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# **WHAT IS FRANCHISING KNOW-HOW ?**

## **SUMMARY**

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## INTRODUCTION

**The franchise is a form of organisation** that has developed to a great extent in France since the 1970s.

The following figures are a rough estimate:

- There are around 450 to 500 franchisers
- Total turnover is around 180 to 200 billion francs.<sup>1</sup>

**The essential of franchising is know-how.** It is 'produced' by the franchiser and 'sold' to franchisees.

**This know-how belongs a priori to one of two categories of knowledge:**

- **Procedural or formalized knowledge.** The way of carrying out actions can be described by means of **an algorithm**, in the most common cases. If the procedure is followed (each item of the programme in the order shown) the result is 100% guaranteed. Procedural knowledge often concerns technical matters: for example, the assembly of an exhaust; the fitting of a car radio, the use of an order procedure, etc.

This type of knowledge is taught.

- **Tacit knowledge which cannot be formalized, or only to a small extent.** This knowledge is, above all, subjective and agreement reached on this matter is *the result of intersubjective adjustments*. The procedure necessary to reach the goal is often **heuristic**. It concerns actions which enable a goal to be reached, or nearly, without guaranteeing the degree to which it will be: for example, the perfect way to train the franchisee, the perfect way to welcome customers, etc. **Supervised learning** is very important for this type of knowledge.

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<sup>1</sup> For further information see CEGOS studies

**Our objective was to propose at least one representative model of the notion of know-how. We will in fact present two:**

- The first is based on a precise identification of all knowledge necessary in order to provide the services offered by the franchiser and accepted (bought to be carried out) by the franchisee. The identification procedure is similar to a *heurism*. In addition to the previous definition, we will say that it is a grouping of rules concerning actions which generally lead to a result considered acceptable by the inventors of the know-how (the franchisers) and the operators (the franchisees). This model is based on management given direction by *the representations of the franchiser*.
- The second is akin to an *algorithmic* procedure. Arithmetical calculations can be carried out, allowing interpretations based on numerical values to be obtained. It takes into account the effects of the know-how on the final customers who make their judgements only in relation to the results (quality, price, etc.).
- This model is based rather on management given direction by *the representations of the customers*.

**The questions** were conceived according to theoretical economic models and empirical knowledge of the problem.

**The data obtained** is the result of a series of observations, interviews and questioning of the people who make up the intersubjective network of the notion of know-how, which is not represented independently and therefore has no intrinsic value as a reference. These various forms of questioning concerned franchisers, franchisees and independent workshop owners and/or managers mainly in rapid car repair services and their customers.

**The following pages deal with:**

- The presentation of the method used
- Legal aspects concerning know-how in franchising
- Some modern economic theory references dealing with the question of companies
- The development of the construction of the representation of franchisers' know-how
- The point of view of the franchisees and independent workshop owners and/or managers on the know-how they were 'sold'
- The customers' view of the know-how they experienced

**This research led to the two models described in the conclusion.**

## **I. THE METHOD**

Our investigations come under **two** main headings:

- Analysis and selection of **legal and economic factors**
- Gathering information **using surveys**.

The first section concerns firstly legal texts which we considered significant and secondly, and for the most part, two economic company theories: the agency theory and the evolutionist theory.

The second section is an ensemble of differentiated questions put to franchisers, franchisees, independent workshop owners and/or managers and customers.

## 1. THE MAIN COMPONENTS OF THE QUESTIONING OF FRANCHISERS, FRANCHISEES AND INDEPENDENT WORKSHOP OWNERS AND/OR MANAGERS

These questions bring up largely similar answers. Differences concern specific points.

### ⇒ procedural know-how (mainly)

- |   |                                |  |
|---|--------------------------------|--|
| • organisation of work                    | • choice of location           | • internal and external communication              |
| • corporate culture                       | • organisation of network      | • local and national (international) communication |
| • administrative and financial procedures | • logistics                    | • after-sales service procedures                   |
| • ordering procedures                     | • price of parts and materials | • repair procedures                                |

### ⇒ tacit and/or mixed knowledge

- |  |  |                                     |
|--|--|-------------------------------------|
| • image of the enterprise (past, present and future) | • success criteria for the franchiser and franchisee | • training                          |
| • choice of franchisees                              | • motivation of staff                                | • corporate culture                 |
| • decision making                                    | • management style                                   | • behaviour expected from customers |
| • welcoming customers                                | • market research                                    | • remuneration                      |
| • evaluation   | • monitoring economic development                    |                                     |
| • collaboration                                      | • monitoring technological development               |                                     |
| • behaviour expected of franchisees                  |  |                                     |

## 2. QUESTIONS ASKED TO CUSTOMERS (examples)

- |   |  |  |
|---|--|--|
| • brand's name, logo and other identifying features                   | • make of vehicles repaired              | • processing of request (content and form)         |
| • input of information about vehicle                                  | • frequency of visits                    | • explanations given when work on vehicle finished |
| • various opinions and appraisals (welcome, visibility, access, etc.) | • information available                  | • waiting conditions                               |
| • time spent waiting  | • level of satisfaction                  |  |
| • opinion of price paid   | • additional suggestions                 |  |
| • time necessary for repairs and terms of payment                     | • miscellaneous suggestions and opinions |  |

### 3. COLLECTION OF INFORMATION

#### 3.1 *Franchisers*

We carried out interviews with five people in charge of car repair franchises. The interviews lasted between three and four hours. The interviews were copied out and sent to the franchisers to be read through and corrected, if necessary. The content is therefore valid from this point of view.

We took into account additional data collected from 50 franchisers in various fields, on the same themes<sup>2</sup>.

#### 3.2 *Franchisees and independent workshop owners and/or managers*

We made up a quota sample group of 65 rapid car repair franchisees. We were received by 35 franchisees, and were welcomed under various conditions but always courteously. The sample is not representative in the technical sense of the term.

The independent workshops were part of car dealers' garages from the same geographical sector, and were of a similar size.

We carried out interviews (with prepared questions) which lasted, on the whole, between 50 minutes and 1 ¼ hours.

#### 3.3 *Customers*

Customers were interviewed by telephone, based on information given by the franchisees (survey base) and were chosen at random. 250 responses were obtained, of which 230 were usable in their entirety.

### 4. PROCESSING THE INFORMATION

The interviews of the franchisers, franchisees and independent workshop owners and/or managers were broken up into 238 pieces of elementary semantic information (basic unity of information: for example, 'I go and talk to the customer') after lemmatization.

Most of the standard data processing methods were used: one-dimensional frequency tables, two-dimensional frequency tables, simple or multiple factorial analyses, two-dimensional frequency averages, variance analyses, correlations and linear regressions, for the most part. The remaining text which could not be reduced to elementary units accounted for less than 10% of the interviews.

## II. LEGAL ASPECTS CONCERNING KNOW-HOW IN FRANCHISING

**Know-how** allows the character of the franchise contract to be defined and is at the heart of relations between the franchisee and the franchiser. It is therefore a necessary condition in order for the agreement between the parties, and vis-à-vis third parties, to be effective.

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<sup>2</sup> Studies carried out by Masters and Post-graduate students between 1995 and 98.

**It must meet several requirements concerning:**

- Its contents, which can be defined as *the substantial, original and secret knowledge gained by the franchiser from his industrial and/or economic experience. This knowledge should be conceptualized and transposable to another company, the aim being performance improvement.*
- Its transmission; a ‘bible’ must therefore be provided, a necessary but not sufficient condition, and training sessions must be organised.
- Its evolution, because the know-how must not lose its originality so it must be respected, kept confidential and be developed.

**The absence of know-how** permits either the validity of the contract or its qualities to be brought into question and the franchiser, in certain cases, runs the risk of legal sanctions regarding, or not as the case may be, the law dealing with fair trading. The absence of transmission, protection or evolution of the know-how or conversely the failure to respect the know-how transmitted or its disclosure by the franchisee authorizes the injured contracting party to demand the annulment of the contract with payment of damages.

**The franchiser must, therefore, act preventively** in order to ensure the legal security of the contract and his network. From a strictly legal point of view, it is a question of making sure that conditions imposed by regulations and jurisprudence are respected to limit possible appeals, avoid sanctions and avoid running the risk of having to pay compensation.

**The franchiser must transmit to his franchisees** everything which will allow the reproduction of this success but without guaranteeing it. However, it is because a prior success based on original know-how exists that a franchise network can be set up. Recognized good results are therefore a preliminary condition necessary for the creation of the franchise and are also the objective.

Nevertheless, however good the know-how transmitted might be there can never be no risk whatsoever because risk is an inherent part of private enterprise. The failure of the franchisee does not justify an appeal on these grounds alone, if the franchiser can establish that the elements transmitted were intrinsically sufficient to allow success if the relevant know-how was successfully transposed and the good choice and guidance of the franchisees were good .

### **III. INSIGHTS PROVIDED BY SOME MODERN THEORIES RELATING TO COMPANIES**

**2 mains trends in economic thinking can shed light** on the success of franchise networks:

- The first, based on the scarcity of resources, explains that the franchisees provide capital (entry rights, royalties) for the franchiser. The latter can then develop his network rapidly, with little investment, which greatly increases his financial clout. In addition, the franchisee is responsible for all the financial risk relating to the unit he manages.

- The second is based on new theories on companies. As with all living species, the companies which survive are those which are organised in such a way as to distribute their products at the lowest possible price while still enabling them to cover their costs. In order to achieve this, the franchiser reduces costs linked to hierarchical control (the franchisee is motivated because he is responsible for his unit) and those linked to learning the trade (because the franchiser transmits know-how to the franchisee).

The agency theory seems to provide an even more relevant framework for the analysis of franchising. The franchiser (principle) entrusts the management of some of his interests to the franchisee (agent). But the geographic dispersion of the production/distribution of the franchise product leads to a watering down of authority; the franchiser cannot easily check up on what is happening in each one of the units of the network. This distance can tempt certain agents to be opportunist, behave egoistically and try to get the most they can out of the network while thinking only of themselves (laxness concerning quality of service which in the end gains ground affecting the whole network, sale of more lucrative products, etc.). This means that the franchiser must carry out checks and inspections which cost money.

However, a formal and strictly hierarchical structure does not allow the efficient checking of performance, which depends on the feeling of uncertainty of those involved and the appearance of negative behaviour. This is why, as in all hierarchical structures, more informal structures start to appear within franchises, which call on the initiative and commitment of subordinates. The apparition of informal relationships founded on confidence and loyalty between those involved can then be seen, allowing better adaptation to the continual evolution of the market, and therefore reducing transaction costs and improving organisational efficiency.

This vertical distribution of confidence (Wintrobe and Breton) allows the strengthening of networks, all the more so since the lot of the franchiser and the franchisee are interdependent.

#### IV. THE DEVELOPMENT OF THE REPRESENTATION OF FRANCHISERS' KNOW-HOW

It is a question of identifying the factors which characterize the progression from the idea of a 'franchise' to the actual 'franchise'.<sup>3</sup>

**What are the early signs of future success?** The individual first constructs a concrete goal which is an expression of his motivation and therefore of his professional vision. Concretely this need is expressed by two verbs '*to be able*' and '*to have*'. They are used in the following way: 'be able' determines *the social project* and 'have' *the economic project*. The two domains converge and mobilise almost all the individual's resources up to the point of becoming a life plan in which he invests all his will and energy.

<sup>3</sup> Reference to five in-depth interview of representatives from franchises providing rapid repair services and /or selling accessories for cars and to fifty studies on the management of franchises carried out by Masters students between 1995 and 1998.

<sup>4</sup> J Nutin, *La motivation humaine*, PUF, 1985

There are 3 parts:

- the first two describe and explain the development of a franchise seen from the franchiser's point of view
- the third describes the different components of know-how mentioned by the franchisers.

### • THE CONSTRUCTION OF THE INITIAL IDEA OF THE FRANCHISE

This depends on several factors:

- factor 1:* The self-image of the future franchiser
- factor 2:* The person's background
- factor 3:* The person's age
- factor 4:* Educational background
- factor 5:* Type of enterprise: family-run or not
- factor 6:* A group of psychological factors
  - a strong need to achieve
  - a tendency to intervene in business matters as a competitor with ideas for change
  - a positive self-image, justified by both varied and well thought out conceptual abilities
  - an ability to take on and carry out more than the average workload; abundant energy; high resistance to stress; very high level of perseverance
  - a lively intellectual curiosity
  - an ability and need to take decisions
  - a clear idea of responsibility in relation to freedom of decision
  - a taste for 'intelligent' risk taking
- factor 7:* The wish to earn money and/or to be financially as comfortably off as possible, and possibly to be recognized socially due to professional success.

### • THE TRANSITION FROM THE INITIAL VISION OF THE FRANCHISE TO A 'CONCRETE' IMAGE OF THE COMPANY

This is characterized by an overall but very general view of the company which includes the following aspects:

- a sound and material representation of the chosen field of activity and its position regarding competitors
- the operational concept stemming from this representation
- ideas and information on future prospects in the chosen field
- the type of organisation necessary to ensure success

### • THE INTERVIEWS WITH THE FRANCHISERS BROUGHT TO LIGHT THE FOLLOWING:

⇒ 14 points of procedural knowledge

- *nature, layout, site and signposting of the workshops and/or shops selling accessories*
- *equipment necessary for the various diagnoses, repairs and assembly activities*
- *organisation of work stations based on the descriptions of the different types of tasks to be carried out*
- *carrying out diagnoses using computer software*



- *establishing the diagnoses in more detail* with the help of computer software
- *issuing estimates and invoices* using computer software
- *placing orders* using computer software
- *processing deliveries (manual and computerized)*
- *execution of services offered*: e.g., changing tyres, etc.
- *staff wages and pensions*
- *basic safety in the workshop*
- *stock management*, possibly in connection with computer software used for ordering
- *financial management* of purchases and sales (computer software)
- *transfer of knowledge*

The above probably constitute all basic procedural knowledge. Correct usage entails *carrying out procedures in an accurate and conscientious manner*. If this is not the case, results are not obtained (computerized systems) or are approximate.

**⇒ 6 points of mixed know-how**

- *fixing prices*
- *welcoming customers*
- *staff remuneration, based on actual abilities and personal involvement*
- *internal and external communication* particularly regarding actual effect in relation to expectations
- *giving prominence to customers expectations and level of customer satisfaction*
- *developing customer loyalty*

**⇒ 15 points of tacit know-how**

- *analysis and forecasting of the market in the medium term*
- *monitoring economic and technological development*
- *rational and definitive description of useful knowledge for the present and future functioning of the franchise*
- *recruitment of personnel*
- *'fair' remuneration based on collective abilities*
- *internal information destined to create shareable ideologies*
- *motivation of all the personnel*
- *avoiding conflict and/or conflict management*
- *definition of changes and the explanation of these in the medium term*
- *ability to decide 'fairly', 'quickly' and 'far reachingly'*
- *ability to create visions of the future which are can be shared*
- *ability to form useful partnerships*
- *ability to always be curious*
- *ability to know other people and co-operate with them*
- *ability to inspire confidence*

**To conclude**, we state that this base of **35 factors** constitutes a **first acceptable approximation of know-how** as it concerns rapid car repair services. Of course, most of the components above can be broken down into sub-elements which we will not go into here.

## V. POINT OF VIEW OF FRANCHISEES AND INDEPENDENTS WORKSHOP OWNERS AND/OR MANAGERS

**The goal we fixed** was to try to answer the following question, using the representations of franchisees and independent workshop owners and/or managers: 'How can franchising know-how be characterized and evaluated?' Franchising is a concept which initially developed because of the lack of professionals working in the field of replacing exhausts. It has since evolved to offer a multitude of products and services, in order to develop customer loyalty. In the face of increased consumer expectations in terms of rapidity, reliability, price and performance, franchising has evolved in the following 4 directions: providing a comprehensive range of the products and services offered, the ability to respond to technological developments, adaptability and increased productivity.

**Nevertheless, this evolution has only been made possible** thanks to a certain number of technological and organisational innovations. The fact of offering customers a comprehensive service, of high and consistent quality, within a short space of time and at low costs, requires efficient management of the relationships between people (P/P), within the company and vis-à-vis clients, of the relations between people and technical objects (P/TO) as well as relations between objects (TO/TO). The aim of part of the research was to identify and characterize what is specific to the franchises by studying these relationships.

**The method** used is based on the hypothesis that faced with the characteristics specific to the demand (the brand's identity must be a guarantee of quality, rapidity, efficiency and low cost), the franchise adapted by developing specific and standardised procedural and technical knowledge (the standardised procedural knowledge is relatively easy to identify). This hypothesis was verified by analysing data from questions asked at interviews with franchisees and a priori comparable independent workshop owners and/or managers. The ultimate objective was to identify the characteristic factors of franchising know-how and to establish a typology putting the emphasis on the distinction between procedural-technical knowledge and tacit knowledge. The first stage of the analysis (identification), based on the initial survey of 20 questions (about communication, organisation of the company, stock management, organisation of work, pricing and training) consisted in working out elementary units of information (N=238) in order to carry out comparisons of averages and/or principal component of multivariate observations (for quantitative variables) and multiple factorial analyses (for qualitative variables). Significant differences then allowed specific franchising know-how to be characterized. Only P/P and P/TO relations were looked at because of the limited amount of technology used in the field of minor car repairs.

**To summarize, the results led to the identification of three types of company** (type A and type B franchises and independent workshops) characterized by the following points:

⇒ **As far as P/P relationships are concerned**, if environmental know-how is not discriminating, the research brings to the fore two types of discriminating relational know-how: know-how relating to customer satisfaction, and know-how relating to the organisation's cohesion and efficiency.

- **Regards the first point**, type A gives more importance to communication at a national level, generally carried out by network heads in order to reach a large number of people. Independent workshops prefer communication at a local level and type B is placed in between the two extremes. Likewise, the two franchise groups advocate a policy of openness and set themselves apart from independent workshops by clearly displaying prices, opening times, etc. in order to inform customers as best they can. Type A franchises limit telephone conversations with

clients and have customers queue, a simpler and more unambiguous system also in order to be as open as possible. Finally, type A franchises clearly set themselves apart from the two other groups by centring customer relations on a strong loyalty policy. To summarize, type A's particular relational know-how is centred on customer satisfaction, mainly consisting in tempting the customer with a policy of large-scale nation-wide communication, then by customer loyalty schemes using cards and by making known their policy of openness. In addition, this knowledge is relatively standardized.

- As far as the second point is concerned, it can clearly be seen that the 3 groups have come back to focusing on the basic skills of the trade. In fact there was scarcely any difference at a technical level, whereas as far as 'corporate culture' was concerned the franchises had more qualified, but not experienced, staff perhaps to be more easily 'shaped' by the 'network spirit'. This factor is found again in relation to the training policy with a uniform level of basic technical know-how. On the other hand, the organisation of type A franchises is entirely centred on customer satisfaction via commercial training policy at all levels of the hierarchy. In this way they are different from both type B franchises and independent workshops. In addition, training policy follows strict procedures, with training carried out on the network's initiative and by the network. Although there is little internal assessment, all franchisees reported that know-how was well-monitored by the heads of the networks and also that the latter contributed in a substantial way to the transmission of know-how. In group A, and only in group A, this transmission follows strict standardized procedures, saving time and improving efficiency.

P/P relationships are in this way marked by the organisational know-how of type A franchisers, which is thoroughly centred on customer satisfaction, with a well-developed commercial spirit playing the cards of openness and loyalty. However, this is only acquired through a specific and standardized training policy. There is a marked difference between type A franchises and independent workshops, with less of a difference type A and B franchises.

⇒ **As far as P/TO relations are concerned**, only two points showed significant differences, because of the simple basic technology: stock management and analysis of work procedures.

Processes at group B franchises are more standardized (prescriptive) than at independent workshops, and even more so at group A franchises. Type A franchises have a well-defined, computerized stock management policy and ordering system, independent workshops have sporadic inventories and an ill-defined purchasing policy, and group B franchises are in between the two extremes.

The analysis also highlighted the standardized nature of procedures. Moreover, among the tacit criteria ( initial financial capacity, family environment, open-mindedness in terms of markets, competition or innovation, resistance to stress, a taste for power, a taste for money, ability to take decisions and fix goals, and the affiliation to a network) only the criterion 'affiliation to a network' seemed to be discriminating.

⇒ **To summarize**, the processes become increasingly standardized when comparing independent workshops to type B franchises, and then comparing type B franchises to type A franchises. For the latter, one can truly talk of the acquisition of procedural know-how. In addition, unequivocally tacit know-how is of little importance. This confirms the initial hypothesis.

*The analysis carried out shows recent innovations in the franchising domain are not related so much to technical skill as to relational know-how, which is relatively standardized for group A franchises and centred to great extent on customer satisfaction. Thanks to a relevant training policy, the latter have developed principles of customer loyalty and openness, by overcoming common technical constraints through the setting up of procedural know-how for everything concerning P/TO relations.*

## **VI. THE CUSTOMERS' VIEW OF THE KNOW-HOW THEY EXPERIENCED**

Here we wanted to evaluate the differential of the know-how of members of a franchise network compared to the 'common' know-how of independent workshops/. The quantification was done by analysing customer satisfaction in relation to a certain number of criteria characteristic of know-how of whatever type: 'relational' (welcome, explanations, ...), 'informational' (information available, additional offers, ...), that requiring technical ability (respecting deadlines, prices, ...) or 'environmental' (location, layout and equipment, organisation, ...).

## Graph of the averages obtained on a scale of 1 to 5

### Profiles for the 'standard networks' variable

- 33. SITE
- 34. OPENING HOURS
- 35. LAYOUT AND FITTINGS
- 42. WAITING TIME
- 36. WELCOME on telephone
- 38. WELCOME by STAFF
- 46. WAITING TIME AT CASH DESK
- 47. EXPLANATIONS RE INVOICE
- 37. INFORMATION AT ENTRANCE
- 39. PLACING OF INFORMATION
- 44. INVOICE LAYOUT
- 48. SERVICES AND PRODUCTS OFFERED
- 40. REPLIES
- 41. TIME REQUIRED
- 43. PRICES/ESTIMATES

environmental (environm.)  
 relational (relation.)  
 information (info)  
 technical information (tech. info)

very significant difference ( $p < 1\%$ )  
 significant difference ( $p < 5\%$ )  
 type A FRANCHISES  
 type B FRANCHISES  
 independent workshops

An initial comparison of the averages obtained for the 16 criteria used in the survey between all of the franchises on the one hand and the independent workshops on the other shows that the latter are always in a worse position in relation to their franchised counterparts.

A more in-depth analysis, however, brings to light the disparities between the two A and B franchises as defined in the previous section.

*The graph above summarizes, through their illustration, the comparisons made. It can be seen, with the exception of one single criterion (concerning waiting time at cash desks), type A network franchises are rated significantly or very significantly better than independent workshops. The differences between type A and B franchises are still significant, except for some informational know-how.*

When B franchises and independent workshops are compared, the latter are often equally matched with the former. The differences which come to light here, in one direction or in the other, are in fact found to be of little or no significance. However, there are notably three exceptions: the criteria concerning 1) the location of the site, 2) information made available and 3) the price given and the sum actually invoiced.. In all three cases, B franchises are judged to be better than independent workshops by their respective customers.

**As a conclusion to this analysis** we state that *a minimal amount of know-how* linked to the trade *common to all the service providers* exists, whatever their status may be. This know-how concerns the mastery of the technical procedures which are indispensable to the plying of the trade. It allows the different service providers to make use of positive feedback from their clientele.

**The franchisees, particularly type A franchisees,** have in addition acquired *supplementary know-how notably in the commercial field*, allowing them to attract customers (through national publicity campaigns), then have them become loyal customers by providing a higher level of satisfaction.

In fact franchise networks do not content themselves solely with providing a 'technical' answer to the prospective customer's problem, but also apply strategies and make use of know-how capable of living up to his numerous and diverse expectations in terms of 'general comfort'.

Nevertheless, this know-how 'directed towards total customer satisfaction' consists of various elements which all franchisees do not possess to the same extent as our analysis shows.

**The customers' judgements** thus validate the hypothesis of the existence of a know-how differential between franchisees and non-franchisees, but also demonstrates that amongst the different types of franchise networks there is a gradation in this know-how.

## CONCLUSION: THE MODELS

### MODEL A

#### 1. General representation

The study puts forward the existence of **comprehensive know-how** (the field, the extended definition and the aim of the 'concept') considered as a *constellation of elementary units of practical knowledge*. This constellation differs depending on whether it refers to the law, economic theories, franchisers, franchisees or independent workshop owners and/or managers.

- ◆ The franchiser and the franchiser alone is at the origin of the franchise. This means that the development of the representation initially and almost entirely depends on *his general aptitudes*.<sup>5</sup>

*These general aptitudes* (cognitive, relational and emotional) are the fruit of genetics and education (schooling, life, professional experience). One obviously cannot study these aptitudes directly. They are of fundamental importance.

Let us remember that the more **diverse and stronger the aptitudes, the greater the potential for creation, reasoning and taking action will be**. And vice versa.

- ◆ *Next, we can assume the existence of a kernel* consisting of common basic know-how organised in such a way as to reach the goals and objectives set out in the concept of the service. Without this 'basic' know-how, there is no kernel and therefore no 'trade' and consequently no identifiable franchise. There is, at best, a fairly sound company which 'cobbles together' techniques according to how business develops but without any forward planning.
- ◆ *Finally there are one or several circles of peripheral know-how*, original aspects which give added value to the basic knowledge allowing top quality service to be provided.

## 2. The model's operating principles

If one thinks of the franchise (internal and external structures in more or less changeable environments) as a whole in terms of its operation, it is clear that:

- **Medium-sized and small adaptations concern the *specific peripheral* circles of know-how. But in relation to these circles, 2 strategies could be developed:**

- **either modify some elementary know-how** (change or improve it: for example, voice, smile, attentiveness, empathy when welcoming customers, etc.) constituting one or several kinds of **categorial know-how** (for example, welcoming customers, internal communication with franchisees, etc.). If there are a large number of minor peripheral factors, significant improvements in performance can be obtained (the same thing is done better). The franchisees put up little resistance.
- **or modify categorial know-how** (for example, the entire method of welcoming customers). This requires more investment, in either training or communication depending on the particular case. The change is perceived as more focused and of more significance.

- **Modifications of the kernel** (by introducing, suppressing, modifying one or more factors) bring about *a significant or even radical change* (a transformation) which correspond to a major adaptation (invention). They require the franchiser to experiment

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<sup>5</sup> Financial requirements are considered to have been met

at length with a pilot project, rigorous analyses, much more difficult and longer training than previously, etc., and a medium-term vision as well as risk-taking.

It is imperative that the chief executive office and management team be committed to a great extent to the modifications and that they have the support and understanding of the franchisees. If the effort required is too great and does not correspond to relatively easily obtained gains, a great deal of resistance can be expected. If the 'vision' is not defined by franchiser himself and he does not work hard enough at having his 'vision' accepted, the risk of failure is great.

### 3. A model based on rules

We are not aiming for 'perfection' but the 'feasible' and the 'sufficiently satisfactory'.

A first formulation of explanatory rules could be as follows:

KNOW-HOW =                    KERNEL + PERIPHERAL 1 + PERIPHERAL 2  
(basic KH<sup>6</sup>)                    (specific KH)                    (specific KH)

**R1** : 'One' postulates that the inventors of services (for example) have high level general and specific aptitudes.

Rapid car repair services example:

'One' represents franchisee candidates, car dealer candidates and clients.

The fact that the existence of these aptitudes is accepted by the franchisees, and/or independent workshop owners and/or managers is what triggers off confidence which results in them wishing to become franchisees or to remain loyal, if they are already franchisees.

**R2** : There is only a **potentially viable franchise** if, and only if:

- the franchiser can clearly define the services offered
- there is an exhaustive list of the basic know-how necessary to carry out the basic tasks related to the specified services offered and common to all the companies in one given category (in the tertiary sector example): franchises and independent workshops.

**This know-how constitutes the kernel**

Rapid car repair services example:

- changing tyres
- changing shock absorbers
- .....

**R3** : The franchise is conceptually 'legitimate' from the moment it offers its franchisees a clearly identified and sound concept (R1) on the one hand, and the know-how allowing the franchisees to carry out the basic services offered to the customers in the proper and correct way on the other.

Rapid car repair services example:

- suitable premises
- location
- signposting (outside and inside)
- .....

<sup>6</sup> KH = know-how



**R4** : Peripheral know-how in the first circle is responsible for the difference in ways of running the business and for significant results of a rather managerial type (definition of goals, definition of objectives, choice of type of organisation, recruitment, etc.)

Rapid car repair services example:

For example, offer of a type of organisation: 'entrepreneurial' or 'mechanistic', which then characterises the way of running the business.

'entrepreneurial' type	'mechanistic' type
- charismatic franchisers	- powerful technostructure and logistics
- management through leadership	- bureaucratic management based on strict rules and procedures
- direct and frequent contact between the franchiser and the franchisees	- .....
- .....	

**Peripheral know-how in the second circle** concerns rather the technical options which are perceived by the franchisees and final clients to varying degrees but which play a role in the company's success.

Rapid car repair services example:

- Information:
- local and national campaigns in the press
  - fixing of suggested prices
  - technical information
  - where competitors are placed
  - .....

**R5** : All the know-how, consisting of the kernel plus the circles of peripheral know-how, determines the possibility of carrying out fundamental adaptations (change of concept, for example) or adaptations of secondary importance (changing 'details' of differing degrees of importance: quick and relatively small adaptation).

**R6** : The levels and types of actions determine the differences between franchise 'X' and other franchises on the one hand, and independent companies on the other.

**R7** : The judgements of the final clients must, at all times, validate the actions on the three levels considered.

**R8** : Financial results are the driving force which sustain confidence.

Beyond certain critical thresholds of changes, the whole is reorganised but the three-part structure of the model remains the same.

**NB**: This procedure implies:

- putting together various representative samples
- systematic and in-depth interviews with suitable linguistic processing
- statistical monitoring
- considerable and careful training and communication: the driving forces behind change and creativity
- monitoring of technological and economic development

**To conclude, model A is based rather on management given direction by the head of the network.**

As far as the sector we studied is concerned, the analyses carried out in sections 3, 5 and 6 allow the kernel and two peripheral circles (or ellipses) to be constructed *and which are represented here by some of the elements*.

welcome on site	waiting time at cash desk	price quoted	information available	explanations re. services offered
welcome on telephone	replies	information at entrance		estimated time required
explanations re. invoice		basic technical know-how		services and products offered
		choice of site		opening hours
				waiting conditions

The taking into consideration of customers' judgements validates, in all cases, changes to the system (and therefore the resulting behaviour and results) decided by the franchiser.

## MODEL B

**Model B is rather 'customer-led' management.** This does not mean that model A ignores customers. But in the previous model the franchiser, his management team and the franchisees manage with the customers in the background playing a 'secondary' role as indicators of the effects of modifications once they have taken place. The study carried out shows which procedures and techniques were used. As in method A, they were simple and commonly used. As far as the explanations are concerned, their pedagogical implementation is achievable when the type of public is well-defined.

### 1. The general principle

Here we propose the elaboration of a method which allows the quantification of the corresponding differences in a simple form and by type of know-how. This method is based on the results obtained from the customers' evaluations but could be generalised, if necessary, to all the quantitative variables likely to constitute a factor for measuring know-how.

We start from the hypothesis that all know-how implemented in a given sector of activity can be divided up into 'n' types of know-how (concerning technical, communications, informational, relational or other matters). For each type of know-how it is a matter of defining the items of measure (for example, by using a scale of evaluation) of an elementary performance (significant ratio or evaluation of a specific criterion).

## 2. Diagram of operations

These 'N' items grouped together (uniformity measure) by type of know-how will thus result in 'n' variables. The averages of these 'n' variables will be calculated for the 'p' forms of a variable representing the economic units of the sector of activity considered. The averages obtained in this way will be compared to the corresponding average of all of these units. Every time these comparisons (one for type of know-how and for unit to be compared) will constitute an indicator of the differentials of know-how between the entities evaluated. The significant levels will be the levels usually used for variance analysis tests.

The grid below summarizes the method set out above:

Know-how		T1				T2			
Variables	V1	V2	V3	V4	V5	V6			Vn
Averages	aV1	aV2	aV3	aV4	aV5	aV6			aVn
Entities									
E1		aT1,1				aT2,1			
E2		aT1,2				aT2,2			
E3		aT1,3				aT2,3			
E4		aT1,4				aT2,4			
Ep		AT1,p				AT2,p			
All		AT1				AT2			

For the entity  $E_i$  the indicator of know-how  $T_j$  would thus be  $aT_{j,i}/AT_j$  (could be multiplied by a factor of 100 to make comparisons easier).

## CASE OF RAPID REPAIR SERVICES

In the case we studied we obtained the following results for the averages by type of know-how:

Know-how: types of network	54. Accessibility and surroundings	55. General customer welcome	563 General information	62. Technical information
Type A FRANCHISES	4.42	4.59	4.21	4.47
Type B FRANCHISES	4.04	4.27	4.04	4.21
Independent workshops	4.00	4.36	3.77	4.00
ALL	4.18	4.44	4.00	4.23

The indicators obtained (by simple division of each average compared to the overall average) would thus be as follows:

Know-how: types of network	54. Accessibility and surroundings	55. General customer welcome	563 General information	62. Technical information
Type A FRANCHISES	105	103	105	106
Type B FRANCHISES	97	96	101	99
Independent workshops	96	98	94	95
ALL	100	100	100	100

The values were multiplied by a factor of 100.

These indicators of the degree of know-how are comparable to indexes and can be compared over a period of time by fixing a date of analysis as the base period for chronological series.

**For this example it can be concluded that:**

- the results are the same as those obtained previously, that is to say a significantly different degree of know-how for type A franchisees for all of the components of know-how taken into consideration
- type B franchisees do not always surpass the measure of reference (base 100)

This model B can be regarded by franchisees as a specific indicator.

Starting from this model, differentiation thresholds between franchisees and non-franchisees can be the subject of agreements between partners and become standards capable of being constantly updated.

Finally let us remember that what is essential is the representation of customers' evaluations. One can also weight these evaluations by giving coefficients to the different types of know-how.