FRANCHISING; A DYNAMIC GAME WITH INTELLIGENT PLAYERS (INTERACTIVE PAPER)

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INTERACTIVE PAPER SESSION

FRANCHISING; A DYNAMIC GAME WITH INTELLIGENT PLAYERS

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Principal Topic

This paper looks at franchise relationships as a specific form of strategic alliance in which the franchisor and its franchisees interact and adjust to each other over time. As any other organization, franchise partners have to deal with balancing control (‘exploitation’) and innovation/adaptation (‘exploration’). We aim to answer two questions:

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

We distinguish five ‘franchise system characteristics’ on which franchisors have to make strategic decisions in dealing with exploration and exploitation in their systems: positioning, hardness, innovativeness, organization of franchisees’ strategic participation, and growth objectives. On the relationship level, these characteristics determine the franchise partners’ perceptions of strategic compatibility. In the research model, a partner X’s response toward Y depends on: X’s perception of strategic and operational compatibility with Y, X’s perception of alternatives, and switching costs.

Method

The empirical part consists of case studies in four Dutch drugstore systems (including over eighty interviews). For each system two ‘strategic change trajectories’ (SCTs) were studied. During these SCTs the franchisor aimed at changing one or more of the system characteristics, which was expected to result in changes in the franchisees’ perceptions of the relationship, resulting in certain responses toward the franchisor. This paper discusses responses franchisees adopted in reaction to these SCTs, which responses the franchisors adopted in turn, and how these mutual reactions can be understood.

Results and Implications

The results suggest that there are complex and dynamic patterns of interactions between franchisors and franchisees. Franchise partners, especially franchisees, switched between responses over time, resulting in interactions between the franchisor and its franchisees. This demonstrates that franchise relationships are more dynamic and its players are more intelligent than often assumed in the literature so far. The observed interactions between the partners sometimes resulted in large and undesirable differences between the situation as desired by the franchisor and the actual strategic development of the franchise system characteristics. This often led to conflicts and even exits.

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