the leadership used by the franchiser. What is aimed at is to understand the phenomenon of reactivity of franchised networks in a context of crisis.

In this working perspective, our objective is double. Firstly, we try to characterize the franchised networks in France in 2010 from the point of view of their reactivity to turbulences of their environment – especially after the end of 2008 -. Secondly, we propose an operational method allowing the support of network managers and franchisees.

The study is divided into 5 chapters. Firstly, we shall present the theoretical framework of the research, and then we shall describe the methodology applied. Chapter 3 and 4 are devoted to the results of quantitative and qualitative analyses; Chapter 5 synthesizes our recommendations and conclusions.

1. The theoretical framework of the research: capacity of reactivity, resources, skills and leadership

1.1 Objective and context

The objective of this first chapter is to present the theoretical framework of the research. While building upon previous researches on resources and skills, we shall enlarge the theoretical field of leadership in order to analyze the central notion of reactivity and to characterize the franchised network management in a context of crisis.

In that prospect, the research of El Akremi and al; (2009) gives adequate answers, albeit partial, to the question of the key role of the franchiser, focusing on his skills and choosing moreover to apply an approach centered on the relationship. The job of the franchiser relies on a set of know-how: 1) the professional skills, which are codified and transmitted to the franchisees, and 2) the organizational skills linked to network engineering and management. These two elements are not only essential to economic performance and competitive edge; they also constitute the core principles of franchising.

Our approach is complementary to the one initiated by el Akremi and al. (2009). Indeed, what is aimed at here is to resort to a relational perspective, based on the leadership exercised by the franchiser, and the intrinsic quality of this leadership, in order to identify which professional and organizational know-how permits to explain the capacity of reactivity of franchised networks faced with external shocks.

The interest of our approach is to show, beyond the economic criteria of performance, the competitive edge brought by an efficient relational management of the franchising network. The frame of the theory of resources and skills, and the analysis in terms of leadership, can thus be associated, through a synthetic and global vision, into a conceptual model aiming at being comprehensive. The building of the model takes its source in two postulates. The first one concerns the resources and the skills of the franchiser: the implementation of organizational

know-how, i.e. the distribution of resources and skills onto the franchising network, is a key factor for reducing the risks and increasing its profitability, especially in a context of external shocks. The second one concerns the franchiser's leadership: the capacity of the leader to federate a network of partners through communication and confidence, to anticipate and to manage the risks, is a key factor for allowing the franchisees network to resist the turbulences of their environmental better than other types of trades could do.

In order to answer these questions, we shall firstly define the notion of reactivity, the concept of resources, skills and leadership. This coherent set of notions and analytical grids allows the setting forth of a conceptual model for the analysis of franchising networks reactivity when facing crisis.

To what extent a franchising network is able to demonstrate resilience and reactivity when faced with external shocks which can destabilize it? What is exactly referred to when talking about the reactivity of the franchising networks? According to "*Le Robert*" dictionary, the common definition of reactivity is the capability to react fast. As for management strategies, a reactive company knows to respond rapidly to market evolutions which means a opening to the world, the capacity to integrate different points of view and suggestions from outside partners, the will to anticipate expressed by the managing teams, and an adequate organizational structure. Although REIX (1995, 1997) does not really deal with reactivity but rather with flexibility, he stresses the ambivalence of the phenomenon. Obviously, reactivity implies change as well as speed to adapt, but it also, almost paradoxically, depends on long terms objectives clearly set forth by the company. The elaboration of a scheme is not necessarily counter-productive, even if it may induce routine behaviors which are difficult to change inside an organization.

For an organization, reactivity consists to shift from a state to another, in an environment which uncertainty forces the decision maker to acknowledge the necessity of change, to convince the members of the organization of its soundness, and to find an adequate answer with as little as tries and mistakes. The human and organizational dimensions are intrinsic to the process, because

they may hinder or facilitate it. It is essential to motivate each stakeholder in order to lead the change in the best conditions possible, as for delays and costs¹. If reactivity concerns the lead of the organization towards change, it also concerns the resources management, their nature and their volume (Reix, 1997). Consequently, the resources shall bear several qualities: polyvalence, so as to be able to be redeployed for other activities, overcapacity as to be rapidly mobilized to satisfy an increase in demand, for example, and preferably externalized instead of internalized.

In brief, to consider the reactivity of the franchised networks as an organizational form between market and hierarchy means explicitly referring to a certain number of key words, to be used for the construction of the projected conceptual model (1) *change*: to be reactive means learning new elements and to put them in place; (2) *speed*: to be reactive means proceeding rapidly in the application of identified innovative solutions; (3) *reversibility*: to be reactive means making the less irreversible possible decisions, leaving open the field of possibilities.; (4) *efficiency*: to be reactive means attaining objectives linked to change at minimal costs. The main problem is to know whether the non hierarchical relations in the franchised network, based on the membership of independent entrepreneurs to a system of commercial success, are accelerating or hindering change, speed, reversibility and efficiency, the four pillars of reactivity. More ¹generally speaking, the articulation between the vision (the project) of the franchiser and the individual interests of the franchisees refers to the existence or not of a coherent set in the relational space constituting the franchised network. Thus, *a priori*, nothing can guarantee that the capacity to change of the franchiser will systematically generate an excellent reactivity on behalf of the franchisees.

1.2 . Knowing how to mobilize resources and skills

The theory of resources and skills (RST), even if it can be only understood as "intermediate" (Sanchez and Heene, 2010), appears to be one of the most pertinent ones to understand how the network structures are capable of facing external shocks with reactivity. The RST tries to explain

¹ Delays and costs are, according to REIX (1979) two measurements of flexibility

the constitution of a competitive edge from specific skills owned by a company or, more generally speaking by an organizational structure (Prahalad and Hamel, 1990). The RST fills a conceptual vacuum by recognizing the importance of managerial decisions and of strategies implemented towards the success of a company: the latter is no longer perceived as a selected unity by its environment, but as an active entity being master of its own future. The strategic intention is a founding principle which refers to a concept of a more engaged company strategy (Métais, 1999). In other words, the company which knows how to profit from certain resources within its environment will be capable of developing a sustainable competitive edge. The different performances observed in companies from the same sector can thus be explained by difference in skills, for example the way of implementing the four pillars of reactivity.

Resources are defined by Sanchez and al. (1996) as "assets available and useful in the detection of and the answer to opportunities or threats on the market. Resources include the skills as well as the other forms of available and useful assets"; A resource can be tangible or intangible, i.e. being material or not. The tangible resources concern all the physical elements of a company; the intangible resources are founded on information and knowledge (Métais, 2004). Intangible resources can then be classified into two groups: the organizational knowledge is a set of intra-organizational resources, mainly developed by apprenticeship. It corresponds to accumulated collective knowledge, which surpasses the mere sum of the individual knowledge.

The "marginal" (or "border") intangible resources come from links between the company and its environment, such as consumer loyalty or knowledge generated by partnerships; the marginal intangible resources extend beyond the borders of the organization, contrary to the organizational knowledge.

Sanchez and al. (1996) propose a distinction between resources and assets on the one hand, and the function used for a coherent deployment of these same resources on the other hand. Management precisely amounts to manage organizational processes which allow the company to

act using the existing resources while acquiring new resources and building new processes. The ability here essentially refers to management procedures and intangible organizational elements built on the basis of skills and individual and collective know-how. Sanchez (2000) underlines that the integration of issues concerning inter-relational organizations is one of the ways along which the theory of skills could develop: "Allying their resources in a network, companies who cooperate can all profit from advantages in terms of assets volume, of assets inter-connections and of incompressible time to which an independent firm could not have access."

From the viewpoint of the abilities, what is important is not to possess material and immaterial resources but rather their efficient coordination (Paché and Paraponaris, 2006). Thus, the competitive edge is explained by the existence of distinctive skills and the strategic management consists in protecting and in exploiting these skills in order to create new ones. This notion of creation of new skills enables a dynamic conception based on the evolutionary theories. The fundamental abilities of the company are those permitting to build and to re-configure its skills in order to respond rapidly to the changes of the environment. These dynamic abilities are conditioned by the mode of management used; in the approach by the resources, taking into account the notion of abilities is gradual. Firstly interested by the distinctive abilities, the researchers turned towards the relationship between ability and performance, then considered the abilities as "organizational routines".

At the end of the 50's, Selznick (1957) proposed the notion of distinctive abilities in order to give account for the success of an organization thanks to "activities in which a company is better than its competitors". They correspond to *leadership* abilities and enable to reach a unique competitive edge through an adequate deployment of the organization resources. The approach thus exceeds the mere level of strategic activities to define distinctive abilities which innervate the company and its network as a whole, and strengthen synergy between its activities. The word competence thus encompasses a priori assets and resources, but also the different form of knowledge or practices mastered by the company. Some of these abilities are specific enough so that they can be

considered as key abilities, that is to say they link the resources and the know-how, in such a way and shape that they constitute a significant competitive edge faced the other competitors (Durand, 2006).

One of the main flaws initially blamed on RST lays in its difficulty to define with enough precision the concepts and the words used so as to make them available and useful for field research. Sanchez and al. (1996) brought the necessary explanations in a work of a reference. They define resources as assets exchangeable on the market. They can be physical assets (equipments, premises, raw materials, etc...), financial resources, human capital, organizational resources, (coordination or planning methods, etc...), intangible assets (patents, brands, property rights), and information in every sense of the word. Competence designates the ability of the company to bring together, to coordinate and to deploy the resources to achieve tasks. The competences are not exchanged on the market. They are knit inside the company, by teams interacting with each other, as well as with their environment. Barney (1991) names the three qualities which are intrinsic to resources which can evolve into competitive edges: value, rare, and not easy to imitate.

Beyond the identification of the abilities, a question arises as to what prevails to their construction. In other words, on which level lay the key abilities, on the individual level, On the collective level? On this point, researchers are unanimous: due to their own nature, abilities are systemic in the organizations. Black and Boal (1994), notably, admit that the relationships established between individuals of a same organization are as important, or even more important, than the abilities of these individuals considered alone. Effects of synergy rise and develop, making impossible to imitate the network of relationships from which competence originates: organizations are the melting-pot of collective abilities which cannot be transmitted. Persais (2004) defines the relational competences as "the ability of a company to knit and maintain a positive and sustainable link with a key actor of the environment. For this author, this notion is larger than the notion of network resources, because it encompasses all types of actors.

He underlines how the relational competences develop taking into account the three elements of the competences accumulation model developed by Durand (2000), in other words, knowledge, know-how and behavior.

De Castro and al; (2009) reach a similar conclusion, by questioning the traditional vision of the two keys to success of the franchised networks: a mean to face the rarity of resources, and / or a mechanism leading the franchiser and the franchisee to align themselves on the same system of incentives. Such a vision minimizes both the process of apprenticeship in the franchised networks, and the construction of a form of relational capital between the partners. The latter is a consequence of the idiosyncratic nature of the relations, on which depends the way resources are mobilized, are structured for a project, far beyond the mere replication and exploitation of a "formula". If the ability to bring together, to coordinate and to deploy resources to accomplish tasks of different nature are indisputable, as for procurement, marketing, logistics or outlets layout, the relational competence for managing the network, building upon the 3C model of Frery (1998) constitutes an approach of first importance from a strategic point of view, and requires unusual organizational know-how.

Perdreau and al (2007) point out, referring to the theory of resources and to the theory of incomplete contracts, a development based on a franchise enables to rapidly mobilize not only financial resources, but also managerial resources, to make a collective project come to life. The contributions are brought by both the franchiser and the franchisee. On one hand, the contribution of the franchiser comes from the specific know-how of the system (for example, through the selection of sites) and of the brand name (for example, through investments in advertisements). On the other hand, the contribution of the franchisee to the collective project comes from his knowledge or his know-how specific to the local market. Thus, as pointed out by Perdreau and al; (2007), this resource is nor easily imitable, (except by the franchisees of a competitor network, active on the same market zone, without a real substitute (except through salaried managers of branches)), relatively rare, and with qualities in terms of market

understanding and of reactivity, which endow it an intrinsic value. To speak of development of franchised networks, and of their capacity to face external shocks, it consequently means to refer to unusual know-how which must be activated. One of the main strength of the franchiser will be to be able to transform the tacit knowledge brought by the franchisee into formalized knowledge which could be disseminated into the global network (Lindblom and Tikkanen, 2010).

1.3 The central role of the leadership exercised by the franchiser

For Persais (2004), who has a specific interest in relational ability, leadership plays a driving role on the actors of the company. The leader has for function, among others, to show the way. His commitment is exemplary; he embodies the collective references, in a very pertinent way in the context of management of a franchised network. Leadership, in the distribution sector, is traditionally defined as "the set of activities led by a member of the network in order to influence the policies and the marketing strategies of the other members and to control different aspects of operations" (Schul and al., 1983). The styles of leadership refer to the behaviors of the leader, to what he does and to the way he does it. The authors in the marketing field have especially explored the relations between the styles of leadership and measures depending on conflict. The conflict perceived vary according to the evaluation of style of the leader made by the members of the network, the repetition of conflicts rising when the leadership is exercised in an authoritative way.

One of the principle keys to control a network, and especially a franchised network, is the reduction of conflicts, which depends on the style of leadership used. Several works show that a high level of satisfaction of the members of the canal generates a better morale, a better competition, less frequent interruption of the relations, and the reduction of disputes (Anderson and Narus, 1984; Stern and al., 1996). In order to realize its objectives, the leader can exercise his power in two different ways (Schul and al., 1983). The first one corresponds to a directive style, close to domination; the leader organizes, defines the tasks and evaluates the performances

unilaterally. The second one is more participative. It corresponds more to the authority described by Weber (1971) and to persuasion; the leader consults the other members in order to decide collectively the distribution of the operations and their coordination. Schul and al; (1983) add an intermediate level, where the leader considers the needs and the emotions of the other members when deciding to create a more convivial and pleasant environment.

The acknowledgment of the leader can be measured through variables: the support from the members to his vision, his competences and his legitimacy (Noireaux, 2006). Whereas the leader who is not recognized uses the set of sources so as to exert his control, the leader who is recognized elaborates and implements a vision, which permits him to be accepted by the other members, to increase their satisfaction and to diminish their behavior of avoidance. Thus, the concentration of the sources of power by the franchiser is not enough. It is also necessary that the other members adhere symbolically to the organization the leader gives impetus to and to the objectives he aims at. If power in the competitive relation has been largely studied (Porter, 1980), the studies of this phenomenon in relations between clients and suppliers have been objects of far less attention on an academic level. In fact, the core of the reflection of Porter (1980) concerns competition and relations of power between companies of the same sector. It seems then indispensable to widen the framework of analysis and the field of investigations to the network as a whole; (Bonet Fernandez, 2009).

Even if it does not whatsoever pretend to be exhaustive, this literature review on RST and on the different approaches in terms of power and leadership permits to highlight a coherent set of notions and pertinent interpretation grids, in order to construct a conceptual model of analysis of the reactivity of the franchised networks facing external shocks. The four principle analysis retained is those of Sanchez and al; (1996) and of Métais (2004) on the resources and competences, of Shipley and Egan (1992) on leadership, trust and communication, and of Reix (1979, 1995) on reactivity. It is important to point out that trust and fairness in the relations of franchise fills a great part in numerous recent works. It is notably the case for the research of

Croonen (2008) led in the Netherlands on the drugstores franchised networks. The author identifies what he calls the trust of the franchisee in the franchise system, which the franchiser can "institutionalize" through adequate instruments whose objectives is to influence positively the perception the franchisee has of the franchised network. The latter shall not, however, be blurred by inadequate answers from the franchiser, especially in the context of external shocks, since these would be judged as destructing trust and fairness.

Gillis and Combs (2009) identified three resources which have an impact on the performance of strategies led by the franchiser. The first resource builds on formalized functioning routines, which describe the different operational aspects in the manner to conduct the network. The second resource builds on knowledge sharing routines, with a franchiser who captures the innovations coming from the franchisees, verify their applications at network level, codify them and then distributes them during formal and informal meetings, locally or nationally. Finally, the third resource is based on the confidence between the franchiser and the franchisees. According to Gillis and Combs (2009), the confidence facilitates sharing of knowledge and helps the franchiser in getting the message across about the inevitable transformations of the network in the interest of the franchisees; This is extremely important in a situation of instability following an external shock.

The proposed conceptual model consists in linking of key variables of the RST with leadership (bearing the sources of power), in the perspective of both the franchiser and the franchisee. (Figure 1). As deduced from the review of the literature previously led, two key variables, trust and communication, are mobilized, to explain the capacity of a franchised network to face external shocks. This conceptual model has for major virtue to offer a simple and operating classification on the empirical level of those two key variables. Shipley and Egan (1992) points out that the objective of the leader – in our case the franchiser - is to persuade the franchisees to adopt a philosophy of partnership for a common productive project. The leader establishes a platform of confidence, harmony and cooperation generating performance. In order to create this

platform, an important communication, especially about potential profits (Michael, 2009), permanent interaction, respect, honesty, consensus, acknowledgement of mutual interest and coordination of behaviors are necessary. The same market orientation shared by the franchiser as well as his franchisees facilitates without doubt coordination and performance of the network (Gauzente, 2010).

Figure 1: a model of conceptual resource – competence – leadership – activity

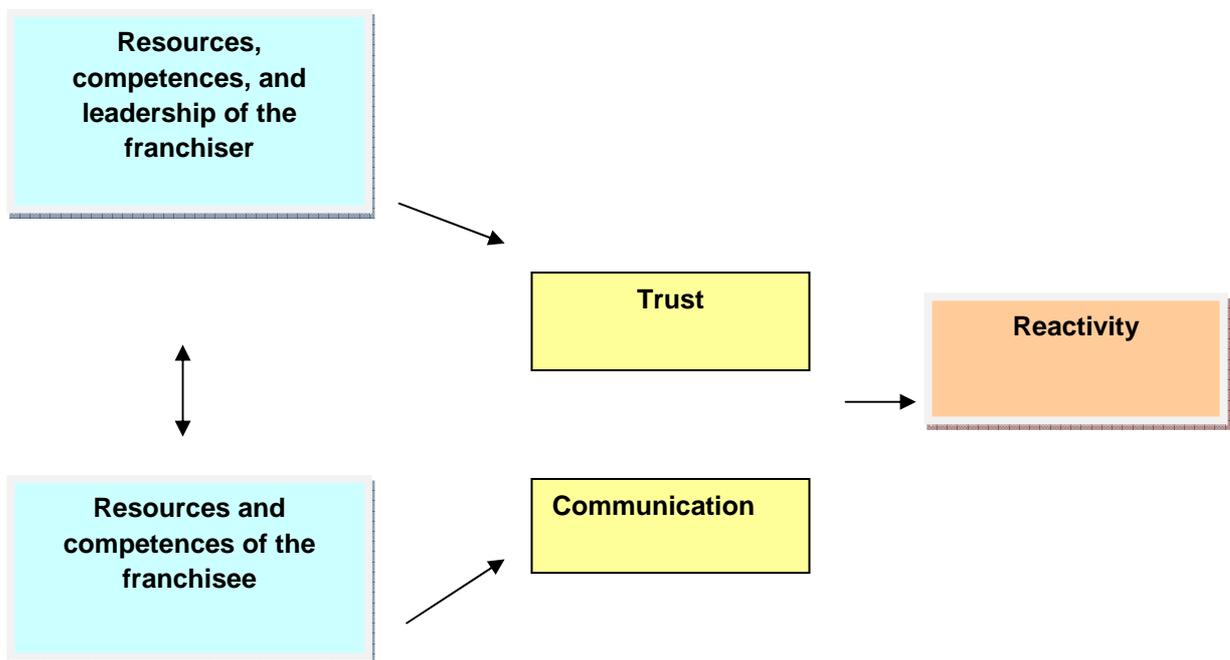


Table 1 (see annex) suggests that the key variables of the model can be put into operation with the help of four complementary elements: (1) the governance of the network and the quality of interactions between the franchiser and the franchisee; (2) the resources and the competences of the franchisee; (3) the reactivity and the global adaptability of the franchised network and (4) the nature of the environmental crisis or mutations (isolated versus structural). The perspective retained seems important in order to surpass the pure contractual vision which is often seen characteristic for the franchised networks (Klein, 1995). Indeed, a formal contract defines the roles and profits between the two entrepreneurs: the franchiser assumes the functions of selecting the franchisees, the definition of a network strategy and the promotion of the brand

name. He transmits to the franchisee proven know-how and exercise a control of the activities in order to ensure the homogeneity of the supply towards the clients. The franchisee, owner of his commerce, brings about his financial, human and managerial means for the benefit of the shop. However, the expectations of both partners in terms of a *psychological contract*, to recall the approach of Chanut (2007) are essential. If it is not written at the signature of the contract, it remains nonetheless that the franchisees expect from the leader that he will make available his expertise, his resources and his competences to help to overcome the external shocks.

2. Research methodology applied

The objective of the chapter is to present the methodological choices made in terms of field of investigation and of collecting and analyzing the data. Taking into account the nature variables to be studied – resources and competences, leadership, confidence, communication and reactivity – as well as the methodological difficulties to observe them and to access to the survey respondents, it was decided to adopt a method built on two types of triangulation (methodological and investigative) and to use qualitative and quantitative analysis techniques. Starting from the first qualitative exploratory phase, we shall elaborate the design of the quantitative research. The empirical study was realized by crossing the three sources of data, divided into three phases:

Phase 1: a documentary research on the existing data, i.e. the academic and professional literature and the previous FFF reports (from January to March).

Phase 2: qualitative exploration: in-depth qualitative interviews, by telephone or face to face with 12 experts of the profession, and franchisers and franchisees, recorded and transcribed in full (period from March to June).

The objective of the two first phases is to analyse the definition of reactivity in a context of crisis, the resources and competences required and mobilized, the management and the relational climate of the network.

Phase 3: descriptive and quantitative. An online questionnaire was sent to a panel of franchisees (SurveyMonkey software) to measure the perceived reactivity of the franchised networks (July and August 2010).

The first phase led to the understanding of the nature of resources and competences employed in the network, and to the type of leadership of management, which implied a diagnostic and an in-depth analysis of the franchised networks. The second or exploratory phase permitted to collect very rich data. The effect of data saturation permitted to close this qualitative phase and to elaborate the design of the following third phase, the quantitative research.

3. Synthesis of the qualitative analysis

The qualitative analysis is built on interviews of experts (8), of franchisers (10) and of franchisees (12), from different sectors of activities. These interviews were completely transcribed and supplied a set of views which we choose to analyze by themes. Five themes thus emerged about the issue of the reactivity of franchised networks in time of crisis. They constitute the frame of a statement, which sometimes fell in the trap of political correctness, on the way with which the actors *perceived* a reality, or more precisely, *built* their reality.

The first theme is about the definition of crisis. It brings out that our counterparts do not have an approach limited to the sole economic crisis starting in 2008, but that they apprehend the subject with a much larger view, sometimes including events having no character of crisis, i.e. suddenness, unforeseeable, and on a large scale. According to them, the crisis has diversified origins, may they be internal or external to the franchised network, and may bear an economic but also political, regulatory or sanitary character. The extent of the crisis varies according to their point of view. The crisis can in fact concerns the economy and the society as a whole, or be

limited to a sector, a network, even to a single company within the network. Compared to the experts and the franchisers, the franchisees have the particularity to evoke the local dimensions of the crisis, intrinsic to their commerce area, as the arrival of a competitor which destabilizes their established economic balance.

The second theme, on the effects of the crisis, reveals that the crisis does not have the same impact everywhere on everybody. Even if obviously has its negative impacts on different levels (less purchasing power, lower frequency in the shops, difficulties to recruit new franchisees, etc...), it also creates opportunities for the franchisers and the franchisees. Every crisis puts to the test, and implies reactivity, all the more that its effects are lasting (such as the evolution of consumer behavior). The opinions are different when it comes to know if the franchisee is an organizational form able to weaken the impacts of crisis. Some, experts as well as franchisers and franchisees, consider that the competences of the franchiser (brand awareness, proven know-how, network activation), are prone to protect the franchisees from the economic crisis (one is back to the crisis of 2008?). For others, this is less important than other elements, such as the number and the variety of shops owned (as well as for a franchisee) permitting to compensate the losses of some shops by the gains of others, or the character of each individual, may he be an independent entrepreneur or an employee, with his capacity to surpass the difficulties and imagine ways out of the crisis.

The analysis of the interviews brings out a third theme: reactivity must be seen as a process. There are phases of analyses, actions and evaluation, which recalls the different steps in decision making such as described by Simon (1960) in particular. To be reactive, it is first of all to follow through the process. Thus, the sole analysis of the facts is not enough: it must lead to the definition of operational means to be discussed between franchisers and franchisees, before their deployment in the network. The reactivity thus described is not a mechanical process but a relational process in which confidence and communication between the partners plays an important role. Actually, the franchisers decide in fine for the network, but they cannot do it

without an agreement on behalf of the employees; In other words, the franchisers cannot win the challenge of reactivity without convincing the franchisees of the soundness of their initiatives, and, in any case, when imposing their decisions.

The fourth theme underlines that reactivity has a plural character. The reactivity of the franchiser and the franchisee on an individual level is indeed enriched by the reactivity of the network, which is situated on a collective level. As for the franchiser, his reactivity is presented as being intrinsic to his profession and his competences. Is the franchiser not supposed to have a strategic vision and thus to adapt permanently his commercial concepts and animation techniques of the network? Besides, the reactivity of the franchiser has a very concrete dimension for the franchisees. A franchiser is reactive when he responds rapidly to their requests, and when he maintains permanent direct (in person?) and indirect (by the animators of the network?) relations; If the franchisees rely on the activity of their franchiser, they do not let him down however. They claim their own reactivity: they are in the field, close to their clients, and know better than anyone else in these conditions, how to react when, for example, a competitor becomes more aggressive. This does not mean that all the franchisees are reactive, because individual components interfere. Temperaments and states of mind make certain franchisees more passive and less dynamic than others.

The fifth and last theme indicates that the reactivity of the network leans on a state of mind shared by franchisers and franchisees. This state of mind is firstly that of every independent entrepreneur who has invested his own money in a business, but also that of every shop owner, who is reactive by nature. This state of mind is defined by the capacity to question oneself and to accept change when necessary, in a context of external shock. Inside the network, it is necessary to make everybody agree. However, during the different steps of the process indicated previously, disagreements can appear between the participants. One of the important

disagreements between the franchisees and the franchisers consists in the liberty to act² (and to react) on behalf of the franchisee towards the standards of the franchiser. Thus, the franchisees claim to be actors of good practices, sometimes generalized with success to the whole network, whereas the franchisers fear that the franchisees act alone without preceding agreement, and that their reactivity damages the brand image. Disagreements between franchisers and franchisees have the inconvenience to hinder the reactivity of the network, that is, the selection and the application of adequate solutions to external shocks. Therefore, the confidence and the communication installed by the franchiser in his network in a continuous and permanent way, is particularly valuable to bring about adhesion and to do so rapidly.

The interviews permitted to list a set of means used by the franchisers and the franchisees to be reactive in times of crisis. It is not the question here to go back into details, but to highlight the important axes. In the first place, reactivity not being a prerogative of the franchiser, it relies on different levers, whether it being initiated by the franchiser or by the franchisee: for the franchiser, it is a question of means applicable to the global network, for the franchisee, it is a question of means depending on the outlet. Furthermore, there are the means concerning the supply system (the commercial concept as for the franchiser, supply of the outlet as for the franchisee) and those inherent to the animation of the network (competence of the franchiser) or inherent to the outlet (competence of the franchisee). Finally, certain means fit in a simple evolution of systems and practices and do not generate important disturbances (the reminder of "fundamentals" by the franchiser is one of them), whereas other means provoke a real disruption in the organization and the management of the network, and have, indeed, an extraordinary character (for example the creation of a new field of activity or the diversification of supply).

² It refers to the Intelligence-Modelization-Choice model (IMC) presented in Simon, H. (1960), *The new science of management*, Harper & Row, New York (NY).

The respondents mentioned several explaining factors of the reactivity of the franchiser, of which two seem particularly important: culture, and the diversity of the network. What is meant by network culture refers to the image which the franchisees have of their franchiser, more or less charismatic, competent and loyal; an image of "savior" is more promising than an image "runty dog" which barks without acting, or the image of "greedy" who is individualist by nature. Diversity tends to increase the reactivity of the network as a whole, in the sense that when the franchiser owns shops, it gives him the opportunity to approach his market and to better understand it, which makes him more aware of the issues of the franchisees, and which permits him to distribute modifications of the commercial concept, once approved, to the franchisees. At the same time, these shops are the showcase of the know-how of the franchiser, at the attention of the franchisees. Moreover, the franchiser has the possibility to provisionally develop his fleet of outlets, by modifying the repartition between branches and franchises. In times of crisis, the franchised shops can thus be bought, in order not to lose the commercial spot to a competitor, and in times of growth, the branches can become franchised shops in order to favor a rapid development of the brand.

4. Synthesis of the quantitative research: main results of the study

The results are structured in 6 parts, covering the representations of the crisis by the franchisees, the key resources and competences explaining the reactivity, the importance of leadership, the confidence and the communication installed a priori in the network.

4.1) The franchisees questioned feel moderately touched by the economic crisis of 2008.

Whereas 53% announce that the competitive pressure in their sector of activity is tense or rather tense (and 36% that it is normal), 47% confirm being not at all or little touched by the economic crisis which started in 2008, and 37% moderately touched by the crisis. Only 16% feel that they are strongly or very strongly hit by the crisis.

This element confirms the feeling expressed in the quantitative research according to which the participation of the franchised network protects the shop owner from the most brutal impacts of the crisis. The support and assistance of the franchiser, but also his competences (especially network management and sales and marketing, in this case) would permit the franchised outlets to better get through the economic crisis.

4.2) The resources and the competences of the franchiser explain the perception of the reactivity of the franchiser, more than the resources and the competences of the franchisee. It is stated that the resources and competences of the franchiser (Network Management and Sales and Marketing) is more important on the reactivity of the network than resources and competences of the franchisee (Network Management and Finance).

The only dimensions of resources and competences of the franchiser having an impact on the reactivity are network management and sales and marketing. The other levers of action (Product Marketing, purchasing and logistics, strategy and finance) do not have any impact, neither on the reactivity nor on the mediatory variables.

The only dimensions of resources and competences of the franchisee having an impact on the reactivity and on the mediatory variables are network management and finance. The other levers of action (Marketing, purchasing, logistics and strategy) do not have, as seen by the franchisees, any impact neither on the reactivity nor on the mediatory variables.

It is seen that it is the managerial aspects which come out more importantly in the explanation of reactivity. The dimension who presents the stronger relation in the model is the network management, as well as for the franchisers as for the franchisees. The leadership of the franchiser is also a fundamental element: the

intensity and the explanation part of the mediatory variables (confidence, communication, and competence) are the highest of the model. If the franchiser is a good manager, and if one can have faith and confidence in him, if he communicates well and he is competent, then the network will be reactive.

4.3) As for the perception of the reactivity of the franchiser, network management is the most important factor of explanation. On the side of the franchiser, this is embodied by training and by improvement of the know-how transmitted, by closeness to the franchisees, by visits, by diagnostic tools and performance indicators, but also by the questioning of the franchisees before decision making. On the side of the franchisee, this is embodied by informing the franchiser through exchanges, and by a strict application, to the outlet and its employees, of the know-how transmitted and of the fundamentals of the concept. The more there are exchanges between the franchiser and the franchisee, in a context of crisis, about the fundamentals of the network, the more the franchiser is perceived as reactive.

4.4) The second dimension explaining the perception of the reactivity of the franchiser is its capacity to propose sales and marketing actions (promotions and advertising, sales techniques) **in a context of economic crisis** in order to create frequency in the outlets and to limit the effects of a reduced purchasing power.

The other dimensions of the resources and competences of the franchiser seem secondary for the perception of reactivity. Thus, strategic decisions, marketing decisions (range of products) and supply chain decisions (purchasing and logistics) are secondary. More surprisingly, the financial decisions, in concrete terms the financial support brought by the franchiser (terms of payment, complementary rebates) have little incidence on the perception of reactivity.

One possible interpretation is that the resources and competences linked to product marketing (distinctive concept, range and assortments) and to supply chain management (purchasing ability, negotiation power, and logistics) are "factors of hygiene" according to Herzberg. Potential candidates for a franchise chose a network according to its resources and the competences of the franchiser. To put it differently, they are expected, they are seen as a minimum, they are perceived as a "right" and do not take part, when recognized, in a positive perception of competence or reactivity on behalf of the franchiser. In return, they are probably an explanative factor of non competence and non reactivity on behalf of the franchiser if the latter is not seen as capable as for its competences and resources.

4.5) The results confirm the importance of the mediatory variables founding the leadership of the franchiser for the perception of its reactivity. Thus, the more the franchiser has succeeded in establishing confidence with its franchisees, the more its communication is positively perceived, the more its competence is recognized, the better the perception of its reactivity will be.

On the contrary, there is a negative relation between the resource "cost reduction" implemented by the franchisees and the perception of reactivity from the franchiser by the franchisees. This means that the more the franchisees have had to cut the costs of their outlets in the context of crisis (through staff reduction, general cost reduction, reduction of their own salary, etc...), the more negative is the perception of reactivity of their franchiser. When the franchisees have had to face cost reductions of their outlet in a context of crisis, they have a sentiment of solitude, of insufficient support on behalf of their franchiser, as if the psychological contract had been breached. The franchiser is then perceived as little reactive.

5) Recommendations

Reactivity is something to build, just like crisis management. Reactivity is a result of a process which cannot be improvised. Reactivity in context of crisis will be possible if the franchiser has built, all along the lifespan of its franchised system, favorable conditions as for confidence, communication and acknowledgements of its competence by the franchisees. It is thus the network management and the relation with the franchisees which are the most predictive factors in the perception of the reactivity when a crisis erupts.

It has been stated that reactivity was a process resulting from 5 steps (observation and analysis of the environment, research for solutions, information and explanation of the means to the franchisees, implantation and verification). Each of the steps takes time, but, in the context of franchising, there is one obliged step which takes more time than in other forms of organization (especially integrated networks). This is step 3, which is the time for convincing. This is specifically related to franchising. Because of the subordination linking the employee to his employer, the employed manager of an outlet applies the directives of his sales and marketing direction without discussing them. Step 3 of diffusion of decisions is therefore very short. On the contrary to the relation of franchise, where the independent shop owner will accept to implement the decisions/suggestions of his franchiser only if he is convinced that they are good solutions for the network and his outlet. The time to convince is longer. However, this time to convince can be reduced if the franchiser fulfils three conditions resulting directly from his capacity as a manager of his network. Ahead of the crisis, he was able to establish a relation of confidence with his franchisees. He is efficient in his communication with them. His competence as a leader of the network is acknowledged. And these elements must be constructed ahead and outside the context of crisis, all along the lifespan of the network and of the franchise relation.

Beyond that, we can formulate concrete managerial recommendations intended to the franchiser in order to increase confidence, communication and acknowledgement of their competence by the franchisee (and so the perception of their reactivity by the franchisee). The levers of action can be grouped into four axes.

5.1) Closeness

In a context of crisis, the franchisers who are perceived as reactive are those who have intensified contacts and exchanges with the franchisees. The exchanges can take several forms.

- **Top down information.** The franchisees expect to receive objective, regular and numbered information about the state of the market (of their sector), competitors' strategies, and evolutions concerning their activity. They wish to have at their disposal available and pedagogical tools to transmit this information to their employees. It is easy to multiply this amount of information when the context is difficult, tense, especially as today modern technologies make possible very diverse and inexpensive forms for this information. Indeed, intranet allows sending newsletters, flashes, press cuts, but also videos, short and efficient movies, which can be used to train the franchisees' employees within the outlets. Flashes or reminders of the fundamental parts of the concept can be part of the range.
- **Direct contacts.** The availability of counterparts at the head of the network remains a strong request on behalf of the franchisees. The network leaders can establish hotlines, inform the franchisees how to contact members of their teams and give the list of their abilities, or to position network animators as privileged counterparts of the franchisees. But the importance is to have a reliable counterpart who will rapidly (and in a given time) deal with any question raised and who has been given sufficient power to respond rapidly to the request.

- **Visits to outlets.** The closeness can be physical as well and consists in multiplying field presence that is to say in the outlets or through personalized contacts with the franchisees. The regional animators are a useful communication channel if they are credible, if they are credible and given a certain liberty in decision making. The dedicated teams sent to the outlets in difficulty to help the franchisee analyze the situation and make decisions are another lever of action.

5.2) Transparency

The franchisee may have a sentiment of solitude faced with his profit and loss account. This is even truer in a context of crisis or when there is a disruption in his activity (less frequency, reduction of the shopping basket, etc...). Therefore, he is in demand of references, of comparative elements, of benchmarking elements about the network and outlets results. This takes place through the distribution (regular: on a monthly or quarterly basis?) of standardized performance indicators presenting the main management ratios of the outlets, with a possible comparison by outlet categories (to be defined according to the sectors and to the concepts, these criteria can for example be integrated and franchised outlets, size of outlets, size of town or of commerce area, age of outlets, etc...). The networks have standardized the supply proposed to their clients of the brand, and the network managers are much attached to this standardization, even if they sometimes admit a necessary adaptation of the supply to the local market of each outlet. The standardization of the back office, i.e. the management ratios and the gaps analysis, is less systematic (perhaps because of the reluctance of certain franchisees to transmit too much data?). However, transparency is useful to the franchisees in a context of crisis. It supposes however a efficient and real-time information system.

5.3) The spread of good practices

Beyond going back to basics, which is a shared reflex by the franchiser and its franchisees in a context of crisis, local initiatives are taken which sometimes would deserve to be rapidly spread to the network. An observatory of initiatives can be set up in order to allow for the spread of the best observed initiatives. The exchanges between the franchisees can also be systemized, organized and canalized. The franchisees sometimes balance between their will to respect the concept and the directives of the franchisers standardized rules, and their capacity of initiative and creativity for their outlet. They need to know the acceptable limits for their reactivity, but also want to be listened to, and a rapid and respectful treatment of their ideas and their initiatives. The commissions and other opportunities for exchange can be a adequate forum to discuss the evolutions of the network.

Another level of action is the closeness of the franchisee to his local environment. The franchisers can encourage the franchisees to participate massively in associations of merchants and other local social networks (company managers' associations for example), and show their own attachment to these initiatives taking part sometimes in these actions. For example, the managing director of a brand recently went to a provincial town to present his company and the development issues of the brand to an association of female managers of this town.

5.4) Good intentions and mutual interest

The literature distinguishes two dimensions of confidence: the faith in the competence of the franchiser, and loyalty. The latter is the faith that the franchiser will take into account the interest of the franchisee in his decision making, and that he will share profit equally. Research suggests concrete elements to qualify loyalty. It is, for instance to adapt remuneration of the network managers to the contexts of crisis; on a very practical basis,

to accept rebates on complementary purchases, to make promotions on margins (not turned towards consumers, his price remaining the same, but for example to increase margins for the distributors during a certain time) but also to adapt terms of payment.

The buyout of a franchised outlet in difficulties (or a temporary participation in his capital) is another proof of the taking into account of the interest of the network;

6) Conclusion

During autumn 2008, the majority of the companies were touched by a financial crisis of important scale, which rocked whole sectors of activity, on the forefront of which are the automobile industry, real estate and the banks. In the specific context of the franchised networks in France, the question is to know whether these networks are able, and how, to show resilience and reactivity faced with brutal external shocks. Actually, this system of commercial success, which stages a franchiser endowed with professional and organizational know-how intended for franchisees, raises the question of its specific capacity, linked to its "structural morphology", to initiate change, high speed of reaction, reversibility as well as efficiency of choices. A literature review has made it possible to identify a certain number of key notions and to construct a conceptual model.

Our model highlights the importance of the necessary managerial means to improve the reactivity of a network, in particular in moments where the franchisers must convince the franchisees to accept their decisions. One of the possible answers lays in the leadership of the network manager, because it may be assumed that a charismatic franchiser, or one with indisputable expertise for the franchisees, will have all the more facilities in generating sustainable adhesion to his "projects". Management styles should also be of high importance here, in particular closeness that the franchiser will be able to install with his franchises, as well as his ability to listen, to learn from them, as well as to make their

own positions evolve. Reactivity is, after all, a complex process to give impetus to, because of the diversity of actors, of the competences required and of the steps to be taken.

Our results clearly highlight the central role of the management of the network, and more particularly, through confidence and communication about reactivity.

Can it be reproduced in another network? It seems pertinent to know whether the capacity of reactivity in a franchised network faced with external shocks can be reproduced or whether, on the contrary, it concerns specific organizational modes, constructed in time, and fitted in relations intrinsic to each of the systems of governance

Annex

Table 1: Putting the key variables of the model into operation

Governance of the franchised network and interactions franchiser/franchisee
<ul style="list-style-type: none"> - Leadership-franchiser in key role - Level of management / style of management - Contract (duration, sharing profits and risks, level of constraints) - Size / power / network life span - Ownership structure / franchiser's objectives
<ul style="list-style-type: none"> - Extent of diversity and network structure - Rate of diversity / number of franchised masters
<ul style="list-style-type: none"> - Interactions-fittings - Confidence (expertise, honesty) - Control of units, audit - Closeness, and intensity of exchanges (frequencies, nature) - Communication and opportunities for contacts (mechanisms for spreading professional know-how)
Resources and competences of the franchisee
<ul style="list-style-type: none"> - Fixing of prices - Management of human resources and other resources - Customer knowledge / local market knowledge - Local anchoring (participation to shop owner associations, local communication, etc.)
Reactivity and global adaptability at the level of the franchised network
<ul style="list-style-type: none"> - Promotions, rebates, supportive marketing techniques - Increased negotiations with suppliers - More attractive propositions - Follow up of the franchisees as for performance indicators, of day to day sales, of charges (for some) - Frequency of meetings and contacts
Nature of the environmental crisis or mutations (occasional versus structural)
<ul style="list-style-type: none"> - Intensity of competition - Intensity of the external shock