Managing Cooperatives, Franchises, and Alliances in International Business

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Abstract Over the last three decades, the management of networks has become an important research field in international business, organizational economics, and international marketing. The current book presents new theoretical perspectives and empirical results on the management of cooperatives, franchise and retail chains, and alliances in international business.

Governance and management of networks, such as cooperatives, franchises and retail chains, alliances, joint ventures, public–private partnerships, supply chain networks, and networks in digital and sharing economy, have become important research topics in international business, organizational economics, international marketing, and organization theory over the last three decades (Grandori and Soda 1995; Nooteboom 1999; Miles et al. 2005; Gulati 2007; Karantininis and Nilsson 2007; Alon 2010; Ménard 2013; Ehrmann et al. 2013; Greve et al. 2014; Meyer and Wang 2015; Windsperger et al. 2015, 2020; Hendrikse and Feng 2013; Hendrikse et al. 2017; Sundarararjan 2016; Gray and Purdy 2018; Jell-Ojobor et al. 2022).

The current book addresses theoretical and empirical perspectives on the management of cooperatives, franchise and retail chains, and alliances in international business by focusing on the following topics:

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1. *Cooperatives*: Board structure variety in cooperatives, evolution of product portfolio of cooperatives versus investor-owned firms (IOFs), cognition and incentives in cooperatives, communication openness, information exchange, horizontal ties in farmer–buyer relationships, and management of innovations in producer organizations in India.
2. *Franchises and Retail Chains:* Franchise systems in the information age, empowerment and decision-making in franchise networks, retailer's location choice and positioning strategy, sources of conflicts in franchising, franchise vs. independent retail and service stores, and gender differences and entrepreneurial orientation of franchisees.
3. *Alliances:* Principles of intra-organizational networks and organization design theory, market entry through multilateral networks in developing countries, quality management and performance in supply chain relationships, internationalization of e-service firms, and sharing economy and inter-organizational cooperation in the tourism sector.

An initial version of the papers was initially presented at the ninth international conference on Economics and Management of Networks (*EMNet*—https://emnet.univie.ac.at/) that was held online from September 23rd to September 24th, 2021. The purpose of the conference was to provide an international discussion forum for research in economics and management of networks.

The book is structured in three parts:

Cooperatives
Franchises and Retail Chains
Alliances

1 Cooperatives

Owners of an enterprise may be investors, suppliers, buyers, employees, families, governments, or foundations. A cooperative consists of a society of members and an enterprise, where the former owns the latter. Special about a cooperative in a supply chain is that the society of members and the enterprise are in adjacent stages of the supply chain, i.e., the society of members consists of either upstream sellers or downstream buyers of the cooperative enterprise. It entails that the members have an ownership as well as a transaction relationship with the cooperative enterprise. For a cooperative to thrive in the competitive process, it must create at least as much value as other organizational forms (Alchian 1950).

There are three sources of superior value for a cooperative. First, the organization of the members in the society of members may create superior value, e.g., (horizontal) coordination between the member firms, learning in the society of members, the organization of social capital, establishing focus, and the selection of members. Second, the exchange relationship between the society of members and the cooperative enterprise may be a source of superior value. Examples are countervailing power, elimination of double marginalization, market access and assurance, trust, (vertical) coordination, reducing price volatility, and providing a yardstick regarding prices. Third, the cooperative enterprise may create superior value due to a commitment to certain behavior. This commitment resides in aspects of the member firms and the rules of governance of the cooperative. A crucial aspect of member firms is the portfolio of assets of the members, which is responsible for providing member services by the cooperative enterprise and the single origin constraint in the diversification behavior of the cooperative enterprise. Examples of the governance of the cooperative enterprise are the member delivery policy, the member remuneration policy, financial structure, representation in the general assembly, board composition, cooperative principles, and competition and tax policies. The five articles regarding cooperatives in this book address various aspects of these sources of value.

Hendrikse and Nilsson address the relationship between the Board of Directors, as representative of the society of members, and the management of the cooperative enterprise. They examine why agricultural cooperatives exhibit different principles for the allocation of decision rights between the Board of Directors and the Management. A mass-action interpretation of the Nash equilibrium in an investment proposal game shows that, on the one hand, board structure variety is an equilibrium outcome while, on the other, the Traditional model (the board has full control) and the Management model (the professional management makes up the Board of the cooperative society) perform better than the Corporation model (the Management is in full control of the cooperative firm).

Deng and Hendrikse highlight the diversification behavior of the cooperative enterprise. They develop an agent-based model to address the relationship between the ownership structure of an enterprise and the evolution of its product portfolio. The coherence and evolution of a product portfolio is operationalized by transition rules regarding the Moore environment. The distinguishing feature of a cooperative is the single origin constraint according to Cook (1997), which is modeled as a cooperative assigning an infinite lifetime to the first product in its product portfolio, while all other products have finite lifetime. All products of an investor-owned firm (IOF) are assumed to have finite lifetime. The simulation results show that the single origin constraint pulls the activities of the cooperative in one cluster centered on the first activity, while the IOF's product portfolio develops in a centrifugal way. The cooperative and the IOF are more diversified in a mixed duopoly.

The study of *Wei and Hendrikse* investigates the design of the contract of the manager of the cooperative enterprise by the society of members. They extend the results of Feng and Hendrikse (2012) by investigating the relationship between cognition and incentives in cooperatives versus investor-owned firms (IOFs) in a multi-tasking principal-agent model. The principal chooses the incentive intensity as well as the precision of monitoring, while the agent chooses the activities. The authors show that a cooperative is uniquely efficient when either the synergy between the upstream and downstream activities or the knowledgeability of the members regarding the cooperative enterprise is sufficiently high.

Widadie, Bijman, and Trienekens highlight the exchange relationship between the society of members and the cooperative enterprise. They investigate the direct and indirect effect of open communication, information exchange, and intra-organizational ties on the quality (trust, satisfaction) and continuity (commitment, dependence) of the vertical relationship between farmers and their buyers. Data were collected in the Central Java and Yogyakarta provinces of Indonesia. The results demonstrate that open communication and information exchange improve relationship quality, while intra-organizational ties (only relevant for producer organization—PO—members) improve both relationship quality and relationship continuity. Moreover, open communication, information exchange, and intra-organizational ties indirectly influence relationship continuity through relationship quality. The paper adds to the literature by distinguishing between relationship quality and relationship continuity in the value chain and by investigating the impact of intra-organizational ties in a PO on the vertical buyer–farmer relationship.

Many of the explanations of poor or superior performance of cooperative enterprises lie in their governance and management. In the search for a better legal form of organization of small producers, the Producer Company (PC) was born as a legal provision in the early 2000s in India. In his paper, *Singh* examines the governance of the society of members in the performance of the cooperative enterprise with case studies. The NDDB's Milk Producers' Companies (MPCs) in terms of governance innovations were designed by the promoting entity—National Dairy Services (NDS) of National Dairy Development Board (NDDB). The major governance factors in the relatively superior performance of milk PCs included: membership rules, member commitment to patronage of the milk PCs and its linkage with member equity like in the new generation cooperatives elsewhere, role of Board of Directors and its composition besides very transparent and democratic functioning of the Board.

2 Franchises and Retail Chains

Franchising is a governance form by which an enterprise (the franchisor) establishes a chain of geographically dispersed entrepreneurs (franchisees) to offer unified products or services that require proximity to customers (Tracey and Jarvis 2007). In such a network, entrepreneurial franchisees are independent partners who are contractually committed to develop retail outlets under the franchisor's brand name and unified standards through a series of exchange relationships with primary stakeholders (Castrogiovanni et al. 2006; Raha et al. 2021).

The popularity of franchising in dual distribution systems has been attributed to a bundle of skills provided by the franchisee. Franchise systems are examples of hybrid organizational formats containing both "firm" and "market" qualities (Ménard 2013). The choice of organizational format has its roots in the information asymmetry manifest in specific locations. However, the advent of ongoing advances in information technology (IT), such as blockchain and smart contracts, warrants a re-evaluation of the changing role of the franchisor–franchisee relationship. In his paper, *Sen* argues that while modern IT systems provide insights based on sophisticated analysis of micro-level consumer data, the specific knowledge of an individual within the channel cannot be overlooked. This specific knowledge is likely to be idiosyncratic and related to circumstances of time and place (Hayek 1945). In such cases, allocation of decision-making to the individual with specific knowledge could be the preferred option. The combination of modern blockchain technology with the idiosyncratic knowledge of the franchisee has the potential to provide an informed as well as a humanistic response to consumer needs. The author argues that the hybrid nature of franchising can also be utilized to reward franchisees for their incremental contributions to making the chain more competitive.

In his study, *Michael* argues that empowerment, defined as giving front-line, customer contact employees wide latitude to address customers' needs, is frequently heralded as the solution to service quality. Franchise networks, by contrast, emphasize standardization to ensure a common consumption experience over time and space. Whether standardization or empowerment is preferred when customers engage with multiple units of a network remains an open question. This paper theoretically examines the contingency of customer decision rules, and how customers aggregate service experiences across distinct points of service. A model is proposed, which demonstrates that profitability is enhanced by empowerment when customers reward good service more than they penalize bad service; otherwise, standardization is appropriate. Implications for theory and practice are discussed, including a method for eliciting customer decision rules.

Basset, López-Fernández, and Perrigot examine how specific sources of franchisor/franchisee conflicts are related to the key elements of franchising, i.e., know-how, assistance, and brand name. Their empirical study takes on a qualitative approach with 27 in-depth interviews with franchisors and other representatives operating in various industry networks in the French market. The findings contribute to the literature on conflicts in franchising by focusing on the main elements of franchising as potential sources of conflicts, as well as on the practice by advising franchisors that may minimize such conflicts.

Franchising is growing in most countries and most industries worldwide. Some people fear that chain-based businesses, including franchised businesses, will soon eliminate independent businesses. However, the coexistence of both franchised and independent businesses is often noted irrespective of industry and location. The study of *Le Bot, Perrigot, and Cliquet* aims to understand how consumers react to retail offers made by both types of businesses (i.e., franchised or independent), mainly in terms of entrepreneur profiles, retailing mix, and customer relationship management. Their empirical study is based on a qualitative approach using a series of twenty interviews with customers. The findings show that consumers have a very different image perception of franchised and independent stores.

Based on the relevant management literature, *Ruiz-Molina and Colla* argue that male and female entrepreneurs show different levels of risk aversion and self-confidence or self-efficacy. This study aims to contribute to the extant literature on this issue by identifying the most discriminating characteristics of entrepreneurial orientation across gender and its association with franchisee performance from a survey of 226 French franchisees. They conclude that proactiveness, competitive aggressiveness, and commercial autonomy are the most differentiating entrepreneurial orientation dimensions between male and female franchisees. Relevant associations between gender, entrepreneurial style, individuals, and network perceived performance are observed.

Toumi and Cliquet aim to address the gap in the retail literature concerning the links between marketing strategy at the corporate level and the store location strategy of individual units. Specifically, the objective of their research is to better predict site choices according to the chain's marketing policy by examining the impact of store chain positioning defined at the corporate level on retailers' locational preferences. Adaptive conjoint analysis is used to generate the importance values of locational attributes within each price segment for retail network development managers. Their empirical analysis stems from a survey among managers in the clothing and accessories retail sector in France. It provides a better understanding of locational decisions within this sector as well as a set of locational attributes that may ensure the coherence of the retail marketing mix. One of the main results concerns the specific attribute of store size. A discussion with development managers shows that this attribute is so crucial in the clothing and accessories retail sector that no other attribute can compensate for a deficit in store size, which should not be either too small or too large.

3 Alliances

Alliances are inter-organizational networks characterized by two forms of governance: Either only decision rights are allocated between the network partners, or decision and ownership rights are assigned between them (Windsperger et al. 2023). Specifically, licensing, joint ventures, consortia, public–private partnerships, supply chain networks, and networks in the digital and sharing economy have become important inter-organizational governance forms in international business over the last three decades. The following papers address theoretical and empirical governance issues of inter-organizational networks in the international business context.

The significance of network theory has increased in response to the changes that companies are currently experiencing. During the second half of the twentieth century, the business environment became turbulent for organizations. The environment was changing and becoming more unstable as competition became more globalized. The concept of the mechanistic organizational structure was no longer sustainable in such an environment. Thus, companies have been forced to adapt their business style, reduce their number of employees, lower their level of formalization and expertise, and shift to an organic intra- and inter-organizational structure. The aim of *Kolarević and Aleksić Mirić's* study is to enrich the intra-organizational network literature and to point out the complex ways with which intra-organizational networks influence the performance of employees, managers, and organizations. They apply both quantitative and qualitative approaches to obtain a comprehensive analysis of intra-organizational networks.

Globalization and increased market saturation in most developed countries have prompted private sector firms to expand into international markets that offer growth potential. Thus, private firms increasingly channel foreign direct investments into such markets, which are located in relatively untapped developing countries. At the same time, the local economies in developing countries often lack technology, education, or access to international trade. Furthermore, foreign multinational companies require market-relevant knowledge and skills. Therefore, the format of public-private development partnerships (PPDPs) seeks to combine the needs of the private and public sectors. In this study, *Brockmann-Hosseini, Jell-Ojobor, and Windsperger* explore the case of the Volvo Group forming a PPDP in Zambia to assess how MNCs enter markets in developing countries using this format. Based on transaction cost theory, institutional theory, and resource-based theory, they find that PPDPs help to reduce transaction costs, mitigate institutional risks, and create unique resources for multinational companies entering less developed countries. The results of the study contribute to the understanding of value creation for PPDP's stakeholders from developed and developing countries.

Salam and Yaqub investigate the association between Quality Management Practices in Purchasing (QMPPs) and purchasing performance within supply chain relationships in the service industry. A set of hypotheses derived from the key aspects of quality management practices in purchasing and purchasing information system practices, as envisaged in previous research in the areas of quality management, purchasing, and supply chain management, has been tested on a sample of 100 purchasing managers drawn from the hotel industry in Thailand. The findings indicate that quality management practices in purchasing have a significant direct impact on the use of purchasing information service practices and the purchasing performance, as well as an indirect impact on purchasing performance of service organizations mediated through purchasing information system practices. The theoretical and managerial implications of the findings are not only instrumental in furthering research in supply chain networks and service industry domains but also offer useful insights to the industry practitioners enabling them to manage service operations competitively.

According to *Vayle and Jell-Ojobor*, there is a lack of research about how e-service firms enter international markets by using different market and network modes. Their study thus attempts to address this gap by systematically analyzing the relevant literature and developing a conceptual model that explains the internationalization modes of e-service firms. Specifically, they explore how their specific knowledge attributes affect the internationalization process and their choice of market entry mode. Their conceptual framework distinguishes between hard and soft service components of e-service firms by two types of knowledge characteristics—codifiable and non-codifiable (intangible) firm know-how. They develop three propositions about the entry mode choice of e-service firms regarding low-control modes, network modes, and high-control modes.

The sharing economy has recently enjoyed increasing interest thanks to the growing popularity of information and communication technologies including digital platforms. The aim of the study of *Klimas, Czernek-Marszałek, Wójcik, and Juszczyk* is to examine whether and how the popularization of the sharing economy impacts the development of the tourism sector and stimulates inter-organizational cooperation within it. Recognition of the two-faceted effects of the sharing economy (i.e., the accelerating and limiting effects) on the development of the tourism sector informs their use of a quantitative approach via structural equation modeling. Data from 368 Polish tourism companies show that the sharing economy can, paradoxically, both accelerate and limit the development of the tourism sector. The results also reveal that the popularization of the sharing economy (measured by two intentionally chosen factors: the increase in information and communication technologies as well as experience tourism) positively and significantly impacts intrasectoral cooperation in the tourism sector.

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