Franchisee Responses during Strategic Change Processes: an Extension of the Renowned Hirschman Typology

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Abstract

Franchise systems do not differ from other organizational forms in their need to react to an increase in competitive pressure by implementing strategic changes. Although strategy formulation is mainly the franchisor's task, real strategy implementation largely depends on the franchisees. Franchisees are legally independent and intelligent players, who may adopt several responses in reaction to strategic changes initiated by the franchisor. This paper has three main objectives. The first one is to develop a typology of franchisee responses during strategic change processes. The second objective is to present propositions regarding the antecedents of these franchisee responses. The third objective is to develop a research design for studying franchisee responses during strategic change processes.

Keywords

Franchising; franchisee behavior; exit voice loyalty neglect (EVLN) typology; strategic change

1 Introduction

In the past decades, business format franchising has become an increasingly popular entrepreneurial strategy in different industries in various parts of the world (Welsh et al., 2006; Combs & Ketchen, 2003). In business format franchising, a franchisor owns a complete business format –including a shared identity toward customers and detailed operating procedures– and replicates it by allowing other firms (franchisees) to use it in return for fees. The franchise relationship is embedded in a franchise system consisting of the franchisor and its franchised and possibly company-owned outlets all operating under more or less the same business format (Elango & Fried, 1997).

Business format franchising has understandably become so popular because it has the advantages of the standardization of a business format resulting in economies of scale and a consistent quality and presentation for customers, while also benefiting from the entrepreneurial spirit of franchisees operating in their local markets (Kaufmann & Eroglu, 1998; Elango & Fried, 1997). However, for the franchisor, managing a franchise system is a complex challenge since it involves managing a multitude of franchise relationships with legally independent franchisees. We consider such franchise relationships a specific form of strategic alliance in which both the franchisor and franchisee are intelligent players. Franchise relationships demonstrate the core characteristic of inter-firm alliances which is that the alliance partners' aim is to create mutual advantage through interaction, while maintaining their own strategic objectives (Clarkin & Rosa, 2005; Das & Teng, 2002; Koza & Lewin, 2000, Parsa, 1999). The resulting managerial complexities will manifest themselves to the full when the franchisor aims to implement strategic changes in the franchise system, such as adding new product or service groups or changing the unit interiors. Although strategy formulation is mainly the franchisor's task, during the implementation stage the franchisor has to persuade the franchisees to implement the new initiatives (Parsa, 1999; Bradach, 1998). The franchising literature has largely disregarded the issue of strategy formulation and implementation (Parsa, 1999; Elango & Fried, 1997), and it typically, but unjustly, looks at franchise relationships as static relationships, with franchisees as passive and non-intelligent players (Clarkin & Rosa, 2005; Elango & Fried, 1997). We argue that franchisees may have their own strategic objectives and may show various reactions when the franchisor introduces strategic changes to the franchise system.

This paper's <u>objective</u> is therefore threefold:

- To develop a framework for classifying franchisee responses during franchisor-led strategic change processes (we refer to them as SCPs).
- To develop propositions regarding the antecedents of these franchisee responses.
- To develop a research design for an empirical test of the propositions.

The contributions of this paper are threefold. First, as pointed out, the paper contributes to the literature by focusing on a highly relevant but severely under re-

searched topic, namely implementation of new strategies in franchise systems (for exceptions, see Parsa, 1999 and Bradach, 1998). Croonen (2006) has shown that franchisee responses have considerable positive and negative consequences for the effectiveness of strategic change in the franchise system, and therefore it is important to understand the possible range of franchisee responses and their antecedents.

This relates to the second contribution of this paper, namely the development of an overarching framework for understanding the variety of franchisee behavior. So far, authors that have studied franchisee behavior studied only one or a few specific types of franchisee behavior, which are mostly active and overt (e.g., exits and disputes). However, more passive behavior exists as well, and it may even disguise franchisee dissatisfaction and actually herald destructive behavior and conflict (Baucus et al., 1996). In developing our franchisee response typology, we therefore build on Hirschman's renowned exit, voice and loyalty response typology (Hirschman, 1970), which was originally developed for dealing with individual responses to 'decline' in organizations and has subsequently been refined and applied in several contexts (see section 2.1). This typology became known as the so-called Exit, Voice, Loyalty and Neglect (EVLN) typology.

The third contribution of this paper is that we use the EVLN typology in another (and in our opinion better) way than how it has been used so far. For example, we suggest studying actual responses to specific events instead of planned responses to unspecified events.

The structure of this paper is as follows. Section 2 contains a literature review regarding the EVLN typology. We discuss the various contexts in which the typology has been used so far, the definitions of the EVLN response types in the various studies, and the antecedents of these responses in the various contexts. Section 3 then presents a theoretical framework for a specific context: franchisee responses during strategic change processes in franchise systems. Section 4 discusses several considerations regarding research methodology in using the EVLN typology. Section 5 deals with the conclusions of this paper and some implications for future research.

2 Literature Review: Theory and Empirical Evidence

In 1970, Albert O. Hirschman published his well-known book 'Exit, Voice and Loyalty; Responses to Decline in Firms, Organizations and States'. This book became the foundation for the later developed and widely used EVLN typology (e.g. Farrell, 1983). For this literature review, we first conducted a broad literature search on studies using and/or building on Hirschman's work yielding about 125 publications in a wide array of peer reviewed journals. Eventually, we use about 25 of them in this literature review. In this section we address the following topics: contexts in which the EVLN typology has been used, the EVLN types and how they have been defined over time, and knowledge about antecedents of EVLN responses.

2.1 Overview of contexts

Hirschman distinguished three possible types of responses to deterioration and dissatisfaction in organizations (e.g. business firms, voluntary associations, trade unions or political parties). The first response type is *exit*, which refers to the organization's members leaving the job or organization or customers stop buying the organization's product or service. The second type is the *voice* response, which Hirschman (p. 30) describes as "*any attempt at all to change rather than to escape from an objectionable state of affairs...*". The third option suggested by Hirschman is the *loyalty* response referring to patiently waiting for the conditions to improve, trusting the organization to do the right thing. Over time Hirschman's response types have been extended, but before we discuss these refinements we will first provide a brief overview of the contexts in which (extensions of) Hirschman's typology have been applied. Table 1 presents three general categories of contexts in which Hirschman's typology has been used so far.

Table 1: The various contexts in which Hirschman's typology has been applied

Context		Examples
1. Organizational context		
'Intra organizational'	Organizational members (i.e. employees) to their organization (i.e. employer)	Dyck & Starke (1999); Hagedoorn et al. (1999); Turnley & Feldman (1999); Hagedoorn et al. (1998); Mishra & Spreitzer (1998); Farrell & Rusbult (1992); Lee & Jablin (1992); Leck & Saunders (1992); Farrell, Rusbult, Lin, Bernthall (1990); Rusbult, Farrell, Rogers, Mainous (1988); Withey & Cooper (1989); Farrell (1983); Kolarska & Aldrich (1980)
'Inter organizational'	Venture capitalist- portfolio firms	Parhankangas & Landström (2007); Parhankangas & Landström (2004)
	Marketing channels (suppliers and customers)	Ping (2003), Geyskens & Steenkamp (2000), Willenborg (2001), Ping (1999), Ping (1997), Ping (1993)
	Franchise relationships	Croonen (2006)
2. Political and societal context (e.g. union firms, political parties, European Union, municipalites)		Van Ryzin (2004); Langston (2002); Lyons & Lowery (1989), Kweit (1986)
3. Personal context (e.g. romantic and close relationships)		Rusbult, Verette, Whitney, Slovik & Lipkus (1991), Rusbult, Johnson & Morrow (1986), Rusbult, Zembrodt & Gunn (1982)

The first context is the 'organizational context', which refers to intra-organizational contexts (i.e. responses of organizational members/employees to their organizations/employers) as well as inter-organizational contexts (i.e. inter-

firm relationships such as venture capitalist-portfolio firms and marketing channels). The second category is the 'political and societal context', which includes political organizations and societies (e.g. union firms, political parties, the European Union, municipalities). The third one is the 'personal context' involving personal and close relationships with romantic relationships as main object of study.

For this paper we build on EVLN research referring to organizational contexts.

2.2 Overview of Types in the EVLN Typology

In the years after the publication of Hirschman's book, studies by other authors proposed to add a fourth option for dealing with problematic situations next to exit, voice and loyalty responses, namely neglect. Neglect means passively allowing the situation or relationship to deteriorate by 'letting things fall apart' (Farrell, 1983; Rusbult, et al., 1982; Kolarska & Aldrich, 1980). The resulting classification is known as the Exit, Voice, Loyalty, Neglect (EVLN) typology, from which the types can be positioned along two dimensions: the active-passive dimension and the constructive-destructive dimension (e.g. Farrell, 1983). The first dimension indicates the activity of the responses, referring to whether one actively deals with the problematic situation or not. The second dimension distinguishes between responses that are constructive to the relationship or organization, and responses that are destructive to the relationship or organization.

More recently, in a study on employer-employee relationships, Hagedoorn et al. (1999) further distinguished two types of voice responses (i.e. considerate voice and aggressive voice), which has subsequently been adopted by other authors (e.g. Parhankangas & Landström, 2007; Parhankangas & Landström, 2004; Willenborg, 2001). Considerate voice consists of attempts to solve a problem with regard to one's own concerns as well as those of the other partner. Aggressive voice is shown when a partner wants to win without any consideration for the concerns of the other partner. Aggressive voice is more destructive than considerate voice, but less destructive than exit.

In sum, the above developments result in five possible responses to problematic situations; exit, considerate voice, aggressive voice, loyalty, and neglect. Figure 1 presents this typology as it has been used by Hagedoorn et al. (1999).
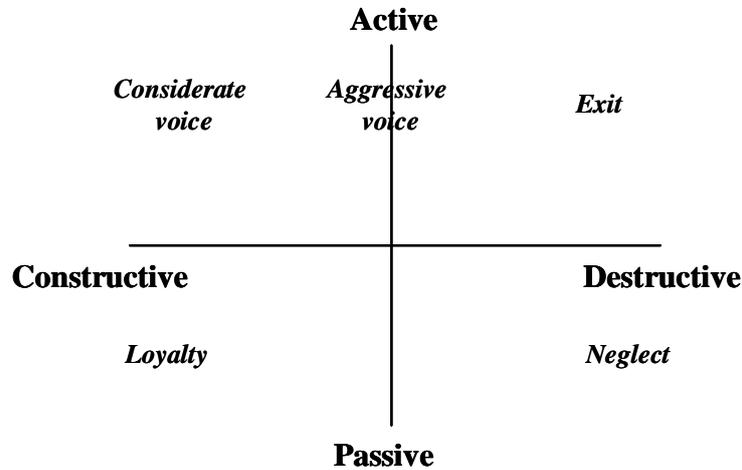
Active

Considerate
voice

Aggressive
voice

Exit

Constructive

Destructive

Loyalty

Neglect

Passive

Figure 1. The 'EVLN typology' as used by Hagedoorn et al. (1999)

2.3 Antecedents of EVLN Responses

The main variable that has been found to explain EVLN responses in organizational contexts is 'satisfaction' with the organization or relationship (e.g. Ping, 2003; Geyskens & Steenkamp, 2000; Hagedoorn et al., 1999; Ping, 1997; Ping, 1993; Leck & Saunders, 1992; Rusbult et al., 1988; Farrell, 1983). Satisfaction is typically seen as a multidimensional construct, the exact content of which depends on the context under study. For example, when talking about satisfaction in an employer-employee relationship, authors have often used the Job Descriptive Index and distinguish five elements of job satisfaction: satisfaction with work, with supervision, with pay, with promotion, with co-workers (e.g. Hagedoorn et al., 1999; Leck & Saunders, 1992). Regarding marketing channel relationships, Geyskens & Steenkamp (2000) distinguish between economic and social satisfaction, with economic satisfaction being a channel member's evaluation of the economic outcomes that flow from the relationship with its partner, and social satisfaction being the channel member's evaluation of the personal contacts and interactions with its exchange partner. A related concept is trust, which (to our surprise) only few authors using the EVLN typology have included as an antecedent (e.g. Willenborg, 2001; Mishra & Spreitzer, 1998).

Next to satisfaction there are two other variables that have proven to be important antecedents of EVLN responses in organizational contexts, namely the 'attractiveness of alternatives' and 'switching costs' (e.g. Willenborg, 2001; Ping, 1993; Farrell & Rusbult, 1992; Lee & Jablin, 1992; Rusbult et al., 1988). These authors have all used different terms for these constructs. For example, the study of Rusbult et al. (1988) shows that there are three primary variables that affect the likelihood of an employee engaging in a specific response: the level of job satis-

faction, the quality of job alternatives (i.e. attractiveness of alternatives) and the magnitude of investment in a job (i.e. switching costs). Most authors have adopted and confirmed these ideas of Rusbult et al. and that is why we include these variables in our framework.

In the following section, we build on the existing EVLN literature and translate it to a theoretical framework (section 3) and research design (section 4) that can be used to classify and understand franchisee responses during strategic change processes.

3 Theoretical Framework: Franchisee Responses during Strategic Change Processes

As pointed out, strategy implementation in franchise systems is a highly relevant but severely under researched topic (Parsa, 1999 is an exception). Such implementation processes can be very difficult because franchisees will have their own objectives and may adopt non cooperative responses toward the franchisor. In order to understand the full range of possible franchisee responses during strategic change processes an overarching framework such as the EVLN typology is needed. To our knowledge, Croonen (2006) has been the first study applying the complete EVLN typology to franchise relationships. In this study, Croonen did extensive case studies on strategic change processes in four Dutch drugstore franchise systems, including interviews with 74 franchisees. In this section, we build on the accumulated body of knowledge on EVLN responses in organizational contexts as presented above and Croonen's (2006) first empirical findings to develop a theoretical framework for understanding franchisee responses during strategic change processes.

3.1 Defining Strategic Change in a Franchise Context

In their article on strategic change in cooperative marketing channels (with a supplier as focal channel member), Lusch et al. (2003) define strategic change as a change process that radically alters the competitive environment for the channel members and requires major adjustments in trade practices without any guarantee of positive benefits. A comparable context is the business format franchising context in which the franchisor is the focal member who administers a system of franchisees that all operate under more or less the same business format. In order to define strategic change in a franchise context we use Croonen's (2006) so-called 'strategic franchise system characteristics' on which franchisors have to make decisions that directly affect the relationships with their franchisees.

The first franchise system characteristic is the system's positioning in the market. From strategic marketing literature (e.g. Sullivan & Adcock, 2002) it can be

derived that each franchise system has to decide on the product-market combinations it wants to compete in, and on its relative position towards competitors.

The second strategic decision relates to a major challenge in franchising, namely finding a balance between maintaining uniformity and local adaptation (Bradach, 1998; Kaufmann and Eroglu, 1998; Dant and Gundlach, 1998). The level of business format standardization (or 'hardness') is the extent to which the franchise units' operations are laid down in operating manuals and procedures that franchisees are obliged to follow. In a 'soft system' there are few rules and procedures and franchisees therefore have more room, whereas in a hard system there are many rules and procedures for franchisees.

The third strategic decision entails the franchise system's rate of innovation. The speed with which innovations can be implemented throughout the franchise system can be a major competitive advantage, which can vary from a low to a high rate of innovation. Bradach (1998), for example, points at the strategic relevance of fast implementation of product innovations ('system wide adaptation'). Additionally, Croonen (2006) demonstrates that it is useful to distinguish between three different adaptation levels: (1) adding new products or services to the business format, (2) adding new product groups and/or service groups, and (3) adapting the business format as a whole.

The franchisor's fourth strategic decision relates to the organization of franchisee strategic participation (Cochet & Ehrmann, 2007; Dandridge & Falbe, 1994). This mainly concerns the presence of a Franchise Advisory Council (FAC), its rights and the degree to which procedures concerning the FAC are formulated. A FAC is an '*elected or selected group of franchisees who meet with representatives of the franchise headquarters to discuss and provide advice on issues of importance to all franchisees*' (Dandridge & Falbe, 1994, p. 43). There is very little research on the role of FACs in franchise systems and their working mechanisms (see Cochet & Ehrmann, 2007 for an exception). The level of strategic participation can vary from very low to very high.

The fifth and final strategic decision entails the growth of the franchise system. The desire to grow is seen as one of the major motives for using franchising in the first place (Combs & Ketchen, 2003). The study of Croonen (2006) shows that it is important to separate quantitative from qualitative growth and to understand that they have different consequences for the franchise relationship. Through quantitative growth, a franchisor aims to grow by means of adding more units to the franchise system, with limited concern for the performance of individual units. As a result franchisees may be confronted with the entry of another franchisee or company-owned unit in their local markets. Through qualitative growth, a franchisor aims at growing by means of improving the performance of existing units and/or by attracting units that fit certain criteria. As a result a franchisee might be required to renovate or relocate his store. A system's growth objectives may vary from low growth to high growth and from mostly quantitative to mostly qualitative growth.

It is important to note that changes in these system characteristics have major implications for individual franchisees. First of all, such changes involve significant alterations in the nature of the franchise relationship, and the franchisee's

perception of 'strategic compatibility' with the franchisor (see section 3.3). Second, changes on these characteristics may involve considerable financial investments by the franchisees (e.g. investments in a new unit interior or exterior, or in new products or services) that may not be economically viable for a group of franchisees. Third, there are hardly any guarantees of positive benefits for these changes.

In short, the franchisor has to persuade the franchisees to support and accept the changes by making the necessary investments and/or to make the necessary adjustments in their trade practices (cf. Lusch et al., 2003).

3.2 A Typology of Franchisee Responses during Strategic Change Processes

We combine sources using the EVLN typology from different organizational contexts and adapt them to a franchise context to delineate the possible franchisee responses to strategic change (cf. Parhankangas & Landström, 2007; Hagedoorn et al, 1999; Mishra & Spreitzer, 1998).

First, the *exit* response refers to the franchisee's intention or actual decision to terminate the franchise relationship (e.g. actively looking for alternatives for the franchise relationship, trying to find ways to exit from the franchise relationship sooner than originally planned). Second, the *considerate voice* response entails the franchisee's active and constructive efforts to improve conditions while taking into account its own and the franchisor's concerns. Third, the *aggressive voice* response refers to a franchisee's active and aggressive efforts to improve conditions without taking into account the franchisor's concern. The fourth response is the *loyalty* response, which refers to the franchisee making the required investments and/or adaptations for the change process with little or no discussion. Finally, the *neglect* response refers to a franchisee's neglect of its duties (i.e. the franchisee does not make the required investments and/or adaptations) to the detriment of the interests of the franchisor.

The study of Croonen (2006) demonstrated that this classification is still too coarse to represent the actual variety of responses adequately. She proposes another response type and several subtypes. First, we discuss the new response type. Almost half of the seventy-four franchisee respondents in Croonen's study were at some point in time in doubt as to how to react to the proposed strategic changes and waited to see what would happen before adopting further responses. Such behavior is a passive response somewhere in between loyalty and neglect, but it clearly does not belong to any one of these two. The difference between ambiguity and loyalty and neglect is that the latter two are clearly constructive or destructive to the relationship or organization, whereas the ambiguity response entails doubt at the franchisee whether he/she wants to maintain or breakup the relationship. Therefore, this response was added as a new response type labeled 'ambiguity'. Ambiguity is a typically temporary state of mind; these franchisees later often switched to other responses such as considerate or aggressive voice, neglect and even exit.

Second, for some main response types further differentiations can be made along two dimensions: the underlying motives and the specific form of the responses. The motives of franchisees turned out to be relevant within the response types of considerate voice and exit. First, about two-third of the franchisees adopting considerate voice felt forced to do so. They did not agree with the strategic plans of the franchisor and felt the need to speak up and try to stop or at least impede the intended changes. This type of considerate voice is in fact an 'impeding considerate voice'. In contrast, the remaining considerate voice responses were adopted by franchisees who agreed with management's strategic plans and wanted to be actively involved in discussing future developments and even wanted to speed up and/or intensify the change process. This response type is actually a 'conducive considerate voice'. Regarding the exit response, the motive also proved to be relevant. A first group of franchisees (covering about one quarter of the exits) experienced that as a result of the strategic change process the attractiveness of the relationship had deteriorated or would deteriorate in the near future. These franchisees mostly owned smaller units in weaker locations, and felt they had no other option than to leave. This type of response is labeled a pressured exit. The second group of exits consists of franchisees seeing greener pastures elsewhere and deciding on a voluntary exit.

Within the aggressive voice and exit response types, variations in the form of the response proved to be relevant as well. For the aggressive voice response a specific form is the collective aggressive voice, in which franchisees join forces to put more pressure on the franchisor. In the cases studied by Croonen, this response was adopted by small, single-unit franchisees, who did not have much power on their own. They collectively wrote letters to the franchisor to file their complaints. Also, the cases indicated that an important difference exists between exiting the franchise system and exiting the franchise relationship. A franchisee can exit a franchise system, but may keep the relationship with the same franchisor, for example by switching to another franchise system of the same franchisor or by keeping the franchisor as a wholesaler. If the relationship with the franchisor persists in one way or the other, the consequences for the franchisor are less negative than when all ties are broken and the relationship ends.

The above considerations result in six main response types: Exit, Considerate Voice, Aggressive Voice, Loyalty, Neglect, and Ambiguity. Figure 2 presents the resulting 'ECALNA typology' (including the sub types). Table 2 provides concise descriptions of the ECALNA response types as we use them.
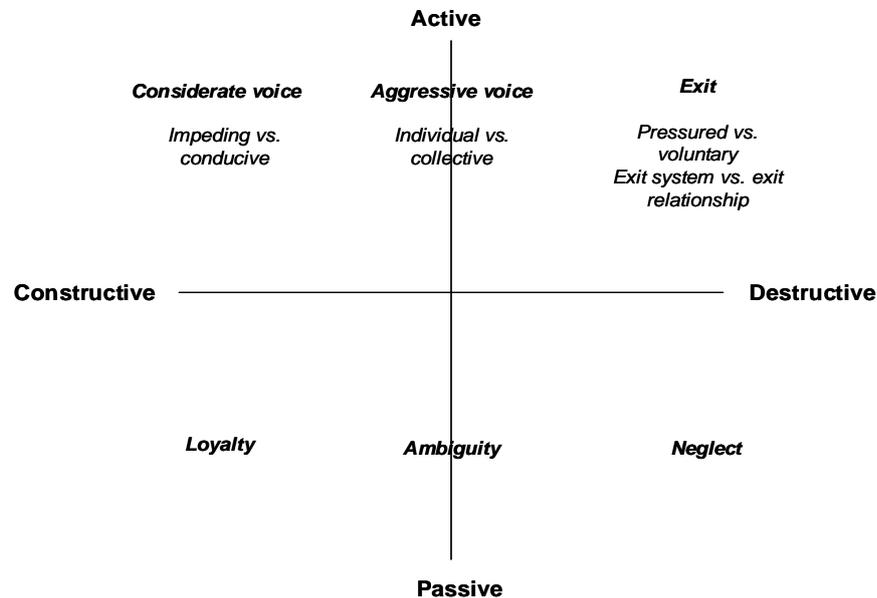
Figure 2: The ECALNA typology (including subtypes)

Table 2. Overview of ECALNA response types' descriptions

Response type	Franchisee behavior (on the basis of Parhankangas & Landstrom, 2007; Hagedoorn et al, 1999, Mishra & Spreitzer, 1998)
Exit	Franchisee intents or decides to terminate the franchise relationship (i.e. actively looking for alternatives, try to find ways to exit from the franchise relationship sooner than originally planned)
Voluntary exit	Franchisee sees greener pastures elsewhere and exits voluntarily
Pressured exit	Franchisee feels forced to exit
Exit franchise system	Franchisee exits the franchise system but remains connected to franchisor
Exit franchise relationship	Franchisee exits the franchise relationship without connections to the franchisor
Considerate voice	Franchisee makes active and constructive efforts to improve conditions while taking into account its own and the franchisor's concerns.
Impeding considerate voice	Franchisee makes active and constructive efforts to slow down and/or restrict the change process.
Conducive considerate voice	Franchisee makes active and constructive efforts to speed up and/or intensify the change process,
Aggressive voice	Franchisee makes active and aggressive efforts to improve conditions without taking into account the franchisor's concern
Individual	Franchisee individually tries to put pressure on the franchisor.

Collective	Franchisees join forces to put more pressure on the franchisor
Loyalty	Franchisee makes the required investments and/or adaptations for the change process with little or no discussion
Neglect	The franchisee neglects its duties to the detriment of the interests of the franchisor (i.e. does not make the required investments and/or adaptations for the change process)
Ambiguity	The franchisee is not sure how to react and waits to see what happens before adopting further responses.

3.3 Factors Influencing Franchisee Responses during Strategic Change Processes

As pointed out in section 2, most EVLN literature (e.g. Rusbult et al., 1988) produces three main independent variables that influence an actor's response to a problematic situation: the actor's satisfaction, the attractiveness of alternatives and the height of switching costs. In case the problematic situation is a change process, such as organizational downsizing, trust in the other party and the perceived fairness of the change process have been found to be relevant predictors as well (Sindhav et al., 2006; Lusch et al., 2003; Mishra and Spreitzer 1998). It is also relevant to acknowledge the identity of the initiating and driving force behind the change. In a franchising context it will make a difference whether the proposed change originates from one or more franchisees (bottum-up) or from the franchisor (top-down). To eliminate this latter factor, this paper focuses specifically on franchisor-led change. A final consideration is that the actual relationship between a predictor and the actor's response is likely to be moderated by the severity of change (Lusch et al., 2003).

It is important to understand the specific complexities of studying trust during organizational change within an inter-organizational relation as in the case of franchising. First, as Lusch et al. (2003) demonstrate, it is useful to distinguish between trust before the organizational change and trust at a later stage, and, similarly, between the effects of trust during the organizational change itself (i.e. support for the change), and after the change (i.e. expected fit with the changed organization). Second, Zaheer et al. (1998) find that personal and inter-organizational trust within specific relationships are different but related concepts. In sum, in this type of research it is important to thoroughly consider both the time-frame (before, during, or after the change) and the level (organization, individual, and/or change process) of specific variables. Considering the above, we propose a model in which the franchisee's response towards its franchisor during an SCP depends on four main variables (Figure 3):

- The franchisee's expected 'compatibility' with the franchisor after the SCP. This relates to the 'satisfaction' variable as it has typically been used in the EVLN literature. As will be pointed out below, compatibility is a multidimensional construct just as satisfaction is.

- The franchisee's perceived 'captiveness'. This is the result of the two other main predictors of EVLN responses; the attractiveness of alternatives and switching costs (e.g. Rusbult et al., 1988).
- The franchisee's trust in the franchisor as the initiator and leader of the change process (Mishra & Spreitzer, 1998; Lusch et al., 2003).
- The franchisee's perception of fairness/justness of the implementation process (following Mishra & Spreitzer, 1998).

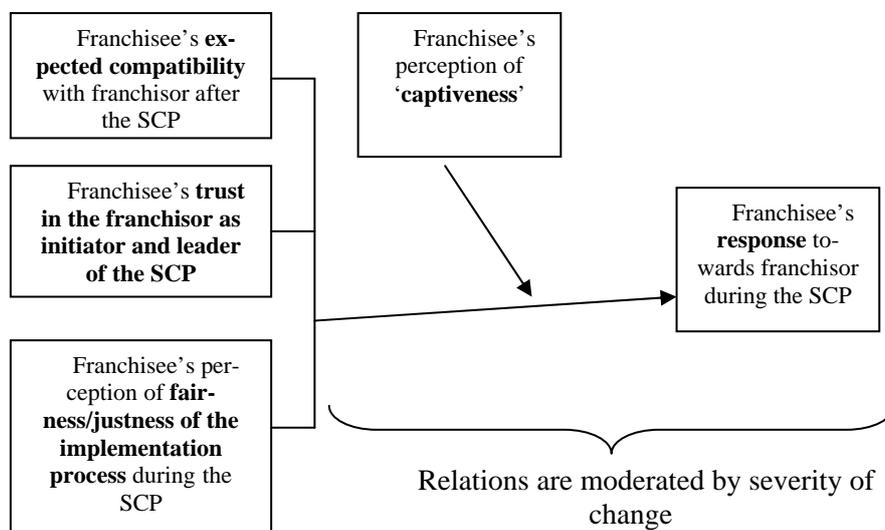The remainder of this section discusses these main variables and their dimensions in more detail.

Figure 3: Theoretical framework for understanding a franchisee's response during a franchisor-led strategic change process (SCP)

<u>Franchisee's expected compatibility after the SCP</u>

Croonen (2006) builds on literature regarding inter-firm alliances (e.g. Niederkofler, 1991; Medcof, 1997) to delineate the dimensions of satisfaction in a franchise relationship. Alliance literature argues that the attractiveness of partners is determined by the compatibility of the alliance partners, which in turn consists of strategic and operational compatibility (Niederkofler, 1991; Medcof, 1997). As Niederkofler (1991) puts it, strategic compatibility deals with the question "Should we cooperate?" whereas operational compatibility is about the ways and means in which the relationship can be implemented in a mutually beneficial way and deals with the question "Can we make it work?". In this study's context of understanding responses to strategic change, it will be the franchisee's expectation

of the future strategic and operational compatibility with his franchisor that will play a major role.

In section 3.1 we have already presented and discussed the five strategic franchise system characteristics that determine a franchisee's perception of strategic compatibility with his franchisor (SC) (i.e. positioning, hardness, rate of innovation, organization of franchisee participation and growth objectives).

For operational compatibility in franchise relationships, Croonen (2006) distinguishes three factors:

- Operational compatibility regarding capability/'competence trust' (Nooteboom, 1999). This refers to the franchisee's perception of the franchisor's capability to carry out its role in the franchise relationship, i.e. the effective management of the franchise system. Important capabilities of the franchisor are: the degree and quality of supporting its franchisees, purchasing, automation, logistics, communication, and information provision.
- Operational compatibility regarding trust and fairness/'intentional trust' (Nooteboom, 1999). Building on Nooteboom (1999) and Krishnan et al. (2006), franchisee trust can be defined as the perception and expectation held by the franchisee that the franchisor will treat him fairly and will not exploit opportunities for opportunism.
- Operational compatibility regarding the profitability of the relationship. This concerns the net returns for the franchisee. A franchisee's profitability of the franchise relationship is the result of the franchisee's turnover of his unit(s) achieved by applying the business format minus the costs of operating on behalf of this business format. These costs include the fees and royalties that have to be paid to the franchisor and investments that need to be made.

The study of Croonen (2006) clearly demonstrates that strategic and operational compatibility are interrelated and should be studied together. For example, when a franchisor aims to increase the franchise system's hardness, this typically implies increased investments and higher cost levels, ultimately influencing the franchisees' expectations of operational compatibility regarding profitability. Similarly, as a system gets harder, the franchise relationship becomes 'more close' and committed, thus increasing the importance of trust and fairness, and also of the supportive capabilities of the franchisor.

A franchisee's expected compatibility is an overall evaluation of the strategic and operational compatibility factors as the franchisee expects them to be after the SCP.

Franchisee's perception of 'captiveness'

The franchisee's perception of captiveness is the result of the franchisee's perception of the attractiveness of alternatives and the costs of switching to these alternatives (e.g. Willenborg, 2001; Ping, 1993; Farrell & Rusbult, 1992; Lee & Jablin, 1992; Rusbult et al., 1988).

Franchisee's trust in the franchisor as initiator and leader of the change process

Very few scholars have dealt with franchisees' perceptions of trust (Dahlstrom & Nygaard (1995) and Bordonaba-Juste & Polo-Redondo (2004) are exceptions). Because of this lack of previous research, this paper builds on studies in related contexts to develop a theoretical framework. We just made a distinction between intentional trust and competence trust as elements of operational compatibility. In evaluating the franchisor's role as a change initiator and manager both types of trust will be relevant as well. First, the franchisee will need a certain level of trust in the good intentions of the franchisor as not having opportunistic motives for the strategic change. Second, the franchisee will need a certain level of trust in the capabilities of the franchisor to manage the change process adequately and to be able to attain the desired goals. These two types of trust are reflected in the four key dimensions of a partner's trustworthiness during change as proposed by Mishra & Spreitzer (1998): concern for the other partner's interests, openness, reliability, and competence. These dimensions may explain why a partner Y would trust his partner X.

Translated to a franchise context, we propose that a franchisee's perception of trust in the franchisor during an SCP is influenced by the franchisee's perception of:

- The franchisor's concern for the interests of the franchisee
- The franchisor's openness (i.e. is the franchisor open and honest about what is happening during the SCP?)
- The franchisor's reliability (i.e. does the franchisor keep its promises?).
- The franchisor's competence (i.e. is the franchisor capable of creating or maintaining the franchise system's competitive position and is it capable of performing its tasks in the franchise relationship?).

The first three factors influence a franchisee's perception of *intentional trust*, while the latter influences a franchisee's *competence trust* in the franchisor.

Franchisee's perception of fairness/justness of the implementation process

Regarding the fairness/justness concept[1], a well-known distinction exists between distributive, procedural and interactional fairness (cf. Cohen-Charash & Spector, 2001).

Distributive fairness, entails an actor's perceived fairness of outcomes. These outcomes can be various, such as promotion decisions or pay reductions in employer-employee relations (e.g. Cohen-Charash & Spector, 2001; Hagedoorn et al., 1998). In a franchise context, franchisees mainly look at the financial outcomes of the SCP and the degree to which they perceive that costs and benefits of the SCP are divided fairly between the franchisees and the franchisor.

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[1] Many authors consider these concepts as closely related and therefore we use these terms interchangeably (cf. Husted & Folger, 2004; Cohen-Charash & Spector, 2001).

Procedural fairness is determined by rules, procedures and governance mechanisms (see for example Husted & Folger, 2004; Cohen-Charash & Spector, 2001). Cohen-Charash & Spector argue that there are six principles that yield procedures that actors would consider as fair during 'allocation processes': consistency, bias-suppression, accuracy, correctability, representation, and ethicality. According to various authors (e.g. Hagedoorn et al, 1998), participation or 'voice' of actors in decision-making processes is a very important element of procedural fairness. In a franchise context, the 'Franchise Advisory Council' (FAC) may serve such a function.

The third form of fairness, *interactional fairness*, relates to the fairness of interpersonal treatment that one receives from an authority figure or decision maker (Schminke et al., 2000). Franchisees perceive their franchisor as interactionally fair to the extent that 1) the franchisor treats the franchisees with dignity, and 2) provides the franchisees with important information about the SCP.

Finally, one moderating variable that is well-known in the organizational change literature should be added, namely the 'severity of change' (Lusch et al, 2003). Strategic change processes in franchise systems will differ in their implications for franchisees (i.e. the degree to which the nature of the franchise relationship changes and the degree to which the franchisees need to make financial investments and adjustments to their trade practices). In other words, SCPs can vary in degree of severity. We expect that a franchisee's perception of severity of the change process will influence its response to the process.

Propositions

The above considerations about franchisee responses and their antecedents can be summarized into the following propositions:

P1:   Franchisees who expect a high <u>degree of compatibility</u> as a result of the SCP are likely to adopt constructive responses.

P2:   Franchisees who perceive a high <u>captiveness</u> regarding the franchisor are likely to adopt constructive responses.

P3:   Franchisees who have a high degree of <u>trust</u> in the franchisor as the initiator and leader of the change process during the SCP are likely to adopt constructive responses.

P4:   Franchisees who perceive the implementation process as <u>fair</u> will be likely to adopt constructive responses.

Then we have a final proposition regarding the moderating variable.

P5:   The relations described in the hypotheses 1 to 4 are moderated by the <u>severity of change</u>.

4 Methodological Issues Regarding Studying Franchisee Responses during Strategic Change Processes

This section discusses several methodological issues that should be taken into account in testing the proposed theory empirically. We discuss the following issues: issues of sampling and data collection and issues of measurement.

4.1 Issues of Sampling and Data Collection

<u>The empirical setting</u>

The first step in empirically testing the proposed theory would be to do a survey among franchisees in one specific business format franchise system that is dealing or has recently dealt with an SCP (i.e. changes in one or more of the strategic franchise system characteristics). Choosing one specific SCP in one franchise system has an important advantage: it eliminates a large part of environmental variation (i.e. there is no variation in industries, franchise systems and change processes).

There are two other considerations that should be taken into account in choosing an empirical setting. First, it is important to select an industry that provides enough alternatives for the franchisees (i.e. competing franchise systems and other alternatives). In case of too few alternatives all franchisees will have similar scores on this variable, which makes it difficult to find any statistical relationships. Second, the selected franchise system should contain a reasonable number of franchisees to provide a sampling frame of adequate size.

<u>Data collection</u>

Once a specific franchise system and change process are selected, an important step is to first conduct a qualitative study to gain a better understanding of the specific characteristics of the franchise system and its SCP, and to develop process descriptions of the SCP. This will help in understanding the context in which the survey takes place and that helps in interpreting the survey's results. Such qualitative study should at least include in-depth interviews with representatives (i.e. CEO and managers) from the franchisor's organization regarding the franchisor's objectives for the SCP, the severity of the SCP and the implementation of the SCP. Additionally, in order to obtain a better understanding of the franchisees' perspective regarding the SCP, we suggest to interview at least the Chair of the Franchise Advisory Council (FAC). To further increase the validity of the process descriptions, these data should be complemented by a study of secondary sources such as strategic plans, the franchise contract and handbook, and trade magazines (Yin, 1994). Moreover, this qualitative study may - in combination with a pre-test of the survey among a few franchisees of the franchise system - lead to an improved survey.

The next step is to send a survey to all franchisees of the selected franchise system with questions regarding their expectation, perceptions and responses regarding the SCP (see section 4.2). There are several instruments that can be used to maximize the response rate. First, the survey can be announced to the franchisees in a newsletter and at a meeting of the FAC (to show that the FAC supports the research). Second, we expect that an electronic survey that is distributed via the franchise system's intranet will increase the response rate because it is easier to use for the respondents. However, the exact effectiveness of this method depends on the ICT skills of the franchisor and the selected franchisee group, and the degree to which anonymity of respondents can be guaranteed. In case franchisee anonymity regarding the franchisor can not be guaranteed it is probably better to send franchisees a mail survey because some of them might not want the franchisor to see their answers. A third instrument to increase the response rate is to send a reminder or to make a phone call to non-respondents after two weeks. A final instrument to increase the response rate is to promise the respondents a summary of the study's results.

4.2 Issues of measurement

The survey should focus its questions on the period that a specific SCP was introduced to the franchisees and should contain items about the franchisees' perceptions of the four independent variables and the severity of change, and the franchisees' position within the ECALNA-typology at a certain point in time (see Table 3). Since Likert-type measures (i.e. five-point and seven-point scales) are very common in the EVLN literature we suggest using such measures in the survey.

Below we will discuss the considerations regarding the measurement of the specific variables.

Table 3. Overview of variables and items to include in the empirical study

	Variable name	Dimensions	Sources for items
Dependent variable	**Franchisee's response towards franchisor**	- Exit (voluntary/pressured and exit relationship/exit system) - Considerate Voice (impeding/conducive) - Aggressive Voice (individual/collective) - Loyalty - Neglect - Ambiguity	e.g. Parhankangas & Lanström (2007, 2004), Willenborg (2001), Hagedoorn et al (1999) There are no items yet for the ambiguity response and all sub types
Independent variables	**Franchisee's expected compatibility after the SCP**	Franchisee's expected: Strategic compatibility regarding: - Positioning - Hardness - Rate of innovation - Franchisee strategic participation - Growth objectives Operational compatibility regarding: - Profitability - Franchisor capabilities - Trust and fairness	Croonen (2006)
	Franchisee's perception of captiveness	Franchisee's perception of - Attractiveness alternatives - Switching costs	e.g. Willenborg, 2001; Ping, 1993; Farrell & Rusbult, 1992; Lee & Jablin, 1992; Rusbult et al., 1988
	Franchisee's trust in the franchisor as leader during the change process	Franchisee's perception of franchisor's: - Concern for franchisees' interests - Openness - Reliability - Competence	e.g. Schoorman, Mayer & Davis (2007), Lusch et al., 2003; Spreitzer & Mishra (1999); Zaheer et al. (1998)
	Franchisee's perception of fairness of the implemen-	- Distributive fairness - Procedural fairness - Interactional fair-	e.g. Li, Bingham & Umphress

	tation process	ness	Schminke, Ambrose & Cropanzano (2000); Folger & Konovsky (1989)
Moderator	**Franchisee's perception of severity of change**	Franchisee's perception of severity of the change	Lusch et al (2003)

<u>Measures for the responses</u>

Because of their proven validity, we suggest sticking as closely as possible to existing EVLN items from different organizational contexts, but of course they should be adapted to the specific franchising context.

In one important aspect we suggest to take a different approach than existing EVLN literature. Far the most authors using the EVLN typology have typically asked their respondents how likely it is that they will adopt a certain reaction toward their partner or organization in case of a hypothetical 'problematic event' (e.g. Hagedoorn et al., 1999, Geyskens & Steenkamp, 2000). We see two problems with this. First of all, there can be a wide range of 'problematic events' varying in their degree of severity and implications, and respondents will differ regarding which event they have in mind when answering the questions. A better approach has been used by Hagedoorn et al (1998) and Parhankangas & Landström (2007, 2004) who described specific hypothetical problematic situations or 'scenarios' to the respondents and then asked how likely it was that they would adopt certain responses. In this paper we suggest to focus on one specific event (i.e. a strategic change process) and ask all respondents about this specific event.

The second problem with the current use of the EVLN typology is that respondents are asked how likely it is that they will respond in a certain way. Because there can be a huge difference between planned and actual responses we argue that it is better to ask respondents about how they have actually responded to an event instead of asking about planned responses.

<u>Measures for the independent variables</u>

Regarding the first independent variable, the franchisee's expected compatibility with the franchisor, there are no items yet that can be used directly. For developing the items, the qualitative study of Croonen (2006) can be used.

The second variable is the franchisee's perception of captiveness regarding the franchisor, which is the result of the franchisee's perception of the attractiveness of alternatives and switching costs. Since these are important variables in the

EVLN literature, there are several items available (e.g. Willenborg, 2001; Ping, 1993; Farrell & Rusbult, 1992; Lee & Jablin, 1992; Rusbult et al., 1988).

The third variable is the franchisee's trust in the franchisor as the initiator and leader of the change process. As pointed out in section 3.3, in using trust items researchers need to take into account the time-frame (i.e. before, during or after the change) and the level of trust (i.e. organizational, individual or the change process). Although their trust items are used in other organizational contexts, Schoorman et al. (2007), Spreitzer & Mishra (1999), Lusch et al (2003), and Zaheer et al. (1998) provide items on these different levels with acceptable validity and reliability.

The fourth and final variable is the franchisee's perception of the fairness/justness of the implementation process. Regarding fairness there are several valid and reliable items available in the psychology and business literature, of which some focus on all three forms of fairness and others focus on only one or two of them (e.g. Li et al., 2007; Schminke, Ambrose & Cropanzano, 2000; Folger & Konovsky, 1989).

Measures for the moderator

Lusch et al. (2003) provide a five-point scale measure for a cooperative marketing channel member's degree of belief that a change process would require changes in his store that would be burdensome. This measure can also be used in a franchise context to indicate the franchisees' perception of severity of the change.

5 Conclusions and Implications

This paper has shown that the EVLN typology has been used in a variety of contexts, and that the franchising context is another context in which this typology can be applied. In this paper we have built on the EVLN literature regarding organizational contexts (i.e. intra and inter organizational contexts) and a study by Croonen (2006) to develop a framework for classifying and understanding franchisee responses during strategic change processes. This has resulted in 1) an adapted version of the EVLN typology (the so-called 'ECALNA typology'), 2) a set of propositions regarding the antecedents of these responses, and 3) insights into methodological considerations regarding empirical tests of the framework. Below we discuss several implications of our paper and some suggestions for future research.

First of all, our paper contributes to the refinement of the renowned EVLN framework. It stimulates researchers who have previously used this typology to reconsider it in their own research contexts (e.g. employer-employee relationships, marketing channel relationships, venture capitalist-portfolio firms). This reconsideration applies both to the response types that can be distinguished (i.e. addition of our new response types and subtypes), and to the way the typology can be applied (i.e. actual responses to specific events instead of planned responses to unspecified events). Moreover, researchers might be stimulated to apply our new ECALNA

typology to other contexts in which the EVLN typology has not been used before, such as other types of strategic alliances or small firm networks.

Second, our set of propositions regarding the antecedents of franchisee responses during strategic change processes contributes to the franchising literature in the sense that there has so far been very little scientific research regarding strategic change processes in franchise systems. This paper is only a first step and our propositions should be tested empirically. Moreover, there is much more to study about strategic change processes in franchise systems. This paper only focused on classifying and understanding franchisees' responses at a specific moment in time. However, for further research a more longitudinal approach would be very beneficial since a change process takes time (several months or even years). The study of Croonen (2006) has shown that franchisees often change their responses during the change process over time and it would therefore be interesting to trace patterns in these responses. Additionally, Croonen's study has shown that franchisors in turn adopt responses toward their franchisees during SCPs, resulting in dynamic interactions between twe franchise partners that influence the effectiveness of the change process. This leads us to a final suggestion for future research, namely the question how the resulting interactions between franchisors and franchisees influence the SCP's effectiveness.

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