Introducing “Network Governance: Alliances, Cooperatives and Franchise Chains”

Josef Windsperger, Gérard Cliquet, Thomas Ehrmann, and George Hendrikse

Network governance through alliances, cooperatives and franchise chains aims to explore and exploit knowledge in interfirm relationships in order to realize competitive advantage by creating relational rents and/or reducing coordination and agency costs (e.g. Blair and Lafontaine 2005; Cliquet and Penard 2012; Combs et al. 2011; Dant et al. 2011; Dyer 1997; Dyer and Singh 1998; Grandori 2010; Gulati 2007; Hendrikse and Feng 2013; Kale and Singh 2007, 2009; Madhok and Tallman 1998; March 1991; Mayer and Salomon 2006; Meiseberg and Ehrmann 2013; Poppo and Zenger 2002; Schilke and Goerzen 2010; Tuunanen et al. 2011; Williamson 1991; Windsperger 2013). The current book emphasizes network research by offering new perspectives on formal and informal network governance. In particular, issues on interorganizational learning, relational norms (e.g. trust), knowledge transfer in alliances, governance and incentives in cooperatives, governance of international retail chains, goal achievement in supply chain networks, network uniformity and intercultural aspects in franchising, development of new franchise governance forms, determinants of the decision-making process regarding franchising versus self-employment as well as efficacy of pre-purchase disclosure in franchise relationships are discussed.

J. Windsperger (✉)
Center for Business Studies, University of Vienna, Bruenner Str. 72, 1210 Vienna, Austria
e-mail: josef.windsperger@univie.ac.at

G. Cliquet
IGR-IAE, University of Rennes 1, 11, rue Jean Macé, CS 70803, 35708 Rennes Cedex, France

T. Ehrmann
Institute of Strategic Management, University of Muenster, Leonardo-Campus 18, 48149 Muenster, Germany

G. Hendrikse
Rotterdam School of Management, Erasmus University Rotterdam, PO Box 1738
Office T08-56, 3000 DR Rotterdam, The Netherlands

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A first version of these papers from different areas in economics and management of networks (alliances, cooperatives and franchising) were initially presented at the fifth international conference on Economics and Management of Networks (*EMNet*) that took place at the Frederick University in Limassol, Cyprus, from December 1 to December 3, 2011.

The book is structured in three parts:

Alliances
Cooperatives
Franchise chains

1 Alliances

Aleksić Mirić, *Burton and Petkovic* investigate the issue of inter-organizational learning coordination throughout the evolution of the strategic alliance. They argue that alliances should be designed to learn, and alliance partners' choices about mechanisms of coordination should be made depending on the stage of alliance evolution. They operationalize alliance evolution through two dimensions—alliance age and alliance maturity. Alliance age is simply the time from birth of the alliance; alliance maturity is the degree of past involvement and experience of the two alliance partners. The study suggests that alliance age is positively associated with the application of formal mechanisms of coordination, while alliance maturity is positively associated with the application of informal mechanisms of coordination. Application of both formal and informal mechanisms of coordination is important for learning and knowledge transfer in strategic alliances; thus, their importance is moderated by alliance maturity. The results contribute to the knowledge on strategic alliance dynamics and to the organizational design theory.

Arranz and Fdez. de Arroyabe examine the role of network position in the performance of joint R&D projects using data on European networks of excellence. The empirical work asks the question whether centrality (structural embeddedness) and connectivity (junctional embeddedness) increase the project performance. Their results show that while structural embeddedness exerts a clear influence on the performance of exploitation projects, the effect of centrality degree has a lower impact on exploration projects due to the redundant information that this location implies. Similarly, while junctional embeddedness positively affects the performance of exploration projects, the heterogeneity of partners involved in a betweenness centrality position does not favor the performance of exploitation projects. This study contributes to social capital theory by offering new empirical evidence of the effect of network position on performance, which depends on the technological objectives of joint R&D projects.

According to *Yaqub*, a number of studies have shown that the relational norms positively affect the relational outcomes like satisfaction, trust and/or commitment that eventually lead to an enhancement in the value co-created by the exchange partners. However, most of these studies have theoretically and/or empirically treated relational norms and/or the intermediate relational outcomes as complex higher-order constructs. *Yaqub* argues that such a treatment of these relational constructs may lead to the loss of useful information about the interaction of individual norms with the various facets of these relational outcomes. The results from this empirical study conducted in the context of supplier-intermediate buyer dyadic relationships offer some interesting insights into the dynamics of relational exchanges in the downstream structural arrangements. The study specifically contributes to the relational exchange literature by empirically demonstrating the phenomena like unilateral-relationalism and the relationality-paradox over and above presenting an unprecedented discussion on the association among the individual relational norms and the key relational outcomes.

Srećković and Windsperger examine the impact of trust on the use of knowledge transfer mechanisms of cluster firms by deriving hypotheses from a relational governance perspective. Specifically, they analyse the influence of trust on the use of face-to-face knowledge transfer mechanisms in cluster relationships. Based on the relational view of governance, it is argued that trust may influence the choice of knowledge transfer mechanisms of the cluster companies in the following way: First, if trust reduces relational risk, an increase in trust reduces the firms' use of face-to-face knowledge transfer mechanisms. Second, if trust increases knowledge sharing between the cluster partners, it increases the firms' use of face-to-face knowledge transfer mechanisms. The hypotheses are tested by using data from 118 companies in the Italian textile and fashion sectors. The data supports the hypothesis that experience-based trust increases knowledge sharing between the cluster partners by increasing the use of face-to-face knowledge transfer mechanisms. It also supports the knowledge-based hypothesis that tacitness influences the choice of knowledge transfer mechanisms. The study extends the knowledge-based view of the choice of knowledge transfer mechanisms by showing that trust is an additional determinant of the knowledge transfer strategy.

Streed and Cliquet investigate the determinants of market entry failures of international retail networks. Specifically, they ask the question what causes an international retailer to divest from a specific country or region. Based on a sample of 112 cases, exploratory results show that time of entry, brand penetration, entropy level and local store density are strongly correlated to failure or success of an international retailer in emerging countries. Additionally, preliminary results in terms of market entry mode choice tend to show that governance modes with low level of control such as franchising, licensing or minority joint ventures may be the best market entry choice for international retailers expanding into emerging countries.

Based on the relational view of governance, *Gagalyuk and Hanf* develop and test a model of goal achievement in supply chain networks. They conceptualise goals of a whole supply chain network as those set by members at the firm and network levels. Moreover, they relate the achievement of network-level and firm-level goals of network members to the achievement of goals of the network management. The latter include the alignment of interests and the alignment of actions which, if fulfilled simultaneously, pave the way for the achievement of both network-level and firm-level goals of the network participants. Furthermore, they hypothesize that the interest and action alignment are contingent upon a number of network characteristics. They test the model in the context of supply chain networks in the food industry.

2 Cooperatives

Hakelius, Karantininis and Feng address the phenomenon of cooperative beehiving. Members de-associate themselves from large cooperatives and form smaller entities, just as bees swarm out of the old crowded beehive in search for a new one. They show in the framework of transaction cost theory that the exiting farmers are those who have experience and advantages in organizing cooperatives and are willing to take risks as entrepreneurs. The new beehives, organized also as cooperatives, rely heavily on outsourcing and start-up assistance plans. Two cases from the Swedish agrifood industry illustrate their claims.

The study of *Chagwiza, Muradian, Ruben and Tessema* deals with the comparison of two types of honey producers' enterprises in the Masha district, western Ethiopia. Cooperatives and private limited companies (PLCs) are both collectively owned by a group of farmers, but the former do not face a legal restriction regarding the number of members, are strongly regulated by the government, and their shares are not tradable. They argue that the collective entrepreneurial capacity varies significantly among the two types of organizations. They found that members of PLCs have higher productivity and income derived from honey, are more prone to adopt new technologies, as well as receive higher dividends and price per kilo of honey. Additionally, the incentive scheme exercised by the PLCs was more market-oriented. Furthermore, as compared to cooperatives, PLC members market a higher proportion of honey through their organizations. These results are relevant for the design of development interventions aiming at enhancement of market integration of small farmers in Ethiopia.

Feng and Hendrikse develop a multi-task principal-agent model to capture the effect of membership size and heterogeneity on the incentive provision of the CEO in a cooperative. The study shows that an increase in membership size as well as an increase in member heterogeneity decreases the optimal incentive intensity of the CEO.

The work of *Deng and Hendrikse* compares the product quality provision of cooperatives and investor-owned firms (IOFs) by highlighting the impacts of uncertainties in agricultural production and marketing, and farmers' risk aversion. In a principal-agent model, they show that the linear contract can shift the risk of market uncertainty from farmers to processors, and pooling can share the risk of production uncertainty among cooperative members. Complete pooling places the cooperative at a disadvantage relative to the IOF in a quality-differentiated market due to the loss of free-riding dominating the gain of risk-sharing. Product quality of cooperatives decreases when the membership size increases. Cooperatives can overcome this disadvantage by partial pooling. Product quality of cooperatives will be equivalent to that of IOFs when an optimal income rights structure with partial pooling is adopted.

3 Franchise Chains

Croonen and Brand's study develops a theoretical framework on antecedents of franchisees' trust in their franchisors and franchise systems. They integrate franchising literature with literature on trust in other organizational contexts to develop the framework. They argue that a franchisee's general propensity to trust combined with its perception of trustworthiness of its franchisor and franchise system determines this franchisee's level of organizational trust. *Croonen and Brand* distinguish three franchise system components that each entail a set of determinants by which franchisees evaluate a franchisor's and franchise system's trustworthiness; the system's strategic positioning in the market, the system's operational management, and franchisee management.

The study of *Perrigot, Basset, Briand-Meledo and Cliquet* aims to highlight the challenges associated with network uniformity and brand image for franchisors, more specifically when their franchisees set up and manage their own website. This practice has some impact on network uniformity which is a key concept in franchising. They analyze the presence of franchisees on the Internet of the 471 networks, both in retailing and services, described in the 2011 franchise directory. They find that only 38 franchise networks are concerned about this practice. They use a qualitative approach based on multiple cases studies of these 38 franchise networks. It points out the different aspects of franchisees' websites that can damage concept uniformity. Maintaining network uniformity when there are various websites set up and run by franchisees entails challenges to franchisors that are presented in this paper within a managerial perspective linked to technical and organizational know-how. Some insights from the legal perspective are also provided. If the concept of uniformity can be of great interest in managing franchise networks, the question is to know if this concept in the field of franchising can be identified as a legal concept and which would be its legal status.

El Zeiny and Cliquet investigate service quality variation among McDonald's fast food franchise chain outlets. Findings from the data collected from 162 customers indicate that McDonald's fast food chain restaurant is able to ensure service quality standardization across its franchised outlets located in Egypt, while it fails to ensure this standardization across franchised units in Egypt on the one hand and franchised units abroad on the other hand. The study concludes that, although standardization is expected from the franchised outlets, some outlets are not able to follow the same standards, especially, when they are functioning in different conditions.

According to *Terry and Di Lernia,* franchising's capacity for reinventing itself is a matter of record. This study suggests a role for a form of franchising which incorporates only back-of-house elements—the tried, tested and proven systems and procedures which are not directly visible to the customer—and eschews brand and other visible manifestations of a standardized "one-size-fits-all" approach to service provision. It proposes a form of quasi-franchising where brand and related front-of-house features are removed or, at least, significantly reduced. The franchisee acquires the right, and the obligation, to use the franchisor's back-of-house system while retaining flexibility for entrepreneurial endeavour in building an idiosyncratic, eclectic and individualized business.

Torrika's study reports the results of the third and final phase of the longitudinal study on trainees of the Finnish franchisee training program. The study targeted 46 respondents who in the previous phases indicated that they became either franchisees or self-employed in stand-alone businesses after graduation. The aim of this study is to find out what factors influence the respondents' entrepreneurial decision-making processes and what role the training program plays in these processes. The results show that trainees' entrepreneurial decision-making processes are dissimilar. Some are pushed while others are pulled to entrepreneurship. Regression analysis was performed to discover what factors could be used to predict respondents' likelihood of becoming franchisees or self-employed. Findings of the study provide implications for both franchisors and potential franchisees as well as for organizations' planning and offering entrepreneurship training.

Buchan argues that pre-purchase disclosure is an important aspect of the due diligence process for business format franchisees. It focuses on the financial fitness of the franchisor entity, and on the specific franchise opportunity the franchisee is evaluating. Equipped with disclosed information a diligent franchisee theoretically has the opportunity, *ex ante*, to identify and evaluate risks and protect itself from the consequences of making a bad investment decision. This study examines the efficacy of disclosure for franchisees whose insolvent franchisor enters administration. Problems arise out of the content and timing of disclosure, the difficulty of verifying the disclosed information and the conflicting requirements of the legislation protecting franchisees and that regulating administrators. Pre-purchase disclosure cannot empower franchisees to anticipate or address the consequences of franchisor administration. It fails to protect franchisees. Suggested avenues for redressing this situation are identified.

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