Trust and Fairness in Franchise Relationships

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Abstract
Very few studies have investigated the antecedents and consequences of trust and fairness in franchise relationships. Trust and fairness become especially important when a drastic change in the context of a relationship occurs. This paper therefore aims to generate theory about how franchisees' perceptions of trust and fairness influence their responses toward their franchisors during franchisor-led strategic change processes. On the basis of case studies regarding eight change processes in four Dutch drugstore franchise systems, the paper distinguishes a new form of trust in a franchise context: 'franchise system trust' and discusses five instruments that franchisors can 'institutionalize' in their franchise systems to influence their franchisees' perceptions of franchise system trust. The results also demonstrate that franchisees' perceptions of distrust and unfairness result in destructive responses toward the franchisor.

Keywords
Franchising, trust, fairness, justice, strategic change

1 Introduction

In recent years, research has shown that trust, justice and fairness are critical components of inter-firm alliances (e.g. Krishnan et al., 2006; Luo, 2005; Bachmann, 2001). For many years, transaction cost economics (TCE) has had a profound effect on alliance research by providing insight in appropriate (i.e. the most efficient) governance structures that can be used to manage dependence. However, TCE largely ignores social-psychological aspects of transactions such as trust (Husted and Folger, 2004; Nooteboom, 1999; Ring & Van de Ven, 1994). Since trust brings about good faith in the intent, reliability and fairness of another actor's behavior, it reduces the potential for conflict and destructive behaviors and it encourages smooth information flows, which positively influences the satisfaction of actors (Sindhav et al., 2006; Cohen-Charash & Spector, 2001) and the performance of alliances (Krishnan et al., 2006).

However, the importance of trust may vary among alliance forms. Krishnan et al. (2006) argue that the importance of trust in relationships increases with the degree of interdependence between the partners. The more the partners' contribu-

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tions are intertwined, the more likely it is that any change one partner makes will affect the other partner in unplanned ways and the more immediate and severe the adverse impact of any mistake (intentional or not) by a partner (Nooteboom, 2002). In sum, when investigating the role of trust in inter-firm alliances it is important to look at specific alliance forms since alliance forms differ in their degree of interdependence between the partners.

This paper focuses on business format franchise relationships as a very specific form of inter-firm alliance. In such relationships, a franchisor owns a business format –entailing 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 as the central actor and its franchised and possibly company-owned outlets all operating under more or less the same business format. The intensity of cooperation between franchise partners can vary in terms of 'degree of hardness' (Kneppers-Heijnert, 1988; Croonen, 2007). In hard franchising, cooperation is established by a large number of rules and obligations for the franchisees that entail almost all fields of business, while in the soft form the cooperation is subject to fewer rules and franchisees have more freedom This degree of hardness relates to an important tension for franchisors, namely that of standardization of the business format versus allowing for local adaptations (Kaufmann & Eroglu, 1998; Bradach, 1998). Since cooperation in the hard form is closer and many interdependencies between the franchise partners exist, it is expected that the harder the franchise system the more important issues of trust and fairness are. Moreover, research has shown that concerns of trust, fairness and justice become especially important when a drastic change in the context of a relationship occurs (Sindhav et al., 2006; Lusch et al., 2003). In such situations outcomes are uncertain and a certain degree of trust between partners is needed because each of them cannot foresee the returns to be shared.

This paper's contribution is twofold. First, even though research has increasingly shown that trust is critical in inter-firm alliances, there have so far been very few studies investigating the antecedents and consequences of trust within franchise relationships as a specific alliance form (see Dahlstrom & Nygaard, 1995 and Bordonaba-Juste & Polo-Redondo, 2004 for exceptions). The literature has often considered franchise relationships from economic perspectives that rather focus on efficiency and formal governance structures than on social-psychological processes and the role of trust in these relationships (Clarkin & Rosa, 2005). Additionally, the literature has largely considered franchise relationships as static with franchisees as passive and non-intelligent players (Elango & Fried, 1997; Clarkin & Rosa, 2005). However, franchisees have their own ideas about their franchise relationships and they may adopt various types of responses toward their franchisors. Research in other organizational contexts (e.g. Husted & Folger, 2004) has shown that perceptions of distrust and unfairness may lead to destructive responses that may negatively influence the performance of the organisation or relationship. It is highly likely that franchisees' perceptions of distrust and fairness will result in destructive responses toward their franchisor that may negatively impact the performance of the franchise system. The second contribution relates to the fact that the franchising literature has largely disregarded issues of strategic change (for an exception see Parsa, 1999). This lack of attention is odd since in today's environment of rapid technological and market changes, shortening product life cycles and changing customer tastes strategic adaptation – including that of business formats – has become increasingly important.

In sum, this paper's objective is to generate theory about how franchisees' perceptions of trust and fairness influence their responses toward the franchisor during franchisor-led strategic change processes. More specifically, it aims to answer the following research questions:

- What forms and levels of trust and fairness can be distinguished from the franchisee's perspective?
- What are the antecedents of franchisees' perceptions of trust and fairness during franchisor-led strategic change processes?
- How do these perceptions influence the franchisees' responses toward the franchisor during these processes?

The paper is structured as follows. Section 2 first discusses different forms of trust, fairness, and justice to deal with the variety of definitions and perspectives present in literature, and it then presents a theoretical framework for understanding franchisees' perceptions of trust and their influence on franchisee behaviors during strategic change processes. Section 3 deals with the methodological choices concerning the case studies that were conducted regarding eight 'strategic change trajectories' ('SCTs') in four Dutch drugstore systems. Section 4 discusses the results of these case studies, and section 5 presents the conclusions and a discussion.

2 Theoretical backgrounds

2.1 Trust, fairness, and justice: formsand levels of analysis

In the last decade, mainstream management literature has increasingly focused on topics of trust, fairness and justice. However, most scholars have treated issues of trust on the one hand and fairness and justice on the other hand as separate concepts. Exceptions are Krishnan et al. (2006), Mishra & Spreitzer (1998), and Brockner & Siegel (1996) who discuss the relations among trust and fairness and justice. They argue that an important element of trust is the expectation held by one partner that the other will treat him just or fairly. Regarding the concepts of fairness and justice there is more agreement; many authors consider these concepts as closely related since they often use these terms interchangeably (cf. Cohen-Charash & Spector, 2001; Husted & Folger, 2004; Luo, 2005). This paper also uses the terms interchangeably by using the term 'fairness'.

Social exchange theory forms a good starting point for discussing the concepts of trust and fairness in inter-firm alliances in general and specifically franchise relationships. This theory was initially developed to examine interpersonal exchanges that are not purely economic. Its originators (e.g. Homans, 1958; Thibaut & Kelley, 1959) viewed people's social behavior in terms of the exchange of resources, which is the result of resource scarcity. They viewed social exchange as an ongoing *reciprocal* process in which actions are the result of reactions of others. It includes socio-psychological processes of sense-making that influence the partners' interactions in relationships. Blau (1964, p. 4) provides the following description: '*The concept of social exchange directs attention to the emergent properties in interpersonal relations and social interaction. A person for whom another has done a service is expected to express his gratitude and to return a service when the occasion arises. Failure to express his appreciation and to reciprocate tends to stamp him as an ungrateful man who does not deserve to be helped. If he properly reciprocates, the social rewards the other receives serve as inducements to extend further assistance, and the resulting mutual exchange of services creates a social bond between the two*.'

Social exchange is different from economic exchange because as regards the latter there is always some economic value that is exchanged, while in social exchange this either may or may not be the case. In economic exchange the benefits of the exchange are often contracted explicitly, while social exchange is more about implicit obligations. Because of this implicitness and the risk of free riding, trust plays an important role in the social exchange perspective. A degree of trust among the exchange parties reduces anxiety and enables reciprocity to develop over time (Das & Teng, 2002). However, trust also involves a certain degree of risk: when an actor decides to trust another actor, he will have expectations regarding the latter's future behavior, and he may be disappointed in this respect (Das & Teng, 2002; Nooteboom, 1999).

The originators of the social exchange perspective mainly focused on social exchanges between individuals. In later years this perspective was extended to organizational and inter-organizational levels (e.g. Cropanzano & Mitchell, 2005). Ring & Van de Ven (1994) were among the first scholars to develop a model of inter-organizational relationships in which the abovementioned social-psychological processes play an important role. They argue that such processes are central to managing alliances, and that the way in which individuals negotiate, execute and modify the terms of the alliance strongly influences the degree to which parties judge the alliance to be equitable[2] (i.e. fair, EC) and efficient. One important issue Ring & Van de Ven point at is the issue of 'fair dealing', which goes beyond rational and economical calculations. It includes the sociological meaning of 'indebtedness', meaning that among parties in organizations or among alliance partners there can be social norms or obligations. Other authors (e.g.

[2] This term originates from Adams' equity theory (Adams, 1965). Several authors see this as an early form of justice theory focusing only on distributive justice and therefore in recent years equity theory has been replaced by justice theory (Husted & Folger, 2004).

Nooteboom, 1999; Schoorman et al., 2007) would refer to this as 'intentional trust' or trust in the other partner's 'integrity' next to 'competence trust' (i.e. trust in the other partner's capability to fulfill his role in the relationship).

When intentional trust is concerned, an important element is a partner's perception and expectation that another partner will treat him fairly. It is widely recognized (see Cohen-Charash & Spector, 2001 for a meta-analysis) that a partner's fairness perception involves three elements: 1) distributive fairness; i.e. the perceived fairness of outcomes, 2) procedural fairness; i.e. the perceived fairness of the rules, procedures and mechanisms by which outcomes are arrived at, and 3) interactional fairness; i.e. the interpersonal side. Scholars disagree whether interactional fairness is a separate form of fairness or part of procedural fairness (Cohen-Charash & Spector, 2001). This paper considers it a separate form of fairness relating to the way rules and procedures are carried out (Husted & Folger, 2004).

Bachmann (2001) is another author who discusses the role of trust on an inter-organizational level. He states that an important distinction can be made between so-called 'system trust' or 'institutional-based trust' and the so-called 'personal trust' or 'process-based trust'. *System trust* is mostly based on institutional arrangements. One classical example is the trust that economic actors have in the universal usability of money, which enables the efficient functioning of economic systems. In contrast, *personal trust* is likely to develop when individual actors frequently have face-to-face contact and become familiar with each others' personal preferences and interests without the extensive use of institutional arrangements. An interesting question that can be posed is how trust can be understood on an intermediate level, namely the (inter)organizational level. Nooteboom (1999, p. 28) argues that '*organizational trust is a constellation of behavioral trust* (i.e. personal trust, EC), *with organizational structure and culture acting as institutions that limit and guide behavior of staff*.' Nooteboom refers to this organizational trust as 'system trust', while other scholars use this term when referring to the higher institutional level. This might be confusing, and therefore this paper uses the term 'personal trust' on the individual level, 'organizational trust' on the (inter-)organizational level, and 'system trust' on the level of the wider 'socio-economic system'.

To summarize, this paper distinguishes two forms of trust in inter-firm alliances: competence trust and intentional trust. Three levels of trust can be distinguished: personal trust, organizational trust and system trust. This paper focuses on the (inter)organizational level and adopts the following definition of (inter)organizational trust (on the basis of Nooteboom, 1999 and Krishnan et al., 2006): *Trust is the perception and expectation held by a firm that another firm is able to fulfill its tasks in the relationship and will treat it fairly (i.e. in terms of outcome, procedural and interactional fairness) and it will not exploit opportunities for opportunism even if it is in his interest to do so.*

2.2 Antecedents of franchisees' perceptions of trust and fairness

Very few scholars have dealt with franchisees' perceptions of trust (Dahlstrom & Nygaard (1995) and Bordonaba-Juste & Polo-Redondo (2004) are exceptions), and regarding franchisees' perceptions of *fairness* there are no studies at all. Because of this lack of previous research, this paper builds on studies in other contexts to develop a theoretical framework for understanding these antecedents. A useful framework is the one by Mishra & Spreitzer (1998) who distinguish the following key dimensions of a partner's trustworthiness; a concern for the other partner's interests, competence, openness and reliability. These dimensions may explain why a partner Y would trust his partner X. Translated to a franchise context, it can be argued that a franchisee's perception of trust in the franchisor is influenced by the franchisee's perception of:

- The franchisor's[3] concern for the interests of the franchisee (i.e. does the franchisor take into account the franchisees' interests and does it act not only in its own interests?).
- The franchisor's openness (i.e. is the franchisor open and honest about what is happening?)
- 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.

Regarding the concept of fairness, this paper uses the well-known distinction of distributive, procedural and interactional fairness (e.g. Cohen-Charash & Spector, 2001) to understand franchisees' fairness perceptions. On the basis of this general literature, factors are discussed that are expected to influence a franchisee's perception of distributive, procedural and interactional fairness.

As pointed out earlier, the first form of fairness, *distributive fairness,* entails an actor's perceived fairness of outcomes, which is closely related to Ring & Van de Ven's (1994) concept of 'fair dealing'. 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 franchise relationship (i.e. profitability) and the degree to which he perceives that costs and benefits are divided fairly between him and his franchisor.

Regarding the second form of fairness, *procedural fairness*, rules, procedures and governance mechanisms form important antecedents (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. These principles can be translated to a franchise

[3] When the term 'franchisor' is used, this refers to the management of the franchisor's organization.

context in which franchisees have to deal with a franchisor-led strategic change process. This results in the following six principles:

1) The consistency principle; stating that procedures during the strategic change process should be consistent across franchisees and over time.
2) The bias-suppression principle; stating that personal self-interests of the franchisor and its representatives should be prevented from operating during the strategic change process.
3) The accuracy principle; referring to the quality of the information presented to the franchisees during the strategic process.
4) The correctability principle; dealing with the existence of opportunities to change unfair decisions.
5) The representatives principle; stating that the needs and opinions of all franchisees should be represented in the decision making regarding the strategic change process. 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. Such a council refers to 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 scientific literature studying the role of FACs in franchise systems and their working mechanisms (see Chochet & Ehrmann, 2007 for an exception).
6) The ethicality principle; according to which the strategic change process must be compatible with fundamental moral and ethical values of the franchisee.

The third form of fairness is *interactional fairness*, which relates to the way rules and procedures are actually carried out. An important element of this is formed by the justification of decisions made (Bies & Shapiro, 1988).

2.3 The influence of perceptions of trust and fairness on franchisee behaviors

Previous studies have shown that actors' perceptions of distrust and unfairness may result in negative responses, such as stealing or exiting the organization or relationship (e.g. Husted & Folger, 2004). It would be very useful to classify actors' possible responses to perceived (un)fairness since these response types may have different consequences for the organization or relationship.

Some scholars have conceptualized (e.g. Husted & Folger, 2004; Mishra & Spreitzer, 1998) and empirically investigated (e.g. Hagedoorn et al., 1998) the influence of actors' perceptions of trust and fairness on their responses toward their organization or supervisors. These authors have all used the so-called Exit, Voice, Loyalty, Neglect (EVLN) framework of which Hirschman (1970) is the originator, and that has been applied and refined in various contexts in the last decades.

Hirschman distinguishes three types of responses to 'problematic events': exit, voice and loyalty. Exit refers to ending the relationship, while voice refers to actively expressing and discussing one's problems with the intent of trying to improve conditions. Loyalty refers to remaining silent and confident that the problematic conditions will improve by giving things some time. In subsequent years, other authors have added a fourth option: neglect, which means passively allowing the relationship to deteriorate by letting things fall apart (e.g. Farrell, 1983). 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. More recently, in a study on employer-employee relationships, Hagedoorn et al. (1999) have made a further distinction between considerate voice and aggressive voice. 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. Figure 1 presents the typology of Hagedoorn et al.

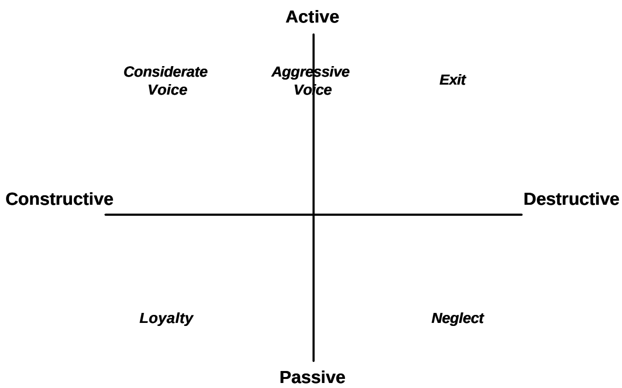

Fig. 1 Typology of responses in relationships (Hagedoorn et al., 1999, p. 312)

Following earlier studies regarding trust and fairness perceptions and EVLN responses in other organizational contexts (i.e. Husted & Folger, 2004; Mishra & Spreitzer, 1998; Hagedoorn et al., 1998), it is expected that franchisees' perceptions of *dis*trust and *un*fairness (i.e. outcome, procedural and interactional) result in destructive responses toward their franchisor, while franchisees' perceptions of trust and fairness will result in constructive responses toward their franchisor during strategic change processes.

3 Methodology

This paper is part of a larger study regarding interactions between franchise partners during strategic change processes (see Croonen, 2006). Since trust and fairness turned out to be such important topics during strategic change processes in franchise systems, the current paper specifically focuses on the results regarding trust and fairness. This section discusses the design of the study.

3.1 Preliminary study

The project started with a preliminary study consisting of two phases. In the first phase, a review of national trade magazines and fifteen exploratory interviews within various industries provided a first validity check of the theoretical model and enabled the selection of a suitable industry. The Dutch drugstore industry was the choice for the empirical setting. This industry is characterized by a longstanding tradition of collaboration, which has led to franchise systems and other forms of commercial cooperation having a huge market share. Also, this market has shown some major changes during the last decades of the twentieth century, intensifying the need for strategic change among the existing franchise systems. The preliminary study's second phase included interviews with all seven Dutch drugstore franchisors (administrating a total of eleven franchised drugstore systems) and several franchisees per franchise system to get a good insight into the history and characteristics of the industry and its main players. These data were used to develop a case-study design including various protocols in order to increase the reliability and construct validity for the study (Yin, 1994). The case-study design includes selection of cases and their embedded units of analysis (Yin, 1994), data collection and measurement, and issues of analysis and conclusion drawing. These issues are discussed below.

3.2 Case selection

The four selected franchise systems (DA, STIP, ETOS and UED, see Table 1) are the larger and older Dutch drugstore franchise systems. Each of them had in the recent past gone through strategic change processes and was involved in such a process during the data collection (2001-2004). Within these systems, two types of embedded units of analysis exist: specific strategic change processes (called 'Strategic Change Trajectories' or SCTs) and specific franchisees for each of these SCTs. For the selection of SCTs, the study followed a 'dual methodology' (Leonard-Barton, 1990) and selected one SCT that had occurred in the past and a contemporary SCT for each franchise system. The SCTs were numbered 1 through 8 (see Table 1). During all SCTs the franchise system's degree of hardness (i.e. the degree of obligations for franchisees) increased, combined with changes in other strategic characteristics of the franchise system, such as a higher positioning and a higher rate of innovation. For each SCT, the aim was to select two franchisees for each of the five response types (see Figure 1), giving a total of eighty respondents. Each franchisor representative provided a first list of names, but in order to achieve an adequate number of respondents of every response type franchisees were asked to provide additional names (snowballing). Sometimes it was not possible to achieve the target set, for example, during SCT5 no franchisees adopted an exit response. In total, ninety-one franchisees were contacted, seventy-four of which agreed to cooperate (see Table 1).

Table 1. Overview of Franchise Systems and their SCTs

Information about the franchise system (name of system, its franchisor, starting year, number of stores in 2003)	**Description of SCT**[1] (number and description, SCT starting year)	**Number of respondents**[2] (# franchisees, # franchisor representatives)
DA by Dynadro BV 1942 +/- 700 stores (including +/- 70 luxury DA D' Attance stores)	SCT1: Toward business format thinking (1992).	13 3
	SCT2: Integration and renegotiation (2002).	12 2
STIP by Dynadro BV 1989 +/- 110 stores From 2004, STIP was integrated into the DA system.	SCT3: Reanimation (1992).	8 3
	SCT4: STIP's integration and renegotiation (2002)	14 2
ETOS by ETOS BV 1918, franchising since 1988 +/- 440 stores (including +/- 200 company-owned stores	SCT5: Two -front attack (1996)	10 1
	SCT6: Introduction of the four-worlds format (1998)	16 2
Uw Eigen Drogist (UED) by Brocacef BV Early 1990s +/- 130 stores	SCT7: Prospective acquisition (1997)	9 1
	SCT8: Some hardening (2002)	19 2

1) The even numbered SCTs are contemporary, the odd ones are past.
2) The number of franchisee respondents adds up to one-hundred and one. However, actually seventy-four different franchisees were interviewed, but twenty-three of them were interviewed about two SCTs within one system, and three about two SCTs within different systems. Several franchisor representatives were interviewed more than once (up to three times).

3.3 Data collection and measurement

The data collection consisted of interviews with representatives from the franchisor's organization (i.e. managers and CEOs), interviews with franchisees, observation during visits, and a study of written documents such as strategic plans, franchise contracts, format handbooks, year reports, and information published in trade magazines. This extensive data triangulation aimed at enhancing the internal validity of the study (Yin, 1994).

The interviews were all held in the respondent's office or store and took about 70 to 90 minutes each. All interviews were structured face-to-face interviews with mainly open-ended questions and were recorded on disk. Respondents were asked about their perceptions of their franchise relationships (including perceptions of trust and fairness) at various points in time (i.e. before the SCT, when the SCT was introduced, and the time period after the introduction of the SCT), as well as about their actual and planned responses and their reasons for these perceptions and responses.

For measuring the explanatory variables, extant literature in combination with context specific information from the preliminary study provided a list of sub variables and indicators (see Croonen, 2006). The response variable was measured using an adapted version of the instrument that Hagedoorn et al. (1999) developed and tested. A first adaptation was the translation of the instrument (consisting of 34 items) to the specific case context. A second adaptation concerns the specificity of the measure. Hagedoorn et al. asked respondents: "Would you indicate how likely it is that you would react to a problematic events in the described ways?". In contrast, the present study asked the franchisees an open question about how they had *actually* responded through time to a *specific event* (i.e. a specific SCT), and then further questions were asked to position the franchisee's responses in Hagedoorn's EVLN-typology (by using items specified for a franchise context).

3.4 Data analysis and conclusion drawing

The large amount of data collected was analyzed following detailed protocols. (following Miles & Huberman, 1994). First, case narratives provided descriptions of the developments during the SCTs from both franchise partners' perspectives. Second, multiple data displays at different degrees of aggregation were developed to present the data of each SCT in a standardized way (see Croonen, 2006 for the precise analysis steps).

4 Results

4.1 A new form of trust in franchise systems: 'franchise system trust'

The case studies indicate that for a franchise context a new level of trust should be added to the three levels that have been distinguished in section 2.1. This new form is referred to as *'franchise system trust'*. This entails an intermediate level between 'organizational trust' and 'system trust'. In short, it refers to a franchisee's perception and expectation that his franchisor runs the franchise system in a fair and effective way. Figure 2 presents the five levels of trust in a franchise context (from a franchisee's perspective) resulting from the case studies. The remainder of this subsection discusses these different levels and provides illustrations from the case studies.

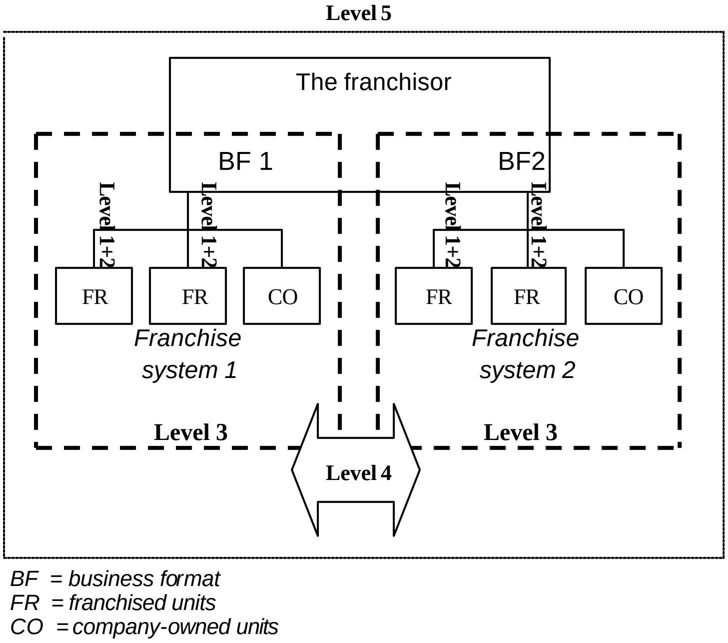

Fig. 2. Levels of trust in a franchise context

Level 1: Trust on the interpersonal level (personal trust)

Personal trust entails trust of the franchisee in specific representatives from the franchisor's organization. The cases indicate that personal trust is considered important by franchisees, but in a hard franchise system it is not sufficient. This became especially clear at DA, STIP and UED where the franchisor aimed to increase these systems' hardness. Even though several franchisees of these systems had had high degrees of personal trust with specific franchisor representatives, due to these systems' increasing hardness this did not suffice anymore. When the systems were soft, a low degree of trust did not really matter to these franchisees since they had much freedom in running their businesses and therefore felt not very dependent on the franchisor. When the franchisor aimed to introduce more franchisee obligations, franchisees had to make certain specific investments and felt they became more dependent on their franchisor and trust in the franchisor became more important. This result fits with Krishnan et al.'s conclusion that the importance of trust in inter-firm alliances increases with the partners' interdependence (Krishnan et al., 2006). Due to the increase in hardness, the franchisees wanted more trust in the *organization* of the franchisor and its franchise system instead of in *specific franchisor representatives* because these representatives could leave the organization, which frequently occurred in the case studies.

Level 2: trust on the inter-organizational level (inter-organizational trust)

The inter-organizational level of trust entails the individual franchise relationship. At this level the most important issue from a franchisee's perspective is that he perceives that costs and benefits of his franchise relationship are divided fairly between him and his franchisor. This relates to Ring & Van de Ven's 'fair dealing' (Ring & Van de Ven, 1994). At DA and STIP several franchisees used to have a low perception of fair dealing for a long time because they had the idea that their franchisor aimed to receive extra royalties by charging higher prices on franchisor services for the franchisees, such as purchasing prices, automation systems. The franchisees considered these 'implicit charges' as very intransparant; they did not know what the real costs were and what the additional charges were. However, this low perception of fair dealing only became problematic after several obligations regarding purchasing and other franchisor services (to which the implicit charges applied) were introduced by the franchisor during the change process.

Level 3: trust on the franchise system level (franchise system trust)

The third level is the new level of 'franchise system trust'. This level relates to the fact that an individual franchise relationship is embedded in a franchise system consisting of several other franchised units and possible company-owned units. In other words, a franchise system is a specific form of socio-economic system, which may or may not entail certain institutional arrangements.

Franchisees expect that their franchise system works in a fair and effective way, that their franchisor takes the franchisees' interests into account, and that their franchisor does not exploit opportunities for opportunistic behaviour. The cases clearly indicate that franchisees consider the following principles of procedural fairness as very important; the consistency, the bias-suppression, the accuracy and the representatives principle. The cases have provided several examples in which these principles were not met in the franchisees' opinions, which ultimately resulted in destructive franchisee responses.

The importance of the *consistency principle* becomes especially clear from the DA and STIP systems since there were rumours and suspicions that certain franchisees could buy goods from the franchisor more cheaply. Additionally, this applied to the enforcement of certain obligations; DA and STIP franchisees sometimes felt that their franchisor was permissive to particular franchisees, resulting in a perception of unfairness. Another important issue regarding consistency was membership of the Franchise Advisory Council (FAC). At DA and STIP certain franchisees, who had been appointed by the franchisor to the FAC, had been FAC members for a very long time, and other franchisees felt that these FAC members were favored by the franchisor. This was due to a lack of procedures regarding the FAC's organization. This relates to the *representatives principle;* due to the lack of procedures and rules regarding the FAC a large group of franchisees felt that their needs and opinions were not adequately represented in the decision making process regarding the strategic changes. At DA and STIP this was considered especially important due to the cooperative structure in which the DA and STIP franchisees were also the owners of the franchisor's organization. Regarding the *bias-suppression principle,* at DA and STIP some franchisees felt that the franchisor did not consider the franchisees' interests but mostly considered its own interests. This was mainly due to these franchisees' perceptions of 'implicit charges' and that they felt that the franchisor reaped too many benefits from the franchisees in order to finance management's too expensive cars and an expensive headquarters. Regarding the *accuracy principle,* franchisees at UED, DA and STIP sometimes perceived the franchisor's information provision regarding the change process as inadequate, and they therefore did not invest in the proposed changes and waited to see what would happen next before adopting any further responses toward the franchisor.

Level 4: trust among systems of the same franchisor (inter-system trust)
This level of trust is only relevant in situations where the same franchisor administers more than one franchise system, which was the case with DA and STIP. Several STIP franchisees believed that their payments to the franchisor were invested in DA and not in STIP. This notion was reinforced by the low transparency in the way costs were calculated. Additionally, the STIP franchisees also perceived unfairness from a more 'psychological perspective': they felt they received less attention and believed that the franchisor put fewer efforts into them because their stores were too small and not profitable enough.

Level 5: trust in the wider institutional context (system trust)
Finally, 'system trust' refers to the level of the wider institutional framework, in which factors such as legal regulations influence actors' trust in the wider 'socio-economic' system. This relates to Dahlstrom & Nygaard (1995) who argue that trust between franchise partners may emerge due to institutional mechanisms in specific countries, such as legislation, to safeguard transactions ('institutional-based trust').

The new form of franchise system trust turned out to be the most important form of trust that the franchisees take into account (especially in a hard franchise system) which is why the next sections deal with this form of trust. Section 4.2 discusses antecedents of franchisees' perceptions of franchise system trust that arose from the case studies and proposes various instruments that franchisors can 'institutionalize' within their franchise systems to create, maintain or increase franchisees' perceptions of trust and fairness.

4.2 Antecedents of franchise system trust

Franchise system trust entails both competence and intentional trust. From a franchisee's perspective, competence trust in the franchisor refers to the franchisor's capability of effectively managing the franchise system, for example in terms of offering attractive purchasing prices or good training facilities. The case studies indicate that franchisees mostly consider these franchisor competences as 'given' and do not expect much differences with the competences of the other drugstore franchisors. Therefore, this form of trust did not have an important influence on the franchisees' responses toward their franchisors. However, the franchisees under study did differ in their intentional franchise system trust (and this influenced their responses). This subsection therefore focuses on the antecedents of the intentional elements of franchise system trust.

The presence of company-owned units

An important antecedent of a franchisee's perception of franchise system trust seems to be the presence of company-owned units in the franchise system. Of the four systems under study, ETOS was the only system that had company-owned units, but their presence was very important for the ETOS franchisees. At ETOS, the company-owned units were used to convince the ETOS franchisees that the franchisor also ran a risk. The franchisees trusted that adaptations to the business format would be beneficial to their stores because management believed these adaptations were also beneficial to the company-owned units (otherwise management would never introduce them). ETOS management deliberately aimed for a certain division between company-owned and franchised units. It wanted the turnover of the ETOS company-owned units to be at least fifty-one percent of the ETOS system's total turnover. Franchisees were also aware of this goal, and they mentioned it quite often when explaining why they were convinced to adopt certain strategic changes. One franchisee pointed at another advantage of company-owned units as follows: '*Because ETOS has company-owned units, the goods we sell need to produce profits; therefore the interests of ETOS and its franchisees run parallel*.' This relates to the fact that at ETOS the purchasing prices were the same for the franchisees as for the company-owned units (which was monitored by an accountant). Because of the company-owned units, the ETOS franchisor itself had an interest in keeping the purchasing prices as low as possible, and the franchisees trusted that the franchisor would try very hard to do this. At DA and STIP the franchisees thought that the franchisor's wholesaling interests prevailed, resulting in irritation when obligations were introduced (to which certain purchasing prices were attached). At UED wholesaling also formed an important part of the franchisor's income, but no problems arose here because at the time of the study there were only few obligations for franchisees.

The use of company-owned units seems an important instrument for franchisors to increase or maintain their franchisees' perceptions of franchise system trust. The cases provide several clues for under what conditions this instrument works effectively. First, the franchisor needs to have a significant share of company-owned units, otherwise it can not convince franchisees. On the other hand, it seems that the share of company-owned units should not be too large because then the franchisees might feel that the franchisor will be guided too much by its company-owned units. It seems that there is some kind of 'optimum' for the share of company-owned and franchised units in a system. Second, franchisees have to be aware of the advantages of company-owned units for this instrument to work. A third condition that needs attention is the type of units that the franchisor owns; sometimes ETOS franchisees complained that ETOS only had company-owned units at profitable locations in large city centres and therefore was not aware of what was going on at the types of locations franchisees where mostly located (centres of smaller towns and suburbs).

The organization of the FAC

A second factor influencing the franchisees' perceptions of franchise system trust is the way participation or 'voice' of franchisees in strategic decision-making processes is organized. This refers to the existence of a FAC, and the degree and types of procedures around the functioning of this FAC. The cases indicate that in case of a high or increasing degree of hardness franchisees want to be 'compensated' for this by means of a higher level of organization of their strategic participation, because they want to make sure their interests are taken into account during the SCT. At ETOS, there was a high level of the organization of strategic participation, which was, however, considered less important because of the ETOS' company-owned units. At DA and STIP strategic participation was considered as important due to its cooperative structure and the increasing obligations, but because it was ill-organized the perception level of franchise system trust was low. At UED the organization of franchisee strategic participation had always been low, but because of UED's softness franchisees did not consider this a problem.

It seems that a high level of franchisee strategic participation positively influences a franchisee's perception of franchise system trust. Especially when a franchise system does not have company-owned units, or only a small share of them, or when it has a cooperative structure, it is likely that franchisees consider strategic participation as very important. The case studies demonstrate that franchisees consider at least the following procedures as important regarding the organization of the FAC: procedures for selecting franchisees as members of the FAC (e.g. elections instead of FAC members being selected by the franchisor), procedures concerning the replacement of these members (e.g. that FAC membership is restricted to a maximum time period), and procedures regarding the rights of the FAC (e.g. is the FAC allowed to vote for or against certain decisions, or is it only allowed to give advice?)

The way of calculating fees

The ways in which fees were calculated influenced the franchisees' perceptions of trust in their franchisor. This became clear when comparing DA/STIP and ETOS regarding this issue. The franchisor of DA/STIP based a large part of its fees on turnover levels and franchisees therefore felt that the franchisor was tempted to increase turnovers without taking into account the costs and the resulting profitability of the franchisees. Next to this, franchisees felt that the franchisor aimed to receive extra royalties by charging higher prices for purchasing, automation or contracts with builders, and these 'implicit charges' also gave franchisees a perception of unfairness. In the ETOS system, with even more requirements, there were fewer problems concerning fairness because franchisees considered the costs as more transparent. Moreover, because ETOS calculated fees over the purchasing value, franchisees felt that their franchisor did not have an interest in increasing turnover levels at any cost. Additionally, purchasing prices were the same for company-owned and franchised units, and this was monitored by a third party (an accountant). At UED franchisees paid a fixed fee and so the franchisor could not undertake actions to influence the height of the fee.

Procedures regarding automatically sent-in goods
In the Netherlands, it is common practice that franchisors automatically send goods to their franchisees. This was also the case at DA/STIP and ETOS. At ETOS, franchisees had the right to send back automatically sent-in goods. According to the ETOS franchisees, with this rule the ETOS franchisor showed its conviction that a certain product would sell, and when it would not work the franchisor would accept the losses. At DA/STIP franchisees could not send back the goods, and therefore franchisees sometimes had to face losses, which they perceived as unfair.

The role of third parties
A final factor influencing franchisees' perceptions of franchise system trust, which turned out important in the ETOS case, is the role of third parties. For reasons of competition, the ETOS franchisor withheld information regarding purchasing prices from its franchisees. However, management guaranteed that franchisees paid the same purchasing prices as ETOS did for their company-owned stores. Due to this guarantee the franchisor would not be tempted to charge higher purchasing prices to franchisees and to sell a great deal of low-margin products. An accountant monitored whether the franchisor kept this promise. The ETOS franchise contract stated that every year an accountant of ETOS had to issue a declaration about the correctness of ETOS' purchasing prices as presented toward its franchisees. Additionally, an accountant selected by the FAC was allowed to monitor ETOS' accountant.

4.3 Trust and franchisee responses

This section discusses how the franchisees' perceptions of franchise system trust influenced their responses toward their franchisor during the strategic change processes. Although other factors – such as the franchisees' satisfaction with their franchise relationships' profitability, the franchise system's strategic positioning, degree of hardness and innovativeness, the attractiveness of alternatives and the costs of switching to these alternatives – largely influenced the franchisees' responses (see Croonen, 2006), the case studies indicate that the franchisees' perceptions of trust and fairness played an important role in their responses toward the franchisor during the SCTs.

In every system there were franchisees who perceived low degrees of trust and fairness; however at ETOS and UED there were only few while at DA and STIP there were several. These franchisees mostly adopted destructive responses during the SCTs, such as neglect, exit or aggressive voice. It is interesting to see that at DA and STIP only the franchisees who adopted considerate voice perceived a high degree of trust and fairness. An explanation for this is that the 'considerate voice franchisees' were closely involved in strategic participation and had close relationships with management and therefore were more aware of management's intentions and justifications regarding the SCT. The DA and STIP franchisees who adopted a loyalty response in reaction to the franchisor's introduction of the SCT often had a medium degree of trust. However, as the SCT evolved and more obligations were introduced these franchisees' loyalty became more 'ambiguous', and these franchisees did not know how to react anymore[4]. When the franchisor introduced even more obligations trust became more important and these franchisees with medium degrees of trust gradually shifted to more destructive responses, such as exiting the franchise system.

In short, the cases indicate that high a degree of trust leads to constructive franchisee responses (considerate voice and loyalty), while low and medium degrees of trust and fairness, especially in a hard franchise system, lead to ambiguous loyalty and ultimately to destructive responses (aggressive voice, neglect and exit). This fits with the results of Hagedoorn et al. (1998) who found that negative reactions are more likely when outcomes and processes are considered unfair.

5 Conclusion and discussion

This paper provides some first insights regarding franchisees' perceptions of trust and fairness and their influence on these franchisees' responses during franchisor-led strategic change processes. First of all, it can be concluded that in a franchise context five levels of trust can be distinguished, of which franchise system trust seems to be the most important one. Second, the paper has distinguished five instruments that franchisors may 'institutionalize' in their franchise systems in order to create, maintain or increase their franchisees' perceptions of franchise system trust. However, more insights are needed in how exactly and under what conditions these instruments work. There are various opportunities for future research regarding these instruments. For example, what kind of procedures are needed for a FAC so that it increases franchisees' perceptions of franchise system trust? Under precisely what conditions does the instrument of company-owned units (i.e. the plural form) help to increase franchise system trust? What are other instruments that may help in increasing franchise system trust among franchisees, and how do they work?

This paper's third and final insight is that the cases support the results of Hagedoorn et al. (1998) that perceptions of distrust and unfairness are likely to result in destructive responses. However, since there are various other variables that influence franchisees' responses toward the franchisor during strategic change processes much more research is needed regarding the relationships between franchisees' perceptions of their franchise relationships on several dimensions and their responses toward their franchisor. An important question is: how important are trust and fairness compared to other variables? For example, some DA and STIP franchisees trusted their franchisor, but they adopted an exit response because the costs of accepting the changes were too high for them. Croonen (2006) has provided a first insight into relevant factors that influence franchisee responses during

[4] This 'ambiguous loyalty' is a new response type that should be added to the existing EVLN framework on the axis between loyalty and neglect (see Croonen, 2007). However, it is out of the scope of this paper to discuss this in detail.

strategic change processes, but these factors need to be tested on a larger scale and more attention is needed for 'contextual variables'. Such context variables (e.g. personal characteristics or store attributes), influence how franchisees perceive and behave in their relationships. For example, research has shown that people differ in the degree to which they consider trust and fairness as important (Cropanzano & Mitchell, 2005), and this ultimately influences their responses.

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