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SUMMARY

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Principal Topic

The focus of this study is the effectiveness of franchise systems’ strategic behavior. The last decade, the numbers of franchise systems and establishments have been growing rapidly. An important strategic attribute of a franchise system is its “degree of hardness” reflecting the system’s focus on maintaining uniformity of the units of the franchise system versus allowing for local adaptation. We argue that soft franchise systems are relatively successful in local adaptation, and hard systems in exploitation and strategic adaptation. As a result, we expect that, depending on environmental circumstances, hard and soft franchise systems will perform differently. An indicator of this performance is the development of the system’s size, measured by the number of outlets. Theoretical arguments from both the selection and adaptation perspective lead to a number of testable hypotheses.

Method

Our method consists of two steps. First, quantitative data on growth, degree of hardness and environmental dynamism from 53 franchise systems in the Dutch retail industry (1994-2003) are analyzed. Analysis of variance and regression analysis will be used to identify significant direct and interaction effects of Degree of Hardness and Environmental Dynamism. These findings are used to test our hypotheses. Next, data from extensive case research in the Dutch druggist sector and face-to-face interviews in a number of other retail sectors render possible explanations and illustrations of these findings.

Results and Implications

Our quantitative analysis indicates that Degree of Hardness is indeed a major determinant of Franchise Systems’ performance, while Environmental Dynamism has no direct effect. Moreover, the interaction effect is highly significant, indicating that changes in environmental dynamism have different repercussions for harder and softer systems. Theoretical implications of these findings are that in low to moderately dynamic environments the predictions based on the selection and adaptation perspective do hold. In dynamic environments, hard franchise systems outperform softer systems, a finding that supports the adaptation perspective. Insights from the qualitative data indicate that many franchise systems indeed strive to rise their Degree of Hardness, but that it is a complex and long term adaptation process often leading to franchisees’ exits.

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